AIB Mortgage Bank

Directors' Report & Financial Statements

Year ended 31 December 2011

AIB Mortgage Bank

Directors' report and financial statements

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Directors' and other information

Directors	Jim O'Keeffe, Managing Director Sean Cremen, Executive Director Seymour Cresswell, Executive Director Michael Keegan, Executive Director Catherine Woods, Independent Non-Executive Director
Registered office	Bankcentre Ballsbridge Dublin 4 Ireland
Secretary	David Schorman
Registered Auditor	KPMG Chartered Accountants 1 Harbourmaster Place International Financial Services Centre Dublin 1 Ireland
Solicitor	Bryan Sheridan Group Law Agent Allied Irish Banks, p.l.c. Bankcentre Ballsbridge Dublin 4 Ireland
Banker	Allied Irish Banks, p.l.c.
Cover-Assets Monitor	Mazars Harcourt Centre Block 3 Harcourt Road Dublin 2 Ireland

AIB Mortgage Bank

Directors' Report

The Directors present their annual report and financial statements for the year ended 31 December 2011. A statement of Directors' responsibilities in relation to the financial statements appears on page 11.

Principal activities

AIB Mortgage Bank ('the Bank'), a public unlimited company, obtained an Irish banking licence under the Irish Central Bank Act, 1971 (as amended) and was registered as a designated mortgage credit institution under the Asset Covered Securities Act, 2001 on 8 February 2006. The Bank is a wholly owned subsidiary of Allied Irish Banks, p.l.c., ('AIB' or the 'AIB Group') and is regulated by the Central Bank of Ireland. Its principal purpose is to issue 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 ('the Asset Covered Securities Acts'). Such mortgage loans may be made directly by the Bank or may be purchased from AIB and other subsidiary undertakings of AIB Group or third parties.

The Bank commenced trading on 13 February 2006, when AIB Group transferred its Republic of Ireland branch originated residential mortgage business, amounting to €13.6bn in mortgage loans, to AIB Mortgage Bank. On 24 February 2006, a Mortgage-Backed Promissory Note facility between AIB Mortgage Bank and the Central Bank and Financial Services Authority of Ireland was put in place. In March 2006, the Bank launched a €15bn Mortgage Covered Securities Programme (the 'Programme') and has launched a number of covered bond issues since that date. The Programme was subsequently increased in 2009 to €20bn.

On 25 February 2011, AIB transferred substantially all of its mortgage intermediary originated Irish residential loans, related security and related business (the 'Intermediary Business') to AIB Mortgage Bank. The aggregate principal amount outstanding of and accrued but unpaid interest on, the Irish residential loans transferred by AIB to AIB Mortgage Bank on 25 February 2011 was approximately €4.2 billion. The transfer was effected pursuant to the statutory transfer mechanism provided for in the Asset Covered Securities Acts and was accounted for under IFRS 3 Business Combinations as a common control transaction at carrying value.

The Bank's business activities are restricted, under the Asset Covered Securities Acts, to dealing in, and holding, mortgage credit assets and limited classes of other assets, engaging in activities connected with the financing and refinancing of such assets, entering into certain hedging contracts and engaging in other activities which are incidental to or ancillary to the above activities. In accordance with the Asset Covered Securities Acts, the Cover-Assets Monitor, Mazars, monitors compliance with the Acts and reports independently to the Central Bank of Ireland.

The Bank's activities are financed through the issuance of mortgage covered securities and a Mortgage-Backed Promissory Note facility with the Central Bank of Ireland, with the balance of funding being provided by AIB Group.

Most of the Bank's activities are outsourced to AIB under an Outsourcing and Agency Agreement. AIB, as Service Agent for the Bank, originates residential mortgage loans through its retail branch network and the intermediary channels in the Republic of Ireland, services the mortgage loans, provides treasury services in connection with financing as well as a range of other support services.

AIB Group is subject to the provisions of the Central Bank of Ireland's Corporate Governance Code for Credit Institutions and Insurance Undertakings ("the Central Bank Code"), including compliance with requirements which specifically relate to 'major institutions', which came into effect on 1 January 2011 and imposes minimum core standards upon all credit institutions and insurance undertakings licensed or authorised by the Central Bank of Ireland. AIB Group's corporate governance practices also reflect Irish company law and, in relation to the UK businesses, UK company law, the Listing Rules of the Enterprise Securities Market of the Irish Stock Exchange, and certain provisions of the US Sarbanes Oxley Act of 2002. As a separately licensed Credit Institution, AIB Mortgage Bank's corporate governance practices also reflect the relevant provisions of the Central Bank Code.

Governance is exercised through a Board of Directors and a senior management team. The conditions of the Bank's Central Bank licence require that there should be a minimum of two Non-Executive Directors who are independent of the parent company and that the office of Managing Director should be filled on an ongoing basis.

Directors' Report

Principal activities *(continued)*
During 2011, the membership of the board of AIB Group was subject to significant change which also impacted the board of AIB Mortgage Bank as a result of which, during the periods from 1 January to 28 March 2011 and from 21 to 31 December 2011, there was only one independent Non-Executive Director on the Board of the Bank. In addition, the position of Managing Director was vacant from December 2010 until the appointment of Mr. Jim O'Keeffe on 28 February 2012.

During 2011, the Board also included four Executive Directors, all of whom were directly involved in the operation of AIB Mortgage Bank, and one other director, who while also an employee of AIB, was deemed to be a Non-Executive Director by virtue of the role he fulfilled in an area of the AIB Group unrelated to the operations of AIB Mortgage Bank.

Business review
The economic environment in Ireland continues to be very challenging for the residential mortgage business. GDP grew by 0.7% in 2011. However GNP declined by 2.5%. Unemployment decreased slightly from 14.7% at end December 2010 to 14.3% at end December 2011 (Source: Central Statistics Office).

The peak (February 2007) to trough fall in house prices according to the CSO Residential Property Price Index was 47% up to December 2011 (the fall in Dublin is 54% with properties outside Dublin falling by 43%).

The Bank is currently one of the few financial institutions offering competitive home loans in the Irish market. Our main focus is first-time buyers, although we are also keen to support existing customers who wish to move home or top up their mortgage.

Total market mortgage drawdowns in Ireland were €2.5bn in 2011 compared with €4.7bn in 2010. As a result the Bank's mortgage drawdowns were lower at €0.7bn in 2011 compared with €1.6bn in 2010. The Bank's mortgage portfolio before provisions increased by 17% during 2011 to €24.0bn as at 31 December 2011 primarily due to the transfer of the Intermediary Business of €4.2bn in February 2011 (2010: decrease of 1% to €20.5bn as at 31 December 2010).

At 31 December 2011, the AIB Mortgage Bank's mortgage portfolio (comprising substantially all branch and intermediary originated loans) accounted for €24.0bn out of the total of AIB Group's residential mortgages, including EBS, of €41.7bn.

The AIB Mortgage Bank's portfolio comprises €16.9bn owner occupier and €7.1bn buy to let mortgages. Of the owner occupier portfolio, 53% are ECB tracker, 29% are on variable interest rates and 18% are fixed. 10% of the owner occupier portfolio is on interest only repayments. Of the buy to let portfolio, 62% are ECB tracker, 32% are on variable interest rates and 6% are fixed. 34% of the buy to let portfolio are on interest only repayments.

As a result of the increased pressure on borrowers repayment capacity and further decreases in property prices, impaired loans have increased to €2.7bn, or 11.2% of total loans (2010: €0.8bn or 4.1%). Provisions made for impaired loans in 2011 also increased significantly to €1,557m from €441m in 2010. As a result of the deterioration in the economy and the additional pressure on borrowers, AIB Group has applied additional resources to its credit management function.

Forbearance Strategies
The Bank considers each request from customers who are experiencing cash flow difficulties on a case by case basis against the individual borrowers' current and likely future financial circumstances, their willingness to resolve these issues, as well as the legal and regulatory obligations.

The Bank is implementing the standards as set out by the Central Bank of Ireland in the Codes of Conduct in relation to customers in difficulty, ensuring these customers are dealt with in a professional and timely manner.

The types of forbearance solutions employed for mortgage customers who are in difficulty and which provide short term relief include: interest only, part capital and interest, moratorium, capitalisation of arrears, term

Forbearance Strategies *(continued)*
extension and deferred interest scheme. The AIB Group including the Bank has developed a Mortgage Arrears Resolution Strategy (MARS) for dealing with customers in difficulty or likely to be in difficulty. The strategy is built on three key factors: i) Segmentation – identifying customers in difficulty, ii) Sustainability – customer assessment and iii) Suitable Treatment – identifying solutions. The core objective is to ensure that arrears solutions are sustainable in the long term and they comply with the spirit and the letter of all regulatory requirements. Additional long term forbearance options will be phased in throughout 2012.

As part of the forbearance process, if a loan is deemed to be impaired, it is downgraded to impaired status and impairment provisions are raised.

Results for the year
The loss before taxation for 2011 was €910.6m, up from a loss before taxation of €316.5m in 2010, due mainly to an increase in provisions for impaired loans.

Net Interest Income
Net interest income was €144.0m compared to €214.9m in 2010. The one month Euribor rate (the basis for most of the Bank's funding) was on average 0.06% below the ECB Refi rate (the pricing basis used to determine most of the customer loan rates before additional funding costs) in 2011 whereas it was on average 0.44% below it in 2010. This caused reduced funding benefit for AIB Mortgage Bank during 2011. The increase in interest income as a result of the transfer of the Intermediary Business of €4.2bn in February 2011 was partially offset by a negative impact of the non earning loans and higher additional funding costs. The additional funding costs other than one month Euribor amounted to €154.9m in 2011 (2010: €126.0m).

Interest income on mortgage loans was €622.1m (2010: €511.1m), the increase being largely due to the transfer of the Intermediary Business and a higher average ECB Refi rate in 2011 (average ECB Refi rate was at 1.2% in 2011 compared with 1.0% in 2010).

Interest income from funds placed with AIB and interest rate swaps with AIB was €151.5m (2010: €228.4m). The decrease was as a result of a reduction in deposits held with AIB from May 2011.

Interest payable to AIB Group on funding provided and interest rate swaps was €435.5m (2010: €313.6m), the increase being primarily due to higher one month Euribor interest rates and higher average volume of the AIB Mortgage Bank loan portfolio.

Interest payable to the Central Bank of Ireland in respect of the Mortgage-Backed Promissory Note facility and sale and repurchase agreements in respect of Self Issued Covered Bonds was €13.1m (2010: €30.3m) the reduction being mainly due to a lower direct usage of the Central Bank facilities by AIB Mortgage Bank. Interest payable to holders of mortgage covered securities was €181m (2010: €180.7m); the impact of an increase in one month Euribor rates was effectively offset by the lower average volume of securities in issue to AIB.

The trading gain of €0.4m (2010: €0.8m) resulted from changes in the fair value of interest rate swaps and certain related account items being hedged.

NAMA transfer
In accordance with eligibility terms prescribed by the National Asset Management Agency (NAMA), mortgages connected to qualifying land and development advances were transferred to NAMA during 2011. The fair value of consideration received from the transferred assets, after allowing for valuation adjustments to previous years' transfers and provisions set aside in 2010 generated a €21.8m gain on assets transferred to NAMA which is included in operating income. Further information is provided in Note 4 to the financial statements.

Directors' Report

Results for the year *(continued)*

Credit provision
The provision charge for impaired loans in 2011 was €1,033.6m, up from €344.1m in 2010. The provisions stock as at 31 December 2011 amounted to €1,557.4m of which €953.5m were specific and €603.9 were Incurred But Not Reported ("IBNR").

The increase in the specific provision was driven by the increase in the level of impaired loans (from €840m at end 2010 to €2,737m at end 2011) and increase in loss rates as a result of the continued deterioration of residential property prices.

The increase in the IBNR provision was due to management's view of the heightened level of increased loss (not yet identified) in the book and the impact of more negative economic circumstances including employment and Income levels. It takes into account the weaker credit performance of the buy to let portfolio compared to the Owner Occupier portfolio. It also reflects recent provision experience, the level of arrears, the level of requests for restructure and forbearance, uncertainty over underlying peak to trough house price declines, and the level of negative equity within the portfolio.

Administrative expenses amounted to €43.4m (2010: €37.5m), and included €39.2m (2010: €35.1m) for services provided by Allied Irish Banks, p.l.c. under the Outsourcing and Agency Agreement.

Funding activities
In the first half of 2011, Irish bond yields rose from c. 7% to 16% as international investors continued to exit from the Irish bond markets. Yields peaked in July at c. 20% but as the Irish economic story became more clearly understood by investors the yields improved to finish the year at nearer 10%. Generally, throughout the year the climate was hostile towards any new issuance, whether by Government or private sector. Consequently, AIBMB did not issue into the primary markets but took advantage of the various facilities provided by the ECB.

Under normal ECB open market operations, Covered Bonds including Irish Covered Bonds with appropriate ratings are accepted as collateral for sale and repurchase agreements, thus providing liquidity. AIB Mortgage Bank and Allied Irish Banks, p.l.c. used internally issued Covered Bonds as a source of such liquidity throughout the year.

At 31 December 2011, total covered bonds in issue amounted to €12.4bn (2010: €14.7bn), of which €2.8bn was issued to external debt investors, €3.2 billion was issued to Allied Irish Banks, p.l.c. and €6.4 billion was issued to AIB Mortgage Bank. All of the bonds issued to Allied Irish Bank, p.l.c. and to AIB Mortgage Bank were at 31 December 2011 held by the Central Bank of Ireland under sale and repurchase agreements.

The Bank's Mortgage-Backed Promissory Note facility with the Central Bank, for normal ECB open market operations, had been unavailable since December 2010 due to a ratings downgrade by Moody's of Allied Irish Banks, p.l.c. The Bank's Mortgage-Backed Promissory Note Framework has been used as a source of liquidity with the Central Bank of Ireland outside of normal ECB open market operations during first four months of 2011. As at 31 December 2011, however, nil was drawn down (2010: €0.9bn drawdown).

During the year, credit ratings for both the Irish Sovereign and the Bank's Covered Bond Programme were subject to several reviews. Moody's and S&P both lowered their ratings by several notches. Fitch's opinion however remained unchanged at year-end for both entities.

Directors' Report

Funding activities *(continued)*
The ratings as at 29 March 2012, for the Covered Bond Programme, AIB Group, and Ireland are shown below:

	AIB Mortgage Bank Covered Bond Programme	**Allied Irish Banks p.l.c.** **Issuer default rating**	**Ireland (Sovereign)**
Rating Agency			
Fitch	A	BBB	BBB+
Moody's	Baa3	Ba2	Ba1
Standard & Poor's	A	BB	BBB+

Risks and uncertainties
Information concerning the principal risks and uncertainties facing the Bank as required under the terms of the European Accounts Modernisation Directive (2003/51/EEC) is set out in Note 9 to the Financial Statements.

AIB Mortgage Bank is reliant on AIB Group for a) financing and b) the operation of a number of outsourced activities leading to significant uncertainties and reliance on the AIB Group.
In summary, the AIB Group and as a result AIB Mortgage Bank considers the following risks and uncertainties to be the most material to its future performance:

- The economic environment in Ireland and the markets in which AIB Group operates continue to be very challenging.
- Constraints on liquidity and market reaction to factors affecting Ireland and the Irish economy have and continue to create an exceptionally challenging liquidity environment for the AIB Group. Further downgrades to Irish sovereign ratings or the AIB Group's credit ratings or outlook could limit the AIB Group's access to funding, trigger additional collateral requirements and weaken its competitive position.
- Systemic Risks could disrupt the markets and impact the AIB Group's financial condition and results of operations.
- Notwithstanding recent capital injections and the commitment of further capital, the AIB Group is subject to the risk of having insufficient capital resources to meet increased minimum regulatory requirements.
- The AIB Group remains subject to inherent risks concerning customer and counterparty credit quality and the actual or perceived failure or worsening creditworthiness of customers, other financial institutions and counterparties. In particular, pressure on personal income, employment levels, residential property values and the extent to which foreclosure becomes a prevalent feature of the market are sources of increased credit risk for the AIB Group.
- The AIB Group is subject to certain commitments and restrictions in relation to the operation of its business under various provisions of State support.
- Execution of the Restructuring Plan, including the disposal of assets as part of the deleveraging programme.
- The AIB Group continues to face market risks, including non-trading interest rate risk, in the ordinary course of its business.
- The AIB Group continues to face significant operational and reputational risks.
- The AIB Group's businesses and financial condition could be affected by the fiscal, taxation, regulatory or other policies, laws and regulations and other actions of various governmental and regulatory authorities.
- The AIB Group's deferred tax assets are substantially dependent on the generation of future profits over a number of years.

Share capital
The share capital of the Bank was €1,345m, being ordinary shares of €1 each, as at 31 December 2011. In addition, the Bank received a capital contribution of €500m from its parent Allied Irish Bank's p.l.c. as a result of the capital deficit arising from the loan provisions recorded in the financial statements to 31 December 2011. €895m of €1 ordinary shares were also issued during 2011(Note 23).

AIB Mortgage Bank

Directors' Report

Capital resources and regulatory capital ratios

The table below shows the components of the AIB Mortgage Bank's Tier 1 and total capital ratios as at 31 December 2011 and 31 December 2010.

	31 December 2011 € 000	31December 2010 € 000
Tier 1		
Paid up ordinary share capital	**1,345,000**	450,000
Capital contribution	**580,000**	80,000
Eligible reserves	**(904,109)**	(107,362)
Total tier 1 capital	**1,020,891**	422,638
Tier 2		
Subordinated perpetual loan capital	**200,000**	200,000
Subordinated term loan capital	**100,000**	100,000
Standardised IBNR and Excess IRB provisions	**80,265**	45,272
Total tier 2 capital	**380,265**	345,272
Total capital	**1,401,156**	767,910
Risk weighted assets		
On balance sheet	**12,077,683**	6,074,571
Off-balance sheet *	**37,686**	28,546
Total risk weighted assets	**12,115,369**	6,103,117
Capital ratios		
Tier 1	**8.20%**	6.69%
Total	**11.25%**	12.13%

For 2010, the capital ratios were calculated in accordance with Pillar I of the Capital Requirements Directive ("CRD") and are presented above before the application of Transitional Arrangements required for reporting to the Financial Regulator. The Transitional Arrangements require banks, on a rolling basis, to maintain minimum capital requirements equal to 95% of their pre-CRD Capital Requirements. When applied, the minimum requirement generated a Total Capital Ratio of 8.1% as at 31 December 2010.

For 2011, the capital ratios above are the actual calculated ratios as per Pillar I of the Capital Requirements Directive ("CRD"). The reason for this change was that the capital requirements for AIB Mortgage Bank, calculated in accordance with Pillar 1 of the CRD, now exceed the Capital Requirements as calculated using the Transitional Arrangements.

Outlook

We expect the operating environment to remain difficult for the foreseeable future.

AIB Mortgage Bank

Directors' Report

Books of account
The measures taken by the Directors to secure compliance with the Bank's obligation to keep proper books of account are the use of appropriate systems and procedures and the employment of competent persons. The books of account of the Bank are kept at the Bank's registered office.

Going concern
The Directors have prepared these financial statements on the going concern basis which assumes that the Bank will continue in operational existence for the foreseeable future having adequate funds to meet obligations as they fall due. AIB Mortgage Bank is dependent on its Parent, Allied Irish Banks, p.l.c. for continued funding and is therefore dependent on the going concern status of the Parent.

The financial statements of Allied Irish Bank p.l.c (the "AIB Group") have been prepared on a going concern basis as the Directors of the AIB Group are satisfied, having considered the risks and uncertainties impacting the AIB Group, that it has the ability to continue in business for the foreseeable future. In making its assessment, the Directors have considered a wide range of information relating to present and future conditions. These have included financial plans, cash flow and funding forecasts, capital resources projections, all of which have been prepared under base and stress scenarios. The AIB Group Directors have also considered the AIB Group's ability to access funding and liquidity. In addition, the Directors have considered the commitment of support provided to AIB by the Irish Government through the programme for restructuring the Irish banking system with AIB designated as one of the two 'Pillar Banks'.

The Directors of AIB Group are satisfied based on the clarity of confirmations received from the Central Bank of Ireland and public announcements by ECB, EU and IMF that in all reasonable circumstances the required liquidity and funding from the Central Bank/ ECB will be available to the Group during the period of assessment.

On the basis of the continued availability of funding from Allied Irish Banks, p.l.c to AIB Mortgage Bank the Directors of the Bank consider that it is appropriate to prepare the financial statements on a going concern basis at this time.

AIB Mortgage Bank

Directors' Report

The Directors and Secretary of the Bank are set out on page 1.

Directors' and Secretary's interests in shares

The beneficial interests of the Directors and the Secretary in office at 31 December 2011 and of their spouses and minor children in the shares of AIB Group companies are set out below. The shares referred to are €0.01 ordinary shares in Allied Irish Banks, p.l.c., the holding company.

Ordinary shares	**31 December 2011**	1 January 2011*
Directors:		
Sean Cremen	**7,719**	7,719
Seymour Cresswell	**265**	265
Michael Keegan	**5,645**	5,645
Catherine Woods	**Nil**	Nil
Secretary:		
David Schorman	**8,453**	8,453

** or date of appointment, if later*

Share options

Details of the Directors' and the Secretary's options to subscribe for ordinary shares in Allied Irish Banks, p.l.c., are given below. The vesting of these options to the individuals concerned is dependent on Earnings Per Share ("EPS") targets being met by AIB. Subject thereto, the options outstanding at 31 December 2011 are exercisable at various dates between 2012 and 2015. Details are shown in the Register of Directors' and Secretary's Interests, which may be inspected at the Bank's registered office.

	31 December 2011	**1 January 2011**	**Weighted average subscription price of options outstanding at 31 December 2011**
Directors:			**€**
Sean Cremen	**7,500**	7,500	13.24
Seymour Cresswell	**-**	-	-
Michael Keegan	**22,500**	22,500	13.24
Secretary			
David Schorman	**2,000**	2,000	13.30

Independent Non-executive directors do not participate in share option plans. No options were granted or exercised during the year.

Directors' Report

Long term incentive plans
There were no conditional grants of awards of ordinary shares outstanding to Executive Directors or the Company Secretary at 31 December 2011

Independent Non-Executive directors do not participate in long term incentive plans.

Apart from the interests set out above, the Directors and Secretary and their spouses and minor children have no other interests in the shares of Allied Irish Banks, p.l.c.

There were no changes in the Directors' and Secretary's interests between 31 December 2011 and 29 March 2012.

Mr Jim O'Keefe was appointed to the Board on 28 February 2012. His interest (inclusive of the interests of his spouse & minor children) in the ordinary shares of Allied Irish Banks, p.l.c. is 5,698.

Directors and Secretary
Ms. Catherine Woods was appointed Non-Executive Director on 29 March 2011.
Mr. Walter Brazil resigned as a Non-Executive Director on 30 June 2011.
Mr. Jim Pender resigned as an Executive Director on 27 September 2011.
Mr. Kieran Crowley resigned as a Non-Executive Director on 22 December 2011.
Mr. Jim O'Keefe was appointed Executive Director (Managing) on 28 February 2012.

Independent auditor
The auditor, KPMG, Chartered Accountants, have signified their willingness to continue in office under section 160 (2) of the Companies Act, 1963.

On behalf of the Board

Director Catherine Woods

Director Jim O'Keeffe

29 March 2012

Statement of Directors' responsibilities in relation to the Financial Statements

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRS') as issued by the IASB and subsequently adopted by the EU and applicable law.

The financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the Bank; the Companies Acts 1963 to 2009 provide in relation to such financial statements that references in the relevant part of the Act and to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing the Bank's financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRS as adopted by the EU as applied in accordance with the Companies Acts 1963 to 2009; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that its financial statements comply with the Companies Acts 1963 to 2009 and the Asset Covered Securities Acts. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the AIB Mortgage Bank corporate and financial information included on the AIB Group's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Director Catherine Woods

Director Jim O'Keeffe

29 March 2012

AIB Mortgage Bank

Independent auditor's report to the members of AIB Mortgage Bank

We have audited the financial statements of AIB Mortgage Bank ('the Bank') or ("Company") for the year ended 31 December 2011 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 193 of the Companies Act 1990.

Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) both as issued by the IASB and subsequently adopted by the EU are set out in the Statement of Directors' Responsibilities on page 12.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with IFRS both as issued by the IASB and subsequently adopted by the EU and have been properly prepared in accordance with the Companies Acts 1963 to 2009.

We also report to you whether, in our opinion:

- proper books of account have been kept by the Bank;
- whether at the reporting date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Bank; and
- whether the information given in the Directors' Report is consistent with the financial statements.

In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit, and whether the Bank's Statement of Financial Position is in agreement with the books of account. We also report to you if, in our opinion, any information specified by law regarding Directors' remuneration and Directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements.

Independent auditor's report to the members of AIB Mortgage Bank

Basis of audit opinion *(continued)*
It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free of material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRS's both as issued by the IASB and subsequently adopted by the EU, of the state of the Bank's affairs as at 31 December 2011 and of its loss for the year then ended; and

- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2009.

Other matters

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Bank. The Bank's Statement of Financial Position is in agreement with the books of account.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

The net assets of the Bank, as stated in the Statement of Financial Position are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2011 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Bank.

KPMG
Sean O'Keefe for and on behalf of
KPMG — 29 March 2012
Statutory Audit Firm
Chartered Accountants
1 Harbourmaster Place
International Financial Services Centre
Dublin 1

Accounting policies

The accounting policies applied in the preparation of the financial statements for the year ended 31 December 2011 are set out below.

1. Reporting entity
AIB Mortgage Bank ('the Bank') is a public unlimited company operating under the Irish Central Bank Act, 1971 (as amended) and as a designated mortgage credit institution under the Asset Covered Securities Acts. It is a wholly owned subsidiary of Allied Irish Banks, p.l.c. and is regulated by the Central Bank of Ireland. Its principal purpose is to issue Mortgage Covered Securities for the purpose of financing loans secured on residential property in accordance with the Asset Covered Securities Acts. Such loans may be made directly by the Bank to customers through the AIB Group branch network in the Republic of Ireland or may be purchased from Allied Irish Banks, p.l.c. and other members of the AIB Group or third parties.

2. Statement of compliance
The financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (collectively 'IFRS') as issued by the International Accounting Standards Board ("IASB") and subsequently adopted by the European Union ("EU") and applicable for the year ended 31 December 2011. The accounting policies have been consistently applied by the Bank and are consistent with the previous year, unless otherwise described. The financial statements also comply with the requirements of Irish Statute comprising the Companies Acts 1963 to 2009, the Asset Covered Securities Acts 2001 and 2007 and the European Communities (Credit Institutions: Accounts) Regulations, 1992.

3. Basis of preparation
The financial statements are presented in Euro, which is the functional currency of the Bank, rounded to the nearest thousand.

They have been prepared under the historical cost basis, with the exception of the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit or loss and certain hedged financial liabilities.

The financial statements comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, and the statement of changes in equity together with the related notes.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of certain assets, liabilities, revenues, expenses and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under these circumstances. Since management's judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. The estimates that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in the areas of loan impairment; determination of the fair value of certain financial instruments and the recoverability of deferred tax. A description of these estimates and judgements is set out in section 16 of the accounting policies.

Accounting Policies

3. Basis of Preparation (*continued*)

Going concern

The Directors have prepared these financial statements on the going concern basis which assumes that the Bank will continue in operational existence for the foreseeable future having adequate funds to meet obligations as they fall due. AIB Mortgage Bank is dependent on its Parent, Allied Irish Banks, p.l.c. for continued funding and is therefore dependent on the going concern status of the Parent.

The financial statements of Allied Irish Bank p.l.c (the "AIB Group") have been prepared on a going concern basis as the Directors of the AIB Group are satisfied, having considered the risks and uncertainties impacting the AIB Group, that it has the ability to continue in business for the foreseeable future. In making its assessment, the Directors have considered a wide range of information relating to present and future conditions. These have included financial plans, cash flow and funding forecasts, capital resources projections, all of which have been prepared under base and stress scenarios. In addition, the Directors have considered the commitment of support provided to AIB by the Irish Government through the programme for restructuring the Irish banking system with AIB designated as one of the two 'Pillar Banks'.

Furthermore, the Directors have considered the outlook for the Irish economy, taking into account such factors as progress on improving the fiscal situation and the support provided by the EU/IMF to Ireland. The Directors also considered the Eurozone sovereign debt crisis in its assessment of the going concern basis.

Background

The deterioration in the Irish economy culminated in the EU/IMF Programme of Financial Support for Ireland. This deterioration, which persisted throughout 2010 and 2011 presents significant risks and challenges for the Group in the years ahead.

The funding position of the Group has been impacted by:

- The downgrading of the Group and sovereign credit ratings
- The withdrawal of the Irish Government from the funding markets
- The EU/IMF Programme of Financial Support and the consequent withdrawal of funds from Irish banks

The EU/IMF Programme provided for the restructuring and reorganisation of the Irish banks. The subsequent Financial Measures Programme published by the Central Bank in March 2011 set a PCAR requirement for AIB (including EBS) to raise capital amounting to €14.8 billion. This requirement was met by the end July 2011 through liability management exercises and Government capital injections (€5 billion by way of an equity placing; a capital contribution of €6.1 billion; and €1.6 billion by way of a Contingent Capital Notes issuance).

Since 2010 and through 2011, AIB has had limited access to wholesale funding and has been dependant on secured funding from the European Central Bank ("ECB") and has utilised non standard facilities from the Central Bank for a limited period. The Bank ceased using non-standard facilities in April 2011. Breaches of liquidity ratios up to July 2011 were remedied as new capital was injected by the Government. However, AIB's CBI/ECB repo funding has continued, since October, to exceed a regulatory limit of 25%.

Market volatility remained elevated and liquidity depressed during 2011 driven by the deterioration in global credit markets as sovereign difficulties in the Eurozone grew and the overall global macroeconomic environment remained uncertain. Credit spreads widened sharply, especially in the second half of the year, for certain countries within the Eurozone.

This negative sentiment impacted on access to wholesale funding for certain sovereigns and credit institutions across Europe. At different stages since the beginning of 2011, European leaders reaffirmed their commitment to the euro:

Accounting Policies

3. Basis of Preparation (*continued*)

Going concern (*continued*)

- On 21 July 2011, a statement by the Heads of State or Government of the euro area and EU institutions reaffirmed their commitment to the euro and to do whatever was needed to ensure the financial stability of the euro area as a whole and its Member States;
- ECB decided to actively implement its Securities Markets Programme i.e. to intervene in the euro area public and private debt securities markets (to ensure depth and liquidity in those market segments which are dysfunctional);
- On 9 December 2011, the Heads of State or Government of the euro area and European Council agreed a package of measures to restore confidence in the financial markets which included:
- a new fiscal compact and the strengthening of stabilisation tools for the euro area including a more effective European Financial Stability Facility ("EFSF");
- the bringing forward of the implementation of the European Stability Mechanism ("ESM"); and
- a solution for the unique challenges faced by Greece.
- On 21 February 2012, European leaders agreed a second bail-out package for Greece in order to secure Greece's future in the euro area.

These various measures, adopted by European leaders and indication of support since the beginning of 2011, are indicative of the commitment of all euro area Member States to save the euro and to support euro area members.

Capital

Under the EU/IMF Programme and the subsequent Financial Measures Programme published by the Central Bank in March 2011, which detailed the outcome of its review of capital (PCAR) and funding (PLAR), AIB was set a minimum capital target of 10.5% core tier 1 in the base scenario, and a 6% core tier 1 in the stress scenario, plus an additional protective buffer which could be in the form of contingent capital. The total PCAR requirement for AIB (including EBS) was €14.8 billion. This requirement was met by the end July 2011 as outlined above. The Group's core tier 1 ratio at 31 December 2011 is 17.9% (2010: 4%). The Group's total capital ratio at 31 December 2011 is 20.5% (2010: 9.2%). AIB has passed the European Banking Authority ("EBA") stress test in July 2011 and the EBA capital exercise in December 2011 (which incorporated a capital buffer for sovereign exposures) without any further capital being required. The Directors have reviewed the capital and financial plans for the period of assessment and believe that the capital resources are sufficient to ensure that the Group is adequately capitalised both in a base and stress scenario.

Liquidity and funding

The Group's balance sheet saw significant change in 2011 arising from: the disposal of BZWBK; the acquisition of NAMA senior bonds and the deposit business from Anglo Irish Bankcorp ('Anglo'); the acquisition of EBS; the recapitalisation in July and asset deleveraging in the Non-Core segment. These changes reduced the funding requirement of AIB by €10 billion in 2011. The cash proceeds from the sale of BZWBK, the State deposit in advance of the Government capital injection and the issuance of Own Use Bank Bonds (i.e. self issued MTN under the Government guarantee) enabled AIB exit non standard facilities in April 2011. Nonetheless, the Group remains heavily dependent on Central Bank/ECB support, which amounted to €31 billion (including EBS) at 31 December 2011 down from €37 billion (AIB only) at 31 December 2010. AIB's access to wholesale funding markets continued to be restricted in 2011. This is a result of the continued negative sentiment towards the IMF/ECB bail out in the first half of 2011, the Europe-wide uncertainty in the second half of 2011 and the Group's credit rating. This increases the requirement for AIB to maintain/increase its deposit franchise, deleverage its balance sheet enabling reduction in wholesale funding dependency. Customer deposits remain the largest source of funding for the Group. Excluding the Anglo and EBS deposits, plus the impact of the NTMA deposits at June 2011, the Group's deposits were broadly stable in the second half of 2011, notwithstanding the uncertainty Europe-wide in the latter months of the year. While the Irish Sovereign's credit rating was downgraded in 2011 and contagion has spread to the broader euro area, the Irish Sovereign has been able to distinguish itself from the other peripheral countries. In particular, the Irish Government has met the fiscal requirements and the recapitalisation of its banks as part of its EU/IMF Programme which has resulted in bond yields significantly tightening since July 2011.

Accounting Policies

3. Basis of preparation (continued)

Going Concern *(continued)*

Notwithstanding the 2011 improvements, it is expected that the Group will continue to be reliant on the monetary authorities for funding during the assessment period. However, AIB's access to Central Bank funding support as required is considered to be assured due to its position as one of the two 'Pillar Banks' and in particular by the announcements by the ECB and the Minister for Finance on 31 March 2011 to the effect that the required Central Bank funding would be made available. Furthermore, the ECB confirmed that the Eurosystem would continue to provide liquidity to banks in Ireland, including AIB.

Furthermore, the Group has had discussions with the Central Bank and it sought assurance of the continued availability of the required liquidity from the Eurosystem during the period of assessment for the going concern statement. The Directors are satisfied based on the clarity of confirmations received from the Central Bank of Ireland and public announcements by ECB, EU and IMF, that in all reasonable circumstances, the required liquidity and funding from the Central Bank/ECB will be available to the Group during the period of assessment. The Directors, therefore consider that the funding and liquidity position of AIB Group is assured during the assessment period.

Conclusion

On the basis of the above, the Directors of AIB Group believe that it is appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern over the period of assessment.

On the basis of the continued availability of funding from Allied Irish Banks, p.l.c to AIB Mortgage Bank the Directors consider that it is appropriate to prepare the financial statements on a going concern basis at this time.

Adoption of new accounting standards

The following amendments to standards have been adopted by the Bank during the year ended 31 December 2011:

<u>Amendment to IAS 24 – Related Party Disclosures</u>

This amendment simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. It also provides a partial exemption from the disclosure requirements for government-related entities which, as permitted by the amendment, was early adopted by the Bank in 2010. The remainder of the amendment impacts upon the disclosure of certain related party relationships, transactions and outstanding balances including commitments in the financial statements of the Bank.
The adoption of this amendment did not have a significant impact on the Bank.

<u>Amendment to IAS 32 – Financial Instruments: Presentation-Classification of rights issues</u>

The amendment which is effective for annual periods beginning on or after 1 February 2010, states that if rights are issued by an entity pro rata to all existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. This amendment did not have any impact on the Banks financial statements but may do so in the future.

Improvements to IFRSs May 2010

In May 2010, the IASB issued its third edition of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The adoption of the following amendments resulted in changes to accounting policies and or disclosures, but did not have any impact on the financial position or performance of the Bank.

IFRS 3 Business Combinations: The measurement options available for non-controlling interest ("NCI") have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the

Accounting policies

3. Basis of preparation (continued)
Adoption of new accounting standards

present ownership interests' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.
IFRS 7 Financial Instruments - Disclosures: The amendment to IFRS 7 clarifies the required level of disclosure about credit risk and collateral held and provides relief from disclosures previously required regarding renegotiated loans.

IAS 1 Presentation of Financial Statements: The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements. In the current year there is no difference between the loss for the year and the total comprehensive income.

4. Interest income and expense recognition
Interest income and expense is recognised in the income statement for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of assets and liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The application of the method has the effect of recognising income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.
In calculating the effective interest rate, the Bank estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding future credit losses.

The calculation takes into account all fees, including those for early redemption, between parties to the contract that are an integral part of the effective interest rate and all other premiums and discounts.

All costs associated with mortgage incentive schemes including reduced introductory rates and 'cash back' incentives are included in the effective interest calculation.

5. Fee and commission income
Fees and commissions are generally recognised on an accruals basis when the service has been provided unless included in the effective interest rate calculation.

6. Net trading income
Net trading income comprises gains less losses relating to trading assets and liabilities, and includes all realised and unrealised fair value changes.

7. Financial assets
Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and which are not classified as available for sale.

They arise when the Bank provides money or services directly to a customer with no intention of trading the loan. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value and are subsequently carried on an amortised cost basis.

Financial assets are derecognised when rights to receive cash flows from financial assets have expired or when the Bank has transferred substantially all the risks and rewards of ownership.

Accounting policies

8. Financial liabilities
Issued financial instruments and their components are classified as liabilities where the substance of the contractual arrangement results in the Bank having a present obligation to either deliver cash or another financial asset to the holder or to exchange financial instruments on terms that are potentially unfavourable or to satisfy the obligation otherwise than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity shares.

Financial liabilities are initially recognised at fair value, being the issue proceeds (fair value of consideration received) net of transaction costs incurred. Financial liabilities are subsequently measured at amortised cost, any difference between the proceeds net of transaction costs and the redemption value is recognised in the income statement using the effective interest rate method. Refer to derivatives and hedge accounting, set out within item 9 of this section, for the accounting policy for financial liabilities in a hedge accounting relationship.

9. Derivatives and hedge accounting
Derivatives, such as interest rate swaps, are used only for risk management purposes.

Derivatives
Derivatives are measured initially at fair value on the date on which the derivative contract is entered into and subsequently remeasured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, and discounted cash flow models and options pricing models as appropriate. Derivatives are included in assets when their fair value is positive and in liabilities when their fair value is negative, unless there is the legal ability and intention to settle an asset and liability on a net basis.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Profits or losses are only recognised on initial recognition of derivatives when there are observable current market transactions or valuation techniques that are based on observable market inputs.

Hedging
All derivatives are carried at fair value in the Statement of Financial Position and the accounting treatment of the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Where derivatives are held for risk management purposes, and when transactions meet the criteria specified in IAS 39 “Financial Instruments: Recognition and Measurement”, the Bank designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge).

When a financial instrument is designated as a hedge, the Bank formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value.

The Bank discontinues hedge accounting when:
(a) it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
(b) the derivative expires, or is sold, terminated, or exercised; and
(c) the hedge item matures or is sold or repaid.

To the extent that the changes in the fair value of the hedging derivative differ from changes in fair value of the hedged risk in the hedged item; or the cumulative change in the fair value of the hedge derivative differs from the cumulative change in the fair value of expected future cash flows of the hedged item, ineffectiveness arises. The amount of ineffectiveness, (taking into account the timing of the expected cash flows, where relevant) provided it is not so great as to disqualify the entire hedge for hedge accounting, is recorded in the income statement.

Accounting policies

9. Derivatives and hedge accounting *(continued)*
In certain circumstances, the Bank may decide to cease hedge accounting even though the hedge relationship continues to be highly effective by no longer designating the financial instrument as a hedge.

Fair value hedge accounting
Changes in the fair value of derivatives that qualify and are designated as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the fair value hedging adjustment cumulatively made to the carrying value of the hedged item is, for items carried at amortised cost, amortised over the period to maturity of the previously designated hedge relationship using the effective interest method.

Derivatives used to manage interest rate risk arising on mortgage covered securities have been designated as fair value hedges.

Derivatives that do not qualify for hedge accounting
Certain derivative contracts entered into as economic hedges do not qualify for hedge accounting. Changes to the fair value of derivative instruments that do not qualify for hedge accounting are recognised immediately in the Income Statement.

Derivatives used to manage interest rate risk arising on mortgage loans to customers do not qualify for hedge accounting. Changes in their fair value are recognised immediately in the income statement.

10. Non-current assets held for sale
A non-current asset or a group of assets containing a non-current asset (a disposal group) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset.

On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of their previous carrying amount and fair value less costs to sell with any adjustments taken to the Income Statement. The same applies to gains and losses on subsequent remeasurement. However, financial assets within the scope of IAS 39 continue to be measured in accordance with that standard. No reclassifications are made in respect of prior periods.

Impairment losses subsequent to classification of assets as held for sale are recognised in the Income Statement. Increases in fair value less costs to sell of assets that have been classified as held for sale are recognised in the Income Statement to the extent that the increase is not in excess of any cumulative impairment loss previously recognised in respect of the asset. Assets are not depreciated while they are classified as held for sale.

11. Impairment of financial assets
It is the Bank’s policy to make provisions for impairment of financial assets to reflect the losses inherent in those assets at the reporting date.

Impairment
The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired at each reporting date. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset on or before the reporting date, (‘a loss event’) and that loss event or events has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the financial asset, or portfolio of financial assets.

Accounting policies

11. Impairment of financial assets (*continued)*

Objective evidence that a financial asset, or a portfolio of financial assets, is impaired includes observable data that comes to the attention of the Bank about the following loss events:

(a) significant financial difficulty of the obligor;

(b) a breach of contract, such as a default or delinquency in interest or principal payments;

(c) the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulty that the Bank would not otherwise consider;

(d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; and

(e) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

(i) adverse changes in the payment status of borrowers in the portfolio; and

(ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

Incurred but not reported

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (i.e. individually insignificant). If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and includes these performing assets under the collective incurred but not reported ('IBNR') assessment. An IBNR impairment provision represents an interim step pending the identification of impairment losses on an individual asset in a group of financial assets. As soon as information is available that specifically identifies losses on individually impaired assets in a group, those assets are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

Impairment loss

For loans and receivables, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and is included in the Income Statement.

When a loan has been subjected to a specific provision and the prospects of recovery do not improve, a time will come when it may be concluded that there is no real prospect of recovery. When this point is reached, the amount of the loan which is considered to be beyond the prospect of recovery is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the Income Statement.

Past due loans

When a borrower fails to make a contractually due payment, a loan is deemed to be past due. 'Past due days', is the term used to describe the cumulative numbers of days that 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.

Loans and receivables renegotiated

Loans and receivables renegotiated are those facilities outstanding at the reporting date that, during the financial year have had their terms renegotiated, resulting in an upgrade from 91+ days past due or impaired status to performing status.

Where possible and when appropriate, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Accounting policies

12. Employee benefits

Retirement benefit obligations
The Bank, through its parent Allied Irish Bank p.l.c. provides employees with post retirement benefits mainly in the form of pensions. It is AIB Group policy to provide for pension and other post-retirement benefits at rates recommended by independent actuaries. Staff members of the Bank are members of defined benefit or defined contribution schemes administered by Allied Irish Banks, p.l.c.

AIB's defined benefit scheme was closed to new members from December 1997. Employees who joined AIB since December 1997 joined on a defined contribution basis. In December 2007, the AIB Group introduced a hybrid pension arrangement for employees in the Republic of Ireland who are not members of the defined benefit scheme. This arrangement includes elements of both a defined benefit and a defined contribution scheme. It is not possible to identify the Bank's share of the underlying assets and liabilities of the main scheme. Consequently the Bank's proportionate share of the cost of the main scheme is accounted for as a defined contribution scheme. The standard contribution rate in Ireland was 8% for 2007 and increased to 10% in respect of the defined contribution elements of the hybrid arrangement.

13. Non-credit risk provisions
Provisions are recognised for present legal or constructive obligations arising as consequences of past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

14. Income tax, including deferred tax
Income tax comprises current and deferred tax. Income tax is recognised in the Income Statement. Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided, using the financial statement liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the reporting date and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred income tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences will be utilised.

The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle the current tax assets and liabilities on a net basis or to realise the asset and settle the liability simultaneously.

15. Cash and cash equivalents
For the purposes of the statement of cashflows, cash comprises cash on hand and demand deposits and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value and with original maturities of less than three months.

16. Accounting estimates and judgements
The estimates that have a significant impact on the financial statements and estimates with a significant risk of material adjustment in the next year are set out below:

Accounting policies

16. Accounting estimates and judgements *(continued)*

(a) Loan impairment
The estimation of potential loan losses is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, local and international economic climates and other external factors such as legal and regulatory requirements. For example, should the expectation of loss within a portfolio increase, then this may result in an increase to the required incurred but not reported ('IBNR') loan loss provision level.

A specific provision is made against problem loans when, in the judgement of management, the estimated repayment realisable from the obligor, including the value of any security available, is likely to fall short of the amount of principal and interest outstanding on the obligor's loan account. The amount of the specific provision made in the Bank's financial statements is intended to cover the difference between the assets carrying value and the present value of estimated future cash flows discounted at the assets original effective interest rates. The management process for the identification of loans requiring provision is underpinned by independent tiers of review.

Credit quality and loan loss provisioning are independently monitored by management on a regular basis. A system for grading advances according to agreed credit criteria exists with an important objective being the timely identification of vulnerable loans so that remedial action can be taken at the earliest opportunity. Credit rating is fundamental to the determination of provisioning in the Bank; it triggers the process which results in the creation of a specific provision on individual loans where there is doubt on recoverability.

IBNR provisions are also maintained to cover loans, which are impaired at the reporting date and, while not specifically identified, are known from experience to be present in any portfolio of loans.

IBNR provisions are maintained at levels that are deemed appropriate by management having considered: credit grading profiles and grading movements, historic loan loss rates, changes in credit management, procedures, processes and policies, levels of credit management skills, local and international economic climates, portfolio sector profiles and current estimates of expected loss in the portfolio.

Estimates of expected loss are driven by the following key factors;

(a) Probability of default i.e. the likelihood of a customer defaulting on its obligations over the next 12 months,
(b) Loss given default i.e. the fraction of the exposure amount that will be lost in the event of default, and
(c) Exposure at default i.e. exposure is calculated by adding the expected drawn balance plus a percentage of the unused limits.

AIB's rating systems have been internally developed and are continually being enhanced, e.g. externally benchmarked, to help underpin the aforementioned factors which determine the estimates of expected loss. Estimated expected loss is only one element in assessing the adequacy of the Bank's allowances.

(b) Fair value of financial instruments
The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Financial assets are initially recognised at fair value and, with the exception of financial assets at fair value through profit or loss, the initial fair value includes direct and incremental transaction costs. Financial liabilities are initially recognised at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequent to initial recognition, the methods used to determine the fair value of financial instruments include quoted prices in active markets where those prices are considered to represent actual and regularly occurring market transactions on an arm's length basis. Where quoted prices are not available or are unreliable because of market inactivity, fair values are determined using valuation techniques. These valuation techniques which use, to the extent possible, observable market data, include the use of recent arm's length transactions, reference to other similar instruments, option pricing models and discounted cash flow analysis and other valuation techniques commonly used by market participants.

Accounting policies

16. Accounting estimates and judgements *(continued)*

(c) Deferred tax

Deferred tax assets are recognised for unused tax losses to the extent that it is probable (defined for this purpose as more likely than not) that there will be sufficient future taxable profits against which the losses can be used. For a company with a history of recent losses, there must be convincing other evidence to underpin this assessment. The recognition of the deferred tax asset relies on the assessment of future profitability and the sufficiency of those profits to absorb losses carried forward. It requires significant judgements to be made about the projection of long-term future profitability because of the period over which recovery extends.

In assessing the future profitability of the Bank, the Board has considered a range of positive and negative evidence. Among this evidence, the principal positive factors include the:
- absence of any expiry dates for Irish tax losses;
- non-enduring nature of the loan impairments at levels which resulted in recent years' losses;
- generation of operating profits before provisions in recent years; and
- return to profitability within the Bank's internal medium-term financial plan and the ability to grow profits thereafter.

Taking account of all relevant factors the Bank believes that it is more likely than not that it will return to profitability within the timescale of the Bank's medium-term financial plan by 2014 and will achieve profits producing a sustainable market-range return on equity in the long term. In the absence of any expiry date for tax losses in Ireland, the Bank therefore believes that it is more likely than not that there will be future profits against which to use the tax losses.

17. Share capital

Issued financial instruments, or their components, are classified as equity where they meet the definition of equity and confer on the holder a residual interest in the assets of the Bank.
Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instrument.

18. Contingent liabilities and assets

A contingent liability is a present obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

The Bank discloses contingent liabilities and assets in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

19. Business Combination

The Group accounts for the acquisition of businesses using the acquisition method except for those businesses under common control. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair value of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree, and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in the income statement as incurred. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree, if any, over the net of the acquisition date fair value of the identifiable assets acquired and liabilities assumed.

It is Bank policy to account for the acquisition between entities under common control at carrying value at the date of the transaction. As a result acquisitions of businesses between members of the AIB Group are measured at their carrying value at the date of the transaction, except where prohibited by company law or IFRS.

Accounting policies

20. Prospective accounting changes
The following new accounting standards and amendments to existing standards approved by the IASB in 2010 and 2011, but not early adopted by the Bank, will impact the Bank's financial reporting in future periods.

The following will be applied in 2013 unless otherwise noted
Amendments to IAS 1 - Presentation of Items in Other Comprehensive Income
The amendments to IAS 1 were issued in June 2011 and are applicable to annual periods beginning on or after 1 July 2012. These amendments require companies preparing financial statements in accordance with IFRSs to group together items within other comprehensive income that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in other comprehensive income and profit or loss should be presented as either a single statement or two consecutive statements.

IFRS 13 Fair Value Measurement
This standard, which applies prospectively for annual periods beginning on or after 1 January 2013, establishes a single source of guidance for fair value measurements under IFRSs. IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements. IFRS 13 requires entities to disclose information about the valuation techniques and inputs used to measure fair value, as well as information about the uncertainty inherent in fair value measurements. This information will be required for both financial and non-financial assets and liabilities. The impact of the standard is being assessed by AIB and may result in significant additional disclosures.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32, and Disclosures
Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7
In December 2011, the IASB issued amendments to IAS 32 and IFRS 7 which clarify the accounting requirements for offsetting financial instruments and introduce new disclosure requirements that aim to improve the comparability of financial statements prepared in accordance with IFRS and US GAAP.

The amendments to IFRS 7 will require more extensive disclosures than are currently required. The disclosures focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements, irrespective of whether they are offset. The amended offsetting disclosures are to be retrospectively applied, with an effective date of annual periods beginning on or after 1 January 2013.

The amendments to IAS 32 clarify that the right of set-off must be currently available and legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The IAS 32 changes are effective for annual periods beginning on or after 1 January 2014 and apply retrospectively.

The following will be applied in 2015 if EU adopted:

IFRS 9 Financial instruments
In 2009, the IASB commenced the implementation of its project plan for the replacement of IAS 39. This consists of three main phases:

Phase 1: Classification and measurement
In November 2009, the IASB issued IFRS 9 Financial Instruments, covering classification and measurement of financial assets, as the first part of its project to replace IAS 39 and simplify the accounting for financial instruments.

The new standard endeavours to enhance the ability of investors and other users of financial information to understand the accounting for financial assets and to reduce complexity. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the

Accounting policies

20. Prospective accounting changes *(continued)*
contractual cash flow characteristics of the financial assets.

In October 2010, the IASB reissued IFRS 9 incorporating new requirements on accounting for financial liabilities, and carrying over from IAS 39 the requirements for derecognition of financial assets and financial liabilities. IFRS 9 does not change the basic accounting model for financial liabilities under IAS 39.Two measurement categories continue to exist: fair value through profit or loss ("FVTPL") and amortised cost. Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortised cost unless the fair value option is applied.

The basic premise for the derecognition model in IFRS 9 (carried over from IAS 39) is to determine whether the asset under consideration for derecognition is:

- an asset in its entirety; or
- specifically identified cash flows from an asset (or a group of similar financial assets); or
- a fully proportionate (pro rata) share of the cash flows from an asset (or a group of similar financial assets); or
- a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets).
- a financial liability should be removed from the statement of financial position when, and only when, it is extinguished, that is, when the obligation specified in the contract is either discharged or cancelled or expires.
- All derivatives, including those linked to unquoted equity investments, are measured at fair value. Value changes are recognised in profit or loss unless the entity has elected to treat the derivative as a hedging instrument in accordance with IAS 39, in which case the requirements of IAS 39 apply.

IFRS 9 requires gains and losses on financial liabilities designated as at fair value through profit or loss to be split into the amount of change in the fair value that is attributable to changes in the credit risk of the liability, which should be presented in other comprehensive income, and the remaining amount of change in the fair value of the liability which should be presented in profit or loss.

Phase 2: Impairment methodology
An exposure draft issued by the IASB in November 2009 proposes an 'expected loss model' for impairment. Under this model, expected losses are recognised throughout the life of a loan or other financial asset measured at amortised cost, not just after a loss event has been identified. The expected loss model avoids what many see as a mismatch under the incurred loss model – front-loading of interest revenue (which includes an amount to cover the lender's expected loan loss) while the impairment loss is recognised only after a loss event occurs. The impairment phase of IFRS 9 is subject to on-going deliberations and has not yet been finalised.

Phase 3: Hedge accounting
In December 2010, the IASB issued an exposure draft on hedge accounting which will ultimately be incorporated into IFRS 9. The exposure draft proposes a model for hedge accounting that aims to align accounting with risk management activities. It is proposed that the financial statements will reflect the effect of an entity's risk management activities that uses financial instruments to manage exposures arising from particular risks that could affect profit or loss. This aims to convey the context of hedge instruments to allow insight into their purpose and effect. This phase of IFRS 9 is not yet finalised.

The effective date for implementation of IFRS 9 is annual periods beginning on or after 1 January 2015, which was extended from 1 January 2013 due to delays in completing phases 2 and 3 of the project as well as the delay in the insurance project.

Since significant aspects of the standard have yet to be finalised, it is impracticable for the Bank to quantify the impact of IFRS 9 at this stage.

AIB Mortgage Bank

Income statement
for the year ended 31 December 2011

	Notes	**31 Dec 2011 € 000**	31 Dec 2010 € 000
Interest and similar income	1	**773,606**	739,478
Interest expense and similar charges	2	**(629,606)**	(524,588)
Net interest income		**144,000**	214,890
Trading gain	3	**366**	752
Other operating income / (expense)	4	**22,097**	(106,549)
Total operating income		**166,463**	109,093
Administrative expenses	5	**(43,409)**	(37,518)
Operating profit before provisions		**123,054**	71,575
Charge on provisions for liabilities and commitments	6	**-**	(43,905)
Provisions for impairment of loans and receivables	7	**(1,033,622)**	(344,141)
Operating loss before taxation		**(910,568)**	(316,471)
Taxation on ordinary activities	8	**113,821**	39,559
Loss for the year		**(796,747)**	(276,912)

The operating profit arises from continuing operations.

The notes on pages 32 to 76 are an integral part of these financial statements.

Director Catherine Woods *Director* Michael Keegan

Director Jim O'Keeffe *Secretary* David Schorman

29 March 2012

Statement of comprehensive income
for the year ended 31 December 2011

	31 Dec 2011 € 000	31 Dec 2010 € 000
Loss for the year	**(796,747)**	(276,912)
Other comprehensive income	**-**	-
Total comprehensive income for the year	**(796,747)**	(276,912)

AIB Mortgage Bank

Statement of financial position

as at 31 December 2011

	Notes	31 Dec 2011	31 Dec 2010
		€ 000	€ 000
Assets			
Balances at central bank		**50**	50
Loans and receivables to banks	11	**734,139**	16,470,576
Loans and receivables to customers	12	**22,443,796**	20,079,578
Other assets	14	**62,190**	24,324
Deferred taxation	15	**150,569**	39,559
Derivative financial instruments	10	**341,228**	290,640
Financial assets held for sale to NAMA	16	**-**	77,791
Total assets		**23,731,972**	36,982,518
Liabilities			
Deposits by central banks and banks	18	**15,979,264**	27,332,549
Customer accounts		**37**	26
Derivative financial instruments	10	**2,841**	3,126
Debt securities in issue	19	**6,357,581**	8,807,075
Other liabilities		**-**	380
Accruals and deferred income	20	**71,358**	72,296
Subordinated liabilities	21	**300,000**	300,000
Provisions for liabilities and commitments	22	**-**	44,428
Total liabilities		**22,711,081**	36,559,880
Shareholders' equity			
Share capital	23	**1,345,000**	450,000
Capital reserves	24	**580,000**	80,000
Profit and loss account		**(904,109)**	(107,362)
Total shareholders' equity		**1,020,891**	422,638
Total liabilities and shareholders' equity		**23,731,972**	36,982,518

Director Catherine Woods *Director* Michael Keegan

Director Jim O'Keeffe *Secretary* David Schorman

29 March 2012

AIB Mortgage Bank

Statement of cash flows

for the year ended 31 December 2011

	Notes	**31 Dec 2011 € 000**	31 Dec 2010 € 000
Reconciliation of profit before taxation to net cash inflow from operation activities			
Loss before taxation		**(910,568)**	(316,471)
Increase in prepayments and accrued income		**(36,992)**	(997)
Decrease in accruals and deferred income		**(938)**	(66,646)
Net increase/(decrease) in customer accounts		**11**	(149)
Net decrease in loans and receivables to customers		**1,869,596**	612,684
Net decrease in assets held for sale		**77,791**	38,401
Net decrease in debt securities in issue		**(2,449,494)**	(1,953,003)
Net increase in derivative financial instruments		**(50,873)**	(22,748)
Net decrease in loans and receivables to banks		**15,739,248**	1,737,475
Net decrease in deposits by banks		**(15,692,847)**	(141,580)
Net increase in other assets		**(874)**	-
Net (decrease)/increase in other liabilities		**(380)**	142
Provisions for liabilities and commitments		**(44,428)**	44,428
Net cash outflow from operating acitivities including movements in assets and liabilities		**(1,500,748)**	(68,464)
Net cash outflow from operating activities before taxation		**(1,500,748)**	(68,464)
Taxation paid		**-**	(11,787)
Net cash outflow from operating activities		**(1,500,748)**	(80,251)
Net cashflow from investing activities			
Acquisition of loans & receivables from AIB p.l.c.		**(4,233,814)**	**-**
Net cash inflow from financing activities			
Proceeds from issue of ordinary shares		**895,000**	-
Increase in capital reserves		**500,000**	80,000*
Increase in deposits by banks		**4,233,814**	**-**
Net cashflow from financing activities		**5,628,814**	80,000
(Decrease) in cash and cash equivalents		**(105,748)**	(251)
Opening cash and cash equivalents		**839,887**	840,138
Closing cash and cash equivalents	28	**734,139**	839,887

*In the 2010 Statutory Accounts, €80m Capital Contribution was reflected in loans and receivables to banks. This has been restated to increase capital reserves under financing activities.

Statement of changes in equity

for the year ended 31 December 2011

	Share Capital € 000	Capital Reserves € 000	Profit and loss account € 000	Total € 000
Balance at 1 January 2010	450,000	-	169,550	619,550
Loss attributable to equity holders	-	-	(276,912)	(276,912)
Capital contribution received	-	80,000	-	80,000
Balance at 31 December 2010	450,000	80,000	(107,362)	422,638
Balance at 1 January 2011	**450,000**	**80,000**	**(107,362)**	**422,638**
Loss attributable to equity holders	**-**	**-**	**(796,747)**	**(796,747)**
Share capital issued	**895,000**	**-**	**-**	**895,000**
Capital contribution received	**-**	**500,000**	**-**	**500,000**
Balance at 31 December 2011	**1,345,000**	**580,000**	**(904,109)**	**1,020,891**

Notes to the accounts

1. Interest and similar income	2011 € 000	2010 € 000
Interest on loans and receivables to customers	**622,082**	511,120
Interest receivable from Allied Irish Banks, p.l.c.	**151,524**	228,358
	773,606	739,478

On 25 February 2011, AIB Mortgage Bank acquired €4.2bn loans and receivables (Intermediary Business) from Allied Irish Banks p.l.c.. These contributed €94.5m to interest on loans and receivables in the period.

Included in the interest receivable from Allied Irish Banks, p.l.c. is €87.7m (2010: €110.1m) relating to mortgage covered securities hedges (bond swaps) and €63.8m (2010: €118.3m) mainly relating to interest earned on funds placed with Allied Irish Banks, p.l.c..

2. Interest expense and similar charges	2011 € 000	2010 € 000
Interest payable to Allied Irish Banks, p.l.c.	**435,532**	313,622
Interest on debt securities in issue	**180,970**	180,705
Interest on amounts due to the Central Bank of Ireland	**13,104**	30,261
	629,606	524,588

Funding associated with the acquisition of €4.2bn loans and receivables (Intermediary Business) on 25 February 2011 by AIB Mortgage Bank from Allied Irish Banks p.l.c. generated €72.4m additional interest payable to AIB p.l.c in the period.

Included in the Interest payable to Allied Irish Banks, p.l.c. is €384.4m (2010: €259.7m) relating to interest payable on funding based on one month Euribor, other additional funding costs, and interest payable on mortgage loan portfolio swaps. The interest payable on mortgage loan portfolio swaps amounted to €37.4m (2010: €47.2m).

3. Trading gain	2011 € 000	2010 € 000
Trading gain	**366**	752

Changes in fair value of interest rate swaps, and certain related account items being hedged, resulted in a trading gain of €0.4m (2010: €0.8m) which is made up of €0.3m (2010 €0.5m) as a result of changes in fair value of swaps used to hedge the interest rate risk in the mortgage loan portfolio and €0.1m (2010: €0.3m) in respect of changes to the fair value of interest rate swaps relating to mortgage covered securities reflecting an element of hedge ineffectiveness.

Notes to the accounts

4. Other operating income / (expense)	**2011 € 000**	2010 € 000
Other operating Income	**320**	131
Fee payable under Government guarantee scheme (Note 34)	**-**	(549)
Gain / (loss) on transfer of financial instruments held for sale to NAMA	**21,777**	(106,131)
	22,097	(106,549)

Gain / (loss) on assets transferred to NAMA

	2011 € 000	2010 € 000
Carrying value of loans transferred to NAMA (including accrued interest)	**106,637**	212,660
Less impairment provisions (note 7)	**6,287**	11,242
Net carrying value of financial instruments transferred	**100,350**	201,418
Fair value of consideration received from NAMA	**44,804**	95,287
Adjustments in respect of assets transferred during 2011	**7,697**	**-**
Consideration received	**52,501**	95,287
Loss on transfer	**(47,849)**	(106,131)
Utilisation of provisions for liabilities & commitments (note 22)	**43,905**	-
Adjustment in respect of assets transferred during 2010	**25,721**	**-**
Gain / (loss) on transfer of financial instruments held for sale to NAMA	**21,777**	(106,131)

Notes to the accounts

5. Administrative expenses	**2011** **€ 000**	2010 € 000
Personnel expenses		
Wages and salaries	**380**	346
Social security costs	**40**	36
Retirement benefits	**38**	50
Other personnel expenses	**12**	7
	470	439
Other administrative expenses	**3,733**	1,962
Amounts payable to Allied Irish Banks, p.l.c. under the Outsourcing and Agency Agreement	**39,206**	35,117
	43,409	37,518

6. Charge on provisions for liabilities and commitments	**2011** **€ 000**	2010 € 000
Charge on provision for loss on transfer of loans to NAMA	**-**	(43,905)
	-	(43,905)

At 31 December 2010, a provision of €43.9m was set aside for the expected loss on the remaining outstanding loans/transfers to NAMA. This provision was fully utilised against the loss on loans transferred to NAMA incurred during 2011. See note 4 for further details.

Notes to the accounts

7. Provisions for impairment of loans and receivables

	2011			2010		
	Specific	**IBNR**	**Total**	Specific	IBNR	Total
	€ 000	**€ 000**	**€ 000**	€ 000	€ 000	€ 000
Balance at start of year	**160,568**	**280,907**	**441,475**	67,703	48,507	116,210
Charge against income statement	**793,189**	**240,433**	**1,033,622**	111,741	232,400	344,141
Acquired as part of a business combination	**24,312**	**82,560**	**106,872**	-	-	-
Provisions on loans and receivables transferred to NAMA	**(6,287)**	**-**	**(6,287)**	(11,242)	-	(11,242)
Amounts written off	**(18,301)**	**-**	**(18,301)**	(7,634)	-	(7,634)
At end of year	**953,481**	**603,900**	**1,557,381**	160,568	280,907	441,475

By geographic location and industry sector

	2011	2010
	€ 000	€ 000
Republic of Ireland		
Home mortgages	**1,557,381**	441,475
	1,557,381	441,475

	2011	2010
8. Taxation	**€ 000**	€ 000
Current tax prior year adjustment	**(2,811)**	-
Deferred taxation		
Origination of temporary differences (note 15)	**(111,010)**	(39,559)
Total tax	**(113,821)**	(39,559)

The tax credit for the year is at an effective rate of 12.5%, which is the same as the standard Irish corporation tax rate.

Notes to the accounts

9. Risk management

Introduction
The Bank’s approach to identifying and monitoring the principal risks and uncertainties facing the Bank is informed by risk factors. All of the Bank’s activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risks which are assessed on a Group wide basis. Certain risks can be mitigated by the use of safeguards and appropriate systems and actions which form part of the AIB Group’s risk management framework, as described on pages 37 & 38.

1. Risk Factors

1.1 The Bank’s dependence on the AIB Group
The Bank, as an integral member of the AIB Group, is dependent to a very large extent on AIB (and through it other members of the Group) in relation to the origination and servicing of Irish residential loans, administration and accounting services, treasury services, hedging arrangements, debt funding, equity and regulatory capital and services relating to the issuance of Mortgage Covered Securities. To meet its funding requirements, the AIB Group has accessed a range of central bank liquidity facilities, including at times certain additional liquidity schemes introduced by central banks for market participants during periods of dislocation in the funding markets. In accessing central bank and other secured lending facilities, the AIB Group has relied significantly on its “Qualifying Liquid Assets” and “Contingent Funding” capacity. The curtailment or non-extension of the Central Bank liquidity facilities currently relied upon by the AIB Group, or the AIB Group’s inability to access such facilities would require the AIB Group to seek alternative sources of funding.

The Bank is entirely dependent on the AIB Group to provide the necessary capital resources to meet minimum regulatory requirements. The AIB Group’s target capital requirements as determined by the Central Bank under its Prudential Capital Assessment Review (PCAR) are currently core tier 1 ratio of 10.5% in the base scenario and 6% in a stress scenario, not including an allowance for an additional protective buffer. AIB Group has carried out extensive forward-looking stress tests on its capital adequacy position, including two European Banking Authority (EBA) stress tests carried out in the second half of 2011. The published results of both EBA stress tests confirmed that AIB did not require additional capital. However given the levels of uncertainty in the current economic climate there is the possibility that further losses over and above what is currently forecast could materialise. In the event that such losses are significantly greater than forecasted, the AIB Group’s capital position could be eroded to the extent that it may have insufficient capital resources to provide to the Bank to meet the Bank’s target regulatory requirements.

1.2 Exposure to the Irish Housing/Residential Loan Market
Since the beginning of 2007, the Irish residential property market has undergone a material negative correction as regards mortgage lending activity and residential property prices.

The Bank’s exposure to credit risk is exacerbated when the collateral it holds cannot be realised or is liquidated at prices that are not sufficient to recover the full amount of the loan , which is most likely to occur during periods of illiquidity and depressed asset valuations, such as those currently being experienced.

Any such losses could have a material adverse effect on the Bank’s future performance and results of operations. In addition, an increase in interest rates may lead to, amongst other things, further declines in collateral values, higher repayment costs and reduced recoverability which together with the aforementioned risks may adversely impact the Bank’s earnings or require an increase in the expected cumulative impairment charge for the Bank.

Notes to the accounts

9. Risk management *(continued)*

1.3 The Bank's business activities must comply with increasing levels of regulatory requirements introduced as a result of failings in financial markets
In 2011 there was an unprecedented level of new regulation issued by both by the Central Bank of Ireland and the EU, through a number of new or revised Codes and Directives:

- The Corporate Governance Code for Credit Institutions and Insurance Undertakings was introduced on 1 January 2011 and it sets out the minimum requirements an institution must meet to promote effective governance.
- The Code of Conduct on Mortgage Arrears came into effect in June 2011, providing increased protection to the consumer particularly those in arrears situations.
- The new Fitness and Probity regime and the revised Minimum Competency Code became effective from 1 December 2011. They both seek to raise standards of competence of staff and require impacted persons to undergo an annual Fit and Proper assessment.
- The revised Consumer Protection Code came into effect on the 1 January 2012 .The AIB Group has until 30 June 2012 to be in full compliance with the provisions of the code.

Together with the high level of existing regulations, the challenge of managing regulatory compliance increased substantially in 2011. The changing regulatory standards has increased the demand on the Bank in terms of the deployment of business and IT resources which is expected to continue in 2012. Delivering this level of change has and will continue to place added risk on the Bank and the AIB Group, including the challenge to meet tight delivery timelines in the face of competing priorities and resource demands.

The AIB Group is subject to financial services laws, regulations and policies. Changes in supervision and regulation in Ireland has and will continue to have a material impact on the Bank's business, products offered and the value of its assets.
Future changes in government policy, central bank monetary authority policy, EU/Eurozone policies, legislation or regulation or their interpretation relevant to financial services may adversely affect the Bank's product range, distribution channels, funding sources, capital requirements and consequently, reported results and financing requirements.

Any changes in the regulation of selling practices and solvency, funding and capital requirements could have a significant impact on the Bank's results of operations, financial condition and future prospects.
Furthermore any new regulatory obligations regarding functional and operational arrangements within the AIB Group may also have an adverse impact on the Bank's results, financial conditions and prospects.

2. Risk Framework

2.1 Elements of the Risk Management Framework
The Bank 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 Bank, increase earnings or cash-flow volatility, reduce capital, threaten business reputation or viability, and/or breach regulatory or legal obligations. The Bank has adopted the AIB Group Enterprise Risk Management approach to identifying, assessing and managing risks, the core aspects of which are described below:

2.2 Risk Appetite
The Bank's risk appetite is defined as the maximum amount of risk that the Bank is prepared to accept in order to deliver on its strategic and business objectives. In June 2011, the Board approved a Risk Appetite Framework and within it a Risk Appetite Statement (RAS) which set out key limits across the Bank's material risks.

Notes to the accounts

9. Risk management *(continued)*

2.2 Risk Appetite *(continued)*
The Bank's risk profile is measured against its risk appetite on a quarterly basis and reported to the Bank's Executive Committee and the Board. Material breaches of risk appetite are escalated to the Board, the AIB Executive Risk Committee and the Central Bank. The RAS will be reviewed again later in 2012, upon commencement of the updated planning process.

2.3 Risk governance and risk management organisation
The Board has ultimate responsibility for the governance of all risk taking activity in the Bank. Senior Management are accountable for risk taking within the Board approved risk appetite. The Bank has adopted the AIB 'three lines of defence' framework in the delineation of accountabilities for risk governance.

Under the three lines of defence model, primary responsibility for risk management lies with line management. The AIB Group Risk Management function provides the second line of defence, providing independent oversight and challenge to business line managers.

The third line of defence is the AIB Group Internal Audit function which provides independent assurance to the Audit Committee of the Board on the design and effectiveness of the system of internal controls.

3. Individual Risk Types

This section provides details of the exposure to, and risk management of, the following individual risk types which have been identified through the AIB Group risk assessment process and which are relevant to AIB Mortgage Bank:-

3.1 Credit risk
3.2 Liquidity risk
3.3 Operational risk
3.4 Regulatory compliance risk
3.5 Non-trading interest rate risk

The 5 applicable risk types are discussed below.

3.1 Credit risk
Credit risk is defined as the risk that a customer or counterparty will be unable or unwilling to meet a commitment that it has entered into and that pledged collateral does not fully cover amounts due to the Bank. The most significant credit risks assumed by the Bank arise from mortgage lending activities to customers in Ireland. Credit risk also arises in respect of funds placed with AIB in respect of derivatives relating to interest rate risk management.

It is AIB Group policy to maintain sanctioning authority for residential mortgages independent of the sales function. A credit risk policy has been approved by the Board of Directors of the Bank, is subject to annual review and complies with AIB Group standards. Grading tools are used in the management of credit risk and an arrears management process operates to minimise the level of non-performing loans.

Net disposable income is the key factor in assessing repayment capacity. Repayment capacity is assessed by reference to the debt service ratio which measures the proportion of 'after tax' income required to service the proposed borrowing. When sanctioning mortgage credits, consideration is also given to the loan to value ratios, adequacy of security and the track record of the borrower.

Notes to the accounts

9. Risk management *(continued)*

3.1 Credit risk *(continued)*
The assessment of individual mortgage loans includes an interest rate stress test in compliance with requirements set by the Central Bank of Ireland.

The ratings derived from the grading process influence the management of individual loans. Special attention is paid to lower quality rated loans and, when appropriate, loans are transferred to special units to help avoid default or, when in default, to minimise loss.

The table below sets out the maximum exposure to credit risk that arises within the Bank. The table distinguishes between those assets that are carried in the Statement of Financial Position at amortised cost and those carried at fair value. The most significant credit risks arise from lending activities to customers and banks, derivatives relating to interest rate risk management and 'off-balance sheet' commitments. The credit risks arising from balances at Central Bank are deemed to be negligible based on their maturity and counterparty status.

Maximum exposure to credit risk

	Amortised Cost	**Fair Value**	**2011 Total**	Amortised Cost	Fair Value	2010 Total
	€ 000	**€ 000**	**€ 000**	€ 000	€ 000	€ 000
Balances at central banks	**50**	**-**	**50**	50	-	50
Derivative financial instruments	**-**	**341,228**	**341,228**	-	290,640	290,640
Loans and receivables to banks	**734,139**	**-**	**734,139**	16,470,576	-	16,470,576
Loans and receivables to customers	**22,443,796**	**-**	**22,443,796**	20,079,578	-	20,079,578
Assets classified as held for sale	**-**	**-**	**-**	-	-	-
Financial assets held for sale to NAMA	**-**	**-**	**-**	77,791	-	77,791
Included elsewhere:						
Accrued interest	**27,898**	**-**	**27,898**	24,324	-	24,324
Other assets	**34,292**	**-**	**34,292**	-	-	-
	23,240,175	**341,228**	**23,581,403**	36,652,319	290,640	36,942,959
Loan commitments	**239,000**	**-**	**239,000**	190,000	-	190,000
Maximum exposure to credit risk	**23,479,175**	**341,228**	**23,820,403**	36,842,319	290,640	37,132,959

Risk identification and assessment
All mortgage loans are subject to an individual underwriting process. In addition, credit risk is identified, assessed and measured through the use of credit rating and scoring tools for each borrower or transaction. The methodology used produces a quantitative estimate of the Probability of Default ("PD") for the borrower. This assessment is carried out at the level of the individual borrower or transaction and at portfolio level when relevant.

In the mortgage portfolio, which is characterised by a large number of customers with small individual exposures, risk assessment is largely informed through statistically based scoring techniques. Both application scoring for new customers

Notes to the accounts

9. Risk management *(continued)*

3.1 Credit risk *(continued)*
and behavioural scoring for existing customers are used to assess and measure risk as well as to facilitate the management of the portfolio.

Risk management and mitigation
AIB Mortgage Bank through AIB Group has an established credit process with a framework of a mortgage credit policy and delegated authorities, based on skill and experience, for the management and control of credit risk. Credit grading, scoring and monitoring systems accommodate the early identification and management of any deterioration in loan quality. The credit management system is underpinned by an independent system of credit review.

In addition, the Board of AIB Mortgage Bank and the Board of AIB review and approve the credit policy for residential property mortgage loans.

Credit risk mitigation
The most significant and widely used credit risk mitigation tool available to the Bank is its own internal credit risk control framework.

Provisioning for impairment
The identification of loans for assessment as impaired is facilitated by the AIB Group's rating systems. The AIB Group provides for impairment in a prompt and consistent way. The rating models and arrears management reports provide a systematic discipline in the identification of loans as impaired and in triggering a need for provisioning on a timely basis.

Loans are tested for impairment if they are past due for typically 120 days or more and/or exhibit, through lender assessment, an inability to meet their obligations. Loans are also tested for impairment following a request for forbearance.

Within its provisioning methodology, the AIB Group uses two types of provisions: a) specific; and b) incurred but not reported ("IBNR") – i.e. collective provisions for earning loans.

Specific provisions
A specific provision is made against problem loans when, in the judgement of management, the estimated repayment realisable from the obligor, including the value of any security available, is likely to fall short of the amount of principal and interest outstanding on the obligor's loan account. In assessing provisions due account is taken of the impact of negative equity in establishing appropriate provision amounts.

The amount of the specific provision made in AIB Mortgage Bank's financial statements is intended to cover the difference between the balance outstanding on impaired loans and estimated recoveries (i.e. the present value of future cash flows). When raising specific provisions, AIB Mortgage Bank divides its impaired portfolio into two categories namely, Individually significant and Individually insignificant.

Notes to the accounts

9. Risk management *(continued)*

3.1 Credit risk *(continued)*

Risk management and mitigation *(continued)*
Individually significant impairment
Each entity within AIB Group sets a threshold above which cases are assessed on an individual basis. For those credits identified as being impaired, the individual impairment provision is calculated by discounting the expected future cash flows at the exposure's effective interest rate and comparing the result (the estimated recoverable amount) to the carrying amount of the loan to determine the level of provision required. The key inputs to the discounted cash flow models are the estimated amount and timing of cash flows (to include scheduled repayments, interest payments or payments due from realisation of security) and the exposure's effective interest rate.

Individually insignificant impairment
The calculation of an impairment charge for credits below the "significant" threshold is undertaken on a collective basis. Loans are grouped together in homogeneous pools sharing common characteristics and impairment is calculated by reference to the loss history experience/expected cashflows for the pool of impaired loans (i.e. amount and timing of cash flows / loss given default).

When a loan has been subjected to a specific provision and the prospects for recovery do not improve, a point will come when it may be concluded that there is no realistic prospect of recovery. When that point is reached, the amount of the loan which is considered to be beyond prospect of recovery is charged off.

Collective impairment for performing book (Incurred but not reported loss)
IBNR provisions are maintained to cover loans which are impaired at the Statement of Financial Position date and, while not specifically identified, are known from experience to be present in any portfolio of loans. IBNR provisions can only be recognised for incurred losses and are not permitted for losses that are expected to happen as a result of likely future events. IBNR provisions are determined by reference to loss experience in the portfolios and to the credit environment at the Statement of Financial Position date.

IBNR provisions are maintained at levels that are deemed appropriate by management having considered: credit grading profiles and grading movements; historic loan loss rates; changes in credit management procedures, processes and policies; levels of credit management skills; local and international economic climates; and portfolio profile / industry conditions.

The approach used for the collective evaluation of impairment is to split the performing financial assets into homogeneous pools on the basis of similar risk characteristics. The asset pools are multiplied by the "average annual loss rate" for that pool, suitably adjusted where appropriate for any factors currently affecting the portfolio that may not have been a feature in the past or vice versa. The resultant amount is then adjusted to reflect the Emergence Period, i.e. the time it takes following a loss event for an individual loan to be recognised as impaired requiring a specific provision.

The Emergence Period is key in determining the level of collective provisions. The Emergence Period is determined by taking into account current credit management practices, historical evidence of assets moving from "good" to "bad" as a result of a "loss event" and will include actual case studies. The Emergence Period applied in AIB Mortgage Bank is 6 months.

The level of IBNR provisions is reviewed quarterly to ensure it remains appropriate and adequate.

Notes to the accounts

9. Risk management *(continued)*

3.1 Credit risk *(continued)*

Risk monitoring and reporting
Relevant credit risk information is reported in a timely manner to the appropriate level to enable informed management decision making.

Credit managers receive sufficient account and customer information to pro-actively manage the Bank's credit risk exposures at a transaction and relationship level.

Further information on credit risk
Further information on credit risk can be found in the notes to the financial statements.
- Derivative financial instruments *(note 10).*
- Loans and receivables to banks *(note 11).*
- Loans and receivables to customers *(note 12).*
- Provisions for impairment of loans and receivables *(note 7).*
- Financial assets held for sale to NAMA *(note 16).*

3.2 Liquidity risk
Liquidity risk is the exposure to loss from not having sufficient funds available at an economic price to meet actual and contingent commitments. The objective of liquidity management is to ensure that, at all times, the Bank holds sufficient funds to meet its contracted and contingent commitments and regulatory requirements, at an economic price.

AIB Mortgage Bank's liquidity risk is managed as part of the overall AIB Group liquidity management. This includes the risk identification and assessment, risk management and mitigation, and risk monitoring and reporting processes.

Funding and Liquidity
The funding and liquidity policy as approved by the Board of Directors of the Bank sets out the forms of funding which can be used by the Bank to meet its liquidity requirements – see below. It also sets out the outsourcing arrangements which have been established with Allied Irish Banks p.l.c. to source and manage the funding and liquidity requirements. The policy also specifies reporting requirements with respect to funding and liquidity management.

Funding
The Bank is authorised to fund the assets it holds through the following forms of funding:

(a) the issuance of Mortgage Covered Securities in accordance with the ACS Acts;

(b) borrowing funds from Allied Irish Banks p.l.c.;

(c) borrowing from the Central Bank under a Mortgage-Backed Promissory Note (short term) facility ("**MBPN Facility**")and other funding from the Central Bank under facilities which may be available to the Bank from time to time;

(d) wholesale and corporate market deposit taking; and

(e) capital funding to ensure at a minimum compliance with the capital adequacy requirements of the Central Bank of Ireland.

Notes to the accounts

9. Risk management *(continued)*

3.2 Liquidity risk
The MPBN Facility is secured by a floating charge over a pool of the Bank's home loans and related security which is separate to the Pool (that secures the Mortgage Covered Securities) maintained by the Issuer in accordance with the ACS Acts.

Liquidity
Liquidity requirements for EU credit institutions are not the subject matter of EU directives. The Central Bank of Ireland requires credit institutions to comply with a cashflow maturity mismatch approach for the management of their liquidity. This involves credit institutions analysing their cash flows on a group-wide basis under various headings and placing them in pre-determined time bands depending on when the cash is received or paid out. Limits are imposed on the group on the first (0-8 days) and the second (8-31 days) time bands and monitoring ratios will be calculated for subsequent time bands. These requirements apply to AIB on a consolidated basis rather than to the Bank on a stand alone.

The primary liquidity requirements of the Bank are to have sufficient funds available at an economic price to meet its commitments to pay interest and principal to holders of the Issuer's Mortgage Covered Securities, to repay short term borrowings under the MBPN Facility and to lend to mortgage customers in accordance with outstanding offer letters.

The Bank's liquidity risk is managed as part of the overall AIB Group liquidity management.

AIB Global Treasury through the Outsourcing and Agency Agreement:

- supports the liquidity management requirements of the Bank taking into account the regulatory framework at a Group level;
- ensures that the Bank's liquidity management complies with AIB Group liquidity policy.

It is the Bank's policy to ensure that resources are at all times available to meet the Bank's obligations. The Bank meets its day to day residual funding requirements through borrowing facilities in place with Allied Irish Banks, p.l.c. and with the Central Bank of Ireland and access to ECB funding. The table on page 45 analyses the liabilities into relevant maturity groupings based on the remaining period at the reporting date to contractual maturity date.

3.3 Operational risk
Operational risk, which is inherent in all business activities, is the exposure to loss from inadequate or failed internal processes, people and systems, or from external events.

The management of operational risk is a line management responsibility. It is supported by specialist operational risk management ('ORM') functions within Allied Irish Banks, p.l.c. that assist and advise line management on specific operational risks. Examples include money laundering prevention, compliance, business continuity planning, information security and insurance.

An element of AIB Mortgage Bank's ORM programme is an operational risk self-assessment process. This process requires the Bank to assess its operational risks and the effectiveness of the related controls to address these risks. It complements the risk-based audit approach applied by internal audit in its role as independent assessor of management's control and risk management processes.

3.4 Regulatory compliance risk
Regulatory compliance risk is defined as the risk of regulatory sanctions, material financial loss or loss to reputation which the Bank may suffer as a result of failure to comply with all applicable laws, regulations, rules, related self regulatory standards and codes of conduct applicable to its activities.

Notes to the accounts

9. Risk management *(continued)*

3.4 Regulatory compliance risk *(continued)*
AIB Mortgage Bank's regulatory compliance risk is managed as part of the overall AIB Group Regulatory compliance framework. This includes risk identification and assessment, risk management and mitigation, and risk monitoring and reporting processes.

3.5 Non-trading interest rate risk
Interest rate risk is the exposure of the Bank's earnings to movements in market interest rates. The Bank is exposed to risk of interest rate fluctuations to the extent that assets and liabilities mature or reprice at different times or in differing amounts.

The Bank is exposed to interest-rate risk arising from mortgage lending activities and the issuance of Mortgage Covered Securities. Interest rate swaps, as explained in the paragraphs below, are used to manage this exposure.

After taking account of the effect of interest rate swaps, the Bank's remaining interest rate exposure arises mainly from variable interest rate mortgage loans, where the interest rate for the majority of the loans is based on the ECB Refinancing Rate, whereas the related funding cost is based on Euribor rates.

Interest-rate risk arising from the issuance of fixed-rate Mortgage Covered Securities is managed through interest rate swaps with AIB which have the effect of transforming fixed-rate liability risk into floating-rate risk.

The interest rate exposure of the Bank relating to its Irish residential lending is managed using two macro interest rate swaps with Allied Irish Banks, p.l.c. one of which, the Pool Hedge, relates only to the Pool and Mortgage Covered Securities issued by the Bank and the other of which (the Non-Pool Hedge) relates only to Irish residential loans which are not included in the Pool. This split is required by the Asset Covered Securities Acts.

The Pool Hedge and the Non Pool Hedge contracts entail the monthly payment of the average customer rate on these mortgages and in return, the receipt of 1 month Euribor plus the current margin being achieved on the mortgage portfolio. The contract is reset each month to reflect the outstanding mortgage balances at that time and to reflect updated customer rates, Euribor and margin levels. Settlements are made between the Bank and Allied Irish Banks p.l.c. to reflect the net amount payable/receivable in each month.

Interest rate swaps are used solely for risk management and not trading purposes.

The nominal values of the swaps are set out in note 10.

The Bank is not exposed to any other market risks, i.e. foreign exchange rates or equity prices.

Further details of AIB Group's Liquidity Risk, Operational Risk, Regulatory Compliance Risk and Non-Trading Interest Rate Risk frameworks are set out in the Annual Report of Allied Irish Banks, p.l.c.

Interest rate sensitivity
The net interest rate sensitivity of AIB Mortgage Bank at 31 December 2011is illustrated in the following table;

Interest Rate Sensitivity

Interest Rate Sensitivity analysis for the Bank at **31 December 2011** is as follows:

Assets	**0 ≤ 1 mth**	**1 ≤ 3 mths**	**3 ≤ 12 mths**	**1 ≤ 2yrs**	**2 ≤ 3yrs**	**3 ≤ 4yrs**	**4 ≤ 5yrs**	**5yrs+**	**Rate Insensitive**	**Total**
	€ 000	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**
Cash and balances at central bank	50	-	-	-	-	-	-	-	-	50
Loans and receivables to customers	19,073,552	186,765	792,166	1,118,110	636,387	349,223	214,878	72,715	-	22,443,796
Loans and receivables to banks	665,774	-	-	-	-	-	-	-	68,365	734,139
Derivatives and other financial instruments	-	-	-	-	-	-	-	-	341,228	341,228
Other assets	-	-	-	-	-	-	-	-	212,759	212,759
Total assets	**19,739,376**	**186,765**	**792,166**	**1,118,110**	**636,387**	**349,223**	**214,878**	**72,715**	**622,352**	**23,731,972**
Liabilities										
Customer accounts	-	-	-	-	-	-	-	-	37	37
Deposits by banks	15,960,369	-	-	-	-	-	-	-	18,895	15,979,264
Derivatives and other financial instruments	-	-	-	-	-	-	-	-	2,841	2,841
Debt issued	3,250,000	-	-	1,000,000	-	-	-	1,765,000	342,581	6,357,581
Subordinated liabilities	300,000	-	-	-	-	-	-	-	-	300,000
Other liabilities	-	-	-	-	-	-	-	-	71,358	71,358
Shareholders' funds	-	-	-	-	-	-	-	-	1,020,891	1,020,891
Total liabilities	**19,510,369**	**-**	**-**	**1,000,000**	**-**	**-**	**-**	**1,765,000**	**1,456,603**	**23,731,972**
Derivative financial instruments (Interest rate swaps)										
Floating rate interest receivable	24,067,620	-	-	-	-	-	-	-	-	24,067,620
Floating rate interest payable	(20,697,376)	(186,765)	(792,166)	(1,118,110)	(636,387)	(349,223)	(214,878)	(72,715)	-	(24,067,620)
Floating rate interest payable	(2,765,000)	-	-	-	-	-	-	-	-	(2,765,000)
Fixed rate interest receivable	-	-	-	1,000,000	-	-	-	1,765,000	-	2,765,000
Total derivatives	**605,244**	**(186,765)**	**(792,166)**	**(118,110)**	**(636,387)**	**(349,223)**	**(214,878)**	**1,692,285**	**-**	**-**
Interest sensitivity gap	834,251	-	-	-	-	-	-	-	(834,251)	-
Cumulative interest sensitivity gap	834,251	834,251	834,251	834,251	834,251	834,251	834,251	834,251	-	-

AIB Mortgage Bank

Interest Rate Sensitivity analysis for the Bank at **31 December 2010** is as follows:

Assets	**0 ≤ 1 mth**	**1 ≤ 3 mths**	**3 ≤ 12 mths**	**1 ≤ 2yrs**	**2 ≤ 3yrs**	**3 ≤ 4yrs**	**4 ≤ 5yrs**	**5yrs+**	**Rate Insensitive**	**Total**
	€ 000	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**
Cash and balances at central bank	50	-	-	-	-	-	-	-	-	50
Loans and receivables to customers	17,440,092	77,139	599,007	724,880	744,032	190,391	226,980	77,057	-	20,079,578
Loans and receivables to banks	16,470,576	-	-	-	-	-	-	-	-	16,470,576
Derivatives and other financial instruments	-	-	-	-	-	-	-	-	290,640	290,640
Financial assets held for sale to NAMA	77,791	-	-	-	-	-	-	-	-	77,791
Other assets	-	-	-	-	-	-	-	-	63,883	63,883
Total assets	**33,988,509**	**77,139**	**599,007**	**724,880**	**744,032**	**190,391**	**226,980**	**77,057**	**354,523**	**36,982,518**
Liabilities										
Customer accounts	-	-	-	-	-	-	-	-	26	26
Deposits by central banks and banks	27,332,549	-	-	-	-	-	-	-	-	27,332,549
Derivatives and other financial instruments	-	-	-	-	-	-	-	-	3,126	3,126
Debt issued	5,750,000	-	-	-	1,000,000	-	-	1,765,000	292,075	8,807,075
Subordinated liabilities	300,000	-	-	-	-	-	-	-	-	300,000
Other liabilities	-	-	-	-	-	-	-	-	117,104	117,104
Shareholders' funds	-	-	-	-	-	-	-	-	422,638	422,638
Total liabilities	**33,382,549**	**-**	**-**	**-**	**1,000,000**	**-**		**1,765,000**	**834,969**	**36,982,518**
Derivative financial instruments (Interest rate swaps)										
Floating rate interest receivable	20,628,759	-	-	-	-	-	-	-	-	20,628,759
Floating rate interest payable	(17,989,273)	(77,139)	(599,007)	(724,880)	(744,032)	(190,391)	(226,980)	(77,057)	-	(20,628,759)
Floating rate interest payable	(2,765,000)	-	-	-	-	-	-	-	-	(2,765,000)
Fixed rate interest receivable	-	-	-	-	1,000,000	-	-	1,765,000	-	2,765,000
Total derivatives	**(125,514)**	**(77,139)**	**(599,007)**	**(724,880)**	**255,968**	**(190,391)**	**(226,980)**	**1,687,943**	**-**	**-**
Interest sensitivity gap	480,446	-	-	-	-	-	-	-	(480,446)	-
Cumulative interest sensitivity gap	480,446	480,446	480,446	480,446	480,446	480,446	480,446	480,446	-	-

Notes to the accounts

10. Derivatives and other financial instruments

Set out below are details on fair values and derivative information for AIB Mortgage Bank.

The Bank uses two different types of interest rate swaps to hedge interest rate risk. The first type is used to hedge interest rate risk on mortgage loan accounts both within the Cover Assets Pool and outside the Cover Assets Pool, effectively converting interest receivable from a fixed rate basis to a floating rate basis. Although these swaps are considered to be an effective hedge in economic terms, due to their nature, it has not been possible to establish a "fair value" hedging relationship under IAS 39 with the mortgage loan accounts and consequently, they are classified as "Trading".

The second type of interest rate swaps are vanilla interest rate swaps used to hedge the mortgage covered securities, converting interest payable from a fixed rate basis to a floating rate basis. Effective fair value hedging relationships (as stipulated by IAS 39) have been established between these swaps and the underlying covered bonds and consequently the change in fair value of the swaps is largely offset by fair value movements in the covered bonds themselves.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Allied Irish Banks, p.l.c. is the counterparty to all derivative contracts noted below.

	2011 € 000 Contract/ Notional Amount	**2011 € 000 Fair Value Asset/ (Liability)**	2010 € 000 Contract/ Notional Amount	2010 € 000 Fair Value Asset/ (Liability)
Derivatives classified as trading				
Hedging mortgage loan accounts – outside the Cover Assets Pool	**5,054,318**	**(203)**	1,977,244	(124)
Hedging mortgage loan accounts – within the Cover Assets Pool	**19,013,302**	**(2,638**	18,651,515	(3,002)
Total derivatives classified as trading	**24,067,620**	**(2,841)**	20,628,759	(3,126)
Derivatives classified as hedging (Debt Securities)				
Interest rate swaps	**2,765,000**	**341,228**	2,765,000	290,640
Total derivatives classified as hedging (Debt Securities)	**2,765,000**	**341,228**	2,765,000	290,640
Total derivatives	**26,832,620**	**338,387**	23,393,759	287,514

The following table represents the underlying principal and gross replacement costs of the Bank's derivatives as at 31 December 2011.

	Residual Maturity 2011				Residual Maturity 2010			
31 December 2011	**Within one year € 000**	**1 to 5yrs € 000**	**Over 5yrs € 000**	**Total € 000**	Within one year € 000	1 to 5yrs € 000	Over 5yrs € 000	Total €000
Underlying principal amount								
Interest rate contracts	**24,067,620**	**1,000,000**	**1,765,000**	**26,832,620**	20,628,759	1,000,000	1,765,000	23,393,759
Gross replacement costs								
Interest rate contracts	**-**	**63,585**	**346,565**	**410,150**	-	79,293	280,060	359,353

Notes to the accounts

10. Derivatives and other financial instruments *(continued)*

These tables present the notional and fair value amounts; weighted average maturity and weighted average receive and pay rates for instruments held for risk management purposes entered into by the Bank in 2011.

	Notional principal amount	Weighted average maturity in years	Weighted average rate Receive	Pay	Estimated Fair Value
	€ 000		**%**	**%**	**€ 000**
Interest rate derivatives designated as fair value hedges					
Receive fixed					
1 year or less					-
1-5 years					38,311
Over 5 years					302,917
	2,765,000	**4.16**	**4.48**		**341,228**
Pay floating					
1 year or less					
1-5 years					
Over 5 years					
	2,765,000	**0.08**		**1.21**	**0**
Other Interest rate derivatives*					
Interest rate swaps:					
Pay floating					
1 year or less					
1-5 years					(54,375)
Over 5 years					
	24,067,620	**0.08**		**2.64**	**(54,375)**
Receive floating					
1 year or less					51,534
1-5 years					
Over 5 years					
	24,067,620	**0.08**	**2.44**		**51,534**

* These swaps are used to hedge the mortgage loan portfolio but do not qualify for fair value hedge accounting.

All derivative instruments are deemed to be Level 2 instruments as they have been valued using valuation techniques which use observable market data. There have been no transfers into or out of Level 2 during the year and the valuation techniques applied are consistent with the prior year.

Notes to the accounts

10. Derivatives and other financial instruments *(continued)*

Fair value of financial instruments
The term "financial instruments" includes financial assets, financial liabilities and derivatives. The fair value of a financial instrument is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arms length transaction.

Fair value is based upon quoted market prices where available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar instruments and adjusted for differences between the quoted instrument and the instrument being valued. In certain cases, including some lending to customers, where there are no ready markets, various techniques have been used to estimate the fair value of the instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Readers of these financial statements are advised to use caution when using the data to evaluate the Bank's financial position or to make comparisons with other institutions.

Fair value information is not provided for certain financial instruments or for items that do not meet the definition of a financial instrument. The fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the Bank as a going concern at 31 December 2011.

The following table gives details of the carrying amounts and fair values of financial instruments.

	2011 Carrying Amount € 000	**2011 Fair value Amount € 000**	2010 Carrying Amount € 000	2010 Fair Value Amount € 000
Assets				
Cash and balances at central bank	**50**	**50**	50	50
Derivative financial instruments	**341,228**	**341,228**	290,640	290,640
Loans and receivables to banks	**734,139**	**734,139**	16,470,576	16,470,576
Loans and receivables to customers	**22,443,796**	**18,137,152**	20,079,578	17,991,843
Financial assets held for sale to NAMA	-	**-**	77,791	31,116
Liabilities				
Deposits by central banks and banks	**15,979,264**	**15,979,264**	27,332,549	27,332,549
Customer accounts	**37**	**37**	26	26
Derivative financial instruments	**2,841**	**2,841**	3,126	3,126
Debt securities in issue	**6,357,581**	**5,260,645**	8,807,075	7,574,728
Subordinated liabilities	**300,000**	**80,000**	300,000	69,530

Notes to the accounts

10. Derivatives and other financial instruments *(continued)*

The following methods and assumptions were used in estimating the fair value of financial instruments.

Loans and receivable to banks

The fair value of loans and receivables to banks are estimated using discounted cash flows applying either market rates, where practicable, or rates currently offered by other financial institutions for placings with similar characteristics

Loans and receivables to customers

The fair value of variable mortgage products including tracker mortgages is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in the portfolio. For fixed rate loans, the fair value is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in that portfolio. For the overall loan portfolio, an adjustment is made for credit risk which at 31 December 2011 took account of the Bank's forecast impairment provisions and losses for the period 2012-2014.

Held for sale to NAMA

The financial assets held for sale to NAMA are measured on the same basis in the statement of financial position as prior to their classification as held for sale. At 31 December 2010, it was deemed unavoidable that the remaining NAMA assets would transfer at a discount of approximately 60% of their gross carrying value. Accordingly, it is considered appropriate to use this discount in determining the fair value for the remaining NAMA assets. The financial assets held for sale to NAMA at 31 December 2010 were transferred to NAMA during 2011.

Deposits by banks, customer accounts and debt securities in issue

The fair value of deposits by banks is equal to their book value. The fair value of debt securities in issue is based upon quoted market prices where available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar instruments.

Subordinated liabilities

The fair value of the subordinated liabilities was estimated using quoted market prices where available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar instruments. In all cases, redemption prior to maturity is subject to the necessary prior approval of the Central Bank of Ireland.

Derivative financial instruments

The Bank uses various derivatives, designated as hedges, to manage its exposure to fluctuations in interest rates. The fair value of these instruments is estimated using market prices or pricing models consistent with the methods used in AIB Group for valuing similar instruments used for trading purposes.

Notes to the accounts

11. Loans and receivables to banks	**2011** **€ 000**	2010 € 000
Funds placed with Allied Irish Banks, p.l.c.		
Analysed by remaining maturity:		
- 3 months or less	**633,925**	10,255,559
- 1 year or less but over 3 months	-	-
- 5 years or less but over 1 year	-	4,250,000
- Greater than 5 years	-	1,765,000
Funds placed with Barclays Bank, p.l.c.		
Analysed by remaining maturity:		
- 3 months or less	**100,214**	200,017
	734,139	16,470,576

During 2011 the Bank amended its funding relationship with AIB p.l.c as required under the Asset Covered Securities (ACS) Act due to the downgrading of AIB p.l.c's credit rating which resulted in the parent no longer meeting the eligibility criteria to act as holder of the AIB Mortgage Bank deposits. In May 2011 c. €13.8bn of AIB Mortgage Bank deposits with Allied Irish Banks, p.l.c. were closed and there was a corresponding reduction in the borrowing facility with Allied Irish Banks, p.l.c.

The balances with Allied Irish Banks, p.l.c. include a balance of €566m held as collateral for the derivatives. The remaining balances are held with Barclays Bank, p.l.c. and represent the Cash Substitution Pool Assets.

12. Loans and receivables to customers	**2011** **€ 000**	2010 € 000
Analysed by remaining maturity:		
- Repayable on demand	**2,736,818**	839,510
- 3 months or less	**9,957**	10,448
- 1 year or less but over 3 months	**68,322**	82,510
- 5 years or less but over 1 year	**387,721**	397,833
- Greater than 5 years	**20,798,359**	19,190,752
	24,001,177	20,521,053
Provisions for impairment of loans and receivables (Note 7)	**(1,557,381)**	(441,475)
	22,443,796	20,079,578

Notes to the accounts

12. Loans and receivables to customers *(continued)*

On 25 February 2011, AIB transferred substantially all of its mortgage intermediary originated Irish residential loans, related security and related business (the 'Intermediary Business') to AIB Mortgage Bank. The aggregate principal amount outstanding of, and accrued but unpaid interest on, the Irish residential loans transferred by AIB to AIB Mortgage Bank on 25 February 2011 was approximately €4.2 billion. The transfer was effected pursuant to the statutory transfer mechanism provided for in the Asset Covered Securities Acts and was accounted for under IFRS 3 Business Combinations as a common control transaction at carrying value.

Loans and receivables to customers comprise of AIB branch and intermediary originated residential mortgages in the Republic of Ireland. This portfolio is well diversified by borrower, by market segment and by geographical location.

The unwind of the discount on the impairment provision amounted to €16.3m (2010: €4.6m) and is included in the carrying value of loans and receivables to customers. This has been credited to interest income.

By geographic location and sector	**2011**	2010
	€ 000	€ 000
Republic of Ireland		
Home mortgages (net of provisions)	**22,443,796**	20,079,578
	22,443,796	20,079,578

Notes to the accounts

13. Additional information on credit risk

Individually impaired loans by geographic location and sector

	2011	2010
	€ 000	€ 000
Republic of Ireland		
Home mortgages	**2,736,818**	839,510
	2,736,818	839,510

Provision cover table

	Impaired loan Balance	**Specific Provision**	**Specific Provision Cover %**
Republic of Ireland			
Home mortgages – 31 December 2011	2,736,818	953,481	34%
Home mortgages – 31 December 2010	839,510	160,568	19%

Collateral and other credit enhancements

The Bank takes collateral in support of its lending activities when deemed appropriate and has a series of policies and procedures in place for the assessment, valuation and taking of such collateral.

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

Retail Mortgages; the Bank takes collateral in support of lending transactions for the purchase of residential property. There are clear policies in place which set out the type of property acceptable as collateral and the relationship of loan to property value. All properties are required to be fully insured and be subject to a legal charge in favour of the Bank.

Notes to the accounts

13. Additional information on credit risk *(continued)*

The following table analyses the owner - occupier and buy-to-let portfolios by arrears and provisions:

	2011			2010		
	Owner-occupier	**Buy-to-let**	**Total**	Owner-occupier	Buy-to-let	Total
	€ 000	**€ 000**	**€ 000**	€ 000	€ 000	€ 000
Total residential mortgages	**16,893,795**	**7,107,382**	**24,001,177**	13,982,419	6,538,634	20,521,053
In arrears (> 30 days past due)	**1,329,643**	**2,193,371**	**3,523,014**	580,954	763,520	1,344,474
In arrears (> 90 days past due)	**1,085,661**	**2,011,530**	**3,097,191**	428,848	616,916	1,045,764
Of which impaired	**894,762**	**1,842,056**	**2,736,818**	324,081	515,429	839,510
Statement of final position specific provisions	**274,776**	**678,705**	**953,481**	61,849	98,719	160,568
Statement of financial position IBNR provisions	**298,142**	**305,758**	**603,900**	114,440	166,467	280,907
Income statement specific provisions	**208,512**	**584,677**	**793,189**	47,537	64,204	111,741
Income statement IBNR provisions	**147,562**	**92,871**	**240,433**	-	-	232,400
Specific provisions as a % of impaired loans cover	**30.7%**	**36.8%**	**34.8%**	19.1%	19.5%	19.1%

Notes to the accounts

13. Additional information on credit risk *(continued)*

Fair value of residential mortgages collateral

The following tables show the fair value (FV) of collateral held for residential mortgages:

2011	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Fully collateralised	**€ 000**	**€ 000**	**€ 000**	**€ 000**
Loan-to-value ratio:				
Less than 50%	**2,840,055**	**101,629**	**131,604**	**3,073,288**
50%-70%	**2,731,012**	**116,456**	**149,436**	**2,996,904**
71%-80%	**1,481,672**	**68,723**	**99,619**	**1,650,014**
81%-90%	**1,567,017**	**65,584**	**121,863**	**1,754,464**
91%-100%	**1,624,049**	**77,077**	**176,891**	**1,878,017**
	10,243,805	**429,469**	**679,413**	**11,352,687**
Partially collateralised				
FV of loans over 100% LTV	**7,672,181**	**479,849**	**1,405,670**	**9,557,699**
Total collateral value	**17,915,986**	**909,318**	**2,085,083**	**20,910,386**
Gross residential mortgages	**20,180,048**	**1,084,311**	**2,736,818**	**24,001,177**
Statement of financial position specific provisions			**(953,481)**	**(953,481)**
Statement of financial position IBNR provisions				**(603,900)**
Net residential mortgages				**22,443,796**

Notes to the accounts

13. Additional information on credit risk *(continued)*

Fair value of residential mortgages collateral *(continued)*

2010	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Fully collateralised	€ 000	€ 000	€ 000	€ 000
Loan-to-value ratio:				
Less than 50%	3,762,588	105,341	104,035	3,971,964
50%-70%	3,360,239	126,509	72,316	3,559,064
71%-80%	1,724,534	76,518	53,764	1,854,816
81%-90%	1,776,903	83,494	56,466	1,916,863
91%-100%	1,904,747	84,095	61,638	2,050,480
	12,529,011	475,957	348,219	13,353,187
Partially collateralised				
FV of loans over 100% LTV	5,205,462	360,686	337,310	5,903,458
Total collateral value	17,734,473	836,643	685,529	19,256,645
Gross residential mortgages	18,750,276	931,267	839,510	20,521,053
Statement of financial position specific provisions			(160,568)	(160,568)
Statement of financial position IBNR provisions				(280,907)
Net residential mortgages				20,079,578

The fair value of collateral held for mortgages with loan-to-value ratios of under 100% has been capped at the amount of the loans outstanding at each year end.

While the Bank considers a borrower’s repayment capacity as paramount in granting any loan, the Bank also takes collateral in support of lending transactions for the purchase of residential property. There are clear policies in place which set out the type of property which is acceptable as collateral and the loan to property value relationship. Collateral valuations are required at the time of origination of each residential mortgage. The fair value at December 2011, is based on the property values at origination and applying the CSO index to these values to take account of price movements in the interim.

Notes to the accounts

13. Additional information on credit risk *(continued)*

Arrears profile of mortgages which are past due but not impaired

2011

	Owner Occupier € 000	**%**	**Buy to Let € 000**	**%**	**Total € 000**	**%**
0 - 30 days	**174,461**	**28.6**	**123,958**	**26.1**	**298,419**	**27.5**
31 - 60 days	**152,145**	**25.0**	**110,675**	**23.3**	**262,820**	**24.2**
61 - 90 days	**91,836**	**15.1**	**71,166**	**15.0**	**163,002**	**15.0**
91 - 180 days	**139,941**	**23.0**	**100,791**	**21.2**	**240,732**	**22.3**
181 - 365 days	**44,180**	**7.2**	**51,491**	**10.8**	**95,671**	**8.8**
Over 365 days	**6,778**	**1.1**	**16,889**	**3.6**	**23,667**	**2.2**
Total past due but not impaired	**609,341**	**100.0**	**474,970**	**100.0**	**1,084,311**	**100.0**

€1,084m or 4.5% of the mortgage book was past due but not impaired at 31 December 2011 compared to €930m or 4.5% at 31 December 2010. Of the loan book that was past due but not impaired, of that €300m or 28% was < 30 days past due (31 December: €380m or 41%). The decrease in loans that are past due but not impaired reflects the impact on disposable incomes as a result of the economic downturn.

2010

	Owner Occupier € 000	%	Buy to Let € 000	%	Total € 000	%
0 - 30 days	194,902	43.1	182,789	38.1	377,691	40.6
31 - 60 days	94,550	20.9	85,703	17.9	180,253	19.4
61 - 90 days	57,556	12.7	60,902	12.7	118,458	12.7
91 - 180 days	71,872	15.9	86,559	18.1	158,431	17.0
181 - 365 days	25,158	5.7	56,499	11.7	81,657	8.7
Over 365 days	7,737	1.7	7,077	1.5	14,814	1.6
Total past due but not impaired	451,775	100.0	479,529	100.0	931,304	100.0

Notes to the accounts

14. Other assets	2011 € 000	2010 € 000
Accrued interest	**27,898**	24,324
Recovery due from NAMA	**33,418**	-
Other assets	**874**	-
	62,190	24,324

On 25 February 2011, AIB Mortgage Bank acquired the AIB Group's mortgage intermediary business, which included €8m accrued interest on loans and receivables.

15. Deferred taxation	2011 € 000	2010 € 000
At 31st December 2010	**39,559**	-
Unutilised tax losses	**111,010**	39,559
At 31 December 2011	**150,569**	39,559

At 31 December 2011 recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled €150.6m (2010: €40m). The Directors have determined that is more likely than not that these will be recovered. The tax losses arise in the Irish tax jurisdiction and their utilisation is dependent on the generation of future taxable profits.

Temporary differences recognised in the income statement consist of provision for impairment of loans and advances.

Notes to the accounts

16. Financial assets held for sale to NAMA

On 7 April 2009, the Minister for Finance announced the Government's intention to establish a National Asset Management Agency ("NAMA") and on 22 November 2009, the NAMA Act was enacted providing for the establishment of NAMA. The purposes of the NAMA Act include the restoration of stability to the banking system and the facilitation of restructuring of credit institutions of systemic importance to the Irish economy.

The consideration for the NAMA assets acquired from AIB Mortgage Bank comprises the issue to AIB of NAMA bonds and subordinated NAMA bonds equal in nominal value to the purchase price of the NAMA Assets. However, the fair value of such bonds has differed to the nominal value, depending upon the terms of issue.

The following table provides an analysis of assets classified as held for sale to NAMA.

	Total Assets	**Impairment Provision**	**Carrying Value**
At 1 January 2011	77,791	-	77,791
Transfer to NAMA during 2011	**(106,637)**	**(6,287)**	**(100,350)**
Discount unwind		**(27)**	**27**
2011 reclassification in *	**28,846**	**6,133**	**22,713**
New impairment provision in 2011		**181**	**(181)**
At 31st December 2011	-	-	-

*Includes changes in eligible loans and receivables transferring during 2011, along with movements in the number of loans and receivables within the eligible pool.

17. Assets classified as held for sale

In 2011, €11.8m of repossessed assets continue to be classified as loans and receivables to customers, as the underlying customer loans continue to be recognised and AIB Mortgage Bank has recourse to the customer for the balance outstanding. The 2010 repossessed assets of €5.2m have been reclassified from held for sale to loans and receivables.

Notes to the accounts

18. Deposits by central banks and banks	**2011** **€ 000**	2010 € 000
Due to Allied Irish Banks, p.l.c.*	**15,979,264**	24,582,549
Due to Central Bank**	**-**	2,750,000
	15,979,264	27,332,549

The Bank has a borrowing facility with its parent company, Allied Irish Banks, p.l.c., under which the parent company provides the balance of funding after the Bank has availed of other sources of funds.

* In May 2011 c. €13.8bn of AIB Mortgage Bank deposits with Allied Irish Banks, p.l.c. were closed and there was a corresponding reduction in the borrowing facility with Allied Irish Banks, p.l.c.

**At 31 December 2011, the amount due to the Central Bank was Nil. At 31 December 2010, the amount due to the Central Bank comprised €1.85bn in respect of mortgage covered securities repoed with the ECB and €0.9bn under the Mortgage-Backed Promissory Note facility available outside of normal ECB open market operations.

At 31 December 2011, none of the AIB Mortgage Bank mortgage covered securities was repoed directly with the ECB. (See note 19).

The AIB Mortgage Bank Mortgage-Backed Promissory Note facility with the Central Bank, for normal ECB open market operations, is unavailable since December 2010 due to ratings downgrade by Moody's of Allied Irish Banks, p.l.c. The AIB Mortgage Bank Mortgage-Backed Promissory Note Framework has been used as a source of liquidity with the Central Bank of Ireland outside of normal ECB open market operations during first four months of 2011; as at 31 December 2011, Nil was drawn down (2010: €0.9bn drawdown).

Notes to the accounts

19. Debt securities in issue	**2011** **€ 000**	2010 € 000
Mortgage covered securities in issue to external investors of €3.11bn (2010: €3.1bn) and in issue to Allied Irish Banks, p.l.c. of €3.25bn (2010: €5.75bn) by remaining maturity:		
- 1 year or less	**2,250,000**	2,500,000
- 5 years or less but over 1 year	**2,038,529**	4,304,216
- Greater than 5 years	**2,069,052**	2,002,859
	6,357,581	8,807,075

	2011 **€ 000**	2010 € 000
Mortgage covered securities in issue to external investors and internal issuances at nominal value:		
- External investors	**2,765,000**	2,765,000
- Allied Irish Banks, p.l.c. *	**3,250,000**	5,750,000
- AIB Mortgage Bank **	**6,370,000**	6,150,000
	12,385,000	14,665,000

Mortgage covered securities issued as self issuances to AIB Mortgage Bank are not recognised in the Statement of Financial Position. As the bearer securities and the mortgage covered securities do not meet the criteria of an asset and a liability under the IASB Framework, no asset or liability has been recognised. The self issuance of securities is however disclosed above. When self issuances of mortgage covered securities are the subject of a sale and repurchase agreement with the ECB by AIB Mortgage Bank, the transaction gives rise to the recognition of an asset and a liability. (See note18).

* As at 31 December 2011 the mortgage covered securities issued to Allied Irish Banks, p.l.c. of €3.25bn were subject to sale and repurchase agreements with the ECB at 31 December 2011, providing liquidity for AIB Group of €2.61bn.

** As at 31 December 2011 the mortgage covered securities issued to AIB Mortgage Bank of €6.37bn were first repoed for value of €4.34bn with Allied Irish Banks, p.l.c. and then were subject to a sale and repurchase agreement with the ECB, providing liquidity for AIB Group of €4.34bn.

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

At 31 December 2011, the Cover Assets Pool amounted to €19.1bn (€18.9bn in 2010), comprising of €19.0bn (€18.7 bn in 2010) of mortgage credit assets (mortgage loan accounts) and €0.1bn (€0.2bn in 2010) of substitution assets (cash on deposit with Barclays Bank, p.l.c). Section 40 (2) of the Act requires that the following information be disclosed in respect of mortgage credit assets that are recorded in the register of mortgage covered securities business.

Notes to the accounts

19. Debt securities in issue *(continued)*

19 (a) Mortgaged properties and principal loan balances outstanding in the cover assets pool
Total Loan Balances

From	To	Total Loan Balances (1& 2) 2011 € m	Number of Mortgaged Properties 2011	Total Loan Balances (1 & 2) 2010 € m	Number of Mortgaged Properties 2010
0	€100,000	**1,893**	**36,945**	1,918	37,357
€100,000	€200,000	**5,548**	**37,411**	5,360	36,260
€200,000	€500,000	**9,291**	**32,702**	8,537	29,904
Over €500,000		**2,281**	**2,910**	2,837	3,369
		19,013	**109,968**	18,652	106,890

(1) The total loan balances are categorised by the total loan balance outstanding per mortgaged property, including principal and interest charged to the loan accounts, but excluding interest accrued but not charged to the loan accounts.

(2) There could be one or more loan accounts per mortgaged property. The Cover Assets Pool contains 126,840 loan accounts (124,871 in 2010) secured on 109,968 properties (106,890 in 2010).

19 (b) Geographical location of mortgaged properties in the cover assets pool

Geographical Area	Number of Mortgaged Properties 2011		Number of Mortgaged Properties 2010	
Co. Dublin	**27,449**	**25%**	23,188	22%
Outside Dublin	**82,519**	**75%**	83,702	78%
	109,968	**100%**	106,890	100%

19 (c) Mortgage loan accounts in default in the cover assets pool

As at 31 December 2011, there were no mortgage loan accounts (Nil in 2010) in default in the Cover Assets Pool (in default being defined as mortgage loan accounts credit grade 7 & 8)

19 (d) Mortgage loan accounts in default in the cover assets pool with arrears greater than €1,000

During the year ended 31 December 2011, 160 mortgage loan accounts (4 in 2010) in the Cover Assets Pool had been in default with arrears greater than €1,000. As at 31 December 2011, there were no accounts in default in the Cover Assets Pool (Nil in 2010).

Notes to the accounts

19. Debt securities in issue *(continued)*

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

During the year ended 31 December 2011, 2,439 non-performing mortgage loan accounts (87 in 2010) were removed in total from the Cover Assets Pool. (For this purpose, non-performing is defined as credit grade 7 & 8, i.e. has the same meaning as in default.) These loan accounts were not replaced with other assets as the Cover Assets Pool continued to meet all regulatory requirements.

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

The total amount in arrears (including principal and interest) in respect of 512 accounts (1,241 in 2010) as at 31 December 2011 was €415,795 (€1,044,997 in 2010). None of the accounts in question were written off as at 31 December 2011, as they were in arrears for less than three months.

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

The total amount of repayments (principal and interest) made by customers on mortgage loan accounts in the Cover Assets Pool during the year ended 31 December 2011 was €1,855m (€1,542m in 2010), of which €1,295m (€1,127m in 2010) represented repayment of principal and €560m (€415m in 2010) represented payment of interest. The repayments of principal include the repayment of mortgage loan accounts by customers closing their existing accounts when opening a new account.

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

As at 31 December 2011 there were no loan accounts (Nil in 2010) in the Cover Assets Pool that were secured on commercial properties.

20. Accruals and deferred income	**2011** **€ 000**	2010 € 000
Interest payable on mortgage covered securities	**68,596**	68,819
Expenses	**2,762**	3,477
	71,358	72,296

Notes to the accounts

21. Subordinated liabilities	2011 € 000	2010 € 000
Dated Capital Note (a)	**100,000**	100,000
Perpetual Capital Note (b)	**200,000**	200,000
	300,000	300,000

(a) €100,000,000 Dated Subordinated Capital Note – the loan to which this note relates was received from the parent company, Allied Irish Banks, p.l.c. ("AIB") on 13 February 2006. Interest on the amount of principle is calculated on a year of 360 days at a rate of 53 basis points over Euribor payable monthly in arrears. The Note has a fixed maturity date of 12 February 2031. Early repayment may occur at the option of AIB Mortgage Bank with the prior consent of the Central Bank and Financial Services Authority of Ireland (the "Central Bank") on any interest payment date falling any time after five years and one day from the date of issuing the Note.

The loan capital is unsecured and all rights and claims of AIB shall be subordinated to the claims of all creditors who are depositors or other unsubordinated creditors of AIB Mortgage Bank.

(b) €200,000,000 Subordinated Perpetual Capital Note – the loan to which this note relates was received from AIB on 13 February 2006. Interest on the amount of principle is calculated on a year of 360 days at a rate of 100 basis points over Euribor payable monthly in arrears. The Note is undated and has no final maturity date but may be redeemed at the option of AIB Mortgage Bank with the prior consent of the Central Bank at any time after the fifth anniversary of its issue.

The loan capital is unsecured and all rights and claims of AIB shall be subordinated to the claims of all creditors who are depositors or other unsubordinated creditors of AIB Mortgage Bank and creditors of AIB Mortgage Bank whose claims are subordinated to the claims of depositors and other unsubordinated creditors of AIB Mortgage Bank but excluding Pari Passu Subordinated Creditors and those creditors of AIB Mortgage Bank whose claims rank or are expressed to rank junior to the claims of AIB.

22. Provisions for liabilities and commitments	2011 € 000	2010 € 000
At 31 December 2010	**44,428**	-
Utilisation of provisions for Liabilities & Charges	**(43,905)**	43,905
Other provisions	**(523)**	523
At 31 December 2011	**-**	44,428

Notes to the accounts

23. Share capital	2011 € 000	2010 € 000
Authorised: 3,000,000,000 ordinary shares of €1.00 each (2010: 1,000,000,000 ordinary shares of €1.00 each)	**3,000,000**	1,000,000
Issued and fully paid up: 1,345,000 ordinary shares of €1.00 each (2010: 450,000,000 ordinary shares of €1.00 each)	**1,345,000**	450,000
At 31 December 2011	**1,345,000**	450,000

The ordinary shares issued during the year were issued at par. The purpose of the share issue was to ensure that the Bank continued to meet it's regulatory capital requirements. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares rank equally with regard to the Bank's residual assets.

24. Capital reserves	2011 € 000	2010 € 000
Opening balance	**80,000**	-
Capital contribution	**500,000**	80,000
Closing balance	**580,000**	80,000

The Bank received a capital contribution of €500m In October 2011 from its parent Allied Irish Banks, p.l.c. as a result of the capital deficit arising from the loan provisions recorded in the financial statements to 31 December 2011

Notes to the accounts

25. Capital Management

The AIB Group policy is to maintain adequate capital resources at all times, having regard to the nature and scale of its business and the risk inherent in its operations. It does this through an Internal Capital Adequacy Assessment Process (“ICAAP”). The overarching principle of the ICAAP is the explicit linkage between capital and risk; the adequacy of the Bank’s capital is assessed on the basis of the risks it faces. This requires a clear assessment of the material risk profile of the Bank, and a consideration of the extent to which identified risks, both individually and in aggregate, requires capital to support them.

In addition, the level of capital held by the Bank is influenced by its minimum regulatory requirements.

Capital resources and regulatory capital ratios
The table below shows AIB Mortgage Bank’s capital resources as at 31 December 2011 and 31 December 2010.

	Basel II	Basel II
	2011	2010
	€ 000	€ 000
Shareholders’ equity	**1,020,891**	422,638
Dated capital notes	**100,000**	100,000
Undated capital notes	**200,000**	200,000
Total capital resources	**1,320,891**	722,638

Capital resources increased by €598.2m during the year ended 31 December 2011. This increase arose as a result of net loss in the accounts (€797m), offset by a capital contribution from AIB with a total value of €1.395bn.

The Capital Requirements Directive (CRD) / AIB’s implementation of the CRD
The CRD introduces some significant amendments to the existing capital adequacy framework. Its goal is to provide a greater link between the risk a bank faces and the capital it requires and it does this in a number of ways. In terms of minimum capital requirements (‘Pillar 1’) it brings additional granularity in risk weightings under the foundation internal ratings based approach for credit risk, and introduces an explicit capital requirement for operational risk.

From 1 January 2008, the Bank has calculated its capital requirements under the CRD using the foundation internal ratings based approach.

26. Dividend	**2011** **€ 000**	2010 € 000
Dividend Paid	-	-

No dividend has been recommended for approval, payable to the Bank’s parent company, Allied Irish Banks, p.l.c. at 31 December 2011.

Notes to the accounts

27. Employee Information

For the year ended 31 December 2011 the average number of employees was 6 (2010: 6). As at 31 December 2011, the Bank had 5 employees.

28. Statement of cash flows	2011 € 000	2010 € 000
Loans and receivables to banks	**734,139**	839,887
Cash and cash equivalents	**734,139**	839,887

In 2010, "Cash and Cash Equivalents" were included within loans and receivables to banks in the Statement of Financial Position. During 2011 the Bank reduced its' Loans and receivables to Allied Irish Banks, p.l.c. to Nil, as required under the Asset Covered Securities (ACS) Act.

On 25 February 2011, Allied Irish Banks, p.l.c. transferred its mortgage intermediary originated Irish mortgage business to AIB Mortgage Bank pursuant to the statutory transfer mechanism provided for in the Asset Covered Securities Acts. The Irish residential loans transferred by Allied Irish Banks, p.l.c. to AIB Mortgage Bank on 25 February 2011 were approximately €4.2 billion (net of provisions).

29. Auditor's fees	2011 € 000	2010 € 000
Auditor's fees (excluding vat)		
Audit	**43**	55
Total auditor's fees	**43**	55

The disclosure of Auditor's fees have been reclassified in 2011 in accordance with (SI220)[1] which mandates fees in particular categories and that fees paid to the AIB Mortgage Bank's Auditor (KPMG Ireland) for services to the Bank only be disclosed in this format. Comparatives have been restated on a basis consistent with 2011 as detailed in the table below.

Other assurance services include fees for additional assurance issued by the firm outside of the audit of the statutory financial statements.

(1) SI220 is titled the European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010.

Notes to the accounts

30 Directors' remuneration	**2011** **€ 000**	2010 € 000
Fees	**52**	31
	52	31

31. Reporting currency

The currency used in these accounts is Euro which is denoted by 'EUR' or the symbol '€'.

32. Segmental Information

The Bank's income and assets are entirely attributable to mortgage lending activity in the Republic of Ireland.

33. Contingent liabilities and commitments

At 31 December 2011 the Bank had €239m (2010: €190m) of approved mortgage loan applications that had not been drawn down as at the year end.

Notes to the accounts

34. Summary of the relationship of AIB Group with the Irish Government

The Irish Government has taken a range of measures to stabilise the Irish banking system since the commencement of the financial crisis in 2008. These measures have included the injection of equity and preference share capital into AIB. As a result of these capital injections, the Irish Government, through the NPRFC, now holds 99.8% of the ordinary shares of AIB and €3.5 billion in 2009 Preference Shares. In addition, the Minister for Finance holds €1.6 billion of contingent capital notes.

As a result of the various measures taken by the Irish Government (specifically the guarantee schemes, the Direction Order, and the capital injections) the Irish Government is a related party to AIB. Details regarding these measures, as well as others taken in the context of the Irish banking crisis, are set out below. The Minister for Finance ('the Minister') and/or the Central Bank of Ireland has considerable rights and powers over the operations of AIB (and other financial institutions) arising from the various stabilisation measures.
These rights and powers relate to, inter alia:
- The acquisition of shares in other institutions;
- Maintenance of solvency ratios and compliance with any liquidity and capital ratios that the Central Bank, following consultation with the Minister, may direct;
- The appointment of non-executive directors and board changes;
- The appointment of persons to attend meetings of various committees;
- Restructuring of executive management responsibilities, strengthening of management capacity and improvement of governance;
- Declaration and payment of dividends;
- Restrictions on various types of remuneration;
- Buy-backs or redemptions by the Group of its shares;
- The manner in which the Group extends credit to certain customer groups; and
- Conditions regulating the commercial conduct of AIB, having regard to capital ratios, market share and the Group's balance sheet growth.

Details of the measures taken by the Irish Government since 2008:
a) Guarantee schemes
The European Communities (Deposit Guarantee Schemes) Regulations 1995 have been in operation since 1995. These regulations guarantee certain retail deposits up to a maximum of €100,000. In addition, since September 2008, the Irish Government has guaranteed relevant deposits and debt securities of AIB through the Credit Institutions (Financial Support) Scheme 2008 ('the CIFS scheme') and the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 ("ELG Scheme").

CIFS scheme
This Scheme, which expired on 29 September 2010, gave effect to the bank guarantee announced by the Irish Government on 30 September 2008. Under the CIFS Scheme, the Minister for Finance guaranteed certain types of liabilities of certain participating institutions, including AIB and certain of its subsidiaries, for a two-year period from 30 September 2008.

ELG Scheme
On 21 January 2010, Allied Irish Banks, p.l.c., including its international branches and subsidiaries, AIB Group (UK) p.l.c., AIB Bank (CI) Limited and Allied Irish Banks North America Inc., became participating institutions for the purposes of the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 the ('ELG Scheme'). The Minister stands as guarantor of all guaranteed liabilities of a participating institution. The ELG Scheme is intended to facilitate the ability of participating credit institutions in Ireland to issue certain debt securities and take deposits with a maturity of up to five years for pre-defined periods. The original date for periods covered was set at 29 September 2010 and has subsequently been extended a number of times. The Scheme, which was due to expire on 31 December 2011, was extended to 31 December 2012 by the Irish Government on 7 December 2011, subject to EU state aid approval. This approval has been received but will expire on 30 June 2012 as the renewal period is for six months and will require an extension from that date.

Notes to the accounts

34. Summary of the relationship of AIB Group with the Irish Government *(continued)*

Eligible liabilities under the ELG Scheme comprise the following:
- senior unsecured certificates of deposit;
- senior unsecured commercial paper;
- other senior unsecured bonds and notes; and
- other forms of senior unsecured debt which may be specified by the Minister consistent with European Union State aid rules and the European Commission's Banking Communication (2008/C 270/02) and subject to prior consultation with the European Commission.

Dated subordinated debt and asset-covered securities issued after a covered institution joined the ELG Scheme are not guaranteed under the ELG Scheme.

Participating institutions must pay a fee to the Minister in respect of each liability guaranteed under the ELG Scheme. Participating institutions will also be required to indemnify the Minister for any costs and expenses of the Minister and for any payments made by the Minister under the ELG Scheme which relate to the participating institution's guarantee under the ELG Scheme. The total liabilities guaranteed under the ELG Scheme amounted to €40 billion (€37 billion at 31 December 2010).

(b) Credit Institutions (Stabilisation) Act 2010

The Credit Institutions (Stabilisation) Act 2010 was passed into Irish law on 21 December 2010. The Act provides the legislative basis for the reorganisation and restructuring of the Irish banking system agreed in the joint EU/IMF Programme for Ireland ('the Programme'). This will allow the Minister to take the actions required to bring about a domestic retail banking system that is proportionate to and focused on the Irish economy. The Act provides broad powers to the Minister (in consultation with the Governor of the Central Bank of Ireland) to act on financial stability grounds to effect the restructuring actions and recapitalisation measures envisaged in the Programme. The Act applies to banks which have received financial support from the State, building societies and credit unions. Given the exceptional nature of the powers contained in the Act, the powers are time-limited and scheduled to expire on 31 December 2012. The powers provided in the Act allow the Minister to implement key aspects of the agreed Programme for bank restructuring and include the issue of direction orders, special management orders, subordinated liabilities orders and transfer of assets and liabilities orders. In addition, the Act gives the Minister broad powers in relation to directors and officers and their appointment/removal/duties. Various other terms are also imposed on relevant financial institutions as a condition for financial support. Since the enactment of this legislation, the Minister has invoked certain of his powers under the Act in relation to AIB as follows:

(i) Direction Order

On 23 December 2010, the High Court, on application from the Minister, directed AIB to increase its authorised share capital, and adopt amended Articles of Association to give effect to the capital increase and to issue ordinary and CNV shares to the National Pension Reserve Fund Commission ("NPRFC") (see (c) below).

AIB was also directed by the High Court as follows:
- to cancel its listing on the Main Securities Market and to apply for listing on the Enterprise Securities Market ("ESM") of the Irish Stock Exchange;
- to cancel admission of its ordinary shares to the Official List maintained by the UK Financial Services Authority and to cancel trading on the main market of the London Stock Exchange;
- to complete the sale of its Polish interests to Banco Santander.

(ii) Transfer Order

On 24 February 2011, following an application by the Minister for Finance, the High Court issued a transfer order for the immediate transfer of certain deposits and corresponding assets from Anglo Irish Bank Corporation ('Anglo') to AIB. Certain employees who dealt with the deposit taking activities in Anglo also transferred to AIB.

Notes to the accounts

34. Summary of the relationship of AIB Group with the Irish Government *(continued)*

(iii) Subordinated Liabilities Order
On 14 April 2011, following an application by the Minister under section 29 of the Credit Institutions (Stabilisation) Act 2010, the High Court issued a Subordinated Liabilities Order (the "SLO") in relation to all outstanding subordinated liabilities and other capital instruments (including certain tier 1 capital instruments), with the consent of AIB. The High Court declared the SLO effective as of 22 April 2011. The effect of the SLO was to amend the terms of certain subordinated liabilities and other capital instruments as follows:
- mandatory interest falling due on certain subordinated liabilities is to be payable by AIB in its sole discretion, and the maturity date of the subordinated liabilities is to be extended to 2035;
- in respect of certain subordinated liabilities, restrictions on (i) the payment of any distribution or dividend on any other junior or parity securities of AIB; or (ii) any repurchase or redemption of such junior or parity securities have been removed; and
- in respect of certain subordinated liabilities, (i) the requirement to pay any arrears of interest on such liabilities upon the payment of any dividends by AIB has been removed, and (ii) the payment of any coupon on such liabilities following the payment of a dividend by AIB is now entirely at the option of AIB.

c) Investments in AIB
The Irish Government's investments in AIB are as set out below:
- In May 2009, the Group issued €3.5 billion capital in the form of Non-cumulative preference shares (the '2009 Preference Shares') to the NPRFC. In conjunction with the Preference Share issue, the Group also issued 294,251,891 warrants to the NPRFC. Each warrant entitled the holder to subscribe for one ordinary share of Allied Irish Banks, p.l.c.. The warrants were cancelled on 23 December 2010 for a total consideration of €52.5 million.
- On 13 May 2010, the Group issued 198,089,847 ordinary shares to the NPRFC in lieu of the annual dividend (amounting to €280 million) on the 2009 Preference Shares pursuant to the Bonus Issue 2010. Following this transaction, the NPRFC held 18.61% of the ordinary share capital of AIB;
- On 23 December 2010, arising from a Direction Order issued by the High Court, the Group issued 675,107,845 ordinary shares and 10,489,899,564 convertible non-voting ("CNV") shares to the NPRFC. Net proceeds from this issue amounted to €3.7 billion. At 31 December 2010, the NPRFC held 49.9 % of the ordinary shares of AIB;
- On 8 April 2011, the CNV shares were converted to ordinary shares on a one-for-one basis. Following this transaction, the NPRFC held 92.8% of the ordinary shares of AIB;
- On 13 May 2011, 484,902,878 ordinary shares were issued to the NPRFC in part settlement of the annual dividend due on that date pursuant to the Bonus Issue 2011. The residual of this Bonus Share 2011 entitlement, amounting to 762,370,687 ordinary shares were issued to the NPRFC on 27 July 2011 following the increase, at an EGM, of the authorised ordinary share capital of AIB;
- On 27 July 2011, AIB issued (i) 500 billion ordinary shares of €0.01 each to the NPRFC at a subscription price of €0.01 per share, the ordinary share capital having been renominalised on 26 July 2011 , (ii) €1.6 billion of contingent capital notes at par to the Minister for Finance. These transactions raised €6.6 billion of capital for AIB. Following the ordinary share issues, the NPRFC held 99.8% of the ordinary shares in AIB; and
- On 28 July 2011, the Minister for Finance and the NPRFC made capital contributions of € 2.283 billion and € 3.771 billion espectively (total: €6.054 billion) to AIB for nil consideration. These capital contributions constituted core tier 1 capital for regulatory accounting purposes. Neither the Minister nor the NPRFC has an entitlement to seek repayment of these capital contributions.

d) NAMA
In February 2010, AIB was designated a participating institution under the NAMA Act which was enacted in November 2009. Since the enactment of the legislation, AIB has transferred financial assets to NAMA. The consideration received from NAMA has been in the form of NAMA senior bonds and subordinated NAMA bonds. The NAMA senior bonds are guaranteed by the Irish Government. On 15 April 2011, the Government announced that no further loans would transfer to NAMA, apart from those above already earmarked for transfer. At 31 December 2011, the transfers to NAMA were practically complete.

Notes to the accounts

34. Summary of the relationship of the AIB Group with the Irish Government *(continued)*

In addition to the NAMA senior bonds received as consideration for financial assets transferred to NAMA, AIB acquired NAMA senior bonds as part of the Anglo transaction (€11,854 million fair value at acquisition date) and the EBS transaction (€301 million carrying value at acquisition date). AIB also acquired €6 million in NAMA subordinated bonds as part of the EBS transaction.

e) Funding Support
AIB received funding from the Central Bank throughout the year through the ECB Monetary Policy Operation Sale and Repurchase Agreements. This funding amounted to €30.8 billion at 31 December 2011. These agreements were for maturities of between 7 days and 3 months, with a current interest rate of 1% in all cases. The facilities mature on dates between 4 January 2012 and 29 January 2015. Other funding supports from the Central Bank, which had been in operation at 31 December 2010, were not availed of by AIB from May 2011 onwards.

f) PCAR/PLAR
On 31 March 2011, the Central Bank of Ireland published the 'Financial Measures Programme Report' which detailed the outcome of its review of the capital (PCAR) and funding requirements (PLAR) of the domestic Irish banks. The PCAR/PLAR assessments follow the announcement of the EU-IMF Programme for Ireland in November 2010, in which the provision of an overall amount of €85 billion in financial support for the sovereign was agreed in principle. Up to €35 billion of this support is earmarked for the banking system, €10 billion of which was for immediate recapitalisation of the banks with the remaining €25 billion to be provided on a contingency basis.

Arising from the 2011 PCAR and PLAR assessments, AIB including EBS, was required to raise € 14.8 billion in total capital. This €14.8 billion includes €13.3 billion of capital for AIB, of which €1.4 billion is contingent capital. EBS, which has since been combined with AIB to form one of the two 'Pillar Banks' (see below), was required to raise €1.5 billion in core tier 1 capital, of which €0.2 billion could be in the form of contingent capital. In addition, the target loan to deposit ratio has been set at 122.5% for all banks including AIB, by the end of 2013.

It is expected that the next PCAR stress test will be carried out in the second half of 2012, with the results expected to be published no later than 30 November 2012.

g) Acquisition of EBS Limited ("EBS")
On 31 March 2011, the Minister for Finance ('the Minister') proposed the combination of AIB and EBS (formerly EBS Building Society) to form one of the pillar banks. On 26 May 2011, AIB entered into an agreement with EBS, the Minister and the NTMA to acquire EBS for a consideration of €1 (one euro). The acquisition was effective from 1 July 2011.

h) Dividend Stopper
During 2009, the European Commission ("EC") indicated that, in line with its policy and pending its assessment of the Group restructuring plan, the Group should not make coupon payments on its tier 1 and tier 2 capital instruments unless under a binding legal obligation to do so. The Group agreed to this request by the EC and resolved that under the terms of the AIB UK 3 LP Preferred Securities that the non-cumulative distribution on these securities which otherwise would have been paid on 14 December 2009, would not be paid. The effect of this decision by the Group was to trigger the 'Dividend Stopper' provisions which precluded the Group from making distributions on certain securities. This 'dividend stopper' has remained in place since 2009 but was superseded by the SLO of 14 April 2011. The SLO changed the terms of all outstanding subordinated liabilities and other capital instruments. Interest and distributions on such instruments are now payable by AIB in its sole discretion.

i) Relationship framework
The Board has recently endorsed the parameters of a relationship framework, specified by the Minister for Finance ('the Minister') in respect of the relationship between the Minister and AIB ('the Framework'). The purpose of the Framework is to provide the basis on which the relationship between the Minister, on behalf of the State, and the Group shall be governed.

Notes to the accounts

34. Summary of the relationship of the AIB Group with the Irish Government *(continued)*

j) Central Bank and Credit Institutions (Resolution) Act 2011

The Central Bank and Credit Institutions (Resolution) Act 2011 was signed into law on 20 October 2011 and became effective on 28 October 2011. This legislation provides the Central Bank with additional powers to achieve an effective and efficient resolution regime for credit institutions that are failing or likely to fail and that is effective in protecting the Exchequer and the stability of the financial system and the economy. The Act gives the Central Bank power to take control of banks, appoint managers to run them and remove directors, staff and consultants and to move their deposits and loans to other banks. It provides for the establishment of a Credit Institution Resolution Fund which would provide a source of funding for the resolution of financial instability or in the event of an imminent serious threat to the financial stability of an authorised credit institution. Authorised credit institutions will be obliged to contribute to the resolution fund. The Act provides for the establishment of “Bridge-Banks” for the purpose of holding assets or liabilities which have been transferred under a transfer order. Bridge-Banks are only intended to hold such assets or liabilities on a temporary basis pending onward transfer as soon as possible. The Central Bank is empowered to make special management orders in relation to an authorised credit institution, or in relation to a subsidiary or holding company of the authorised credit institution in certain circumstances. The Act also provides powers to the Central Bank regarding the liquidation of authorised credit institutions. Authorised credit institutions may also be directed to prepare a recovery plan setting out actions that could be taken to facilitate the continuation or secure the business or part of the business of that institution.

The legislation which provides for a permanent statutory regime under which the Central Bank may exercise intervention powers when a relevant credit institution is in difficulty is expected, in due course, to replace the temporary emergency provisions of the Credit Institutions (Stabilisation) Act 2010 outlined above which ceases to have effect on 31 December 2012 or at a later date
substituted by resolution of both Houses of the Oireachtas.

Notes to the accounts

35. Related party transactions

(a) Transactions with Allied Irish Banks, p.l.c.

AIB Mortgage Bank is a subsidiary of Allied Irish Banks, p.l.c. ("AIB"). Banking transactions are entered into between AIB Mortgage Bank and AIB in the normal course of business. These include loans and deposits on an arms length basis. Interest paid to AIB and interest received from AIB is disclosed in Note 1 and Note 2 to the accounts. As at 31 December 2011, the total amounts of principal outstanding in respect of mortgage covered securities issued to Allied Irish Banks, p.l.c. was €3.25bn

Most of the Bank's activities are outsourced to AIB under an Outsourcing and Agency Agreement. AIB as Service Agent for the Bank, originates residential mortgage loans through its retail branch network and intermediary channels in the Republic of Ireland, services the mortgage loans and provides treasury services in connection with financing as well as a range of support services.

The Bank's activities are financed through the issuance of mortgage covered securities and a mortgage backed promissory note facility with the Central Bank, with the balance of funding being provided by AIB.

(b) Transactions with key management personnel

Loans to the Key Management Personnel, including executive and non-executive directors and senior executive officers, are made in the ordinary course of business on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons of similar standing not connected with AIB Mortgage Bank and do not involve more than the normal risk of collectability or present other unfavourable features.

Loans to executive directors and senior executive officers are also made in the ordinary course of business, on terms available to other employees in the Bank generally, in accordance with established policy, within limits set on a case by case basis.

Notes to the accounts

35. Related party transactions *(continued)*

(b) Transactions with key management personnel (continued)

Details of loan facility transactions with key management personnel and connected parties, as appropriate, with AIB Mortgage Bank are as follows:

	Balance at 31 December 2010	Amounts advanced during 2011	Amounts repaid during 2011	Balance at 31 December 2011
	€ 000	€ 000	€ 000	€ 000
Kieran Crowley				
Loans	1,089	-	14	1,075
Interest charged during 2011		-	-	25
Maximum debit balance during 2011	-	-	-	1,089
Michael Keegan				
Loans	397	-	9	388
Interest charged during 2011	-	-	-	9
Maximum debit balance during 2011	-	-	-	397
Catherine Woods				
Loans	115	-	9	106
Interest charged during 2011	-	-	-	2
Maximum debit balance during 2011	-	-	-	115

No other current or former Directors, in office during 2011, had loan facilities with AIB Mortgage Bank during the year ended 31 December 2011

	2011	2010
	€ 000	€ 000
Aggregate loan amounts outstanding at year end		
Directors	1,569	2,150

(c) Connected Persons

There were no loans to connected persons of Directors in office as at 31 December 2011, as defined in section 26 of the companies act 1990

No impairment charges or provisions have been recognised in respect of any of the above loans or facilities and all interest that has fallen due has been paid.

Notes to the accounts

35. Related party transactions *(continued)*

(d) Funding Support

At 31 December 2011, all of the €6.4bn mortgaged covered securities issued to AIB Mortgage Bank, was repoed for value €4.3bn with Allied Irish Banks, p.l.c. and was then subject to a sale and repurchase agreement with the ECB, providing liquidity for AIB Group of €4.3bn.

The AIB Mortgage Bank Mortgage-Backed Promissory Note facility with the Central Bank, for normal ECB open market operations, is unavailable since December 2010 due to ratings downgrade by Moody's of Allied Irish Banks, p.l.c. The AIB Mortgage Bank Mortgage-Backed Promissory Note Framework has been used as a source of liquidity with the Central Bank of Ireland outside of normal ECB open market operations during first four months of 2011; as at 31 December 2011, Nil was drawn down (2010: €0.9bn drawdown).

36. Business Combination

On 25 February 2011, AIB Mortgage Bank acquired an intermediary mortgage business from Allied Irish Banks, p.l.c.. As the acquisition was deemed to be the acquisition of a business and the transaction was between entities under common control, it was accounted for under the carrying value basis in line with both the AIB Group and Bank's accounting policy.

The net carrying value of this business was €4.2bn which was comprised of loans and receivables, related loan loss provisions and accrued interest. Consideration paid was €4.2bn.

From the date of acquisition this business contributed €94.5m in interest income. Management estimate that revenues would have been €113.4m had the business been acquired effective 1 January 2011.

At the date of acquisition the loan loss provision was €107m. The loan loss specific provision 2011 charge for these loans was €64m.

37. Approval of financial statements

The financial statements were approved by the Directors on 29 March 2012

Additional information on the credit profile of residential mortgages

The information on the following pages is additional credit information and does not form part of the audited financial statements.

Forbearance
Residential owner-occupier mortgages
The incidence of the main type of forbearance arrangements for owner-occupier mortgages only is analysed below:

	2011 Total		**Loans > 90 days in arrears and or impaired**		**Performing**	
	Number	**Balance**	**Number**	**Balance**	**Number**	**Balance**
		€ 000		**€ 000**		**€ 000**
Interest Only	**8,536**	**1,725,800**	**1,731**	**407,700**	**6,805**	**1,318,100**
Reduced payment (greater than interest only)	**1,014**	**184,300**	**251**	**57,700**	**763**	**126,600**
Payment moratorium	**1,438**	**254,400**	**470**	**92,100**	**968**	**162,300**
Arrears Capitalisation	**869**	**176,400**	**371**	**94,100**	**498**	**82,300**
Term Extension	**1,765**	**240,700**	**37**	**8,400**	**1,728**	**232,300**
Total	**13,622**	**2,581,600**	**2,860**	**660,000**	**10,762**	**1,921,600**

	2010 Total		Loans > 90 days in arrears and or impaired		Performing	
	Number	Balance	Number	Balance	Number	Balance
		€ 000		€ 000		€ 000
Interest only	7,358	1,553,900	210	67,900	7,148	1,486,000
Reduced payment (greater than interest only)	404	38,800	3	400	401	38,400
Payment moratorium	863	131,000	15	4,000	848	127,000
Arrears capitalisation	584	113,100	169	42,100	415	71,000
Term extension	1,360	195,500	16	2,300	1,344	193,200
Total	10,569	2,032,300	413	116,700	10,156	1,915,600

Additional information on the credit profile of residential mortgages

Forbearance *(continued)*

Buy-to-let mortgages

The incidence of the main type of forbearance arrangements for buy-to-let mortgages only is analysed below:

	2011		**Loans > 90 days in arrears and or impaired**		**Performing**	
	Total					
	Number	**Balance**	**Number**	**Balance**	**Number**	**Balance**
		€ 000		**€ 000**		**€ 000**
Interest only	**6,334**	**1,623,300**	**2,158**	**702,700**	**4,176**	**920,600**
Reduced payment (greater than interest only)	**423**	**99,000**	**107**	**29,400**	**316**	**69,600**
Payment moratorium	**136**	**39,800**	**78**	**28,300**	**58**	**11,500**
Arrears capitalisation	**807**	**229,400**	**549**	**161,700**	**258**	**67,700**
Term extension	**536**	**88,700**	**40**	**9,600**	**496**	**79,100**
Total	**8,236**	**2,080,200**	**2,932**	**931,700**	**5,304**	**1,148,500**

	2010		Loans > 90 days in arrears and or Impaired		Performing	
	Total					
	Number	Balance	Number	Balance	Number	Balance
		€ 000		€ 000		€ 000
Interest only	5,549	1,436,400	302	109,400	5,247	1,327,000
Reduced payment (greater than interest only)	54	8,700	4	400	50	8,300
Payment moratorium	85	18,300	16	4,100	69	14,200
Arrears capitalisation	316	91,600	156	49,000	160	42,600
Term extension	419	69,100	5	900	414	68,200
Total	6,423	1,624,100	483	163,800	5,940	1,460,300

Additional information on the credit profile of residential mortgages

Forbearance *(continued)*

The main types of forbearance arrangements are analysed below:

	2011		**Loans > 90 days in arrears and or**			
	Total		**impaired**		**Performing**	
	Number	**Balance**	**Number**	**Balance**	**Number**	**Balance**
		€ 000		**€ 000**		**€ 000**
Interest only	**14,870**	**3,349,100**	**3,889**	**1,110,400**	**10,981**	**2,238,700**
Reduced payment (greater than interest only)	**1,437**	**283,300**	**358**	**87,100**	**1,079**	**196,200**
Payment moratorium	**1,574**	**294,200**	**548**	**120,400**	**1,026**	**173,800**
Arrears capitalisation	**1,676**	**405,800**	**920**	**255,800**	**756**	**150,000**
Term extension	**2,301**	**329,400**	**77**	**18,000**	**2,224**	**311,400**
Total	**21,858**	**4,661,800**	**5,792**	**1,591,700**	**16,066**	**3,070,100**

	2010		Loans > 90 days in arrears and or			
	Total		impaired		Performing	
	Number	Balance	Number	Balance	Number	Balance
		€ 000		€ 000		€ 000
Interest only	12,907	2,990,300	512	177,300	12,395	2,813,000
Reduced payment (greater than interest only)	458	47,500	7	800	451	46,700
Payment moratorium	948	149,300	31	8,100	917	141,200
Arrears capitalisation	900	204,700	325	91,100	575	113,600
Term extension	1,779	264,600	21	3,200	1,758	261,400
Total	16,992	3,656,400	896	280,500	16,096	3,375,900

Additional information on the credit profile of residential mortgages

Repossessions
The number (stock) of repossessions is set out below:

2011

	Number of repossessions	**€000 Balance outstanding**
Owner-occupier	**20**	**5,470**
Buy-to-let	**30**	**5,480**
Total	**50**	**10,950**

2010

	Number of repossessions	**€000 Balance outstanding**
Owner-occupier	5	1,827
Buy-to-let	12	2,060
Total	17	3,887

The following is an analysis of the residential properties that were disposed of during 2011 and 2010:

2011

	Number of disposals	**Balance outstanding at repossession € 000**	**Gross sales proceeds € 000**	**Costs to sell € 000**	**Loss on sale € 000**	**Weighted average LTV at sale price % € 000**
Owner-occupier	2	530	340	6	196	156%
Buy-to-let	9	3450	1,450	102	2,102	238%
Total residential	11	3,980	1,790	108	2,298*	222%

**The loss on sale is included in the amounts written off.*

2010

	Number of disposals	Balance outstanding at repossession € 000	Gross sales proceeds € 000	Costs to sell € 000	Loss on sale € 000	Weighted average LTV at sale price% € 000
Owner-occupier	1	853	550	17	320	155%
Buy-to-let	1	230	208	38	60	111%
Total residential	2	1,083	758	55	380	143%

Additional information on the credit profile of residential mortgages

Loan-to-value (LTV) information

The property values used in the completion of the following loan to value tables are determined with reference to the original or most recent valuation indexed to the Central Statistics Office ("CSO") Residential Property Price Index.

Actual and average LTV across mortgage portfolios

The following table profiles the mortgage portfolio by the indexed LTV ratios at 31 December 2011 and 2010 and the weighted average LTV ratios for elements of the book.

	2011 Owner-occupier		Buy-to-let		Total	
	€ 000	%	€ 000	%	€ 000	%
Less than 50%	**2,586,563**	**15.3**	**486,725**	**6.9**	**3,073,288**	**12.8**
50%-70%	**2,355,222**	**13.9**	**641,682**	**9.0**	**2,996,904**	**12.5**
71% to 80%	**1,240,811**	**7.4**	**409,203**	**5.8**	**1,650,014**	**6.9**
81% to 90%	**1,274,235**	**7.6**	**480,230**	**6.8**	**1,754,465**	**7.3**
91% to 100%	**1,320,207**	**7.8**	**566,260**	**7.9**	**1,886,467**	**7.8**
101% to 120%	**3,061,819**	**18.1**	**1,161,524**	**16.3**	**4,223,343**	**17.6**
121% to 150%	**3,021,343**	**17.9**	**1,578,143**	**22.2**	**4,599,486**	**19.2**
Greater than 150%	**2,033,595**	**12.0**	**1,783,615**	**25.1**	**3,817,210**	**15.9**
Total	**16,893,795**	**100.0**	**7,107,382**	**100.0**	**24,001,177**	**100.0**

	Owner-occupier	Buy-to-let	Total
Average LTV:			
Stock of residential mortgages at year end	**95.3%**	**111.6%**	**100.1%**
New residential mortgages during year	**84.8%**	**91.2%**	**85.3%**
Impaired mortgages	**109.9%**	**126.7%**	**121.2%**

Additional information on the credit profile of residential mortgages

Loan-to-value (LTV) information *(continued)*

	2010 Owner-occupier		Buy-to-let		Total	
	€ 000	%	€ 000	%	€ 000	%
Less than 50%	3,305,483	23.6	666,481	10.1	3,971,964	19.4
50%-70%	2,751,389	19.7	807,675	12.4	3,559,064	17.4
71% to 80%	1,328,112	9.5	526,704	8.1	1,854,816	9.0
81% to 90%	1,298,358	9.3	618,505	9.5	1,916,863	9.3
91% to 100%	1,428,240	10.2	622,240	9.5	2,050,480	10.0
101% to 120%	2,166,938	15.5	1,331,632	20.4	3,498,570	17.0
121% to 150%	1,341,721	9.6	1,099,270	16.8	2,440,991	11.9
Greater than 150%	362,178	2.6	866,127	13.2	1,228,305	6.0
Total	13,982,419	100.0	6,538,634	100.0	20,521,053	100.0

	Owner-occupier	Buy-to-let	Total
Average LTV:			
Stock of residential mortgages at year end	78.9%	93.7%	81.9%
New residential mortgages during year	74.6%	71.9%	74.4%
Impaired mortgages	96.0%	109.1%	99.7%

52% of the owner-occupier and 36% of the buy-to-let mortgages were in positive equity at 31 December 2011. In terms of the total portfolio, 53% (31 December 2010:35%) was in negative equity at 31 December 2011, reflecting the continuing decline in residential property prices in Ireland in 2011. The weighted average indexed loan to value ratio for the total book was 100% at 31 December 2011 (31 December 2010:82%), whilst the indexed loan to value ratio for the impaired book was higher at 121% (31Decmber 2010:100%). The indexed loan to value ratio of new loans advanced during 2011 was 85% (31 December 2010: 74 %).

Additional information on the credit profile of residential mortgages

Analysis by LTV of mortgage lending
Neither past due nor impaired

The following table profiles at the Republic of Ireland residential mortgage portfolio that is neither past due nor impaired by the indexed loan to value rations at 31 December 2011 and 31 December 2010.

	2011 Owner Occupier		**Buy to Let**		**Total**	
	€ 000	**%**	**€ 000**	**%**	**€ 000**	**%**
Less than 50%	**2,424,211**	**15.8**	**415,844**	**8.6**	**2,840,055**	**14.1**
50% - 70%	**2,195,440**	**14.3**	**535,572**	**11.2**	**2,731,012**	**13.5**
71% - 80%	**1,141,621**	**7.4**	**340,051**	**7.1**	**1,481,672**	**7.3**
81% - 90%	**1,176,000**	**7.6**	**391,017**	**8.2**	**1,567,017**	**7.8**
91% - 100%	**1,212,424**	**7.9**	**411,625**	**8.6**	**1,624,049**	**8.1**
101% - 120%	**2,831,284**	**18.4**	**799,855**	**16.7**	**3,631,139**	**18.0**
121% - 150%	**2,705,905**	**17.6**	**987,169**	**20.5**	**3,693,074**	**18.3**
Greater than 150%	**1,696,892**	**11.0**	**915,138**	**19.1**	**2,612,030**	**12.9**
Total	**15,383,777**	**100.0**	**4,796,271**	**100.0**	**20,180,048**	**100.0**

47% of the owner occupier and 56% of the buy-to-let mortgages were in negative equity at 31 December 2011. In terms of the total portfolio, 49% was in negative equity at 31 December 2011, reflecting the continuing decline in residential property prices in Ireland in 2011.

	2010 Owner Occupier		Buy to Let		Total	
	€ 000	%	€ 000	%	€ 000	%
Less than 50%	3,170,905	24.0	591,683	10.6	3,762,588	20.1
50% - 70%	2,614,983	19.8	745,256	13.5	3,360,239	17.9
71% - 80%	1,251,981	9.5	472,553	8.5	1,724,534	9.2
81% - 90%	1,232,385	9.3	544,519	9.8	1,776,904	9.5
91% - 100%	1,363,831	10.3	540,914	9.8	1,904,745	10.2
101% - 120%	2,031,056	15.4	1,112,477	20.1	3,143,533	16.7
121% - 150%	1,229,721	9.3	969,932	17.5	2,199,653	11.7
Greater than 150%	311,738	2.4	566,342	10.2	878,080	4.7
Total	13,206,600	100.0	5,543,677	100.0	18,750,277	100.0

Additional information on the credit profile of residential mortgages

Analysis by LTV of mortgage lending *(continued)*
Past due but not impaired

The following tables provide an arrears profile of the Republic of Ireland residential mortgages that were past due but not impaired at 31 December 2011 and 31 December 2010.

	2011 Owner Occupier		**Buy to Let**		**Total**	
	€ 000	**%**	**€ 000**	**%**	**€ 000**	**%**
Less than 50%	**81,575**	**13.4**	**20,054**	**4.2**	**101,629**	**9.4**
50% - 70%	**79,569**	**13.1**	**36,887**	**7.8**	**116,456**	**10.7**
71% - 80%	**46,084**	**7.6**	**22,639**	**4.7**	**68,723**	**6.3**
81% - 90%	**42,072**	**6.9**	**23,512**	**5.0**	**65,584**	**6.1**
91% - 100%	**38,749**	**6.3**	**38,328**	**8.1**	**77,077**	**7.1**
101% - 120%	**99,826**	**16.4**	**88,526**	**18.6**	**188,352**	**17.4**
121% - 150%	**113,474**	**18.6**	**112,946**	**23.8**	**226,420**	**20.9**
Greater than 150%	**107,992**	**17.7**	**132,078**	**27.8**	**240,070**	**22.1**
Total	**609,341**	**100.0**	**474,970**	**100.0**	**1,084,311**	**100.0**

€1,084 m or 4.5% of the mortgage book was past due but not impaired at 31 December 2011 compared to 930k or 4.5% at 31 December 2010. Of the loan book that was past due 102k or 9% was < 30 days past due (2010: 105k or 11%). The decrease in past due loans reflects continuing economic downturn which continues to give rise to falling disposable incomes.

	2010 Owner Occupier		Buy to Let		Total	
	€ 000	%	€ 000	%	€ 000	%
Less than 50%	81,185	18.0	24,156	5.0	105,341	11.3
50% - 70%	89,051	19.7	37,458	7.8	126,509	13.6
71% - 80%	42,623	9.4	33,895	7.1	76,518	8.2
81% - 90%	38,513	8.5	44,981	9.4	83,494	9.0
91% - 100%	36,849	8.2	47,246	9.8	84,095	9.1
101% - 120%	77,668	17.2	118,317	24.7	195,985	21.0
121% - 150%	67,799	15.0	101,096	21.1	168,895	18.1
Greater than 150%	18,048	4.0	72,382	15.1	90,430	9.7
Total	451,736	100.0	479,531	100.0	931,267	100.0

Additional information on the credit profile of residential mortgages

Analysis by LTV of mortgage lending > 90 days past due plus impaired

The following tables profile the mortgage portfolios that are 90 days past due and/or impaired by the indexed LTV ratios at 31 December 2011 and 31 December 2010.

	2011 Owner Occupier		**Buy to Let**		**Total**	
	€ 000	**%**	**€ 000**	**%**	**€ 000**	**%**
Less than 50%	**115,018**	**10.6**	**58,176**	**2.9**	**173,194**	**5.6**
50% - 70%	**106,873**	**9.8**	**85,139**	**4.2**	**192,012**	**6.2**
71% - 80%	**68,293**	**6.3**	**54,638**	**2.7**	**122,931**	**4.0**
81% - 90%	**68,745**	**6.3**	**72,826**	**3.6**	**141,571**	**4.6**
91% - 100%	**74,100**	**6.8**	**124,436**	**6.2**	**198,536**	**6.4**
101% - 120%	**157,871**	**14.5**	**303,975**	**15.1**	**461,846**	**14.9**
121% - 150%	**234,684**	**21.7**	**516,558**	**25.7**	**751,242**	**24.2**
Greater than 150%	**260,383**	**24.0**	**795,792**	**39.6**	**1,056,175**	**34.1**
Total	**1,085,967**	**100.0**	**2,011,540**	**100.0**	**3,097,507**	**100.0**

60% of owner occupier and 80% of buy-to-let mortgages that were > 90 days past due and/or impaired were in negative equity at 31 December 2011

	2010 Owner Occupier		Buy to Let		Total	
	€ 000	%	€ 000	%	€ 000	%
Less than 50%	68,709	16.0	58,573	9.5	127,282	12.2
50% - 70%	69,184	16.1	36,236	5.9	105,420	10.1
71% - 80%	40,292	9.4	25,845	4.2	66,137	6.3
81% - 90%	35,287	8.2	38,861	6.3	74,148	7.1
91% - 100%	37,600	8.8	49,955	8.1	87,555	8.4
101% - 120%	77,604	18.1	130,438	21.1	208,042	19.9
121% - 150%	59,802	13.9	139,581	22.6	199,383	19.1
Greater than 150%	40,448	9.4	137,795	22.3	178,243	17.0
Total	428,926	100.0	617,284	100.0	1,046,210	100.0

Additional information on the credit profile of residential mortgages

Impaired loans and contractually past due but not impaired

The following table profiles the mortgage book and impaired mortgage book at 31 December 2011 and 2010 by year of origination.

2011

	Mortgage portfolio		Impaired mortgage portfolio	
	Number	Balance	Number	Balance
		€ 000		€ 000
1996 and before	3,686	67,913	242	4,887
1997	1,586	40,360	114	4,076
1998	2,138	81,823	159	7,883
1999	2,833	135,800	214	15,057
2000	3,590	208,852	249	21,399
2001	3,886	267,500	236	20,817
2002	6,738	598,963	415	51,060
2003	10,263	1,127,104	721	111,331
2004	13,352	1,786,491	1,057	206,106
2005	17,330	2,759,807	1,580	374,361
2006	21,640	4,252,166	2,331	687,726
2007	20,240	4,208,467	1,882	599,594
2008	19,089	3,956,670	1,326	470,438
2009	13,527	2,474,672	422	134,819
2010	8,216	1,419,718	105	27,264
2011	3,806	614,871	-	-
Total	**151,920**	**24,001,177**	**11,053**	**2,736,818**

The table shows that 18% of the mortgage book originated before 2005, with such loans representing 16% of the impaired mortgage book at 31 December 2011. A further 63% of the mortgage book originated between 2005 and 2008 with such loans representing 78% of the impaired mortgage book. The remainder of the book (19%) originated since 2008 and represent 6% of the impaired mortgage book.

Additional information on the credit profile of residential mortgages

Impaired loans and contractually past due but not impaired *(continued)*

2010	Mortgage portfolio		Impaired mortgage portfolio	
	Number	Balance	Number	Balance
		€ 000		€ 000
1996 and before	4,401	74,228	153	2,335
1997	1,643	43,168	41	1,119
1998	2,089	77,521	64	3,002
1999	2,736	123,559	98	4,657
2000	3,365	184,552	115	7,234
2001	3,948	254,893	107	7,185
2002	6,459	559,646	169	17,762
2003	9,743	1,053,679	276	41,117
2004	12,600	1,681,817	388	66,517
2005	16,539	2,659,372	525	112,948
2006	19,670	3,822,050	753	204,425
2007	17,759	3,686,531	595	178,683
2008	16,026	3,331,829	298	159,511
2009	11,069	1,909,318	90	32,158
2010	6,524	1,058,890	6	857
Total	134,571	20,521,053	3,678	839,510