AIB Mortgage Bank

Directors' Report & Financial Statements

Year ended 31 December 2013

AIB Mortgage Bank

Directors’ report and financial statements

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Directors' and other information

Directors	Dave Keenan, Group Non-Executive Director and Chairman Jim O'Keeffe, Executive Director (Managing) Eileen Kelliher, Independent Non-Executive Director Ivor Larkin, Executive Director James Murphy, Group Non-Executive Director Catherine Woods, Independent Non-Executive Director
Registered office	Bankcentre Ballsbridge Dublin 4 Ireland
Secretary	David Schorman
Registered Auditor	Deloitte & Touche Chartered Accountants & Statutory Audit Firm Hardwicke House Hatch Street Dublin 2 Ireland.
Solicitor	Helen Dooley Group General Counsel 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

Directors' Report

The Directors present their annual report and financial statements for the year ended 31 December 2013. A statement of Directors' responsibilities in relation to the financial statements appears on page 11.

Principal activities

AIB Mortgage Bank ('the Bank' or 'AIBMB'), 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 issuances since that date. The Programme was subsequently increased to €20bn in 2009.

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, amounting to approximately €4.2 billion. The transfer was effected pursuant to the statutory transfer mechanism provided for in the Asset Covered Securities Acts .

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 with the balance of funding being provided by AIB Group. The Bank is also party to the Mortgage-Backed Promissory Note Framework agreements with the Central Bank of Ireland, however this type of funding has not been utilised since 2011.

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

Corporate Governance Statement

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 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. With effect from 28 May 2013, there were two independent Non-Executive Directors on the Board of the Bank. The Board also included two Executive Directors, both of whom were directly involved in the operation of AIB Mortgage Bank, and two other Directors who, while also employees of AIB, were deemed to be Non-Executive Directors by virtue of the roles they fulfilled in areas of AIB Group unrelated to the operations of AIB Mortgage Bank.

Directors' Report

Corporate Governance Statement *(continued)*

The Board is assisted in the discharge of its duties by an Audit Committee which operates under Terms of Reference approved by the Board. The Audit Committee comprises Non-Executive Directors whom the Board has determined have the collective skills and relevant financial experience to enable the Committee to discharge its responsibilities. The Audit Committee has oversight responsibility for:

– the quality and integrity of accounting policies, financial statements and disclosure practices;
– compliance with relevant laws, regulations, codes of conduct and "conduct of business" rules;
– the independence and performance of the External Auditor ("the Auditor") and Internal Audit; and
– the adequacy and performance of systems of internal control and the management of financial and non-financial risks.

Business review

The economic environment in Ireland continues to be challenging for the residential mortgage business. Unemployment remained at elevated levels of 12.4% at end December 2013 compared to 14.0% at end December 2012. (Source: Central Statistics Office).

The CSO Residential Property Price Index showed an increase in prices nationally of 5.6% in 2013 (reduction of 5.7% in 2012). This was particularly evident in Dublin where the 2013 annual increase was 13.8%. Property prices outside of Dublin reduced in the 12 month period by 0.6% (reduction of 7.2% in 2012).

The national fall from peak property prices (February 2007) was 46.5% at December 2013 (49% at December 2012). The fall in Dublin was 49% (55% at December 2012) with properties outside Dublin falling by 47% (also 47% at December 2012).

The Bank is currently one of the few financial institutions offering competitive home loans in the Irish market. Our main focus is to offer viable owner-occupier mortgages and to support existing customers who wish to move home or top-up their existing mortgage.

Total market mortgage drawdowns in Ireland were €2.5bn in 2013 compared with €2.6bn in 2012. The Bank's mortgage portfolio before provisions decreased by 3% during 2013 to €23.1bn as at 31 December 2013 principally because repayments exceeded loans granted during the year (2012: decrease of 1%).

At 31 December 2013, AIB Mortgage Bank mortgage loans (comprising substantially all AIB branch and intermediary originated loans) accounted for €23.1bn of AIB Group's residential mortgage portfolio, which includes EBS, and amounted to €40.8bn in total.

AIB Mortgage Bank's residential mortgage portfolio comprises €16.7bn owner occupier (2012: €17.0bn) and €6.4bn buy to let mortgages (2012: €6.8bn). The owner occupier portfolio is comprised of 48% ECB tracker (2012: 50%), 42% variable interest rate (2012: 36%) and 10% fixed rate mortgage loans (2012: 14%). Interest only loans represent 2% of the owner occupier portfolio (2012: 6%). The buy to let portfolio is comprised of 62% ECB tracker (2012: 62%), 35% are on variable interest rates (2012: 35%) and 2% are fixed (2012: 3%). Interest only repayments make up 14% of the buy to let portfolio (2012: 24%).

As a result of the continued pressure on borrower repayment capacity, impaired loans have increased to €5.1bn, or 22.2% of total loans (2012: €4.6bn or 19.2%). Impairment provisions have increased from €2bn at December 2012 to €2.3bn in 2013.

Forbearance Strategies

The Group offers a range of tools and assistance to support customers who are encountering financial difficulties. The Group considers requests from customers who are experiencing cash flow difficulties on a case by case basis against their current and likely future financial circumstances and their willingness to resolve these difficulties, taking into account legal and regulatory obligations. The Group has implemented the standards set out in the Codes of Conduct on Mortgage Arrears in relation to customers in difficulty as set out by the Central Bank of Ireland ensuring these customers are dealt with in a fair and equitable manner.

Forbearance Strategies *(continued)*

A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable to repay both the principal and interest in accordance with the original contract terms. Modifications to the original contract can be temporary (e.g. interest only), or permanent (e.g. term extension) in nature. A loan is no longer considered to be forborne once the modified terms and conditions have expired.

As we are still in the early stages of implementing advanced forbearance solutions, the sustainability of the individual forbearance measures will be reviewed and assessed over time. The impact on provisioning will also be reviewed.

The Group has developed a Mortgage Arrears Resolution Strategy (MARS) for dealing with mortgage customers in difficulty, or likely to be in difficulty, which formalises the Group's Mortgage Arrears Resolution Process.

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 objectives are to ensure that arrears solutions are sustainable in the long term and they comply with the spirit and the letter of all regulatory requirements. MARS includes the following longer-term forbearance solutions which have been devised to assist existing Republic of Ireland residential mortgage customers in difficulty:

Split mortgages – a split mortgage will be considered where a customer can afford a mortgage but their income is not sufficient to fully support their current mortgage. The existing mortgage is split into two parts: Loan A being the sustainable element, which is repaid on the basis of principal and interest; and Loan B being the unsustainable element, which is deferred and becomes repayable at a later date, this may also include an element of debt write-off;

Negative equity trade down – This allows a customer to sell their house and subsequently purchase a new property and transfer the negative equity portion to a new loan secured on the new property. A negative equity trade down mortgage will be considered where a customer will reduce monthly loan repayments and overall indebtedness by trading down to a property more appropriate to his/her current financial and other circumstances;

Voluntary sale for loss – A voluntary sale for loss solution will be considered where the loan is deemed to be unsustainable and the customer is agreeable to sell the property and put an appropriate agreement in place to repay any residual debt.

Results for the year

AIBMB incurred a loss before taxation for 2013 amounting to €96m, compared to an equivalent loss of €339m in 2012. The reduced loss is due to a reduction in provisions for impaired loans charged against the income statement, and higher net interest income earned on the mortgage portfolio.

Additional interest on customer mortgage loans due to variable interest rate re-pricing contributed to higher interest income of €710m (2012: €694m), which combined with reduced funding costs of €397m (2012: €480m) to increase net interest income by €99m, improving the net interest margin to 1.33% in 2013 from 0.90% in 2012.

Administrative expenses reduced by €4m to €59m during the year due to lower personnel expenses, professional fees and statutory payments in 2013.

Overall provision charges for 2013 of €351m compare to €494m in 2012, a reduction of €143m. Specific impairment provision charges have reduced by €608m to €256m during the last year, reflecting a substantial reduction in the level of newly impaired loans.

The Incurred But Not Reported ("IBNR") charge in 2013 at €95m compares to a release of €370m in the comparative period, a net increased charge of €465m. This reflects an increase from 6 months to 9 months in Emergence Period, a key driver of IBNR, which reflects an estimated time taken for a loss event to be recognised within impaired loan provisions. This has been revised based on further information in 2013 on the period from loss event to specific impairment, particularly within the forbearance portfolio.

Results for the year *(continued)*

Specific provision stock amounts to €1,972m (2012: €1,774m) and IBNR provisions stand at €329m (2012: €234m) as at 31 December 2013.

Funding activities

The credit market, which had improved markedly during the latter half of 2012, continued to rally during 2013 amid sustained support from global monetary authorities and signs of recovery in the domestic and international economies. The signs of recovery in the US, particularly with regard to employment, were sufficient to encourage the Federal Reserve to begin 'tapering' their purchases of debt securities in late 2013 as a first step in reducing quantitative easing, though rate hikes are not anticipated for some time to come. In contrast, the European Central Bank (ECB) responded to falling inflation by further cutting the main refinancing rate, from 0.50% to 0.25%.

Irish debt performed strongly over the course of 2013 in advance of the country successfully exiting the bailout programme in December. This strength was demonstrated in January 2014 when the National Treasury Management Agency attracted €14bn in orders for a €3.75 billion 10 year bond at a spread of +140 basis points over mid swaps, which compared very favourably with the 10 year bond issued in March 2013 at +240 basis points over swaps. European covered bond markets were well supported during the year, with redemptions continuing to outpace new supply. Peripheral covered bond markets outperformed as investors continued to seek higher yielding assets, with Ireland benefiting as a result. Irish covered bonds performed strongly, with the 3 year bond issued by AIB Mortgage Bank in November 2012 at a spread of +270bps tightening to +80bps by end 2013.

AIB Mortgage Bank issued two new public benchmark bonds during the year. In January AIB Mortgage Bank issued a €500 million 3.5 year bond at a spread of +185 basis points over mid-swaps. This was followed in September by a 5 year, €500 million bond at +180 basis points over mid-swaps. In each case, AIB Mortgage Bank extended the maturity profile of the outstanding debt while issuing at a tighter spread than the prior issue. Both deals were over-subscribed with high quality demand from international investors, with German investors especially prominent in both order books. These deals have performed strongly since their issue date.

In addition to issuance in the primary funding markets, AIBMB continued to avail of secured financing 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 2013, the total amount of principal outstanding in respect of mortgage covered securities issued was €8.0bn (31 December 2012: €10.3bn), of which €3.3bn was held by external debt investors (31 December 2012: €3.3bn), Nil by Allied Irish Banks, p.l.c. (31 December 2012: €1.0bn) and €4.8bn was self- issued to AIB Mortgage Bank (31 December 2012: €6.0bn). The bonds issued to Allied Irish Banks, p.l.c. and to AIB Mortgage Bank were held by the Central Bank of Ireland under sale and repurchase agreements.

AIB Mortgage Bank's Covered Bond Programme was upgraded from Baa3 to Baa2 by Moody's in November 2013; however it was subsequently put on review following a Moody's downgrade to Allied Irish Banks p.l.c. in December 2013.

The ratings as at 20 February 2014, for the Bank's Covered Bond Programme, AIB Group, and Ireland are shown below:

Rating Agency	AIB Mortgage Bank Covered Bond Programme	Allied Irish Banks p.l.c Issuer default rating	Ireland (Sovereign)
Fitch	A	BBB	BBB+
Moody's	Baa2	Ba3	Baa3
Standard & Poor's	A	BB	BBB+

Directors' Report

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 the Risk Management Report. AIB Mortgage Bank is reliant on AIB Group for a) financing and b) the operation of a number of outsourced activities leading to significant 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:

- AIB Group's access to funding and liquidity is adversely affected by the financial instability within the Eurozone.
- Constraints on liquidity, and market reaction to factors affecting Ireland and the Irish economy, have created a challenging environment for the management of the AIB Group's liquidity.
- AIB Group's business may be adversely affected by a further deterioration in economic and market conditions.
- Contagion risks could disrupt the markets and adversely affect the AIB Group's financial condition.
- AIB Group faces market risks, including non-trading interest rate risk.
- AIB Group is subject to Government supervision and oversight.
- The future of AIB Group's business activities are subject to possible interventions by the Irish Government or the disposal of the Irish State's ownership interest in the Group.
- The Group's business activities must comply with increasing levels of regulation.
- AIB Group may be subject to the risk of having insufficient capital to meet increased minimum regulatory requirements.
- AIB Group's participation in the National Asset Management Agency ("NAMA") Programme gives rise to certain residual financial risks.
- AIB Group may be adversely affected by further austerity and budget measures introduced by the Irish Government.
- The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgements and estimates that may change over time, or may ultimately not turn out to be accurate, and the value realised by AIB Group for these assets may be materially different from their current, or estimated, fair value.
- AIB Group's deferred tax assets depend substantially on the generation of future profits over an extended number of years.
- AIB Group is subject to inherent credit risks in respect of customers and counterparties which could adversely affect the Group's results, financial condition and further prospects.
- AIB Group faces elevated operational risks.
- AIB Group's risk management strategies and techniques may be unsuccessful.
- There is a risk of litigation arising from AIB Group's activities.

Share capital

The share capital of the Bank is €1,745m (2012: €1,545m), comprised of ordinary shares of €1 each. €200m of €1 ordinary shares were issued during 2013 (Note 19).

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 2013 and 31 December 2012.

Directors' Report

Capital resources and regulatory capital ratios *(continued)*

	31 December 2013	31 December 2012
	€m	€m
Tier 1		
Paid up ordinary share capital	**1,745**	1,545
Capital contribution	**580**	580
Eligible reserves	**(1,285)**	(1,201)
Total tier 1 capital	**1,040**	924
Tier 2		
Subordinated perpetual loan capital	**200**	200
Subordinated term loan capital	**100**	100
Standardised IBNR and Excess IRB provisions	**78**	82
Total tier 2 capital	**378**	382
Total capital	**1,418**	1,306
Risk weighted assets		
On balance sheet	**12,293**	13,092
Off-balance sheet	**57**	38
Total risk weighted assets	**12,350**	13,130
Capital ratios		
Tier 1	**8.42%**	7.04%
Total Capital Ratio	**11.48%**	9.95%

Outlook

The capital position of the Bank is stable due to the ongoing commitment of support from Allied Irish Banks p.l.c., but the operating environment is expected to remain challenging for the foreseeable future.

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, which is performed under an outsourcing and agency agreement by Allied Irish Banks p.l.c.. The books of account of the Bank are kept at the Bank's registered office.

Going concern

The financial statements for the year ended 31 December 2013 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting the Bank, that it has the ability to continue in business for the period of assessment.

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 have been prepared on a going concern basis as the Directors of 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 Group 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 AIB Group 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'.

Going concern *(continued)*
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.

The Directors and Secretary of the Bank are set out on page 2.

Directors' and Secretary's interests in shares
The beneficial interests of the Directors and the Secretary in office at 31 December 2013 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 parent company.

	31 December* 2013	1 January* 2013
Ordinary shares		
Directors:		
Dave Keenan	**Nil**	Nil
Eileen Kelliher	**Nil**	Nil
Ivor Larkin	**6,580**	6,580
Jim O'Keeffe	**5,698**	5,698
James Murphy	**18,315**	18,315
Catherine Woods	**Nil**	Nil
Secretary		
David Schorman	**8,453**	8,453

*or date of appointment, if later

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 2013 are exercisable at various dates between 2014 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 2013	**1 January 2013**	**Options lapsed during 2013**	**Weighted Average subscriptions price of options outstanding at 31 December 2013 €**
Directors:				
Dave Keenan	**Nil**	**Nil**	**-**	**-**
Ivor Larkin	**Nil**	**2,500**	**2,500**	**-**
James Murphy	**5,000**	**5,000**	**-**	**16.20**
Jim O'Keeffe	**10,000**	**15,000**	**5,000**	**14.40**
Secretary:				
David Schorman	**Nil**	**2,000**	**2,000**	**-**

Share options
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, Non-Executive Directors, or the Company Secretary at 31 December 2013.

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 2013 and 6 March 2014.

Directors and Secretary
The following Board changes occurred with effect from the dates shown:

- Mr. Sean Cremen resigned as an Executive Director on 22 March 2013
- Mr. Dave Keenan was appointed Non-Executive Director and Chairman on 22 March 2013
- Ms. Eileen Kelliher was appointed Non-Executive Director on 28 May 2013

Independent auditor

Deloitte & Touche, Chartered Accountants and Statutory Audit Firm, were appointed as auditors on 20 June 2013. Deloitte & Touche have expressed their willingness to continue in office under Section 160(2) of the Companies Act, 1963.

On behalf of the Board

Chairman: Dave Keenan *Director:* James Murphy

Managing Director: Jim O'Keeffe

Date: 12 March 2014

Statement of Directors' responsibilities in relation to the financial statements.

The following statement, which should be read in conjunction with the statement of Auditors' responsibilities set out with their Audit Report, is made with a view to distinguish for shareholders the respective responsibilities of the Directors and of the Auditor in relation to the accounts.

The Directors are responsible for preparing the Annual Report and financial statements, in accordance with applicable law and regulations.

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 IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Acts, 1963 to 2013.

The financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the company; the Companies Acts, 1963 to 2013 provide in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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 company and enable them to ensure that its financial statements comply with the Companies Acts, 1963 to 2013. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of company and to prevent and detect fraud and other irregularities.

The Directors that are listed on page 2 confirm, to the best of their knowledge and belief, that the financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 December 2013 and of its results for the year then ended.

On behalf of the Board

Director: Dave Keenan *Director:* James Murphy

Director: Jim O'Keeffe

Date: 12 March 2014

Risk Management Report

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 an AIB 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.

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 AIB 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”. The completion of the deleveraging programme combined with a stable customer deposits base has reduced the AIB Group’s reliance on ECB funding and central bank liquidity facilities.

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 a core tier 1 ratio of 10.5 per cent in the base scenario and 6 per cent in a stressed scenario, (excluding a requirement for an additional protective buffer). AIB carries out extensive forward-looking stress tests on its capital position on a quarterly basis and, over the course of 2013; these have confirmed that the bank does not require additional capital within the defined stress level. However, given the levels of uncertainty in the current economic environment, there is a possibility that the economic outturn over the capital planning period may be materially worse than the stress scenario envisaged and/or that losses on the AIB Group's credit portfolio may be above forecast levels. Were such losses to be significantly greater than currently forecast, there is a risk that the Bank's capital position could be eroded to the extent that it would have insufficient capital to meet its 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 or other exposure due to the Bank.

Any losses arising as a result of depressed property prices could have a material adverse effect on the Banks’s future performance and results of operations. In addition, an increase in the market 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.

1.3 The Bank’s business activities must comply with increasing levels of regulatory requirements introduced as a result of failings in financial markets

A number of legislative and regulatory measures were introduced in 2013 by the Central Bank and the EU, through a number of new or revised Codes and Directives as detailed below:

- The revised Code of Conduct on Mortgage Arrears 2013 came into effect on 1 July 2013 allowing for a six month implementation period.

Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (the “Capital Requirements Regulation” or the “CRR”) and Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (the “CRD IV Directive”) known collectively as “CRD IV” were published in the Official Journal L176 of the EU on 27 June 2013). CRD IV transposes the Basel III

1. Risk Factors *(continued)*

international capital standards agreed at global level. The aim of this package is to strengthen EU banks, through increased capital and buffers; increased and EU wide consistent supervision; new liquidity and leverage ratios; and improved corporate governance. Implementation will begin on 1 January 2014 and will be phased in on an annual incremental transition basis, with full effect on 1 January 2018.

- The Central Bank (Supervision and Enforcement) Act 2013 (the "Central Bank Act 2013") was enacted on 11 July 2013 and came into effect on 1 August 2013, significantly enhancing the supervisory and enforcement powers of the Central Bank. The Central Bank Act 2013 further strengthens the regulatory framework for Irish financial services providers by clarifying and enhancing the powers of the Central Bank to allow it to monitor, supervise, query, and, investigate the conduct and activities of financial service providers and to impose sanctions as appropriate. The Central Bank Act 2013 applies to all regulated financial services providers and in many cases extends to any related undertakings, including group companies and partnerships of which a regulated financial services provider is a member, and which themselves may not have previously been subject to financial services regulation legislation. The Central Bank Act 2013 is silent on the impact of the Central Bank Act 2013, if any, on the ACS Acts. No assurance can be given as to effect of the Central Bank Act on the Issuer, AIB or their respective businesses or operations.

- The Personal Insolvency Act 2012 (the "Personal Insolvency Act"), which was signed into law in December 2012, introduced new non-judicial debt settlement arrangements; a Debt Relief Notice ("DRN"), Debt Settlement Arrangement, ("DSA") and Personal Insolvency Arrangement ("PIA"). The Personal Insolvency Act also provides for amendments to the Bankruptcy Act 1988.

A key risk arising from the introduction of the Personal Insolvency Act relates to potential changes in customer behaviour and attitude to debt obligations given that the Personal Insolvency Act allows for the agreed settlement of unsecured debt and the settlement/restructuring of secured debts up to a limit of €3 million (or without limit, on the consent of all the secured creditors). The inclusion of secured debt in the non-judicial process is unprecedented, and therefore, it is difficult to assess its impact on the Bank's business. While a borrower is required to have co-operated with the secured creditor's Mortgage Arrears Resolution Process in respect of his or her principal private residence before availing of a PIA, there is no such requirement to co-operate with a secured creditor in respect of non-principal private residences. These factors could impact on the potential number of customers availing of the new insolvency processes, with potential negative consequences for the AIB Group in terms of resourcing, impairment provisions and capital adequacy.

The reforms to the personal insolvency regime in Ireland referred to above may adversely affect the Banks's and the AIB Group's businesses, and the value of their respective assets, and hence the value of Securities and the Bank's ability to meet its obligations in respect of the Securities.

A number of new legislative proposals are currently being considered by the Oireachtas (i.e. the Irish parliament) such as the Credit Reporting Bill 2012. The Central Bank is also reviewing its Corporate Governance Code for Credit Institutions and Insurance Firms with a view to introducing an updated Code in early 2014. The challenge of managing regulatory compliance increased substantially in 2013. The changing regulatory standards have posed a concomitant demand on the Bank in terms of the deployment of business and IT resources which are expected to continue in 2014. Major change programmes were initiated to implement these new requirements spanning all business areas, processes and systems. Delivering this level of change has placed and will continue to place added risk on the organisation, including the challenge to meet tight delivery timelines in the face of competing priorities and resource demands. Changes in supervision and regulation, in particular in, or applying to Ireland, has and will continue to have, a material impact on the Bank's business, products, and services offered, and the value of its assets. In November 2014 a new bank supervisory system (Single Supervisory Mechanism) is due to come into place which will see the Eurozone's largest banks, including AIB Group, coming under the direct supervision of the European Central Bank.

Future changes in government policy, central bank monetary authority policy, EU/Eurozone policies, legislation or regulation or their interpretation relevant to the financial services industry in the markets in which the Issuer and the Group operate may adversely affect their 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 adverse effect on the Issuer's and the Group's

1. Risk Factors *(continued)*
results of operations, financial condition and future prospects. Furthermore, new regulatory obligations regarding functional and operational arrangements within the Group, may also have an adverse impact on the Issuer's and the Group'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 elements of which are set out in a Board approved Enterprise Risk Management Framework.

This framework is in turn supported by a number of other Board approved frameworks covering the management of specific risk categories (credit risk, operational risk, etc). The core aspects of the Group's risk management approach 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.

The Bank maintains its own risk appetite statement ('RAS') which was updated in 2013 to align with the AIB Group RAS. The RAS is a blend of qualitative and quantitative limits and triggers linked to the Bank's objectives. Risk appetite limits and targets are cascaded where appropriate into more granular limits and targets. In turn, risk policies and procedures are updated, where appropriate, to reflect the limits of risk appetite across the Bank.

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, if they occur, are escalated to the Board, the AIB Executive Risk Committee, and the Central Bank.

AIB Group RAS is currently in the process of being updated in line with the financial planning process and AIB Group strategy which will trigger a further review and update of the Bank's RAS in Q1 2014.

2.3 Risk governance and risk management organisation
Risk management in the Bank is aligned with a clear risk management governance structure which is supported by the AIB Group. The AIB Group Enterprise Risk Management (ERM) framework provides a robust and consistent approach to risk management across the Bank and is a core component of the Bank's Internal Governance framework.

The Bank has adopted a '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.

Whilst the Board has ultimate responsibility for all risk taking activity within the Bank; it has delegated a number of risk governance responsibilities to various committees (including AIB Group committees). Governance is maintained through delegation of authority from the Board, down through the management hierarchy supported by the committee based structure designed to ensure that the Bank's risk appetite, policies, procedures, controls and reporting are fully in line with regulations, law, corporate governance and industry good-practice.

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 on funds placed with other banks in respect of derivatives relating to interest rate risk management.

Credit risk management objectives are to:

- Establish and maintain a control framework to ensure credit risk taking is based on sound credit management principals;
- Control and plan credit risk taking in line with external stakeholder expectations;
- Identify, assess and measure credit risk clearly and accurately across the Bank, from the level of individual facilities up to the total portfolio; and
- Monitor credit risk and adherence to agreed controls.

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 € m	**Fair Value € m**	**2013 Total € m**	Amortised Cost € m	Fair Value € m	2012 Total € m
Derivative financial instruments	**-**	**310**	**310**	-	421	421
Loans and receivables to banks	**463**	**-**	**463**	498	-	498
Loans and receivables to customers	**20,792**	**-**	**20,792**	21,748	-	21,748
Included elsewhere:						
Accrued interest	**32**	**-**	**32**	30	-	30
Other assets	**2**	**-**	**2**	20	-	20
	21,289	**310**	**21,599**	22,296	421	22,717
Loan commitments	**221**	**-**	**221**	230	-	230
Maximum exposure to credit risk	**21,510**	**310**	**21,820**	22,526	421	22,947

*Forms an integral part of the audited financial statements

3.1 Credit risk *(continued)*

Credit Risk Organisation and Structure

The Bank's credit risk management systems operate through a hierarchy of lending authorities. All customer mortgage applications are subject to an individual credit assessment and 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 and behavioural scoring for existing customers are used to assess and measure risk as well as to facilitate the management of the portfolio.

Measurement of Credit Risk

One of the objectives of credit risk management is to accurately quantify the level of credit risk to which AIB is exposed. The use of internal credit rating models is fundamental in assessing the credit quality of loan exposures.

The primary model measures used are:

– Probability of default ("PD") – the likelihood that a borrower is unable to repay his obligations;

– Exposure at default ("EAD") – the exposure to a borrower who is unable to repay his obligations at the point of default; and

– Loss given default ("LGD") – the loss associated with a defaulted loan or borrower.

To calculate PD, AIB assesses the credit quality of borrowers and other counterparties and assigns a credit grade or score to these. This grading is fundamental to the on-going credit risk management of loan portfolios.

Models generally use a combination of statistical analysis (using both financial and non-financial inputs) and expert judgement. For the purposes of calculating credit risk, each probability of default model segments counterparties into a number of rating grades, each representing a defined range of default probabilities (details of these rating scales are published in the Group's Pillar 3 disclosures).

Exposures migrate between rating grades if the assessment of the counterparty probability of default changes. These individual rating models continue to be refined and recalibrated based on experience. In the retail portfolio, which is characterised by a large number of customers with small individual exposures, risk assessment is largely automated through the use of statistically-based scoring models.

Credit grading and scoring systems facilitate the early identification and management of any deterioration in loan quality. Changes in the objective information are reflected in the credit grade of the borrower with the resultant grade influencing the management of individual loans. Special attention is paid to lower quality performing loans or 'criticised' loans.

3.1 Credit risk *(continued)*

In AIB, criticised loans include ‘watch’, ‘vulnerable’ and ‘impaired’ loans which are defined as follows:

Watch: The credit is exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cash flows;

Vulnerable: Credit where repayment is in jeopardy from normal cash flows and may be dependent on other sources; and

Impaired: A loan is impaired if there is objective evidence of impairment as a result of one or more event(s) that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event/events has an impact such that the present value of future cash flows is less than the current carrying value of the financial asset or group of assets and requires an impairment provision to be recognised in the income statement.

The Bank’s criticised loans are subject to more intense assessments and reviews because of the increased risk associated with them. Given the ongoing deterioration in credit quality throughout 2012 and 2013 in the markets, credit management and credit risk management continued to be the key areas of focus. Resourcing, structures, policies and processes are subjected to ongoing review in order to ensure that the Bank is best placed to manage asset quality and assist borrowers in line with agreed treatment strategies.

Risk management and mitigation

AIB Mortgage Bank has an established credit process through AIB Group 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.

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

Collateral

Collateral is required as a secondary source of repayment in the event of the borrower’s default. Credit risk mitigation includes the requirement to obtain collateral as set out in the Bank’s policies and procedures. The Group maintains guidelines on the acceptability of specific classes of collateral. The principal collateral types for mortgage loans are mortgages over residential real estate.

For residential mortgages, the Bank takes collateral in support of lending transactions for the purchase of residential property. Collateral valuations are required at the time of origination of each residential mortgage. The Bank adjusts open market property values to take account of the costs of realisation and any discount associated with the realisation of collateral. The fair value at 31 December 2013 is based on property values at origination or date of latest valuation and applying the CSO (Ireland) indices to these values to take account of price movements in the interim.

Loan Loss Provisioning

AIB’s provisioning policy requires for impairments to be recognised promptly and consistently across the different loan portfolios. A financial asset is considered to be impaired, and therefore its carrying amount is adjusted to reflect the effect of impairment, when there is objective evidence that events have occurred which give rise to an adverse impact on the estimated future cash flows that can be reliably estimated.

Impairment provisions are calculated on individual loans and on groups of loans assessed collectively. All exposures, individually or collectively, are regularly reviewed for objective evidence of impairment.

3.1 Credit risk *(continued)*

Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the balance sheet is reduced through the use of impairment provision accounts. Losses expected from future events are not recognised.

The identification of loans for assessment as impaired is facilitated by the Group's credit rating systems. As described previously, changes in the variables which drive the borrower's credit rating may result in the borrower being downgraded. This in turn influences the management of individual loans with special attention being paid to lower quality or criticised loans, i.e. in the Watch, Vulnerable or Impaired categories. The credit rating of an exposure is one of the key factors used to determine if a case should be assessed for impairment. Further examples of macroeconomic or mortgage portfolio trigger events, that may lead to the initial recognition of impairment include:

Macroeconomic triggers

– National or local economic conditions that indicate a measurable decrease in estimated future cash flows of the loan asset class;
– A decrease in property prices; and
– An adverse change in industry conditions.

Mortgage portfolio triggers

– A loan asset that is 90 days in arrears;
– A request for a forbearance measure from the borrower;
– Deterioration in the debt service capacity; and
– A material decrease in rents received on a buy-to-let property.

For those loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:

– the bank's aggregate exposure to the customer;
– the amount and timing of expected receipts and recoveries;
– the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
– the likely deduction of any costs involved in recovery of amounts outstanding; and
– the ability of the borrower to obtain and make payments in the currency of the loan if not denominated in local currency

Specific Provisions
Specific impairment provisions arise when the recovery of a specific loan or group of loans is in doubt based on impairment triggers as outlined above and an assessment that all the expected future cash flows either from the loan itself or from the associated collateral will not be sufficient to repay the loan. The amount of the specific impairment provision is the difference between the present value of expected future cash flows for the impaired loan(s) discounted at the original effective interest rate and the carrying value of the loan(s).

When raising specific impairment provisions, AIB divides its impaired portfolio into two categories, namely Individually Significant (IS) and Individually Insignificant (II).

The Individually Significant threshold is €500,000 by customer connection. The calculation of an impairment charge for loans below the 'Significant' threshold is undertaken on a collective basis.

Individually Significant ('IS') Mortgages
All loans that are considered individually significant are assessed on a case-by-case basis at each balance sheet date if there is any objective evidence that a loan may be impaired. Assessment is based on ability to pay and collateral value. Individually significant provisions are calculated using discounted cash flows for each exposure. The cash flows are determined with reference to the individual characteristics of each credit including an assessment of the cash flows that may arise from foreclosure less costs to sell in respect of obtaining and selling any associated collateral. The time period likely to be required to realise the collateral and receive the cash flows is taken in account in estimating the future cash flows and discounting these back to present value.

3.1 Credit risk *(continued)*

Individually Insignificant ('II') Mortgages
Provisioning is assessed on a collective basis to estimate losses for homogeneous groups of loans that are considered individually insignificant.

The Individually insignificant mortgage provisioning methodology applies to both owner-occupier and buy-to-let exposures for customer connections less than €500,000. Individually insignificant mortgage specific provisions are calculated using a collective mortgage provisioning model. This methodology is based on the calculation of three possible resolution outcomes: cure; advanced forbearance with loss; and repossession (forced and voluntary), with different loss rates associated with each. This replaces the existing two outcomes: repossession and cure.

The model parameters at 31 December 2013 for owner-occupier mortgages are as follows: cure (4%); and repossession/advanced forbearance (96%).

The corresponding buy-to-let model parameters are as follows: cure (1%); repossession/advanced forbearance (99%).

Cured loans are loans that were impaired and are no longer impaired and have performed satisfactorily for 12 months excluding any impact on forbearance.

The modelled loss is calculated case by case by subtracting the net present value of the modelled recovery amount from the current loan balance. The model parameters are determined from observed data where possible. Where not directly observable, related measures are used to infer the parameter where possible; otherwise it is based on expert judgement. The relevant model parameters include: percentage of forced disposals; costs and time to dispose (voluntary and forced); peak to trough price decline, loss rate on advanced forbearance; and haircut on sale (voluntary and forced). The model parameters, are reviewed at a Group Credit Committee on a quarterly basis.

Most II and IS cases are individually assessed for impairment using information with regard to latest borrower status and all information supporting the borrower position.

Incurred But Not Reported Provisions (IBNR)
Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Group has incurred as a result of events occurring before the balance sheet date, which the Group is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

IBNR provisions can only be recognised for incurred losses i.e. losses that are present in the portfolio at the reporting date 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 portfolio and to the credit environment at the reporting date.

IBNR provisions are maintained at levels that are deemed appropriate by management having considered and having taken into account:
- historical loss experience in portfolios of similar credit risk characteristics (for example, by sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate provision against the individual loan (Emergence Period);
- management's experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience; and
- an assessment of higher risk portfolios, which include but are not limited to non-impaired forborne mortgages; loans with a vulnerable credit rating; and loans > 90 days past due but not impaired.

3.1 Credit risk *(continued)*

The table below sets out the parameters used in the calculation of IBNR for the residential mortgages portfolio:

	2013			
	Owner-Occupier		Buy-to-let	
	Average PD	Average LGD	Average PD	Average LGD
Grade	%	%	%	%
Good upper	0.2	17.4	0.2	17.4
Good lower	2.1	19.6	2.1	22.1
Watch	15.8	19.8	15.3	24.0
Vulnerable	83.8	19.7	73.1	25.6

The above can be further analysed as follows:

Performing	5.1	18.8	6.9	21.3
Non-performing – non impaired	100.0	26.4	100.0	35.8

The parameters for Cured and Forborne – Not impaired, are set out below. As a result, these sub portfolios within the residential mortgages carry a higher level of IBNR:

Cured	66.0	16.2	69.5	28.9
Forborne – Not impaired	31.8	18.0	26.4	25.2

Average PD and LGD are based on the PDs and LGDs, weighted by the EAD for all owner-occupier and buy-to-let loans included in the collective mortgage model. The mortgage provision model calculates individually insignificant specific provisions and IBNR run rate provisions. Any additional IBNR as determined by management judgement is applied at a portfolio level and is not included in the analysis above.

Non-performing – non impaired loans in the table above, are defined as loans that are more than 90 days past due but not impaired.

Emergence Period

The Emergence Period is key to determining the level of IBNR provisions. Emergence periods are determined by assessing the time it takes following a loss event for an unidentified impaired loan to be recognised as an impaired loan requiring a provision. Emergence periods for each portfolio are determined by taking into account current credit management practices, historic evidence of assets moving from ‘good’ to ‘bad’ and actual case studies.

Performing provisions assets are split into homogenous 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, which may not have been a feature in the past or vice versa. The resultant amount is then multiplied by the ‘Emergence Period’ for that pool to arrive at the IBNR Collective Impairment Provision. Loss rates are updated half yearly and emergence periods for each pool of loans is reviewed annually.

For year ended 31 December 2013, the emergence period for the Republic of Ireland mortgage portfolio has moved from 6 months to 9 months. The increase has been observed as further information on the period from loss event to specific impairment has become available in 2013, particularly for the forbearance portfolio.

3.1 Credit risk *(continued)*

Approval Process

The Group operates an approval framework for impairment provisions which are approved, depending on amount, by various delegated authorities to Area Credit Committee level. These committees are chaired by the Head of Credit in the segments where the valuation/impairment is reviewed and challenged for appropriateness and adequacy. Impairments in excess of the segment authorities are approved by the Group Credit Committee and Group Board (where applicable). Segment impairments and provisions are ultimately reviewed by the Group Credit Committee as part of the quarterly process.

The valuation assumptions and approaches used in determining the impairment provisions required are documented and the resulting impairment provisions are reviewed and challenged as part of the approval process by market segment and Group senior management.

Write-offs

When the prospect of recovering a loan, either partially or fully, do not improve, a point will come when it will be concluded that as there is no realistic prospect of recovery and the loan (and any related specific provision) will be written off. Where the loan is secured, the write-off will take account of receipt of the net realisable value of security held.

Impact of changes to key assumptions and estimates on the impairment provisions

Management is required to exercise judgement in making assumptions and estimations when calculating loan impairment provisions on both individually and collectively assessed loans and advances. The most significant judgemental area is the calculation of collective impairment provisions. They are subject to estimation uncertainty, in part because of the large number of individually insignificant loans in the portfolio.

The methods involve the use of historical information which is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience. In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio, though sometimes it provides less relevant information about the inherent loss in a given portfolio at the balance sheet date. For example; when there have been changes in economic, regulatory or behavioural conditions which result in the most recent trends in portfolio risk factors being not fully reflected in the statistical models. In these circumstances, the risk factors are taken into account by adjusting the impairment provisions derived solely from historical loss experience.

Risk factors include loan portfolio growth, product mix, unemployment rates, bankruptcy trends, geographical concentrations, loan product features, economic conditions such as national and local trends in housing markets, the level of interest rates, portfolio seasoning, account management policies and practices, changes in laws and regulations, and other influences on customer payment patterns. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience. For example; loss rates and the expected timing of future recoveries are benchmarked against actual outcomes where available to ensure they remain appropriate. However, the exercise of judgement requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas.

Credit Risk can also be affected by macroeconomic factors such as increased interest rates, increased unemployment, lower consumer spending, personal & corporate defaults / insolvency levels. The credit portfolio is also subjected to ongoing stress testing and scenario analysis. Events are modelled at a Group wide level, at a divisional and business unit level and by rating models and portfolios. Sensitivity analysis is the simple stressing of one risk driver to assess the Bank's sensitivity to that risk driver. A Risk Driver is defined as an internal or external factor which has the potential to cause loss or damage to the Bank e.g. macroeconomics risk drivers (GDP, unemployment rate etc.) and specific credit risk drivers (shift in PD's).

Additional information on credit risk*

3.1 Credit risk *(continued)*

Individually impaired loans by geographic location and sector

	2013	2012
	€ m	€ m
Republic of Ireland		
Home Mortgages	**5,123**	4,561
	5,123	4,561

Provision cover table

	Impaired Loan Balance	**Specific Provision**	**Specific Provision Cover %**
Republic of Ireland			
Home mortgages – 31 December 2013	**5,123**	**1,972**	**39%**
Home mortgages – 31 December 2012	4,561	1,774	39%

Collateral and other credit enhancements

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 AIB Mortgage Bank.

Collateral valuations are required at the time of origination of each residential mortgage. The Bank adjusts open market property values to take account of the costs of realisation and any discount associated with the realisation of collateral. The fair values are based on property values at origination or date of latest valuation, and applying the CSO (Ireland) index to these values to take account of price movements in the interim.

The following pages provide details of:

- Credit profile analysis of the owner occupier and buy-to-let portfolios by arrears and provisions;
- Fair value of residential mortgage collateral;
- Residential mortgages which are past due but not impaired;
- Residential mortgages which are impaired;
- Forbearance:
    - Owner occupier
    - Buy-to-let
    - Total;
- Repossessions;
- Loan to value profile; and
- Origination profile.

* Forms an integral part of the audited financial statements.

Additional information on credit risk*

3.1 Credit risk *(continued)*

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

Statement of financial position

	2013			2012		
	Owner-Occupier € m	**Buy-to-Let € m**	**Total € m**	Owner-Occupier € m	Buy-to-Let € m	Total € m
Total gross residential mortgages	**16,706**	**6,387**	**23,093**	16,963	6,793	23,756
In arrears (>30days past due)[1]	**2,416**	**3,304**	**5,720**	2,084	3,012	5,096
In arrears (>90 days past due)[1]	**2,227**	**3,231**	**5,458**	1,897	2,908	4,805
Of which impaired	**2,019**	**3,104**	**5,123**	1,768	2,793	4,561
Statement of financial position specific provisions	**680**	**1,292**	**1,972**	622	1,152	1,774
Statement of financial position IBNR provisions	**222**	**107**	**329**	156	78	234

[1] Includes all impaired loans whether past due or not.

Provision cover percentage

	2013			2012		
	Owner-Occupier %	**Buy-to-Let %**	**Total %**	Owner-Occupier %	Buy-to-Let %	Total %
Specific provisions as a % of impaired loans cover	**33.7%**	**41.6%**	**38.5%**	35.2%	41.3%	38.9%

Income statement

	2013			2012		
	Owner-Occupier €m	**Buy-to-Let €m**	**Total €m**	Owner-Occupier €m	Buy-to-Let €m	Total €m
Income statement specific provisions	**85**	**171**	**256**	365	499	864
Income statement IBNR provisions	**65**	**30**	**95**	(141)	(229)	(370)
Total impairment provisions	**150**	**201**	**351**	224	270	494

*Forms an integral part of the audited financial statements.

Additional information on credit risk *

3.1 Credit risk *(continued)*

Asset quality of residential mortgages

The following table shows criticised loans for the total residential mortgages portfolio analysed between owner-occupier and buy-to-let. Criticised loans include watch, vulnerable and impaired loans.

	2013			2012		
	Owner-Occupier € m	**Buy-to-Let € m**	**Total € m**	Owner-Occupier € m	Buy-to-Let € m	Total € m
Satisfactory	**11,680**	**2,181**	**13,861**	12,732	2,954	15,686
Watch	**1,689**	**419**	**2,108**	1,511	438	1,949
Vulnerable	**1,318**	**683**	**2,001**	952	608	1,560
Impaired	**2,019**	**3,104**	**5,123**	1,768	2,793	4,561
Criticised	**5,026**	**4,206**	**9,232**	4,231	3,839	8,070
Gross mortgages	**16,706**	**6,387**	**23,093**	16,963	6,793	23,756
	%	**%**	**%**	%	%	%
Criticised loans as % of total mortgages	**30**	**66**	**40**	25	57	34
Impaired loans as % of total mortgages	**12**	**49**	**22**	10	41	19

* Forms an integral part of the audited financial statements.

Additional information on credit risk *

3.1 Credit risk *(continued)*

Fair value of residential mortgage collateral

The following tables show the fair value (FV) of collateral held for residential mortgages at 31 December 2013 and 31 December 2012:

				2013
Fully collateralised(1)	**Neither past due nor impaired € m**	**Past due but not impaired € m**	**Impaired € m**	**Total € m**
Loan-to-value ratio:				
Less than 50%	**2,833**	**156**	**215**	**3,204**
50%-70%	**2,686**	**143**	**279**	**3,108**
71%-80%	**1,826**	**81**	**237**	**2,144**
81%-90%	**1,664**	**78**	**273**	**2,015**
91%-100%	**1,627**	**72**	**311**	**2,010**
	10,636	**530**	**1,315**	**12,481**
Partially collateralised				
Collateral value relating to loans over 100% LTV	**5,090**	**289**	**2,721**	**8,100**
Total collateral value	**15,726**	**819**	**4,036**	**20,581**
Gross residential mortgages	**17,061**	**909**	**5,123**	**23,093**
Statement of financial position specific provisions			**(1,972)**	**(1,972)**
Statement of financial position IBNR provisions				**(329)**
Net residential mortgages				**20,792**

* Forms an integral part of the audited financial statements.

Additional information on credit risk *

Fair value of residential mortgage collateral *(continued)*

				2012
Fully collateralised[(1)]	Neither past due nor impaired € m	Past due but not impaired € m	Impaired € m	Total € m
Loan-to-value ratio:				
Less than 50%	2,631	122	171	2,924
50%-70%	2,536	129	217	2,882
71%-80%	1,496	73	170	1,739
81%-90%	1,715	70	207	1,992
91%-100%	1,542	58	259	1,859
	9,920	452	1,024	11,396
Partially collateralised				
Collateral value relating to loans over 100% LTV	6,311	329	2,388	9,028
Total collateral value	16,231	781	3,412	20,424
Gross residential mortgages	18,276	919	4,561	23,756
Statement of financial position specific provisions			(1,774)	(1,774)
Statement of financial position IBNR provisions				(234)
Net residential mortgages				21,748

(1) The fair value of collateral held for residential mortgages which are fully collateralised has been capped at the carrying value of the loans outstanding at each year end.

* Forms an integral part of the audited financial statements.

Additional information on credit risk *

Arrears profile of mortgages which were past due but not impaired

Residential mortgages are assessed for impairment if they are past due, typically, for more than 90 days or if the borrower exhibits an inability to meet its obligations to AIB based on objective evidence of loss events (“impairment triggers”), such as a request for a forbearance measure. Loans are deemed impaired where their carrying value is shown to be in excess of the present value of future cash flows, and an appropriate provision is raised. Where loans are not deemed to be impaired, they are collectively assessed as part of the IBNR provision calculation.

The following tables profile the residential mortgage portfolio that was past due but not impaired at 31 December 2013 and 31 December 2012:

			2013
	Owner – Occupier	**Buy-to-Let**	**Total**
	€ m	**€ m**	**€ m**
1 - 30 days	**230**	**82**	**312**
31 - 60 days	**111**	**42**	**153**
61 - 90 days	**78**	**31**	**109**
91 - 180 days	**116**	**57**	**173**
181 - 365 days	**66**	**44**	**110**
Over 365 days	**26**	**26**	**52**
Total past due but not impaired	**627**	**282**	**909**

			2012
	Owner – Occupier	Buy-to-Let	Total
	€ m	€ m	€ m
1 - 30 days	269	115	384
31 - 60 days	117	67	184
61 - 90 days	70	37	107
91 - 180 days	75	60	135
181 - 365 days	39	34	73
Over 365 days	15	21	36
Total past due but not impaired	585	334	919

The amount of loans past due but not impaired at 31 December 2013 decreased marginally in comparison to 31 December 2012, driven by a decrease in loans in arrears for less than 90 days partly offset by an increase in loans greater than 90 days in arrears.

* Forms an integral part of the audited financial statements.

Additional information on credit risk *

Arrears profile of mortgages which were impaired

The following tables profile the residential mortgage portfolio that was impaired at 31 December 2013 and 31 December 2012:

	Owner – Occupier	Buy-to-Let	Total
			2013
	€ m	**€ m**	**€ m**
Not past due	**359**	**718**	**1,077**
1 - 30 days	**79**	**135**	**214**
31 - 60 days	**78**	**113**	**191**
61 - 90 days	**73**	**105**	**178**
91 - 180 days	**242**	**269**	**511**
181 - 365 days	**363**	**439**	**802**
Over 365 days	**825**	**1,325**	**2,150**
Total impaired	**2,019**	**3,104**	**5,123**

	Owner – Occupier	Buy-to-Let	Total
			2012
	€ m	€ m	€ m
Not past due	469	871	1,340
1 - 30 days	106	145	251
31 - 60 days	84	137	221
61 - 90 days	64	84	148
91 - 180 days	185	251	436
181 - 365 days	255	390	645
Over 365 days	605	915	1,520
Total impaired	1,768	2,793	4,561

Impaired loans increased by €562m in 2013. However, the pace of increase in impaired loans slowed significantly in 2013 in comparison to 2012, driven by an improved economic environment, including an increase in private rents and increases in residential property values. Of the residential mortgage portfolio that was impaired at 31 December 2013, €1,077m or 21% was not past due (31 December 2012: €1,340m or 30%), of which €521m (31 December 2012: €827m) was subject to forbearance measures at 31 December 2013 and were deemed to be impaired as part of their assessment for a forbearance solution.

* Forms an integral part of the audited financial statements.

Additional information on credit risk *

Forbearance

AIB has developed a Mortgage Arrears Resolution Strategy ('MARS') for dealing with mortgage customers in difficulty or likely to be in difficulty which builds on and formalises AIB Group's Mortgage Arrears Resolution Process. The core objectives of MARS are to ensure that arrears solutions are sustainable in the long-term and that they comply with the spirit and the letter of all regulatory requirements. MARS includes long-term forbearance solutions which have been devised to assist existing primary residential mortgage customers in difficulty.

The following table analyses the movement in stock of loans subject to forbearance by (i) owner-occupier, (ii) buy-to-let and (iii) total residential mortgages at 31 December 2013 and 31 December 2012:

Residential owner-occupier mortgages – subject to forbearance

		2013		2012
	Number	**Balance €m**	Number	Balance €m
At 1 January	**10,025**	**1,927**	11,353	2,249
Additions	**2,466**	**443**	2,885	530
Expired arrangements	**(3,471)**	**(671)**	(3,996)	(790)
Payments	**-**	**(61)**	-	(54)
Interest	**-**	**13**	-	18
Closed accounts [(1)]	**(192)**	**(18)**	(174)	(21)
Other movements	**(35)**	**(1)**	(43)	(5)
At 31 December	**8,793**	**1,632**	10,025	1,927

Buy-to-let mortgages – subject to forbearance

		2013		2012
	Number	**Balance €m**	Number	Balance €m
At 1 January	**7,899**	**1,950**	7,727	1,921
Additions	**1,844**	**387**	2,559	581
Expired arrangements	**(2,143)**	**(496)**	(2,341)	(507)
Payments	**-**	**(68)**	-	(51)
Interest	**-**	**15**	-	18
Closed accounts [(1)]	**(120)**	**(22)**	(89)	(17)
Other movements	**35**	**1**	43	5
At 31 December	**7,515**	**1,767**	7,899	1,950

Total mortgage portfolio – subject to forbearance

		2013		2012
	Number	**Balance €m**	Number	Balance €m
At 1 January	**17,924**	**3,877**	19,080	4,170
Additions	**4,310**	**830**	5,444	1,111
Expired arrangements	**(5,614)**	**(1,167)**	(6,337)	(1,297)
Payments	**-**	**(129)**	-	(105)
Interest	**-**	**28**	-	36
Closed accounts [(1)]	**(312)**	**(40)**	(263)	(38)
Other movements	**-**	**-**	-	-
At 31 December	**16,308**	**3,399**	17,924	3,877

[(1)] Accounts closed during the year due primarily to customer repayments and redemptions.
* Forms an integral part of the audited financial statements.

Additional information on credit risk *

Forbearance *(continued)*

The stock of loans subject to forbearance measures decreased by €478m in 2013 (2012: decrease of €293m) due to the expiry of short-term forbearance arrangements (mainly periods of interest only) which were not matched by new arrangements in the period. This reduction reflects the immediate impact of AIB's strategy to ensure the forbearance solutions agreed with customers are sustainable in the long term. Consequently, while the number of expired arrangements was similar for each year, fewer arrangements were granted in 2013 compared to 2012.

The following tables further analyse by type of forbearance, (i) owner-occupier, (ii) buy-to-let and (iii) total residential mortgages that were subject to forbearance measures at 31 December 2013 and 31 December 2012:

Residential owner-occupier mortgages

						2013
			Loans >90 days in arrears and/or impaired		**Loans neither >90 days in arrears nor impaired**	
	Number	**Total Balance € m**	**Number**	**Balance € m**	**Number**	**Balance € m**
Interest only	**1,359**	**285**	**642**	**151**	**717**	**134**
Reduced payment (greater than interest only)	**1,401**	**319**	**863**	**220**	**538**	**99**
Payment moratorium	**162**	**30**	**39**	**7**	**123**	**23**
Arrears capitalisation	**3,372**	**678**	**2,436**	**546**	**936**	**132**
Term extension	**2,421**	**310**	**226**	**35**	**2,195**	**275**
Other	**78**	**10**	**43**	**6**	**35**	**4**
Total	**8,793**	**1,632**	**4,249**	**965**	**4,544**	**667**

						2012
			Loans >90 days in arrears and/or impaired		Loans neither >90 days in arrears nor impaired	
	Number	Total Balance € m	Number	Balance € m	Number	Balance € m
Interest only	4,089	839	1,905	464	2,184	375
Reduced payment (greater than interest only)	1,547	350	805	215	742	135
Payment moratorium	563	95	225	43	338	52
Arrears capitalisation	1,750	373	1,109	276	641	97
Term extension	2,075	269	87	11	1,988	258
Other	1	1	-	-	1	1
Total	10,025	1,927	4,131	1,009	5,894	918

* Forms an integral part of the audited financial statements.

Additional information on credit risk *

Forbearance *(continued)*

Buy-to-let mortgages

2013

	Number	**Total Balance € m**	**Loans >90 days in arrears and/or impaired Number**	**Loans >90 days in arrears and/or impaired Balance € m**	**Loans neither >90 days in arrears nor impaired Number**	**Loans neither >90 days in arrears nor impaired Balance € m**
Interest only	**2,790**	**686**	**1,933**	**512**	**857**	**174**
Reduced payment (greater than interest only)	**1,071**	**241**	**686**	**158**	**385**	**83**
Payment moratorium	**79**	**17**	**67**	**15**	**12**	**2**
Arrears capitalisation	**2,848**	**723**	**2,539**	**670**	**309**	**53**
Term extension	**704**	**98**	**120**	**20**	**584**	**78**
Other	**23**	**2**	**15**	**1**	**8**	**1**
Total	**7,515**	**1,767**	**5,360**	**1,376**	**2,155**	**391**

2012

	Number	Total Balance € m	Loans >90 days in arrears and/or impaired Number	Loans >90 days in arrears and/or impaired Balance € m	Loans neither >90 days in arrears nor impaired Number	Loans neither >90 days in arrears nor impaired Balance € m
Interest only	4,562	1,157	2,774	789	1,788	368
Reduced payment (greater than interest only)	880	211	505	126	375	85
Payment moratorium	64	15	37	9	27	6
Arrears capitalisation	1,777	474	1,469	417	308	57
Term extension	616	93	66	14	550	79
Total	7,899	1,950	4,851	1,355	3,048	595

*Forms an integral part of the audited financial statements.

Additional information on credit risk *

Forbearance *(continued)*

Total mortgage portfolio

						2013
			Loans >90 days in arrears and/or impaired		**Loans neither >90 days in arrears nor impaired**	
	Number	**Total Balance € m**	**Number**	**Balance € m**	**Number**	**Balance € m**
Interest only	**4,149**	**971**	**2,575**	**663**	**1,574**	**308**
Reduced payment (greater than interest only)	**2,472**	**560**	**1,549**	**378**	**923**	**182**
Payment moratorium	**241**	**47**	**106**	**22**	**135**	**25**
Arrears capitalisation	**6,220**	**1,401**	**4,975**	**1,216**	**1,245**	**185**
Term extension	**3,125**	**408**	**346**	**55**	**2,779**	**353**
Other (1)	**101**	**12**	**58**	**7**	**43**	**5**
Total	**16,308**	**3,399**	**9,609**	**2,341**	**6,699**	**1,058**

						2012
			Loans >90 days in arrears and/or impaired		Loans neither >90 days in arrears nor impaired	
	Number	Total Balance € m	Number	Balance € m	Number	Balance € m
Interest only	8,651	1,996	4,679	1,253	3,972	743
Reduced payment (greater than interest only)	2,427	561	1,310	341	1,117	220
Payment moratorium	627	110	262	52	365	58
Arrears capitalisation	3,527	847	2,578	693	949	154
Term extension	2,691	362	153	25	2,538	337
Other	1	1	-	-	1	1
Total	17,924	3,877	8,982	2,364	8,942	1,513

(1) For owner-occupier mortgages, mainly comprises voluntary sale for loss and split mortgage solutions. For Buy-to-let mortgages, comprises voluntary sale for loss solutions only.

The stock of loans subject to forbearance measures decreased by €478m in 2013, driven by AIB's strategy to ensure the forbearance solutions agreed with customers are sustainable in the long-term. In particular, the stock of interest only forbearance loans reduced by 51% to €971m in 2013. 41% of the loans subject to forbearance measures at 31 December 2013 are loans on which arrears have been capitalised. These loans, along with Term Extensions, remain within the stock of forbearance for a period of 5 years. The increase in the stock of loans on arrears capitalisation in 2013 includes some customers whose interest only arrangement had expired at 31 December 2013 but who received a capitalisation of arrears at some time over the last 5 years.

* Forms an integral part of the audited financial statements.

Additional information on credit risk *

Forbearance *(continued)*

Credit profile of residential mortgages in forbearance

Forbearance stock - past due but not impaired

All loans that are assessed for a forbearance solution are tested for impairment either individually or collectively, irrespective of whether such loans are past due or not. Where the loans are deemed not to be impaired, they are collectively assessed as part of the IBNR provision calculation.

The following table profiles the residential mortgage portfolio that was subject to forbearance measures and which was past due but not impaired at 31 December 2013 and 31 December 2012:

			2013
	Owner – Occupier	**Buy-to-Let**	**Total**
	€ m	**€ m**	**€ m**
1 - 30 days	**52**	**20**	**72**
31 - 60 days	**33**	**11**	**44**
61 - 90 days	**24**	**11**	**35**
91 - 180 days	**44**	**20**	**64**
181 - 365 days	**32**	**14**	**46**
Over 365 days	**14**	**11**	**25**
Total past due but not impaired	**199**	**87**	**286**

			2012
	Owner – Occupier	Buy-to-Let	Total
	€ m	€ m	€ m
1 - 30 days	67	30	97
31 - 60 days	36	20	56
61 - 90 days	31	12	43
91 - 180 days	40	24	64
181 - 365 days	21	12	33
Over 365 days	8	10	18
Total past due but not impaired	203	108	311

8% of the residential mortgage portfolio that was subject to forbearance measures was past due but not impaired at 31 December 2013 and 31 December 2012.

* Forms an integral part of the audited financial statements.

Additional information on credit risk *

Forbearance *(continued)*

Credit profile of residential mortgages in forbearance *(continued)*

Forbearance stock – impaired

The following table profiles the residential mortgage portfolio that was subject to forbearance measures and which was impaired at 31 December 2013 and 31 December 2012:

			2013
	Owner – Occupier	**Buy-to-Let**	**Total**
	€ m	**€ m**	**€ m**
Not past due	**173**	**348**	**521**
1 - 30 days	**44**	**71**	**115**
31 - 60 days	**39**	**56**	**95**
61 - 90 days	**38**	**59**	**97**
91 - 180 days	**131**	**136**	**267**
181 - 365 days	**175**	**208**	**383**
Over 365 days	**275**	**453**	**728**
Total impaired	**875**	**1,331**	**2,206**

			2012
	Owner – Occupier	Buy-to-Let	Total
	€ m	€ m	€ m
Not past due	319	508	827
1 - 30 days	77	89	166
31 - 60 days	58	83	141
61 - 90 days	36	50	86
91 - 180 days	109	132	241
181 - 365 days	132	192	324
Over 365 days	209	255	464
Total impaired	940	1,309	2,249

Whilst the amount of impaired loans subject to forbearance decreased marginally in 2013, there was an increase in the proportion of the portfolio that was impaired from 58% at 31 December 2012 to 65% at 31 December 2013, driven by an increase in impaired loans in arrears for more than 90 days. The proportion of forborne impaired loans that were not past due decreased from 37% at 31 December 2012 to 24% at 31 December 2013.

Statement of financial position specific provisions of €0.8bn were held against the forborne portfolio at 31 December 2013, providing cover of 37.6%, while the income statement specific provision charge was €0.1bn for 2013.

* Forms an integral part of the audited financial statements.

Additional information on credit risk *

Forbearance *(continued)*

Analysis by Loan-to-value ('LTV') of residential mortgages in forbearance

The following table profiles the residential mortgage portfolio that was subject to forbearance measures by the indexed loan-to value ratios at 31 December 2013 and 31 December 2012:

			2013
	Owner – Occupier	**Buy-to-Let**	**Total**
	€ m	**€ m**	**€ m**
Less than 50%	**211**	**65**	**276**
50% - 70%	**219**	**93**	**312**
71% - 80%	**139**	**77**	**216**
81% - 90%	**127**	**95**	**222**
91% - 100%	**122**	**111**	**233**
101% -120%	**272**	**269**	**541**
121% - 150%	**318**	**467**	**785**
Greater than 150%	**224**	**590**	**814**
Total forbearance	**1,632**	**1,767**	**3,399**

			2012
	Owner – Occupier	Buy-to-Let	Total
	€ m	€ m	€ m
Less than 50%	214	64	278
50% - 70%	220	98	318
71% - 80%	143	71	214
81% - 90%	148	80	228
91% - 100%	143	112	255
101% -120%	292	284	576
121% - 150%	377	437	814
Greater than 150%	390	804	1,194
Total forbearance	1,927	1,950	3,877

The degree of negative equity in the residential mortgage portfolio that was subject to forbearance measures at 31 December 2013 has reduced to 50% of the owner-occupier and 75% of the buy-to-let mortgages compared to 55% and 78% respectively at 31 December 2012, due primarily to the increase in property prices in 2013.

* Forms an integral part of the audited financial statements.

Additional information on credit risk *

Repossessions

For the purpose of the following tables, the number of repossessed residential properties relates to those held as security for residential mortgages only. A property is considered repossessed when legal title has transferred to AIB. AIB seeks to avoid repossession through working with customers, but where agreement cannot be reached, AIB proceeds to repossession of the property or the appointment of a fixed asset receiver, using external agents to realise the maximum value as soon as is practicable. Where AIB believes that the sale proceeds of a repossessed property will comprise only part of the recoverable amount of the loan against which it was being held as security, the customer remains liable for the outstanding balance.

The number (stock) of repossessions as at 31 December 2013 and 31 December 2012 is set out below:

	2013		2012	
	Stock of repossessions	**Balance outstanding €m**	Stock of repossessions	Balance outstanding €m
Owner-occupier	**23**	**6**	23	6
Buy-to-let	**40**	**10**	37	10
Total	**63**	**16**	60	16

The increase in the stock of repossessed properties in 2013 relates to 40 properties repossessed offset by 37 disposals.

The following tables analyse the disposals of repossessed properties during the years 31 December 2013 and 31 December 2012:

						2013
	Number of Disposals	**Balance outstanding at repossession € m**	**Gross sales proceeds € m**	**Costs to sell € m**	**Loss on sale[(1)] € m**	**Average LTV at sale price %**
Owner-occupier	**17**	**5**	**3**	**-**	**3**	**200%**
Buy-to-let	**20**	**6**	**2**	**-**	**4**	**295%**
Total residential	**37**	**11**	**5**	**-**	**7**	**245%**

						2012
	Number of Disposals	Balance outstanding at repossession € m	Gross sales proceeds € m	Costs to sell € m	Loss on sale[(1)] € m	Average LTV at sale price %
Owner-occupier	8	2	1	-	1	211%
Buy-to-let	9	4	1	-	3	357%
Total residential	17	6	2	-	4	279%

[(1)]Before specific impairment provisions.

During the year ended 31 December 2013, the disposal of 37 residential properties resulted in a total loss on sale of €7m compared to 2012 when 17 residential properties were disposed of, resulting in a total loss of €4m. Losses on the sale of repossessed properties are recognised in the Income Statement as part of the specific provision charge.

* Forms an integral part of the audited financial statements.

Additional information on credit risk *

Loan-to-value (LTV) (index linked) 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. The CSO Residential Property Price Index for November 2013 reported that national residential property prices were 46.5% lower than their highest level in early 2007 and reported an annual rise in residential property prices of 5.6% in the year to November 2013.

Actual and average LTV across mortgage portfolios

The following tables profile the residential mortgage portfolio by the indexed loan-to-value ('LTV') ratios and the weighted average indexed LTV ratios at 31 December 2013 and 31 December 2012:

			2013
	Owner – Occupier	**Buy-to-Let**	**Total**
	€ m	**€ m**	**€ m**
Less than 50%	**2,675**	**529**	**3,204**
50% - 70%	**2,517**	**591**	**3,108**
71% - 80%	**1,749**	**395**	**2,144**
81% - 90%	**1,577**	**438**	**2,015**
91% - 100%	**1,542**	**468**	**2,010**
101% -120%	**2,702**	**1,009**	**3,711**
121% - 150%	**2,590**	**1,402**	**3,992**
Greater than 150%	**1,354**	**1,555**	**2,909**
Total	**16,706**	**6,387**	**23,093**
Weighted average indexed LTV			
Stock of residential mortgages at year end	**91%**	**119%**	**99%**
New residential mortgages during year	**72%**	**62%**	**71%**
Impaired mortgages	**118%**	**142%**	**132%**

* Forms an integral part of the audited financial statements.

Additional information on credit risk *

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

Actual and average LTV across mortgage portfolios *(continued)*

			2012
	Owner – Occupier	Buy-to-Let	Total
	€ m	€ m	€ m
Less than 50%	2,462	462	2,924
50% - 70%	2,311	571	2,882
71% - 80%	1,357	382	1,739
81% - 90%	1,572	420	1,992
91% - 100%	1,385	474	1,859
101% -120%	2,751	1,031	3,782
121% - 150%	2,958	1,436	4,394
Greater than 150%	2,167	2,017	4,184
Total	16,963	6,793	23,756
Weighted average indexed LTV(1):			
Stock of residential mortgages at year end	99%	126%	107%
New residential mortgages during year	77%	60%	76%
Impaired mortgages	125%	149%	140%

(1)Weighted average indexed LTV's are the individual indexed LTV calculations weighted by the mortgage balance against each property.

40% of the total owner-occupier and 62% of the total buy-to-let mortgages were in negative equity at 31 December 2013, compared to 46% and 66% respectively at 31 December 2012. The weighted average indexed loan-to-value for the total residential mortgage book was 99% at 31 December 2013 compared to 107% at 31 December 2012, with the reduction driven primarily by the increase in property prices in 2013, coupled with amortisation of the loan book.

*Forms an integral part of the audited financial statements.

Additional information on credit risk *

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

Neither past due nor impaired

The following tables profile the residential mortgage portfolio that was neither past due nor impaired by the indexed loan to value ratios at 31 December 2013 and 31 December 2012.

			2013
	Owner – Occupier	**Buy-to-Let**	**Total**
	€ m	**€ m**	**€ m**
Less than 50%	**2,422**	**411**	**2,833**
50% - 70%	**2,250**	**436**	**2,686**
71% - 80%	**1,562**	**264**	**1,826**
81% - 90%	**1,380**	**284**	**1,664**
91% - 100%	**1,345**	**282**	**1,627**
101% -120%	**2,265**	**503**	**2,768**
121% - 150%	**1,991**	**521**	**2,512**
Greater than 150%	**845**	**300**	**1,145**
Total	**14,060**	**3,001**	**17,061**

			2012
	Owner – Occupier	Buy-to-Let	Total
	€ m	€ m	€ m
Less than 50%	2,256	375	2,631
50% - 70%	2,093	443	2,536
71% - 80%	1,212	284	1,496
81% - 90%	1,409	306	1,715
91% - 100%	1,223	319	1,542
101% -120%	2,398	598	2,996
121% - 150%	2,448	695	3,143
Greater than 150%	1,571	646	2,217
Total	14,610	3,666	18,276

The proportion of residential mortgages that were neither past due nor impaired and in negative equity at 31 December 2013 decreased in comparison to 31 December 2012, reflecting the increases in residential property prices in the period, coupled with amortisation of the loan book. 38% of residential mortgages that were neither past due nor impaired were in negative equity at 31 December 2013 compared to 46% at 31 December 2012.

* Forms an integral part of the audited financial statements.

Additional information on credit risk *

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

Past due but not impaired

The following tables profile the residential mortgage portfolio that was past due but not impaired at 31 December 2013 and 31 December 2012.

			2013
	Owner – Occupier	**Buy-to-Let**	**Total**
	€ m	**€ m**	**€ m**
Less than 50%	**127**	**29**	**156**
50% - 70%	**112**	**31**	**143**
71% - 80%	**61**	**20**	**81**
81% - 90%	**59**	**19**	**78**
91% - 100%	**46**	**26**	**72**
101% - 120%	**87**	**46**	**133**
121% - 150%	**91**	**56**	**147**
Greater than 150%	**44**	**55**	**99**
Total	**627**	**282**	**909**

			2012
	Owner – Occupier	Buy-to-Let	Total
	€ m	€ m	€ m
Less than 50%	100	22	122
50% - 70%	100	29	129
71% - 80%	53	20	73
81% - 90%	44	26	70
91% - 100%	38	20	58
101% -120%	73	49	122
121% - 150%	93	71	164
Greater than 150%	84	97	181
Total	585	334	919

Of the residential mortgages that were past due but not impaired at 31 December 2013, 35% of owner-occupier and 56% of buy-to-let mortgages were in negative equity (31 December 2012: 43% and 65% respectively). In terms of the total portfolio that was past due but not impaired, 42% was in negative equity at 31 December 2013 (31 December 2012: 51%).

* Forms an integral part of the audited financial statements.

Additional information on credit risk *

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

Greater than 90 days past due and/or impaired

The following tables profile the residential mortgage portfolio that was greater than 90 days past due and/or impaired by the indexed LTV ratios at 31 December 2013 and 31 December 2012.

			2013
	Owner – Occupier	**Buy-to-Let**	**Total**
	€ m	**€ m**	**€ m**
Less than 50%	**180**	**104**	**284**
50% - 70%	**205**	**138**	**343**
71% - 80%	**145**	**119**	**264**
81% - 90%	**160**	**144**	**304**
91% - 100%	**161**	**169**	**330**
101% -120%	**372**	**476**	**848**
121% - 150%	**528**	**849**	**1,377**
Greater than 150%	**477**	**1,231**	**1,708**
Total	**2,228**	**3,230**	**5,458**

			2012
	Owner – Occupier	Buy-to-Let	Total
	€ m	€ m	€ m
Less than 50%	136	71	207
50% - 70%	142	111	253
71% - 80%	101	83	184
81% - 90%	127	95	222
91% - 100%	133	140	273
101% -120%	295	400	695
121% - 150%	431	690	1,121
Greater than 150%	532	1,318	1,850
Total	1,897	2,908	4,805

The proportion of residential mortgages that were greater than 90 days past due and/or impaired and in negative equity at 31 December 2013 (72%) decreased in comparison to 31 December 2012 (76%), reflecting the increases in residential property prices in the period.

* Forms an integral part of the audited financial statements.

Additional information on credit risk *

Residential Mortgages by year of origination

The following tables profile the residential mortgage portfolio and impaired residential mortgage portfolio at 31 December 2013 and 2012 by year of origination.

				2013
	Mortgage portfolio		Impaired mortgage portfolio	
	Number	Balance € m	Number	Balance € m
1996 and before	**2,604**	**38**	**296**	**7**
1997	**1,113**	**25**	**137**	**4**
1998	**1,595**	**57**	**232**	**11**
1999	**2,447**	**97**	**301**	**20**
2000	**3,145**	**156**	**401**	**32**
2001	**3,489**	**211**	**394**	**33**
2002	**5,891**	**478**	**752**	**87**
2003	**9,104**	**930**	**1,340**	**196**
2004	**12,498**	**1,529**	**2,048**	**363**
2005	**16,427**	**2,413**	**3,237**	**682**
2006	**20,838**	**3,824**	**4,786**	**1,234**
2007	**19,539**	**3,781**	**4,222**	**1,163**
2008	**18,476**	**3,581**	**3,109**	**908**
2009	**12,895**	**2,215**	**1,190**	**296**
2010	**7,919**	**1,295**	**288**	**72**
2011	**3,703**	**593**	**68**	**14**
2012	**6,536**	**1,064**	**10**	**1**
2013	**5,045**	**806**	**-**	**-**
Total	**153,264**	**23,093**	**22,811**	**5,123**

* Forms an integral part of the audited financial statements.

Additional information on credit risk *

Residential Mortgages by year of origination *(continued)*

	2012			
	Mortgage portfolio		Impaired mortgage portfolio	
	Number	Balance € m	Number	Balance € m
1996 and before	3,072	52	287	6
1997	1,207	32	137	4
1998	1,986	69	217	11
1999	2,646	117	263	17
2000	3,363	184	344	30
2001	3,709	238	344	31
2002	6,202	539	632	78
2003	9,870	1,031	1,166	178
2004	12,904	1,657	1,742	327
2005	16,899	2,593	2,806	623
2006	21,220	4,034	4,109	1,110
2007	19,880	4,007	3,531	1,029
2008	18,832	3,775	2,539	789
2009	13,222	2,349	932	255
2010	8,091	1,365	233	62
2011	3,770	621	48	11
2012	6,629	1,093	-	-
Total	153,502	23,756	19,330	4,561

The majority (€13.6bn or 59%) of the €23.1bn residential mortgage portfolio originated between 2005 and 2008, of which 29% (€4.0bn) was impaired at 31 December 2013 driven by reduced household income and increased unemployment in the last number of years, and reflecting the decrease in property prices since their peak in 2007. 15% of the residential mortgage portfolio originated before 2005 of which 21% was impaired at 31 December 2013, while the remaining 26% of the portfolio was originated since 2009 of which 6% was impaired at 31 December 2013.

Further information on credit risk

- Further information on credit risk can be found in the notes to the financial statements.
- Derivative financial instruments *(note 8).*
- Loans and receivables to banks *(note10).*
- Loans and receivables to customers *(note 11).*
- Provisions for impairment of loans and receivables *(note 11).*

* Forms an integral part of the audited financial statements.

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.

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
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 Bank's Mortgage Covered Securities, to repay any short term borrowings under the MBPN Facility and to lend to mortgage customers in accordance with outstanding offer letters. It is the Bank's policy to ensure that resources are available at all times to meet its obligations.

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 consolidated 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 first (0-8 days) and the second (8-31 days) time bands and monitoring ratios will be calculated for subsequent time bands.

On a day-to-day basis, the Bank meets its residual funding requirements through borrowing facilities in place with Allied Irish Banks p.l.c. and with the Central Bank of Ireland. 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.

In accordance with CRR requirements, the Bank has appointed AIB as its liquidity manager to fulfil daily cashflow management, oversee any changes required in liquidity management or reporting and manage the Bank's liquidity risk as part of the overall AIB liquidity risk management process. The means by which these liquidity management activities are performed, and the procedures by which AIB ensures the Bank complies with Group Liquidity Policy are managed through an Outsourcing and Agency Agreement.

*Forms an integral part of the audited financial statements.

Risk Management Report

Liquidity risk *(continued)*

Financial liabilities by contractual maturity*

						2013
	Repayable on demand € m	**3 months or less but not repayable on demand € m**	**1 year or less but over 3 months € m**	**5 years or less but over 1 year € m**	**Over 5 years € m**	**Total € m**
Deposits by Banks	**15,783**	**1,100**				**16,883**
Derivative financial instruments					**3**	**3**
Debt securities in issue				**3,419**	**103**	**3,522**
Accruals and deferred income	**3**	**1**	**54**			**58**
Subordinated liabilities					**300**	**300**
Total	**15,786**	**1,101**	**54**	**3,419**	**406**	**20,766**
Commitments	**-**	**-**	**221**	**-**	**-**	**221**

						2012
	Repayable on demand € m	3 months or less but not repayable on demand € m	1 year or less but over 3 months € m	5 years or less but over 1 year € m	Over 5 years € m	Total € m
Deposits by Banks	11,918	5,005	-	-	-	16,923
Derivative financial instruments	68	-	-	-	4	72
Debt securities in issue	-	-	2,012	2,498	108	4,618
Accruals and deferred income	2	4	69	-	-	75
Subordinated liabilities	-	-	-	-	300	300
Total	11,988	5,009	2,081	2,498	412	21,988
Commitments	-	-	230	-	-	230

*Forms an integral part of the audited financial statements.

3.3 Operational risk*

Operational risk is the current or prospective risk of loss arising from inadequate or failed internal processes or systems, human error or external events. As such, operational risk encompasses a very broad range of sources of potential financial loss which the Bank actively seeks to mitigate, transfer and control including for instance, business continuity, fraud, outsourcing and technology risks.

AIB Group Operational Risk is responsible for supporting the Bank in the management of Operational Risk. The core focus of Operational risk management in the Bank is the oversight of outsourced service activities related to the requirements of the ACS Act, third party relationship management, business continuity management, fraud prevention, maintenance of efficient business process and operating practices, employee development and key person risk.

An element of AIB Mortgage Bank's Operational Risk framework is the 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.

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.

*Forms an integral part of the audited financial statements.

Risk Management Report

Non-trading interest rate risk *(continued*)
Interest rate swaps are used solely for risk management and not trading purposes.

The nominal values of the swaps are set out in note 8, to the financial statements.

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 2013 is illustrated in the following table;

	0≤1mth	1≤3mths	3≤12mths	1≤2yrs	2≤3yrs	3≤4yrs	4≤5yrs	5yrs+	Rate Insensitive	Total
Assets	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Loans and receivables to customers	**21,280**	**296**	**593**	**479**	**321**	**36**	**38**	**50**	**(2,301)**	**20,792**
Loans and receivables to bank	**463**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**463**
Derivatives and other financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**310**	**310**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**241**	**241**
Total Assets	**21,743**	**296**	**593**	**479**	**321**	**36**	**38**	**50**	**(1,750)**	**21,806**
Liabilities										
Deposits by banks	**16,883**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**16,883**
Derivatives and other financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**3**
Debt issued	**-**	**-**	**-**	**500**	**500**	**1,675**	**500**	**90**	**257**	**3,522**
Subordinated liabilities	**300**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**300**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**58**	**58**
Shareholders' equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,040**	**1,040**
Total Liabilities	**17,183**	**-**	**-**	**500**	**500**	**1,675**	**500**	**90**	**1,358**	**21,806**
Derivatives financial instruments (interest rate swaps)										
Floating rate interest receivable	**23,337**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**23,337**
Floating rate interest payable	**(21,524)**	**(296)**	**(593)**	**(479)**	**(321)**	**(36)**	**(38)**	**(50)**	**-**	**(23,337)**
Floating rate interest payable	**(3,265)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,265)**
Floating rate interest receivable	**-**	**-**	**-**	**500**	**500**	**1,675**	**500**	**90**	**-**	**3,265**
Total derivatives	**(1,452)**	**(296)**	**(593)**	**21**	**179**	**1,639**	**462**	**40**	**-**	**-**
Interest sensitivity gap	**3,108**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,108)**	**-**
Cumulative interest sensitivity gap	**3,108**	**3,108**	**3,108**	**3,108**	**3,108**	**3,108**	**3,108**	**3,108**	**-**	**-**

The impact on net interest income over a twelve month period of a 100 basis point ("bp") downward/ upward movement in interest rates on 31 December 2013 would be circa €369k/ €395k respectively.

*Forms an integral part of the audited financial statements.

Risk Management Report

Interest Rate Sensitivity* *(continued)*

Interest Rate Sensitivity analysis for the Bank at 31 December 2012 is as follows:

Assets	**0≤1mth € m**	**1≤3mths € m**	**3≤12mths € m**	**1≤2yrs € m**	**2≤3yrs € m**	**3≤4yrs € m**	**4≤5yrs € m**	**5yrs+ € m**	**Rate Insensitive € m**	**Total € m**
Loans and receivables to customers	21,310	286	824	642	401	204	32	56	(2,008)	21,748
Loans and receivables to bank	498	-	-	-	-	-	-	-	-	498
Derivatives and other financial instruments	-	-	-	-	-	-	-	-	421	421
Other assets	-	-	-	-	-	-	-	-	246	246
Total Assets	21,808	286	824	642	401	204	32	56	(1,341)	22,912
Liabilities										
Deposits by banks	16,923	-	-	-	-	-	-	-	-	16,923
Derivatives and other financial instruments	-	-	-	-	-	-	-	-	72	72
Debt issued	1,000	-	1,000	-	500	-	1,675	90	353	4,618
Subordinated liabilities	300	-	-	-	-	-	-	-	-	300
Other liabilities	-	-	-	-	-	-	-	-	75	75
Shareholders' equity	-	-	-	-	-	-	-	-	924	924
Total Liabilities	18,223	-	1,000	-	500	-	1,675	90	1,424	22,912
Derivatives financial instruments (interest rate swaps)										
Floating rate interest receivable	23,900	-	-	-	-	-	-	-	-	23,900
Floating rate interest payable	(21,455)	(286)	(824)	(642)	(401)	(204)	(32)	(56)	-	(23,900)
Floating rate interest payable	(3,265)	-	-	-	-	-	-	-	-	(3,265)
Floating rate interest receivable	-	-	1,000	-	500	-	1,675	90	-	3,265
Total derivatives	(820)	(286)	176	(642)	99	(204)	1,643	34	-	-
Interest sensitivity gap	2,765	-	-	-	-	-	-	-	(2,765)	-
Cumulative interest sensitivity gap	2,765	2,765	2,765	2,765	2,765	2,765	2,765	2,765	-	-

*Forms an integral part of the audited financial statements.

Independent Auditors Report

Independent Auditors Report to the Members of AIB Mortgage Bank

We have audited the financial statements (''financial statements'') of AIB Mortgage Bank (the "Company") for the year ended 31 December 2013 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

As explained more fully in the Statement of Directors' Responsibilities set out on page 11 the directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Director's Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 December 2013 and of the loss for the year then ended; and
- have been properly prepared in accordance with the Companies Acts 1963 to 2013.

Matters on which we are required to report by the Companies Acts 1963 to 2013

- 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 Company.
- The financial statements are in agreement with the books of account.
- In our opinion the information given in the directors' report is consistent with the financial statements.

Independent Auditors Report

Independent Auditors Report o the Members of AIB Mortgage Bank *(continued)*

Matters on which we are required to report by the Companies Acts 1963 to 2013 *(continued)*

- The net assets of the company, 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 2013 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 company.

Matters on which we are required to report by exception

We have nothing to report in respect of the provisions in the Companies Acts 1963 to 2013 which require us to report to you if, in our opinion the disclosures of directors' remuneration and transactions specified by law are not made.

John McCarroll
For and on behalf of Deloitte & Touche
Chartered Accountants and Statutory Audit Firm
Dublin

12 March 2014

Accounting policies

The accounting policies applied in the preparation of the financial statements for the year ended 31 December 2013 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 2001 and 2007. 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 maybe 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 'IFRSs') 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 2013. 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 2013, the Asset Covered Securities Acts 2001 and 2007 and the European Communities (Credit Institutions: Accounts) Regulations, 1992 (as amended).

3. Basis of preparation

The financial statements are presented in Euro, which is the functional currency of the Bank, rounded to the nearest million.

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 assets and 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. These notes also include financial instrument related disclosures which are required by IFRS 7 and revised IAS 1, contained in the Risk Management section of the annual financial statements. The relevant information on those pages is identified as forming an integral part of the audited financial statements.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of 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 the circumstances. Since management's judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. The estimates and underlying assumptions are received on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The estimates that have 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; the recoverability of deferred tax and determination of the fair value of certain financial assets and liabilities. In addition, the designation of financial assets and financial liabilities has a significant impact on their income statement treatment and could have a significant impact on reported income. A description of these estimates and judgements is set out in section 13 of the accounting policies.

3. Basis of preparation *(continued)*

Going concern

The financial statements for the year ended 31 December 2013 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting the Bank, that it has the ability to continue in business for the period of assessment. The period of assessment used by the Directors is twelve months from the date of approval of these annual financial statements. The Bank is dependent on its parent Allied Irish Bank p.l.c. for continued funding and is therefore dependent on the going concern of the parent.

In making its assessment, the Directors of AIB Group have considered a wide range of information relating to present and future conditions. These have included financial plans covering the period 2014 to 2016 approved by the Board in December 2013, the restructuring plan submitted to the European Commission in September 2012, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios. In addition, the Directors of AIB Group have considered the commitment of support provided to AIB by the Irish Government. The Directors have also considered the risk factors which could materially affect the Group's future business performance and profitability.

Furthermore, the Directors of AIB Group have considered the outlook for the Irish economy, taking into account such factors as the successful exit by the Irish Government from the three-year bailout programme in December 2013 without a back-up credit line, the forecast expansion of the economy and the forecast fall in unemployment rates, in 2014. The forecast turnaround in the economy is supported by various economic indicators such as a modest growth in economic output and reduced unemployment levels together with increasing consumer confidence and a stabilisation of house prices, particularly in Dublin, during 2013.

The Directors of AIB Group have also considered the outlook for the eurozone and UK economies which are slowly emerging from recession. In the EU, following the sovereign and bank debt crises, the actions taken at an EU level lead to a marked easing of the crises and improvement of conditions in eurozone financial markets since the second half of 2012. The various support measures adopted for the euro since the beginning of 2011 and the pronouncements of the ECB demonstrate the strong commitment of EU institutions and the euro area Member States to do whatever is necessary to preserve the euro. In addition, the UK economy in which the Group has significant interests has returned to growth following a period of stagnation similar to the eurozone.

The Irish Government, as AIB's principal shareholder, has confirmed its recognition of AIB as a 'Pillar Bank', given its key role in supporting the Irish economy. In support of this role, it has ensured that AIB has been sufficiently capitalised to meet the capital targets set by the Central Bank through its 2011 PCAR and PLAR assessment. The Directors of AIB Group 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.

In relation to liquidity and funding, the Directors of AIB Group are satisfied, based on AIB's position as one of the two 'Pillar Banks' 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.

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 AIB, the Directors of AIBMB consider that it is appropriate to prepare the financial statements of AIBMB on a going concern basis at this time.

3. Basis of preparation *(continued)*

Adoption of new accounting standards
The following standards/amendments to standards have been adopted by the Group and the Bank during the year ended 31 December 2013. The impact of these amendments on the financial statements are set out in the Notes to the accounts.

Amendments to IAS 1 *Presentation of Items in Other Comprehensive Income*
These amendments are effective from 1 July 2012. The 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. The adoption of these amendments has resulted in a change in the presentation of other comprehensive income.

IFRS 13 *Fair Value Measurement*
This standard which is effective from 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. The standard 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 is required for both financial and non-financial assets and liabilities. The adoption of this standard has resulted in additional disclosures.

Other amendments, resulting from improvements to IFRSs which the Group adopted in 2013, did not have any impact on the accounting policies, financial position or performance of the Group.

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 or 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 estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The application of the method has the effect of recognising income receivable and expense 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 any expected early redemption, and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

All costs associated with mortgage incentive are included in the effective interest calculation.

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

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

Accounting Policies

Financial assets *(continued)*

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 adjusted for direct and incremental transaction costs 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.

7. 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 and 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. The Bank derecognises a financial liability when its contractual obligation is discharged, cancelled or expired. Any gain or loss on the extinguishment or re-measurement of a financial liability is recognised in profit or loss. Refer to derivatives and hedge accounting, set out within item 8 of this section, for the accounting policy for financial liabilities in a hedge accounting relationship.

8. Derivatives and hedge accounting

Derivatives, such as interest rate swaps, are used only for risk management purposes.

Derivatives

Where derivatives are traded on an exchange, the fair value is based on prices from the exchange. The fair value of over the counter derivative financial instruments is estimated based on standard market discounting and valuation methodologies which use reliable observable inputs including yield curves and market rates. These methodologies are implemented by the Finance function and validated by the Risk function. Where there is uncertainty around the inputs to a derivatives' valuation model, the fair value is estimated using inputs which provide the Bank's view of the most likely outcome in a disposal transaction between willing counterparties in a functioning market. Where an unobservable input is material to the outcome of the valuation, a range of potential outcomes from favourable to unfavourable is estimated.

Counterparty credit is an input into the valuation of uncollateralised customer derivatives. Own credit is also an input into the valuation of uncollateralised customer derivatives.

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 where 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 on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value.

Derivatives and hedge accounting *(continued)*

The Bank discontinues hedge accounting when:

- it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
- the derivative expires, or is sold, terminated, or exercised; or
- the hedged 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 hedging 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.

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.

9. 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. 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.

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:

Impairment of financial assets *(continued)*

(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.

Collective evaluation of impairment
For the purpose of collective evaluation of impairment (individually insignificant impaired assets and IBNR), financial assets are grouped on the basis of similar risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and the historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumption used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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.

Following impairment, interest income is recognised using the original effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised 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 maybe 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.

Impairment of financial assets *(continued)*

Collateralised financial assets – Repossessions
The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, costs for obtaining and settling the collateral, and whether or not foreclosure is probable. For loans which are impaired, the Group may repossess collateral previously pledged as security in order to achieve an orderly realisation of the loan. AIB will then offer this repossessed collateral for sale. However, if the Group believes the proceeds of the sale will comprise only part of the recoverable amount of the loan with the customer remaining liable for any outstanding balance, the loan continues to be recognised and the repossessed asset is not recognised. However, if the Group believes that the sale proceeds of the asset will comprise all, or substantially all, of the recoverable amount of the loan, the loan is derecognised and the acquired asset is accounted for in accordance with the applicable accounting standard. Any further impairment of the repossessed asset is treated as an impairment of the relevant asset and not as an impairment of the original loan.

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.

When a borrower is past due, the entire exposure is reported as past due, rather than the amount of any excess or arrears.

Loans renegotiated and forbearance
From time to time, the Bank will modify the original terms of a customer's loan either as part of the on-going relationship with the customer or arising from changes in the customer's circumstances such when that customer is unable to make the agreed original contractual repayments.

Forbearance
A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable to repay both the principal and interest on their loan in accordance with their original contract. Following an assessment of the customer's repayment capacity, a potential solution will be determined from the options available. There are a number of different types of forbearance options including interest and/or arrears capitalisation, interest rate adjustments, payment holidays, term extensions and equity swaps. These are detailed in the Credit Risk section 3.1. A request for a forbearance solution acts as a trigger for an impairment test. All loans that are assessed for a forbearance solution under IAS 39 and where a loan is deemed impaired, an appropriate provision is raised to cover the difference between the loan's carrying value and the present value of estimated future cash flows discounted at the loan's original effective interest rate. Where, having assessed the loan for impairment and the loan is not deemed to be impaired, it is included within the collective assessment as part of the IBNR provision calculation.

Forbearance mortgage loans, classified as impaired, may be upgraded from impaired status, subject to a satisfactory assessment by the appropriate credit authority as to the borrower's continuing ability and willingness to repay and confirmation that the relevant security held by the Bank continues to be enforceable. In this regard, the borrower is required to display a satisfactory performance following the period of restructure of the loan, comprising a period of six months consecutive payments of full principal and interest and typically, the upgrade would initially be to Watch/Vulnerable grades. If a loan is upgraded from impaired, it will be included in the Bank's collective assessment for IBNR provisions.

Where the terms on a renegotiated loan which has been subject to an impairment provision differ substantially from the original loan terms either in a quantitative or qualitative analysis, the original loan is derecognised and a new loan is recognised at fair value. Any difference between the carrying amount of the loan and the fair value of the new renegotiated loan terms is recognised in the Income Statement. Interest accrues on the new loan based on the current market rates in place at the time of renegotiation.

Impairment of financial assets *(continued)*

Non-forbearance renegotiation

Occasionally, the Bank may temporarily amend the contractual repayments term on a loan (e.g. payment moratorium) for a short period of time due to a temporary change in the life circumstances of the borrower. Because such events are not directly linked to repayment capacity, these amendments are not considered forbearance. The changes in expected cash flows are accounted for under IAS 39, paragraph AG8 i.e. the carrying amount of the loan is adjusted to reflect the revised estimated cash flows which are discounted at the original effective interest rate. Any adjustment to the carrying amount of the loan is reflected in the Income statement as other income.

Where the terms on a renegotiated loan differ substantially from the original loan terms either in a quantitative or qualitative analysis, the original loan is derecognised and a new loan is recognised at fair value. Any difference arising between the derecognised loan and the new loan is recognised in the Income statement.

Where a customer's request for a modification to the original loan agreement is deemed not to be a forbearance request (i.e. the customer is not in financial difficulty to the extent that they are unable to repay both the principal and interest), these loans are not disaggregated for monitoring/reporting or IBNR assessment purposes.

10. 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.

11. Income tax, including deferred tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income. Income tax relating to items in equity is recognised directly in equity.

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 when it is probable that future taxable profits will be available against which the temporary differences will be utilised. The deferred tax asset is reviewed at the end of each reporting period and the carrying amount is reduced to the extent that sufficient taxable profits will be available to allow the asset to be recovered.

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.

The principal temporary differences arise from the revaluation of certain financial assets and financial liabilities including derivative contracts, provisions for pensions and other post-retirement benefits.

12. Cash and cash equivalents

For the purposes of the cashflow statements, 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.

Accounting Policies

13. Accounting estimates and judgements

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

(a) Loan impairment

AIB Mortgage Banks' accounting policy for impairment of financial assets is set out in accounting policy number 9. The provisions for impairment on loans and receivables at 31 December 2013 represent management's best estimate of the losses incurred in the loan portfolios at the reporting date. The estimation of loan losses is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, local and international economic climates, conditions in various industries to which the Bank is exposed, and other external factors such as legal and regulatory requirements.

The management process for the identification of loans requiring provision is underpinned by a series of independent stages, including regular monitoring of credit quality and loan loss provisions by Credit and Risk Management. A quarterly assessment of provision adequacy is also considered by AIB Group Credit Committee, prior to Audit Committee and Board approval being sought.

Specific provision

A specific provision is made against an impaired loan when, in the judgement of management, the estimated realisable value, including available security, is expected to fall short of the principal and interest amount outstanding on the loan. A specific provision is set aside based on the estimate of the difference between the present value of future cash flows, and the assets' carrying value.

As the amount of specific provision required is primarily model driven, and based on estimates of the timing and amount of future cashflows, the amount of the Bank's provision is somewhat uncertain, and may not fully reflect the impact of the prevailing market conditions. Underlying assumptions are reviewed and updated on a regular basis.

Incurred but not reported provisions

Incurred but not reported ("IBNR") provisions are maintained to cover impaired loans which are known to be present within the portfolio, but have not been specifically identified as impaired at the reporting date. IBNR provisions are maintained at levels that are deemed appropriate following management assessment of a wide range of credit, portfolio, sectoral, and other economic factors.

The total amount of impairment loss in the Bank's non-impaired portfolio, and therefore the adequacy of the IBNR provision is inherently uncertain. Key assumptions underpinning the Bank's estimates of collective and IBNR provisions are regularly reviewed in line with experience.

Forbearance

The Bank has developed a number of forbearance strategies to assist customers experiencing financial difficulties, which involve modifications to contractual repayment terms, in order to improve the recoverability of outstanding debt. Advanced forbearance strategies currently being implemented are subject to high levels of judgement and estimation, which may impact on loan impairment provisions.

(b) 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 profits to absorb losses carried forward. It requires significant judgements to be made about long-term profitability projections over several future accounting periods over which recovery extends.

13. Accounting estimates and judgements *(continued)*

In assessing the future profitability of the Bank, the Board has considered a range of positive and negative evidence for this purpose. 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 year; 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 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. In this regard, the Bank has carried out an exercise to determine the likely number of years required to utilise the deferred tax, based on the financial planning outturn 2014-2016. Under this scenario, it is expected that the Bank's deferred tax asset will be utilised in less than 10 years.

IAS 12 does not permit a company to apply present value discounting to its deferred tax assets or liabilities, regardless of the estimated timescales over which those assets or liabilities are projected to be realised. The Bank's deferred tax assets are projected to be realised over a long timescale, benefiting from the absence of any expiry date for Irish tax losses. As a result, the carrying value of the deferred tax assets on the Statement of financial position does not reflect the economic value of those assets.

(c) Fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The Group considers the impact of non-performance risk when valuing its financial liabilities.

Financial instruments are initially recognised at fair value and, with the exception of financial assets at fair value through profit or loss, the initial carrying amount is adjusted for direct and incremental transaction costs. In the normal course of business, the fair value on initial recognition is the transaction price (fair value of consideration given or received). If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is determined by a quoted price in an active market for the same financial instrument, or by a valuation technique which uses only observable market inputs, the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss. If the fair value is calculated by a valuation technique that features significant market inputs that are not observable, the difference between the fair value at initial recognition and the transaction price is deferred. Subsequently, the difference is recognised in the income statement on an appropriate basis over the life of the financial instrument, but no later than when the valuation is supported by wholly observable inputs; the transaction matures; or is closed out.

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. Where quoted prices are not available or are unreliable because of market inactivity, fair values are determined using valuation techniques. These valuation techniques maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The valuation techniques used incorporate the factors that market participants would take into account in pricing a transaction. Valuation techniques include the use of recent orderly transactions between market participants, reference to other similar instruments, option pricing models, discounted cash flow analysis and other valuation techniques commonly used by market participants.

14. 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.

15. 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.

16. Shareholders' equity

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

17. Prospective accounting changes
The following new accounting standards and amendments to existing standards approved by the IASB, but not early adopted by the Group, will impact the Group's financial reporting in future periods. The Group is currently considering the impacts of these amendments. The new accounting standards and amendments which are more relevant to the Group are detailed below.

(a) Amendments to IAS 32 Financial instruments: Presentation on Offsetting Financial Assets and Financial Liabilities.

Nature of Change

The amendments to IAS 32 Financial Instruments: Presentation 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.

IASB Effective Date

Annual periods beginning on or after 1 January 2014.

(b) Amendments to IAS 39 Financial Instruments: Recognition and Measurement on Novation of Derivatives and Continuation of Hedge Accounting

Nature of Change

The amendment to IAS 39 Financial Instruments: Recognition and Measurement provides an exception to the requirement to discontinue hedge accounting where a hedging derivative is novated, provided certain criteria are met. The amendment applies to novations:

– which arise due to laws or regulations, or the introduction of laws or regulations;

17. Prospective accounting changes *(continued)*

– where the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and

- that did not result in changes to the terms of the original derivative except the changes directly attributable to the change in counterparty to achieve clearing.

All of the above criteria must be met to continue hedge accounting under this exception.

The amendment was endorsed by the EU on 19 December 2013.

IASB Effective Date

Annual periods beginning on or after 1 January 2014.

(c) Annual improvements to IFRSs 2010–2012 cycle

Nature of Change

In December 2013, the IASB issued Annual Improvements to IFRSs 2010 – 2012 Cycle. The amendments to standards under the annual improvements process are primarily to remove inconsistencies and clarify wording.

The amendments are to seven International Financial Reporting Standards. The more relevant amendments are:

IFRS 13 Fair Value Measurement:

The amendment clarifies that amendments to IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement by IFRS 13 did not remove the ability to measure short - term receivables and payables with no stated interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial.

None of the above amendments is expected to have a significant impact on reported results or disclosures.

The amendments are still subject to EU endorsement.

IASB Effective Date

Annual periods beginning on or after 1 July 2014

(d) Annual improvements to IFRSs 2011–2013 cycle

Nature of Change

December 2013, the IASB issued Annual Improvements to IFRSs 2011– 2013 Cycle. The amendments to standards under the annual improvements process are primarily to remove inconsistencies and clarify wording. The more relevant amendments to AIB Group are:

IFRS 13 Fair Value Measurement:

The amendment clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, irrespective of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.

None of the above amendments is expected to have a significant impact on reported results or disclosures.

The amendments are still subject to EU endorsement.

17. Prospective accounting changes *(continued)*

IASB Effective Date

Annual periods beginning on or after 1 July 2014.

(e) IFRS 9 Financial Instruments

Nature of Change

IFRS 9 will ultimately replace IAS 39 Financial Instruments: Recognition and Measurement. This project consists of three date removed until main phases:

Phase 1: Classification and measurement

In November 2009, the IASB issued IFRS 9 Financial Instruments covering classification and measurement of financial assets. The new standard aims 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. The basis of classification depends on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets.

The IASB reissued IFRS 9 in October 2010. The revised standard incorporated new requirements on accounting for financial liabilities, and carried over the requirements for derecognition of financial assets and liabilities from IAS 39.

Phase 2: Impairment methodology

The IASB published the Exposure Draft Financial Instruments: Expected Credit Losses in March 2013. The comment period closed on 5 July 2013 and deliberations are on-going.

Phase 3: Hedge accounting

In November 2013, the IASB issued an update to IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39). This includes new hedge accounting requirements and some related amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures.

This phase replaces the rule-based hedge accounting requirements in IAS 39 Financial Instruments: Recognition and Measurement to more closely align the accounting with risk management activities. The objective of this phase is to improve the ability of investors to understand risk management activities and to assess the amounts, timing and uncertainty of future cash flows. This update to IFRS 9 does not deal with macro hedging which is scheduled for a Discussion Paper in 2014.

The main areas of change to hedge accounting are as follows:

– Risk component – this may be designated as the hedged item, for both financial and non-financial items, if the risk component is separately identifiable and reliably measurable;

– Hedge effectiveness testing – the 80-125% range is replaced by an objectives-based test which focuses on the economic relationship between the hedged item and the hedging instrument and the effect of credit risk on the economic relationship;

– Costs of hedging – the time value of an option, the forward element of a forward contract and any foreign currency basis spread may be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging;

17. Prospective accounting changes *(continued)*

– Groups of items – more designations of groups of items as the hedged item are possible;

– Disclosures – more extensive disclosures are required.

IFRS 9 (2013) also includes two changes resulting from other phases of the IASB's financial instruments project:

– IFRS 9 requires that changes in the fair value of an entity's own debt caused by changes in its own credit quality to be recognised in other comprehensive income rather than in profit or loss. Under a 'fast-track' option, entities can apply these requirements of IFRS 9 early without applying the other IFRS 9 requirements at the same time.

– IFRS 9 (2013) does not have a mandatory effective date. The IASB decided to remove the mandatory effective date until the completion of the impairment phase of the project.

Since some significant aspects of the standard have yet to be finalised, namely, impairment and macro hedging, it is impracticable for the Group to quantify the impact of IFRS 9 at this stage. However, the implementation and the impact of the standard are likely to be significant.

The new standard is subject to EU endorsement

IASB Effective Date

Mandatory effective date removed until completion of the impairment phase of the project.

Income statement

for the year ended 31 December 2013

	Notes	**2013** **€ m**	2012 € m
Interest and similar income	1	**710**	694
Interest expense and similar charges	2	**(397)**	(480)
Net interest income		**313**	214
Net trading gain/(loss)	3	**1**	-
Other operating income	4	**-**	4
Total operating income		**314**	218
Administrative expenses	5	**(59)**	(63)
Operating profit before provisions		**255**	155
Provision for impairment of loans and receivables	6	**(351)**	(494)
Operating (loss) before taxation		**(96)**	(339)
Taxation on ordinary activities	7	**12**	42
(Loss) for the year		**(84)**	(297)

The operating loss arises from continuing operations.

The notes on pages 71 to 91 are an integral part of these financial statements.

Director: Dave Keenan *Director:* James Murphy

Director: Jim O'Keeffe *Secretary:* David Schorman

Date: 12 March 2014

Statement of comprehensive income

For the year ended 31 December 2013

	2013	2012
	€ m	€ m
(Loss) for the year	(84)	(297)
Other comprehensive income	-	-
Total comprehensive income for the year	(84)	(297)

Statement of Financial Position

As at 31 December 2013

	Notes	2013 € m	2012 € m
Assets			
Derivative financial instruments	8	**310**	421
Loans and receivables to banks	10	**463**	498
Loans and receivables to customers	11	**20,792**	21,748
Other assets	12	**34**	50
Deferred taxation	13	**207**	195
Total assets		**21,806**	**22,912**
Liabilities			
Deposits by banks	14	**16,883**	**16,923**
Customer accounts	15	**1**	**-**
Derivative financial instruments	8	**3**	**72**
Debt securities issue	16	**3,522**	**4,618**
Accruals and deferred income	17	**57**	**75**
Subordinated liabilities	18	**300**	**300**
Total liabilities		**20,766**	**21,988**
Shareholders' equity			
Share Capital	19	**1,745**	**1,545**
Capital reserves	20	**580**	**580**
Profit and loss account		**(1,285)**	**(1,201)**
Total shareholders' equity		**1,040**	**924**
Total liabilities and shareholders' equity		**21,806**	**22,912**

The notes on pages 71 to 91 are an integral part of these financial statements

Director: Dave Keenan *Director:* James Murphy

Director: Jim O'Keeffe *Secretary:* David Schorman

Date: 12 March 2014

Statement of Cash Flows

For the year ended 31 December 2013

	Notes	**2013 € m**	2012 € m
Reconciliation of loss before taxation to net cash outflow from operation activities			
(Loss) before taxation		**(96)**	(339)
Increase/(decrease) in accruals and deferred income		**(18)**	4
Allowance for impairment of loans and receivables		**351**	494
		237	159
Net (decrease) in debt securities in issue		**(1,096)**	(1,740)
Net increase in derivative financial instruments		**42**	38
Net increase/(decrease) in deposits by banks		**(39)**	963
Net decrease in other assets		**16**	12
Net decrease in loans and receivables to customers		**605**	202
Net cash outflow from operating assets and liabilities		**(472)**	(525)
Net cash outflow from operating activities before taxation		**(235)**	(366)
Taxation paid		**-**	(2)
Net cash outflow from operating activities		**(235)**	(368)
Net cashflow from investing activities		**-**	-
Net cash inflow from financing activities			
Proceeds from issue of ordinary shares		**200**	200
Net cashflow from financing activities		**200**	200
(Decrease) in cash and cash equivalents		**(35)**	(168)
Opening cash and cash equivalents		**498**	666
Closing cash and cash equivalents*		**463**	**498**

*Cash and cash equivalent balances include funds held as collateral for derivatives with AIB Group of €428m in 2013 (2012: €463m) and Cash Substitution Pool Assets with Barclays Bank p.l.c. of €35m in 2013 (2012: €35m).

Statement of Changes in Equity

For the year ended 31 December 2013	**Share Capital**	**Capital Reserves**	**Profit and Loss Account**	**Total**
	€ m	**€ m**	**€ m**	**€ m**
Balance at 1 January 2013	**1,545**	**580**	**(1,201)**	**924**
Loss attributable to equity holders	**-**	**-**	**(84)**	**(84)**
Share capital issued	**200**	**-**	**-**	**200**
Balance at 31 December 2013	**1,745**	**580**	**(1,285)**	**1,040**

for the year ended 31 December 2012				
Balance at 1 January 2012	1,345	580	(904)	1,021
Loss attributable to equity holders	-	-	(297)	(297)
Share capital issued	200	-	-	200
Balance at 31 December 2012	1,545	580	(1,201)	924

Notes to the accounts

1. Interest and similar income	**2013 € m**	2012 € m
Interest on loans and receivables to customers	**610**	577
Interest receivable from Allied Irish Banks, p.l.c	**100**	117
	710	694

Included in the interest receivable from Allied Irish Banks, p.l.c. is €96m (2012: €110m) relating to mortgage covered securities hedges (bond swaps) and €4m (2012: €7m) relating to interest earned on funds placed with Allied Irish Banks, p.l.c.

2. Interest expense and similar charges	**2013 € m**	2012 € m
Interest payable to Allied Irish Bank, p.l.c.	**261**	341
Interest on debt securities in issue	**136**	139
	397	480

Included in the Interest payable to Allied Irish Banks, p.l.c. is €223m (2012: €292m) 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 €38m (2012: €49m).

3. Net Trading Gain/Loss	**2013 € m**	2012 € m
Debt Securities and interest rate contracts	**1**	-
	1	-

The net trading gain reflects a movement of €1.1m in the mark to market valuation of swap hedging instruments. The comparative figure was a loss of €0.3m which was reported within Other Operating Income in 2012.

Notes to the accounts

4. Other operating income	2013 € m	2012 € m
Gain on transfer of financial instruments held for sale to NAMA	-	4
	-	4

Gain on assets transferred to NAMA	2013 € m	2012 € m
Net carrying value of financial instruments transferred	-	-
Adjustments in respect of assets transferred in prior years	-	4
Gain on transfers	-	4
Gain on transfer of financial instruments held for sale to NAMA	-	4

5. Administrative expenses	2013 € m	2012 € m
Personnel expenses	-	1
Other administrative expenses	1	4
Amounts payable to Allied Irish Banks, p.l.c under the outsourcing and Agency Agreement	58	58
	59	63

Other administrative expenses consists of professional fees €1m (2012: €1m) and statutory payments NIL (2012: €3m)

6. Provisions for impairment of loans and receivables	Specific € m	IBNR € m	2013 Total € m	Specific € m	IBNR € m	2012 Total € m
Balance at start of year	1,774	234	2,008	953	604	1,557
Charge/(release) against income statement	256	95	351	864	(370)	494
Amounts written off	(58)	-	(58)	(43)	-	(43)
At year en	1,972	329	2,301	1,774	234	2008

By geographical location and industry sector	2013 € m	2012 € m
Republic of Ireland		
Home Mortgages	2,301	2,008

7. Taxation	**2013 € m**	2012 € m
Current tax prior year adjustment		2
Deferred taxation	**-**	-
Origination of temporary differences (note 13)	**(12)**	(44)
Total tax	**(12)**	(42)

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.

8. 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 "Held for 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.

	2013 Contract/ Notional Amount € m	**2013 Fair Value Asset/ Liability € m**	2012 Contract/ Notional Amount € m	2012 Fair Value Asset/ Liability € m
Derivatives classified as trading				
Hedging mortgage loan accounts – outside the Cover Asset Pool	**7,655**	**(0)**	6,607	(5)
Hedging mortgage loan accounts – within the Cover Asset Pool	**15,682**	**(3)**	17,293	(67)
Total derivatives classified as trading	**23,337**	**(3)**	23,900	(72)
Derivatives classified as hedging (Debt Securities)				
Interest rate swaps	**3,265**	**310**	3,265	421
Total derivatives	**26,602**	**307**	27,165	349

The fair value of derivatives classified as trading includes the fair value liability of €3m (2012: liability €4m). Accrued interest on asset swap arrangements of €68m, was included in 2012 comparative but settled during 2013.

Notes to the accounts

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

The following table represents the underlying principal and gross replacement costs of the Bank's derivatives as at 31 December 2013 and 31 December 2012.

	Residual Maturity 2013				Residual Maturity 2012			
	Within 1 yr € m	**1 to 5 yrs € m**	**Over 5 yrs € m**	**Total € m**	Within 1 yr € m	1 to 5 yrs € m	Over 5 yrs € m	Total € m
Underlying principal amount								
Interest rate contracts	**23,337**	**3,175**	**90**	**26,602**	24,900	2,175	90	27,165
Gross replacement costs								
Interest rate contracts	**-**	**298**	**14**	**312**	37	367	20	424

9. Fair value of financial instruments

The term 'financial instruments' includes both financial assets and financial liabilities. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The Banks' accounting policy for the determination of fair value of financial instruments is set out in accounting policy number 13(c).

Readers of these financial statements are advised to use caution when using the data in the following table to evaluate the Bank's financial position or to make comparisons with other institutions. Fair value information is not provided for items that do not meet the definition of a financial instrument. These items include intangible assets such as the value of the branch network and the long-term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly, 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 2013.

The valuation of financial instruments, including loans and receivables, involves the application of judgement and estimation. Market and credit risks are key assumptions in the estimation of the fair value of loans and receivables. During the year, AIB has continued to observe adverse changes in the credit quality of its borrowers, with increasing delinquencies and defaults across a range of sectors. The volatility in financial markets and the illiquidity that is evident in these markets has reduced the demand for many financial instruments and this creates a difficulty in estimating the fair value for loans to customers. AIB has estimated the fair value of its loans to customers taking into account market risk and the changes in credit quality of its borrowers.

Fair values are based on observable market prices were available, and on valuation models or techniques where the lack of market liquidity means that observable prices are unavailable. The fair values of financial instruments are measured according to the following fair value hierarchy:
Level 1 – financial assets and liabilities measured using quoted market prices from an active market (unadjusted).
Level 2 – financial assets and liabilities measured using valuation techniques which use quoted market prices from an active market or measured using quoted market prices unadjusted from an inactive market.
Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable market data.

All financial instruments are initially recognised at fair value. Financial instruments held for trading and financial instruments in fair value hedge relationships are subsequently measured at fair value through profit or loss. Available for sale securities and cash flow hedge derivatives are subsequently measured at fair value through other comprehensive income.

9. Fair value of financial instruments *(continued)*

All valuations are carried out within the Finance function of the Bank and valuation methodologies are validated by the independent Risk function within the Bank.

The methods used for calculation of fair value are as follows:

Financial instruments measured at fair value in the financial statements

Derivative financial instruments
Where derivatives are traded on an exchange, the fair value is based on prices from the exchange. The fair value of over the counter derivative financial instruments is estimated based on standard market discounting and valuation methodologies which use reliable observable inputs including yield curves and market rates. These methodologies are implemented by the Finance function and validated by the Risk function. Where there is uncertainty around the inputs to a derivatives' valuation model, the fair value is estimated using inputs which provide the Bank's view of the most likely outcome in a disposal transaction between willing counterparties in a functioning market. Where an unobservable input is material to the outcome of the valuation, a range of potential outcomes from favourable to unfavourable is estimated.

Counterparty credit is an input into the valuation of uncollateralised customer derivatives. Own credit is also an input into the valuation of uncollateralised customer derivatives.

Loans and receivables to credit institutions
The fair value of loans and receivables to credit institutions is estimated using discounted cash flows applying either market rates, where practicable, or rates currently offered by other financial institutions for placements with similar characteristics.

Loans and receivables to customers
The Bank provides lending facilities of varying rates and maturities to personal customers. Valuation techniques are used in estimating the fair value of loans, primarily using discounted cash flows and applying market rates where practicable.

In addition to the assumptions set out above under valuation techniques regarding cash flows and discount rates, a key assumption for loans and receivables is that the carrying amount of variable rate loans (excluding mortgage products) approximates to market value where there is no significant credit risk of the borrower. The fair value of variable rate 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 2013 took account of the Banks' expectations on credit losses over the life of the loans.

Deposits by central banks and banks
The fair value of current accounts and deposit liabilities which are repayable on demand, or which re-price frequently, approximates to their book value. The fair value of all other deposits and other borrowings is estimated using discounted cash flows applying either market rates, where applicable, or interest rates currently offered by the Bank.

Notes to the accounts

9. Fair value of financial instruments *(continued)*

Debt securities in issue

The estimated fair value of subordinated liabilities and other capital instruments, and debt securities in issue, is based on quoted prices were available, or where these are unavailable, are estimated using valuation techniques using observable market data for similar instruments. Where there is no market data for a directly comparable instrument, management judgement, on an appropriate credit spread to similar or related instruments with market data available, is used within the valuation technique. This is supported by cross referencing other similar or related instruments.

Other financial assets and other financial liabilities

This caption includes accrued interest receivable and payable and the carrying amount is considered representative of fair value.

Financial instruments measured at fair value in the financial statements at 31 December 2012

The term 'financial instruments' includes both financial assets and financial liabilities. At December 2012, financial instruments were measured in accordance with IAS 39 *Financial Instruments: Recognition and Measurement.* Under IAS 39, 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. This standard was superseded in 2013 by IFRS 13 *Fair Value Measurement* as outlined above and for the purpose of December 2013 financial statements, the Bank's accounting policy has been changed to reflect this. There has been no restatement of comparative data for 2012 under the new policy.

The following table sets out the carrying value of financial instruments across the three levels of the fair value hierarchy at the 31 December 2013:

Notes to the accounts

Fair Value of Financial Instruments

2013

	Carrying amount in statement of financial position						Fair Value hierarchy			
	At fair value through profit and loss		At fair value through equity	At amortised cost		Total				
	Held for trading	Fair value hedge derivative	Cashflow hedge derivatives	Loans and receivables	Other		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value	€m	€m	€m	€m	€m	€m				
Derivative financial instruments										
Interest Rate Derivatives	-	310	-	-	-	310	-	310	-	310
Financial assets not measured at fair value										
Loans and receivables to banks	-	-	-	463	-	463	463	-	-	463
Loans and receivables to customers	-	-	-	20,792	-	20,792	-	-	17,786	17,786
	-	310	-	21,255	-	21,565	463	310	17,786	18,559
Financial liabilities measured at fair value										
Derivative financial instruments										
Interest Rate Derivatives	3	-	-	-	-	3	-	3	-	3
Financial liabilities not measured at fair value										
Deposits by central banks and banks	-	-	-	-	16,883	16,883	-	-	16,883	16,883
Debt securities in issue	-	-	-	-	3,522	3,522	3,468	-	-	3,468
Subordinated liabilities	-	-	-	-	300	300	-	78	-	78
	3	-	-	-	20,705	20,708	3,468	81	16,883	20,432

No transfers in or out of Level 3 have occurred during 2013.

Notes to the accounts

Fair Value of Financial Instruments

2012

	Carrying amount						
	At fair value through profit and loss		At fair value through equity	At amortised cost			
	Held for trading	Fair value hedge derivatives	Cashflow hedge derivatives	Loans and receivables	Other	Total carrying amount	**Total fair value**
Financial assets	€m	€m	€m	€m	€m	€m	€m
Derivative financial instruments	-	421	-	-	-	421	421
Loans and receivables to banks	-	-	-	498	-	498	498
Loans and receivables to customers	-	-	-	21,748	-	21,748	17,938
	-	421	-	22,246	-	22,667	18,857
Financial liabilities							
Derivative financial instruments	72	-	-	-	-	72	72
Deposits by central banks and banks	-	-	-	-	16,923	16,923	16,923
Debt securities in issue	-	-	-	-	4,618	4,618	4,370
Subordinated liabilities	-	-	-	-	300	300	75
	72	-	-		21,841	21,913	21,440

All financial derivatives are classified within Level 2 for 2012.

10. Loans and receivables to banks	**2013** **€ m**	2012 € m
Funds placed with Allied Irish Banks, p.l.c		
Analysed by remaining maturity:		
- 3 months or less	**428**	463
Funds placed with Barclays Bank, p.l.c		
Analysed by remaining maturity:		
- 3 months or less	**35**	35
	463	498

The balances with Allied Irish Banks, p.l.c. include a balance of €428m (2012: €463m) held as collateral for the derivatives. The remaining balances are held with Barclays Bank, p.l.c. and represent the Cash Substitution Pool Assets.

11. Loans and receivables to customers	**2013** **€ m**	2012 € m
Analysed by remaining maturity:		
- Repayable on demand	**5,173**	4,606
- 3 months or less	**4**	6
- 1 year or less but over 3 months	**19**	27
- 5 years or less but over 1 year	**403**	388
- Greater than 5 years	**17,494**	18,729
	23,093	23,756
Provisions for impairment of loans and receivables (Note 6)	**(2,301)**	(2,008)
	20,792	21,748

Amounts repayable on demand includes instances where customers have failed to meet specified repayment terms, and are therefore classified as repayable on demand, in accordance with lending conditions.

Loans and receivables to customers comprise 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.

Interest recognised on impaired loans amounted to €81m (2012: €56m) 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

Republic of Ireland	**2013** **€ m**	2012 € m
Home mortgages (net of provision)	**20,792**	21,748

12. Other assets	2013 € m	2012 € m
Accrued interest	**32**	30
Other assets	**2**	20
	34	50

Other assets reduced from €20m to €2m in 2013 due to lower levels of drawdown activity compared to previous year end prior to the withdrawal of tax relief of mortgage interest paid.

13. Deferred taxation	2013 € m	2012 € m
At 1 January	**195**	151
Unutilised tax losses	**12**	44
At 31 December	**207**	195

At 31 December 2013 deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled €207m (2012: €195m). 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 largely of a provision for impairment of loans and advances.

The Bank believes that it is more likely than not that it will return to profitability by 2014 and will generate profits 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. The Bank has carried out an exercise to determine the likely number of years required to utilise the deferred tax, which indicates the deferred tax asset will be fully utilised within 10 years.

14. Deposits by central banks and banks	2013 € m	2012 € m
Allied Irish Banks, p.l.c	**16,883**	16,923

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. Included in the funding balance is €1,100m of repo funding with Allied Irish Banks, p.l.c. (2012: €5,005m). AIB Mortgage Bank self-issued covered bonds are first repoed for value with Allied Irish Banks, p.l.c. and then are subject to a sale and repurchase agreement with the ECB.

15. Customer accounts	**2013 € m**	2012 € m
Current accounts	**1**	-

The customer account balance reflects €0.58m (2012: €0.34m) credits on customer mortgage accounts due to short-term receipts such as payments received in the course of property disposals or mortgage redemptions.

16. Debt securities in issue	**2013 € m**	2012 € m
Mortgage covered securities in issue to external investors of €3.27bn (2012: €3.27bn) and in issue to Allied Irish Banks, p.l.c. of nil (2012: €1bn) by remaining maturity:		
- 1 year or less	**-**	2,000
- 5 years or less but over 1 year	**3,175**	2,175
- Greater than 5 years	**90**	90
Nominal Value of Debt Securities	**3,265**	4,265
Gain or loss on the hedged item attributable to the hedged risk	**257**	353
Carrying Value of Debt Securities	**3,522**	4,618

Mortgage covered securities in issue to external investors and internal issuances at nominal value:

- External investors	**3,265**	3,265
- Allied Irish Banks, p.l.c.	**-**	1,000
- AIB Mortgage Bank *	**4,770**	6,020
	8,035	10,285

*Of the total mortgage covered securities in issue to AIB Mortgage Bank of €4.77bn (2012: €6.02bn) the following values have been used in Sale and Repurchase agreement:

- Bond Nominal used for Sale and Repurchase with AIB p.l.c	**1,240**	6,000
- Liquidity provided under the Sale and Repurchase with AIB p.l.c	**1,100**	5,005

Mortgage covered securities issued to AIB Mortgage Bank are first repoed for value with Allied Irish Banks, p.l.c. and then are subject to a sale and repurchase agreement with the ECB, providing liquidity for the Bank.

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. Self-issuances of mortgage covered securities that are the subject of a sale and repurchase agreement with AIB by AIB Mortgage Bank give rise to the recognition of an asset and a liability (See note14).

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.

16. Debt securities in issue *(continued)*

At 31 December 2013, the Cover Assets Pool amounted to €15.7bn (2012: €17.3bn), comprising of €15.7bn (2012: €17.3bn) of mortgage credit assets (mortgage loan accounts) and €35m (2012: €0.04bn) 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.

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

From	To	**Total Loan Balances 2013 (1 & 2) € m**	**Number of Mortgaged Properties 2013 € m**	Total Loan Balances 2012 (1 & 2) € m	Number of Mortgaged Properties 2012 € m
-	€100,000	**1,949**	**38,287**	1,975	38,534
€100,000	€200,000	**5,305**	**36,115**	5,537	37,506
€200,000	€500,000	**7,160**	**25,691**	8,085	28,721
	Over €500,000	**1,293**	**1,699**	1,702	2,220
		15,707	**101,792**	17,299	106,981

(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 115,364 loan accounts (2012: 122,182) secured on 101,792 properties (2012: 106,981).

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

Geographical Area	**Number of Mortgaged Properties 2013**		Number of Mortgaged Properties 2012	
Co. Dublin	**26,986**	**27%**	27,895	26%
Outside Dublin	**74,806**	**73%**	79,086	74%
	101,792	**100%**	106,981	100%

16 (c) Mortgage loan accounts in default in the cover assets pool
As at 31 December 2013, there were no mortgage loan accounts (Nil in 2012) in default in the Cover Assets Pool (in default being defined as impaired mortgage loan accounts).

16. Debt securities in issue *(continued)*

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

During the year ended 31 December 2013, 100 mortgage loan accounts (2012:182) in the Cover Assets Pool had been in default with arrears greater than €1,000. As at 31 December 2013, there were no accounts in default in the Cover Assets Pool (2012: Nil).

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

During the year ended 31 December 2013, 1,438 non-performing mortgage loan accounts (2012: 3,779) were removed in total from the Cover Assets Pool. (For this purpose, non-performing is defined as credit grade 7 and 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.

16 (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 584 accounts (2012: 962) as at 31 December 2013 was €488,540 (2012: €908,826). None of the accounts in question were written off as at 31 December 2013 as they were in arrears for less than three months.

16 (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 2013 was €1,679m (2012: €1,689m), of which €1,209m (2012: €1,211m) represented repayment of principal and €471m (2012: €478m) 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.

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

As at 31 December 2013 there were no loan accounts (2012: Nil) in the Cover Assets Pool that were secured on commercial properties.

17. Accruals and deferred income	**2013** **€ m**	2012 € m
Interest payable on mortgage covered securities	**55**	70
Expenses	**2**	3
Other liabilities	**-**	2
	57	75

Accruals and Deferred income in 2013 reflects lower interest accrued on mortgage covered bonds, and other expenses payable to third parties in the normal course of business. The December 2012 comparative included accrued expenses which were paid in 2013.

18. Subordinated liabilities	**2013** **€ m**	2012 € m
Dated Capital Note (a)	**100**	100
Perpetual Capital Note (b)	**200**	200
	300	300

18. Subordinated liabilities *(continued)*

(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 *paripassu* Subordinated Creditors and those creditors of AIB Mortgage Bank whose claims rank or are expressed to rank junior to the claims of AIB.

19. Share Capital	**2013 € m**	2012 € m
Authorised:		
3,000,000,000 ordinary shares of €1.00 each (2012: 3,000,000,000 ordinary shares of €1.00 each)	**3,000**	3,000
Issued and fully paid up:		
1,745,000,000 ordinary shares of €1.00 each (2012: 1,545,000,000 ordinary shares of €1.00 each)	**1,745**	1,545

The 200,000,000 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 its 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.

20. Capital Reserves	**2013 € m**	2012 € m
Opening balance	**580**	580
Closing balance	**580**	580

Capital reserves represent cash contribution from the parent.

21. 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 2013 and 31 December 2012.

	Basel II 2013 € m	Basel II 2012 € m
Shareholders’ equity	**1,040**	924
Dated capital notes	**100**	100
Undated capital notes	**200**	200
	1,340	1,224

The Capital Requirements Directive (CRD) / AIB’s implementation of the CRD

The CRD, which came into force on 1 January 2007, is the EU directive that establishes the regulatory capital adequacy requirements for credit institutions. 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 which it does 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.

	2013	2012
22. Employee Information		
Average no. of employees during year	**4**	5
No. of employees at end of year	**3**	5

For the year ended 31 December 2013 the average number of employees was 4 (2012: 5). As at 31 December 2013, the Bank had 3 employees.

23. Statement of cash flows	**2013 € m**	2012 € m
Loans and receivables to banks	**463**	498

Loans and Receivables to Banks includes funds placed on short-term deposit which are treated as cash/ cash equivalents within the cashflow statement.

24. Auditors fees	**2013** **€ '000**	*2012 € '000
Statutory audit	**54**	52
Other assurance services	**16**	56
Tax advisory services	**-**	-
Other non-audit services	**-**	-
Total auditors fees	**70**	108

* Restated 2012 for comparability.

The disclosure of Auditors fees are in accordance with (SI220)(1) which mandates fees in particular categories and that fees paid to the AIB Mortgage Bank's Auditor (Deloitte & Touche) for services to the Bank only be disclosed in this format. Other assurance services include fees for additional assurance issued by the firm outside of the audit of the statutory financial statements. These fees include assignments where the auditor provides assurance to third parties.

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

25. Directors remuneration	**2013** **€ '000**	2012 € '000
Fees	**31**	25
	31	25

No additional remuneration has been made to any individuals employed directly by Allied Irish Bank p.l.c. for roles discharged as directors of AIB Mortgage Bank.

26. Segmental Information

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

27. Contingent liabilities and commitments

At 31 December 2013 the Bank had €221m (2012: €230m) of approved mortgage loan applications that had not been drawn down as at the year end.

28. 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, deposits and derivatives on an arm's length basis. Interest paid to AIB and interest received from AIB is disclosed in Note 1 and Note 2 to the accounts.

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 with the balance of funding being provided by AIB Group. The Bank is also party to the Mortgage-Backed Promissory Note Framework Agreements with the Central Bank of Ireland, however this type of funding has not been utilised since 2011.

28. Related party transactions *(continued)*

(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.

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

Eileen Kelliher	**Balance at 31 December 2012 €'000**	**Amounts advanced during 2013 €'000**	**Amounts repaid during 2013 €'000**	**Balance at 31 December 2013 €'000**
Loans	299	**-**	**17**	**282**
Interest charged during 2013	-	**-**	**-**	**5**
Maximum debit balance during 2013	-	**-**	**-**	**299**
Catherine Woods				
Loans	97	**-**	**9**	**88**
Interest charged during 2013	-	**-**	**-**	**1**
Maximum debit balance during 2013	-	**-**	**-**	**97**

No other current or former Directors, in office during 2013, had loans facilities with AIB Mortgage Bank during the year ended 31 December 2013.

Aggregate loan amounts outstanding at year end	**2013 €'000**	2012 €'000
Directors	**370**	477

(c) Connected Persons

There were no loans to connected persons of directors in office as at 31 December 2013, as defined in Section 26 of the Companies Act 1990 and in accordance with conditions attached to AIB Mortgage Bank banking licence.

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.

(d) Funding Support

As at 31 December 2013 the mortgage covered securities issued to AIB Mortgage Bank were €4.8bn (2012:€6.0bn). Of these, €1.2bn (2012: €6.0bn) were first repoed for value €1.1bn (2012: €5.0bn) with Allied Irish Banks, p.l.c. and then were subject to a sale and repurchase agreement with the ECB, to provide liquidity for AIB Group.

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 facility with the Central Bank, outside of normal ECB open market operations, has not been used since April 2011.

28. Related party transactions *(continued)*

(e) Interest rate risk hedging
The Bank manages the interest rate risk through two different types of interest rate swaps with Allied Irish Banks p.l.c.

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. The notional amount of the swaps used to hedge the interest rate risk on mortgage loan accounts at 31 December 2013 was €23.3bn.

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. The notional amount of the swaps used to hedge the interest rate risk on mortgage covered securities at 31 December 2013 was €3.3bn.

(f) Summary of the AIB Group relationship 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 (National Pension Reserve Fund Commission), 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:
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') which expired in September 2010 and the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 ("ELG Scheme") which expired on 28 March 2013 for all new liabilities and is outlined below.

- *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.

28. Related party transactions *(continued)*

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. On 28 March 2013, the ELG Scheme ended for all new liabilities. After this date, no new liabilities are guaranteed under this scheme.

Eligible liabilities under the ELG scheme comprise the following:

- all deposits to the extent not covered by the deposit protection schemes in Ireland or in any other jurisdiction;
- 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. The total liabilities guaranteed under the ELG Scheme at 31 December 2013 amounted to €4.7billion (€34billion at 31 December 2012).

- *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 were scheduled to expire on 31 December 2012. However, in January 2013, the Minister extended the period of effectiveness of the Act for a further two years to 31 December 2014.

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, inter alia, to increase its authorised share capital; to issue ordinary and CNV shares to the NPRFC; 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; and to complete the sale of its Polish interests to Banco Santander. Arising from this order on 23 December 2010, AIB issued ordinary and CNV shares to the NPRFC for net proceeds of €3.7 billion.

(ii) Transfer order

On 24 February 2011, following an application by the Minister, the High Court issued a transfer order for the immediate transfer of certain deposits and corresponding assets from Anglo Irish Bank Corporation to AIB.

(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.

Notes to the accounts

28. Related party transactions *(continued)*

- *Funding support*

AIB received funding from the Central Bank throughout the year through the ECB Monetary Policy Operation Sale and Repurchase Agreements. The total funding amounted to €12.725 billion at 31 December 2013 (2012: €22.2 billion). These agreements were for maturities of between 7 days and 3 months apart from the €11.25 billion in the three year LTRO which will mature in January and February 2015. The interest rates on these facilities are set by the Central Bank and advised to AIB.

- *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 followed 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 was earmarked for the banking system, €10 billion of which was for immediate recapitalisation of the banks with the remaining €25billion 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 (including €1.6 billion in contingent capital), all of which was subsequently raised.

- *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.

- *Relationship framework*

In order to comply with the contractual commitments imposed on AIB in connection with its recapitalisation by the Irish State and with the requirements of EU state aid applicable in respect of that recapitalisation, a relationship framework was entered into between the Minister and AIB in March 2012. This provides the framework under which the relationship between the Minister and AIB is governed. Under the relationship framework, the authority and responsibility for strategy and commercial policies(including business plans and budgets) and conducting AIB's day-to-day operations rest with the Board of AIB and its management team. However, the Board is required to obtain the prior written consent of the Minister, or to consult with the Minister, in respect of certain material matters, such as material disposals.

- *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.

- *Central Bank and Credit Institutions (Resolution) Act 2011 (continued)*

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.

Notes to the accounts

28. Related party transactions *(continued)*

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.

29. Subsequent Events

No events have occurred post year end which would require adjustment to or disclosure in these financial statements.

30. Approval of financial statements

The financial statements were approved by the Directors on 6 March 2014.