PILLAR 3 DISCLOSURES 2010

AIB Group
31 December 2010

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Background and context

Background

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

The CRD, which was transposed into Irish law at the end of 2006, introduced some significant amendments to the capital adequacy framework. Its goal is to provide a greater link between the risk a bank faces and the capital it requires, and it does this in a number of ways. In terms of minimum capital requirements ('Pillar 1') it brings greater granularity in risk weightings under the standardised approach for credit risk, and introduces an explicit capital requirement for operational risk.

The CRD also introduced two additional 'pillars'. Under Pillar 2 ('supervisory review') banks may estimate their own internal capital requirements through an Internal Capital Adequacy Assessment Process ("ICAAP"), which is subject to supervisory review and evaluation. Pillar 3 ('market discipline') involves the disclosure of a suite of qualitative and quantitative risk management information to the market.

Basis of disclosures

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

Allied Irish Banks, p.l.c. is a credit institution authorised by the Central Bank of Ireland ("Central Bank"). Both the Parent Company and the Group are required to file regulatory returns with the Central Bank for the purpose of assessing, *inter alia*, their capital adequacy and their balance sheets.

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

The disclosures contained in this report have been prepared for Allied Irish Banks, p.l.c. and its subsidiaries on a Group consolidated basis as at 31 December 2010. These disclosures cover both the Pillar 3 qualitative and quantitative disclosure requirements.

The Pillar 3 disclosures have been prepared to explain the basis on which the Group has prepared and disclosed capital requirements and information about the management of certain risks and for no other purpose. They do not constitute any form of financial statement and should not be relied upon exclusively in making any judgement on the Group. They should be read in conjunction with the other information made public by AIB Group and available on the AIB Group website, including the 2010 Annual Financial Report.

Frequency

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

Reporting conventions

In this report comparative data is included where relevant.

Disclosure policy

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

Media and location

The Pillar 3 report will be published on AIB Group's website (www.aibgroup.com), alongside the 2010 Annual Financial Report. Pillar 3 reports from previous years are also available on this website.

Verification

The Pillar 3 disclosures have been subject to internal review procedures broadly consistent with those undertaken for unaudited information published in the 2010 Annual Financial Report and have not been audited by the Group's external auditors. Disclosures are externally audited only to the extent that the information is required to be audited under an accounting or listing requirement.

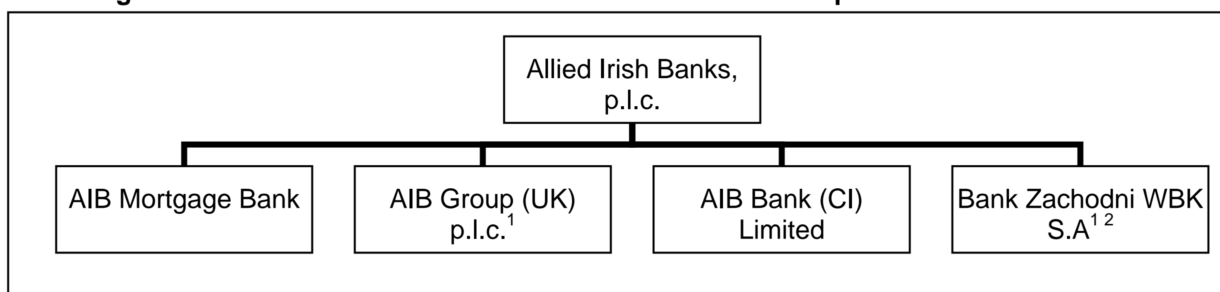
1. Introduction and AIB Group key information

Overview

i. Basis of consolidation for accounting and prudential purposes

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

Organisational structure of licensed banks within AIB Group as at 31 December 2010



ii. Transfer of capital between parent company and its subsidiaries

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

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

iii. Regulatory capital compliance

Both AIB Group and Allied Irish Banks, p.l.c. breached their minimum capital ratios in December 2010 for a period of six days. This occurred between the transfer of financial instruments to the National Asset Management Agency ("NAMA") on 17 December 2010, and the subsequent issue of capital to the National Pension Reserve Fund Commission ("NPRFC") on 23 December 2010, which remedied the breach. The breach was reported to the Central Bank.

At 31 December 2010, AIB Group and Allied Irish Banks, p.l.c. benefited from derogations from certain regulatory capital requirements granted on a temporary basis by the Central Bank (see also Section 4. Capital and capital management).

iv. Solo consolidation

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

The Central Bank has adopted the national discretion under Article 70 of the Capital Requirements Directive ("CRD") concerning the ability of institutions to include certain subsidiaries in their individual regulatory return. This treatment, termed 'solo consolidation', in effect treats such subsidiaries as if they were branches of the parent rather than separate entities in their own right.

[1]For the purposes of illustration, intermediate parent companies of AIB Group (UK) p.l.c. and Bank Zachodni WBK S.A. have been omitted from this diagram.
[2]On 10 September 2010, AIB announced its agreement to sell its interest in Bank Zachodni WBK S.A. The sale completed on 1 April 2011.

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

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

Annual Financial Report 2010

The consolidated financial statements of AIB Group for the year ended 31 December 2010, showed a loss of € 10.4 billion on a continuing operations basis. This was driven by a loss on the transfer of assets to NAMA of € 6 billion, and provisions for impairment of loans and receivables of € 6 billion.

The 2010 Annual Financial Report is available on the Group's website: www.aibgroup.com.

Key events in 2011 impacting AIB Group

The following are considered important events that took place up until 29 June 2011 impacting AIB Group. Note 69 of the 2010 Annual Financial Report summarises the post year end events until the time of its publication in April 2011. These and other main points are set out below.

i. PCAR / PLAR / capital update / restructuring of the Irish banking system

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

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

Following the results of the PCAR and PLAR assessments, the Minister for Finance announced on 31 March 2011 a restructuring of the Irish banking system. This restructuring revolves around two pillar banks, with AIB and EBS, a mutual society, merging shortly (subject to State aid and regulatory approvals) to form one of these pillar banks. The acquisition agreement was signed on 26 May 2011, and subject to regulatory approvals is due to complete on 1 July 2011. The non-core division of the combined entity will be required to dispose of loans to achieve the target loan to deposit ratio. The Government signalled its support for the recapitalisation of the Irish banks, which amounts to € 24 billion, to ensure that the Irish banking system is returned to health. It has also signalled that it will seek direct contributions to solving the capital issues of the banking system by requiring further significant contributions from other sources, including from subordinated debt holders, by the sale of assets to generate capital and where possible, by seeking private sector investors. The PCAR capital requirements were derived from three exercises:

- The results of BlackRock Solutions' independent loan loss assessment exercise;
- The results of the PCAR 2011 stress test; and
- The output of the PLAR, in particular banks' plans for deleveraging.

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

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

In determining the loan loss estimate BlackRock Solutions also used the following modelling assumptions:

Irish residential mortgages:

- AIB's arrears profile has been averaged with the overall industry;
- negative equity, not unemployment, as the main driver of default;
- wide scale repossessions and forced sales, which are not the practices in Ireland or many other countries, resulting in highly elevated model loss rate.

Commercial real estate:

- minimal recovery in real estate prices;
- modelled rental income declines do not recognise sustainable income / cashflow from actual lease agreements.

In carrying out the PCAR exercise, AIB as required by the Central Bank, used the same macro economic data as that used by BlackRock Solutions. AIB submitted its own expectation of 2011 – 2013 loan losses. However, this expectation was materially less than the outcome of the PCAR exercise, given the key differences between the methodology and assumptions used by AIB and the above described approach adopted by BlackRock Solutions (copy available at www.centralbank.ie).

ii. Sale of BZWBK

On 10 September 2010, AIB Group announced it had agreed to sell its interests in Poland (comprising its entire shareholding in Bank Zachodni WBK S.A. ("BZWBK"), being 51,413,790 shares, representing approximately 70.36% of BZWBK's issued share capital, and its 50% shareholding in BZWBK AIB Asset Management S.A.) to Banco Santander S.A. On 24 February 2011, AIB announced that it had accepted the tender offer of Banco Santander S.A. The sale completed on 1 April 2011.

The proceeds on sale amounting to € 3.1 billion gave rise to a profit on disposal of approximately € 1.6 billion. The equivalent core tier 1 impact for AIB Group arising from the disposal is approximately € 2.3 billion (excluding € 0.2 billion reported in the income statement since the announcement of the transaction).

iii. Liability management exercises

On 13 January 2011, AIB offered to purchase for cash, at a 70% discount to their nominal value, Euro, Sterling and US Dollar denominated lower tier 2 securities which had a nominal value of € 3.9 billion. On 24 January 2011, AIB accepted offers for approximately € 2 billion of these securities with a further € 0.2 billion exchanged for cash in a private placement. These transactions resulted in a gain of approximately € 1.5 billion.

On 13 May 2011, AIB launched a tender offer for cash for all of its outstanding subordinated debt, and other capital instruments (including certain tier 1 capital instruments (total nominal value outstanding € 2.6 billion approximately)) at a range of 10 per cent. to 25 per cent. of their face value. On the 14 June 2011, AIB announced preliminary results of its offers which then resulted in a core tier 1 increase of c. €1.6 billion. Further core tier 1 increases may result when the full liability management exercise is completed.

On 13 May 2011, Standard and Poor's announced that the ratings on AIB's lower tier 2 debt are to be downgraded to D from CC.

On 17 May 2011, Moody's announced that the ratings on AIB's subordinated debt and tier 1 instruments are to be downgraded to C from Ca.

The transaction details of these are provided in full statements available on the Group's website: www.aibgroup.com

iv. Listing status

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

v. Transfer of business from Anglo Irish Bank

On 24 February 2011, AIB announced that it had agreed with the NPRFC, pursuant to the Transfer Order (under the Credit Institutions (Stabilisation) Act 2010) issued by the High Court, to the immediate transfer of € 7.1 billion deposits and € 12.2 billion NAMA senior bonds from Anglo Irish Bank Corporation to AIB. AIB also announced that it had agreed to the transfer of Anglo Irish Bank

Corporation (International) PLC in the Isle of Man, including customer deposits of c. € 1.5 billion, to AIB by way of a share sale. A capital contribution of c. € 1.5 billion was generated on the date of the transaction. This is also noted below within 'Relationship with the Irish Government'.

vi. Conversion of CNV shares

On 8 April 2011, the NPRFC as holder of 10,489,899,564 convertible non-voting ("CNV") shares converted these shares into 10,489,899,564 ordinary shares of Allied Irish Banks, p.l.c. in accordance with the Company's Articles of Association. This conversion resulted in the NPRFC increasing its holding in the ordinary shares of the Company to 92.8%.

vii. Subordinated Liabilities Order

Details of the Subordinated Liability Order issued on 14 April 2011 are outlined in 'Relationship with the Irish Government' below.

viii. Dividend stopper / issue of ordinary shares to NPRFC

As a result of the operation of a "Dividend Stopper" in one of its capital instruments, Allied Irish Banks, p.l.c. is precluded from paying dividends on certain of its securities.

- The annual cash dividend on the NPRFC € 3.5 billion 2009 Preference Shares, amounting to € 280 million, due 13 May 2011, was not paid. In these circumstances, under its Articles of Association, AIB became obliged to issue and allot ordinary shares to the NPRFC equal in value to the amount of the dividend that would otherwise have been payable.

  As a consequence, AIB was required to issue and allot 1,209,155,030[1] ordinary shares to the NPRFC by way of bonus issue. This number of shares is equal to the aggregate cash amount of the annual dividend of € 280 million on the NPRFC's holding of preference shares, divided by the average price per share in the 30 trading days prior to 13 May 2011 (€ 0.23156 per share). 484,902,878 shares were issued and allotted on 13 May 2011. The remainder will be issued and allotted following a general meeting at which a resolution will be proposed increasing AIB's authorised share capital. Application will be made in due course for the listing of all of these new shares.

  Once this issue of shares is complete, the total number of AIB ordinary shares in issue will be 13,455,007,742. The NPRFC will then hold c. 93.5% of the enlarged issued share capital of AIB.
- The coupon on a number of other instruments (both debt and equity) has not been paid in 2011, as a result of the Dividend Stopper being effective. Further details are available on the Group's website: www.aibgroup.com.

ix. Transfer of loans to NAMA

Since 31 December 2010, AIB transferred tranches of loans and receivables to NAMA which were included in 'financial assets held for sale to NAMA' in the statement of financial position at 31 December 2010. The carrying value net of provisions of the assets transferred amounted to € 0.8 billion (gross loans of €1.1 billion), with the proceeds on sale amounting to € 0.4 billion giving rise to a loss on disposal of € 0.4 billion. This loss had been fully provided for at 31 December 2010.

x. Organisation restructure

On 17 May 2011, arising from a review of its organisational structure, AIB announced a restructure of its operations, whereby the divisional structure is to be replaced by an integrated bank which will comprise three customer facing units - Personal & Business Banking, Corporate & Institutional Banking and Commercial Banking. The operations of AIB and First Trust Bank will be more aligned and AIB (GB) will be managed as a separate unit. Control and support functions are to be streamlined and centralised. A non-core unit is being set up to assist with the deleveraging process, and will house, manage or dispose of selected assets. The entire organisational transformation process will be supported by a separate dedicated team. The disclosures within this document are based on the divisional structure that existed at 31 December 2010.

[1] Before application of late issuance adjustment that may apply

Relationship with the Irish Government

Since the onset of the global and Irish financial crisis, AIB's relationship with the Irish Government has changed significantly. The Irish Government, since 2008, has taken a range of measures to stabilise the Irish banking system. These measures are set out in note 55 of the 2010 Annual Financial Report which summarises AIB's relationship with the Irish Government, the main points of which are outlined below.

i. Credit Institutions (Stabilisation) Act 2010

This Act provides the legislative basis for the reorganisation and restructuring of the Irish banking system. The powers in relation to relevant financial institutions given to the Minister for Finance ("the Minister") under the Act include direction orders, special management orders, subordinated liability orders, and the 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:

Direction Orders

(1) On 23 December 2010, the High Court on application from the Minister, directed AIB to increase its authorised share capital, and adopt amended Articles of Association to give effect to the capital increase and to issue ordinary and convertible non-voting ("CNV") shares to the National Pension Reserve Fund Commission ("NPRFC"). AIB was also directed by the High Court to:
    - ◊ Cancel its listing of ordinary shares on the Main Securities Market and to apply for listing on the Enterprise Securities Market of the Irish Stock Exchange;
    - ◊ Cancel admission of its ordinary shares to the Official List maintained by the UK Financial Services Authority and to cancel trading on the Main Market of the London Stock Exchange;
    - ◊ Complete the sale of its Polish interests to Banco Santander (see also note 69 of the 2010 Annual Financial Report).

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

(3) Subordinated Liability 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 ("SLO") in relation to all outstanding subordinated liabilities and other capital instruments (including certain tier 1 capital instruments of AIB). The SLO will amend the coupon terms and maturity dates and permit the purchase by AIB of its debt/capital instruments.

      A copy of the Order is available from the Central Office of the High Court by e-mail to listroomhighcourt@courts.ie or on the Group's website: www.aibgroup.com.

ii. Government investment in AIB

At 31 December 2010, the Government, through the NPRFC, held 49.9 per cent. of the ordinary shares of the company (the share of the voting rights at shareholders' general meetings), 10,489,899,564 convertible non-voting ("CNV") shares and 3.5 billion 2009 Preference Shares (675,107,845 ordinary shares and 10,489,899,564 CNV shares were issued to the NPRFC on 23 December 2010 as a result of the Direction Order).

On 8 April 2011, the NPRFC converted the total outstanding CNV shares into 10,489,899,564 ordinary shares of AIB, thereby increasing its holding to 92.8% of the ordinary share capital. On 13 May 2011, AIB issued a further 484,902,878 ordinary shares to the NPRFC being part settlement of a dividend amount of €280 million. A residual number of shares, amounting to 724,252,152, will issue in July 2011, upon the holding of a general meeting, where the authorised share capital will be increased. This will bring the NPRFC holding in AIB's ordinary share capital to 93.5% (see 'Dividend stopper / issue of ordinary shares to NPRFC' above).

iii. Board representation

In addition to its shareholders' interests, the Government's relationship with AIB is reflected through formal and informal oversight by the Minister and the Department of Finance and the Central Bank of Ireland and representation on the Board of Directors (three non-executive directors are Government nominees).

iv. National Asset Management Agency ("NAMA")

Participation in NAMA has had a particularly significant impact on the size, quality, sectoral and geographical spread of AIB's loan portfolio. Between 1 April 2010 and 31 December 2010, AIB transferred to NAMA, financial assets with a gross carrying value of € 18.6 billion in exchange for NAMA senior and subordinated bonds of € 8.5 billion of nominal value. Furthermore, financial assets with a gross carrying value of € 2.3 billion were, at 31 December 2010, due to transfer in early 2011. In March 2011 € 1.1 billion of this remaining amount transferred.

In addition, NAMA senior bonds acquired under the Anglo transactions amounted to € 12.2 billion, as noted in ''Transfer of business from Anglo Irish Bank' above.

v. Guarantees

In addition to its ownership interest in AIB, the Government's relationship with AIB has included the guarantee of a wide range of AIB's obligations, including deposits and specified senior debt obligations, as set forth in AIB's consolidated financial statements, the notes thereto and the Eligible Liabilities Guarantee ("ELG") scheme and other schemes described therein. The ELG Scheme, which was due to expire on 30 June 2011, was extended to 31 December 2011 by the EU Commission on 1 June 2011. The extension of the scheme means that bonds and deposits issued or rolled over before 31 December 2011 will be guaranteed under the scheme up to maturity, subject to a maximum maturity of five years.

vi. Funding Support

Arising from liquidity difficulties in the Irish market, the Central Bank of Ireland has provided a number of funding support mechanisms to AIB as outlined in note 55 of the 2010 Annual Financial Report.

vii. EU and IMF Joint Programme for Ireland

On 28 November 2010, the Irish Government agreed in principle to the provision of € 85 billion of financial support through the European Union ("EU") and International Monetary Fund ("IMF") Joint Programme for Ireland. The Irish Government's contribution to the € 85 billion facility will be € 17.5 billion. One part of this programme deals with the restructuring and reorganisation of the Irish banks for which € 35 billion of the financial support is earmarked.

Restructuring of banking system

The restructuring of the Irish banking system is outlined above under 'Key events in 2011 impacting AIB Group'.

viii. Central Bank and Credit Institutions (Resolution) Bills

On 28 February 2011, the Government published the Central Bank and Credit Institutions (Resolution) Bill. The Bill is intended to provide a permanent resolution regime for credit institutions in Ireland as the Credit Institutions (Stabilisation) Act 2010 (the 2010 Act) is a temporary measure for a period of two years (to 31 December 2012), unless further extended by resolution of both Houses of the Oireachtas.

On 24 May 2011, the Central Bank and Credit Institutions (Resolution) (No.2) Bill 2011 was published which is substantially the same as the Central Bank and Credit Institutions (Resolution) Bill above, which lapsed upon the dissolution of the previous Government.

2. Risk management – framework

Introductory remarks

The Risk management section in this report is as set out in the 2010 Annual Financial Report, and reflects the organisational structure of AIB Group as at 31 December 2010. A new organisational structure has since been announced which is in the processes of being implemented, Details of the new integrated bank structure are available on the Group's website: www.aibgroup.com.

The Group's activities are subject to key risks and uncertainties. Risk factors are set out in detail on pages 74 to 78 of the 2010 Annual Financial Report. Set out below is a summary of the key risks and uncertainties as they impacted on AIB at 31 December 2010.

Credit risk

Definition	The risk that the Group will incur losses as a result of a customer or counterparty being unable or unwilling to meet a commitment that it has entered into.
Features	- This is a significant risk for the Group and has resulted in substantial and ongoing losses. - There is significant correlation between losses and the macro economic environment. - Concentration of exposures to certain sectors and country risk give rise to the potential for material losses.
Key developments in 2010	Asset quality has continued to deteriorate with significant credit losses and a higher level of criticised advances in the year.
Risk mitigation	The transfer of loans to NAMA creates certainty regarding losses arising on the transferred loans. The reorganisation of the Credit function has resulted in divisional Chief Credit Officers ("CCO"s) having a direct reporting line to the Group CCO who sits on the Group Executive Committee ("GEC"). The management of a substantial portion of larger commercial exposures has been transferred from Republic of Ireland ('AIB Bank ROI') division to Capital Markets division. The AIB Bank ROI credit unit was restructured and additional resources have been employed and are undergoing a comprehensive, ongoing training programme. Credit principles and certain credit policies have been restated and are being implemented to guide lender judgement in credit decision making. Credit management information has been improved to better inform senior management of key existing and emerging credit risks.

Liquidity risk

Definition	The risk of the Group being unable to meet its obligations as they fall due.
Features	- Potential to disrupt the business model and stop normal functioning of the Group. - Significantly correlated with credit risk losses and economic conditions. - Liquidity risk is correlated with the market's perceptions of sovereign risk.
Key developments in 2010.	The Group experienced a material deterioration in its funding and liquidity in 2010 as wholesale market appetite for funding Irish banks severely contracted and a significant outflow of deposits occurred. As a consequence, the Group became increasingly reliant on a range of liquidity facilities from the monetary authorities.

Risk mitigation	The monitoring and management of the Group's funding and liquidity risk profile has intensified, with regular dialogue maintained with regulators and other key stakeholders. The position was partially mitigated by the receipt of NAMA bonds, the sale of the Group's interest in M&T Bank and BZWBK, and the proceeds of the capital injections into the Group, but there continues to be a significant funding and liquidity challenge.

Market risk

Definition	The risk relating to the uncertainty of returns attributable to fluctuations in market factors such as adverse movements in the level or volatility of market prices.
Features	- Potential for material losses, impacting the income and capital position of the Group. - Key risk factors relate to interest rate and credit spread sensitivity. - Level of open interest rate risk has been gradually reduced over 2010 with low likelihood of significant re-investment until the second half of 2011. - Portfolio with material credit spread risk remains vulnerable to credit spread movements but is not considered vulnerable from default risk.
Key developments in 2010	The Group's bond portfolio (held principally for liquidity risk management) has been negatively impacted by widening credit spreads, particularly those of the Irish sovereign. Significant investment in market risk management resources to enhance second line of defence role. The size of the Group's Available for Sale ("AFS") portfolio and the net unrealised gains/losses are set out in the 2010 Annual Financial Report.
Risk mitigation	Market risk portfolios are subjected to a limit framework that considers both the risk and financial impacts of market risk activities. AIB's market risk appetite (and associated limits) is modest in the context of the overall size of AIB's balance sheet. The bond portfolio is subject to ongoing review from a credit and markets perspective.

Non-trading interest rate risk

Definition	Group's sensitivity to earnings volatility arising from movements in interest rates.
Features	- Correlated with the behaviour of customers in response to changes in market interest rates. - Managed through VaR, basis point sensitivity and earnings at risk measurements.
Risk mitigation	Group Asset and Liability Management Committee ("ALCo") monitors the Group's banking book interest rate risk and has oversight responsibility for non-treasury banking book risk.

AIB

Structural foreign exchange risk

Definition	Risk arising from the Group's non-trading net asset position in foreign currencies.
Features	- Relates almost entirely to the Group's investments in Poland, the US and the UK.
Risk mitigation	The Group's structural foreign exchange hedging activity is overseen by the Hedging Committee a sub-committee of the Group ALCo.

Operational risk

Definition	Risk of loss arising from inadequate or failed internal processes, people and systems or from external events.
Features	- Frequent small losses. - Infrequent material losses within tolerances.
Key developments in 2010	Economic factors, coupled with organisational change, create the backdrop to the heightened operational risk environment.
Risk mitigation	Operational risk management framework currently in place, consisting of control self assessments and internal loss reporting.

Regulatory compliance risk

Definition	Risk of regulatory sanctions, material financial loss or loss to reputation as a result of failure to comply with applicable laws and regulations.
Features	- Risk of regulatory changes. - Risk of failure to comply with regulations. - Potential for fines and/or restrictions in business activities.
Key developments in 2010	The scale of regulatory change was maintained in all geographies. Increased regulatory supervision around governance, liquidity, capital and remuneration. Revised approach to banking supervision introduced by AIB's lead regulator, the Central Bank of Ireland ('Central Bank'). Certain breaches of regulatory capital ratios and liquidity requirements. Settlement agreements totalling €2.04 million between AIB and the Central Bank relating primarily to breaches of regulation requiring restitution (with compensatory interest) to customers of amounts overcharged, the majority of which were historic in nature.
Risk mitigation	Centralisation of the regulatory relationship under Group Regulatory Compliance. Additional resources deployed on legacy customer restitution issues and a series of process and systems enhancements in train to mitigate risk of future cases.

Pension risk

Definition	Risk that the funding position of the Group's defined benefit pension schemes may deteriorate to such an extent that the Group would be required to make additional contributions to cover its pension obligations.
Features	- Arises because of uncertainty of future investment returns and the projected value of the schemes' liabilities.

Key developments in 2010	Equity markets have rebounded strongly in 2010, easing pressure on defined benefit pension schemes. Additional contributions made to both Irish and UK defined benefit pension schemes (See note 11 of the 2010 Annual Financial Report).
Risk mitigation	Measures taken to address the deficit on the Group's defined benefit pension schemes include the introduction of member contributions and the averaging of pensionable salary over the final five years of employment.

The Group is still being profoundly affected by the global economic crisis, and the continued economic difficulties experienced in the countries in which we operate, particularly Ireland.

Against the background of the significant losses incurred by the Group and the ongoing challenges posed by changed economic and market circumstances, the Board continues to review and improve the Group's governance and risk control framework. The Group has initiated a major Risk Transformation Programme as an integral part of the overall Group restructuring programme. It is designed to ensure that the risk and control frameworks are fit for purpose for the new organisation, are fully compliant with new and additional regulatory requirements and are more resilient and responsive to potential future economic and financial shocks and emerging risks. Key priorities of the Programme are to:

- Conduct a review of risk governance, starting with the Board and its Committees, and covering all the Executive Risk Committees to ensure that the structure, roles and responsibilities properly support the Group operating as a whole in accordance with the risk management strategy and risk appetite set by the Board.
- Conduct a review of the roles and responsibilities within the current 'three lines of defence' model with the aim of rationalising the structure and putting in place responsibilities, accountabilities and reporting lines that best meet the revised Group structure and enhance the consistency and effectiveness of the front line risk and compliance controls, the central Group risk function, the credit function and internal audit.
- Develop consistent risk policies across all risk types and a risk management framework that effectively captures and assesses all the risks to which the Group is exposed, including being better able to assess and respond to longer term threats.
- Enhance the quality of the Group's data and management information systems.

Since the major Risk Transformation Programme is in progress, the risk framework that was in place and has been enhanced during the year is described on the following pages.

Framework

The Group assumes a variety of risks in undertaking its business activities. Risk is defined as any event that could: damage the core earnings capacity of the Group; increase earnings or cash-flow volatility; reduce capital; threaten business reputation or viability; and/or breach regulatory or legal obligations. AIB has adopted an Enterprise Risk Management approach to identifying, assessing and managing risks. The key elements of the Enterprise Risk Management framework are:

2.1 Risk philosophy;
2.2 Risk appetite;
2.3 Risk strategy;
2.4 Risk governance and risk management organisation;
2.5 Risk identification and assessment process; and
2.6 Stress and scenario testing.

2.1 Risk philosophy

The Board and the Group Executive Committee set the 'tone at the top'. This establishes the culture, philosophy and behaviour of the Group towards risk and governance, and provides the basis for the engagement of risk governance processes at enterprise, divisional and functional levels. In 2009, the Board reviewed and agreed a set of risk taking principles that reflected the Group's risk philosophy and culture, and articulated the high-level standards against which risk-taking decisions should be made.

As part of the overall organisational restructuring, the Group is reviewing its risk philosophy, in particular in respect of issues relating to values, behaviours and accountability. The review will

also consider ways in which the embedding of these principles throughout all areas of the organisation can be achieved and made more effective.

2.2 Risk appetite

The Group's risk appetite is defined as the maximum amount of risk that it is prepared to accept in order to deliver on its strategic and business objectives. The Group's risk appetite framework seeks to encourage appropriate risk taking to ensure that risks are aligned with that strategy and business objectives. Its risk appetite is captured through a range of Board-approved limits and tolerances across material risk types. In July 2010, the Board approved an enterprise Risk Appetite Framework, which grouped the bank's material risks into four broad categories - financial soundness, credit risk, market risk and operational and regulatory risk.

For each category of risk, a set of quantitative limits was established to set out the bank's appetite or tolerance for risk, which is used as a basis for periodic reporting of risk profile against risk appetite to the Board.

Risk appetite is also captured through the planning process, whereby the Group considers how much and what type of risk it needs in order to deliver the Group's business objectives and strategy. Therefore, risk appetite will need to be re-assessed and updated as the Group's restructuring plan is developed and implemented and there is greater clarity on the bank's risk bearing capacity and business model.

2.3 Risk strategy

The Group's risk strategy is informed by its strategic business plan and by the risk appetite which forms part of this plan. To the extent that the bank's current risk profile exceeds its risk appetite or its strategic target, action is taken to address such gaps. In the current environment, risk strategy is focused on reducing the risk profile of the Group (particularly in respect of credit, funding and liquidity risks) to support and enhance the sustainability of the Group and the business model that will be proposed as a result of the restructuring and organisational transformation that is currently taking place.

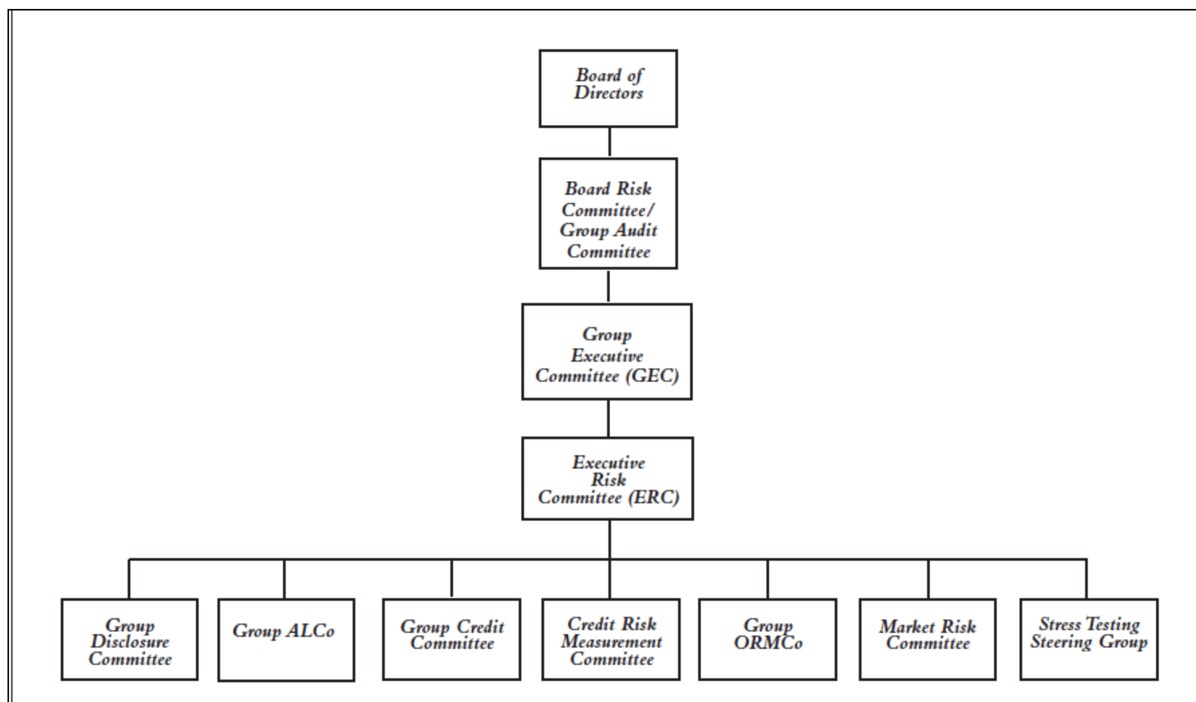
2.4 Risk governance and risk management organisation

The Board and senior management have ultimate responsibility for the governance of all risk taking activity in the Group. Historically and in common with most banks, the Group has used 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 Group currently has three control functions acting as a second line of defence; Risk (which includes Regulatory Compliance), Credit and Finance. The third and final line of defence is the Group Internal Audit function which provides independent assurance to the Audit Committee of the Board on all risk-taking activity.

The Group has embarked upon a review of its three line of defence model in order to enhance and make improvements to the current model. These refinements will seek to ensure that the functions within each of the lines of defence are clearly defined and that the roles, responsibilities and accountabilities across each of the three lines are clearly articulated and understood, and that the three lines of defence model is implemented consistently across the organisation and across all the material risks to which the Group is exposed. In addition, system enhancements to improve the provision of data will be identified.

While the Board has ultimate responsibility for all risk-taking activity within AIB, it has delegated some risk governance responsibilities to a number of committees or key officers. The diagram below summarises the current risk committee structure of the Group. This structure is being reviewed as part of the restructuring plan.



The role of the Board, the Audit Committee, and the Board Risk Committee ("BRC") is set out in the section on Corporate Governance within the 2010 Annual Report. The Group Executive Committee ("GEC") is the senior executive committee of the Group and the highest executive forum for risk governance in AIB.

The GEC acts as the ultimate parent body of a number of other risk and control committees, namely the Group Credit Committee, the Credit Risk Measurement Committee, the Group Operational Risk Management Committee ("Group ORMCo"), the Market Risk Committee, the Stress Testing Steering Group, the Group Disclosure Committee and the Group Asset and Liability Management Committee ("Group ALCo"). An Executive Risk Committee ("ERC") has recently been established to assist the GEC in discharging its responsibilities in ensuring that risks within the Group are appropriately managed and controlled. The ERC replaces the Risk Management Committee ("RMC") which was in place until September 2010 and was described in previous reports.

The role of certain key officers within the Group's risk management framework is described in this section.

Group Chief Risk Officer

The Group Chief Risk Officer ("Group CRO") has independent oversight of the Group's enterprise-wide risk management activities across all risk types. The Group CRO is a member of the Group Executive Committee and reports independently to the Executive Chairman and the chairmen of both the Board Risk Committee and the Audit Committee. Risk Officers within each of the divisions report directly to the Group CRO. The Group CRO's responsibilities include:

- providing second line assurance to Senior Management and the Board across all risk types;
- developing and maintaining the Enterprise Risk Management framework;
- providing independent reporting to the Board on all risk issues, including the risk appetite and risk profile of the Group;
- providing independent assurance to the Executive Chairman and Board that material risks are identified across all risk types and managed by line management and that the Group is in compliance with enterprise risk policies, processes and limit; and
- playing an active role in the Risk Transformation process.

Within the risk function, a Regulatory Compliance function, under the direction of the Group General Manager, Regulatory and Operational Risk, is an enterprise-wide function which operates independently of the business. The function is responsible for identifying compliance obligations arising from 'conduct of business' (customer-facing) regulations in each of the Group's operating markets. The Group General Manager, Regulatory and Operational Risk, reports directly to the Group CRO and independently to the Audit Committee and Board Risk Committee on regulatory

compliance matters. Compliance officers within each of the divisions report to the Group General Manager, Regulatory and Operational Risk.

Group Chief Credit Officer
The Group has an independent Chief Credit Officer ("CCO"), responsible for all aspects of Credit across the Group. The Group CCO is a member of the GEC and reports directly to the Executive Chairman. The CCOs within each of the divisions report directly to the Group CCO.

Chief Financial Officer
Group Finance and the Chief Financial Officer have responsibility for all of the financial processes of the Group. These include financial and capital planning, management accounting, financial disclosures and balance sheet management. Risks embedded in these processes remain the responsibility of the Chief Financial Officer, as does responsibility for compliance with tax legislation as well as external financial and regulatory reporting requirements.

Group Internal Auditor
Group Internal Audit ("GIA") is an independent evaluation and appraisal function reporting to the Board through the Audit Committee.

GIA acts as the third line of defence in the Group's risk governance organisation and provides assurance to the Audit Committee on the adequacy, effectiveness and sustainability of the governance, risk management and control framework throughout the Group, including the activities carried out by other control functions. The results of GIA audits are reported quarterly to the Audit Committee, which monitors both resolution of audit issues and progress in the delivery of the audit plan.

2.5 Risk identification and assessment process

Risk is identified and assessed throughout the Group through a combination of top-down and bottom-up risk assessment processes. The key top-down risk assessment process is the Enterprise Risk Assessment, which is undertaken on a six monthly basis. This looks at the material risks facing the Group, as identified by divisional and functional risk review processes, overlaid with an analysis at Group level of emerging threats, industry trends and external incidents. The Enterprise Risk Assessment is the most significant input into the Material Risk Assessment undertaken for the purpose of the Internal Capital Adequacy Assessment Process ("ICAAP") under Pillar 2 of the CRD.

Bottom-up risk assessment processes are more granular, focusing on risk events that have been identified through specific qualitative or quantitative measurement tools. More information on the key bottom-up risk assessment techniques across material risk types can be found in the individual risk sections below.

2.6 Stress and scenario testing

The Group uses stress testing and scenario analysis to supplement its risk assessment processes and to meet its regulatory requirements. The objective of stress testing and scenario analysis is to assess the Group's exposure to extreme, but plausible, events. The Group undertakes regular stress tests across its material risks as part of meeting its requirements under Pillars 1 and 2 of the Capital Requirements Directive. In addition, the Group undertakes additional stress tests as directed by the Central Bank of Ireland.

The Group continues to develop its stress testing capabilities as a core risk management tool, and to meet additional regulatory requirements in this area.

AIB

3. Risk management - individual risk categories

This section provides details of the Group's exposure to, and risk management of, the following individual risk types which have been identified through the Group's risk assessment process:

3.1 Credit risk;
3.2 Liquidity risk;
3.3 Market risk;
3.4 Non-trading interest rate risk;
3.5 Structural foreign exchange risk;
3.6 Operational risk;
3.7 Regulatory Compliance risk; and
3.8 Pension risk.

Further information is available in the 2010 Annual Financial Report, which is available on the Group's website: www.aibgroup.com.

3.1 Credit risk

Credit risk is the risk that the Group will incur losses as a result of a customer or counterparty being unable or unwilling to meet a commitment that it has entered into. Credit exposure arises in relation to lending activities to customers and banks, including 'off-balance sheet' guarantees and commitments, the trading portfolio, financial investments available for sale, financial investments held to maturity and derivatives. Concentrations in particular portfolio sectors, such as property can impact the overall level of credit risk.

Credit risk on lending activities to customers and banks

AIB Group lends to personal, retail customers, commercial entities and banks. Credit risk arises on the drawn amount of loans and advances, but also as a result of loan commitments, such as undrawn loans and overdrafts, and other credit related commitments such as guarantees performance bonds and letters of credit. These credit related commitments are subject to the same credit assessment and management as loans and advances.

Credit risk also arises in the Group's available for sale portfolio where counterparties are banks, sovereigns or structured debt, e.g. residential mortgage backed securities. These credit risks are identified and managed in line with the credit management framework of the Group.

Credit risk on derivatives

The credit risk on derivative contracts is the risk that the Group's counterparty in the contract defaults prior to maturity at a time when AIB has a claim on the counterparty under the contract. AIB would then have to replace the contract at the current market rate, which may result in a loss. Derivatives are used by AIB to meet customer needs, to reduce interest rate risk, currency risk and in some cases, credit risk, and also for proprietary trading purposes. Risks associated with derivatives are managed from a credit, market and operational perspective. The credit exposure is treated in the same way as other types of credit exposure and is included in customer limits. The total credit exposure consists partly of the current replacement cost and partly of the potential future exposure. The potential future exposure is an estimation, which reflects possible changes in market values during the remaining life of the individual contract. The Group uses a simulation tool to estimate possible changes in future market values and computes the credit exposure to a high level of statistical significance.

Country risk

Credit risk is also influenced by country risk, where country risk is defined as the risk that circumstances arise in which customers and other counterparties within a given country may be unable to fulfil or are precluded from fulfilling their obligations to the Group due to economic or political circumstances.

Country risk is managed by setting appropriate maximum risk limits to reflect each country's overall creditworthiness. These limits are informed by independent credit information from international sources and supported by periodic visits to relevant countries. Risks and limits are monitored on an ongoing basis.

Settlement risk
Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. The settlement risk on many transactions, particularly those involving securities and equities, is substantially mitigated when effected via assured payment systems, or on a delivery-versus-payment basis. Each counterparty is assessed in the credit process and clearing agents, correspondent banks and custodians are selected with a view to minimising settlement risk. The most significant portion of the Group's settlement risk exposure arises from foreign exchange transactions. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from foreign exchange transactions on a single day.

Credit concentration risk
Credit concentration risk arises where any single exposure or group of exposures, based on common risk characteristics, has the potential to produce losses large enough relative to the Group's capital, total assets, earnings or overall risk level to threaten its health or ability to maintain its core operations.

As part of an ongoing credit management transformation programme, during 2010 a number of structural and operational improvements have been made to credit practices and the consistency of their application in credit risk governance, processes and policy throughout the Group.

Risk identification and assessment
All customer requests for credit, ranging from large corporate cases through mid-sized commercial and down to smaller SME/consumer loans, are subject to a credit assessment process.

Depending on the size and nature of the credit, the assessment process is assisted by standard application formats in order to assist the credit decision maker in making an informed credit decision. The credit approval authority is dependent on the size of the credit application and the grade of the borrower.

Delegated authority is a key credit risk management tool. The Board determines the credit authority (i.e. limit) for the Group Credit Committee ("GCC") and divisional Credit Committees, together with the authorities of the Executive Chairman and the Group Chief Credit Officer. The GCC considers and where appropriate, approves credit exposures which are in excess of divisional credit authorities. Delegated authorities below these levels are clearly defined and are explicitly linked to levels of seniority and experience within the Group.

Another key tool used to assess credit risk is credit rating or credit scoring for each borrower or transaction both prior to approval of the credit exposure and subsequently. The methodology used produces a quantitative estimate of Probability of Default ("PD") for the borrower. This assessment is carried out at the individual borrower or transaction level.

In the retail consumer and small and medium sized enterprise ("SME") book, 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 these portfolios. In the commercial, corporate and interbank books, the rating systems utilise a combination of objective information, essentially financial data (e.g. borrowings; EBITDA; value of underlying security; interest cover; balance sheet gearing) and qualitative assessments of non-financial risk factors such as management quality and competitive position within its sector/industry. The combination of expert lender judgment and statistical methodologies varies according to the size and nature of the portfolio, together with the availability of relevant default experience applicable to the portfolio.

Credit concentration risk is identified and assessed at single name counterparty level and at portfolio level. The Board-approved Group Large Exposures Policy ("GLEP") sets the maximum limit by grade for exposures to individual counterparties or group of connected counterparties taking account of features such as security, default risk and term. Portfolio concentrations are identified and monitored by exposure and grade using internal sector codes. Such measures facilitate the measurement of concentrations by balance sheet size and risk profile relative to other portfolios within the Group and in turn, facilitate appropriate management action and decision making.

Role of stress and scenario analysis in the assessment of credit risk
Stress tests undertaken on the Group's credit portfolios form a significant part of the Group's Pillar 1 and Pillar 2 stress tests, as well as stress tests undertaken as part of other regulatory processes.

Risk management and mitigation
A framework of delegated authorities supports the Group's management of credit risk. Credit grading and scoring systems facilitate the early identification and management of any deterioration in loan quality.

Changes in the objective information (i.e. financial and business variables as described under risk identification and assessment) are reflected in the credit grade of the borrower with the resultant rating influencing the management of individual loans. Special attention is paid to lower quality rated loans or 'Criticised' loans. In AIB, criticised loans include 'Watch' (Grade 8), 'Vulnerable' (Grade 9) and 'Impaired' loans (Grade 10) which are defined as follows:

- Watch: The credit is exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cashflows.
- Vulnerable: Credit where repayment is in jeopardy from normal cashflows and may be dependent on other sources.
- Impaired: A loan is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a 'loss event') and that loss event (or 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.

Criticised advances in excess of € 1 million are subject to regular assessment and review, due to the increased risk associated with them and are subject to intensive credit management which may include restructuring facilities.

The credit management process is underpinned by an independent system of credit review. Credit policy and credit management standards are controlled and set centrally via the Group Credit function. Material credit policies are approved by the Board or at the most appropriate senior executive committee. Levels of concentrations by geography, sector and product are set through the Risk Appetite Statement which is required to be approved by the Board on an annual basis.

Credit risk mitigations
In relation to individual exposures, while the perceived strength of a borrower's repayment capacity is the primary factor in granting a loan, AIB uses various approaches to help mitigate risks relating to individual credits including: transaction structure, collateral and guarantees. Collateral or guarantees are required as a secondary source of repayment in the event of the borrower's default. Guidelines covering the acceptability of different forms of security and how it should be valued are outlined in policy. The main types of collateral for loans and receivables to customers are as follows:

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

Corporate/commercial lending: For property related lending, it is normal practice to take a charge over the property being financed. This includes investment and development properties. For non-property related lending, collateral typically includes a charge over business assets such as stock and debtors but typically include property in the larger cases. In some circumstances, personal guarantees supported by a lien over personal assets are also taken as security. The Group does not disclose the fair value of collateral held against past due or impaired financial assets as it would be operationally impracticable to do so. Very occasionally, credit derivatives are purchased to hedge credit risk. Current levels are minimal and their use is subject to the normal credit approval process.

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

In the case of large exposures, it is sometimes necessary to reduce initial deal size through appropriate sell-down and syndication strategies. There are established guidelines in place within the Group relating to the execution of such strategies.

The Group also has in place an interbank exposure policy which establishes the maximum exposure for each counterparty bank depending on credit grade. Each bank is assessed for the appropriate exposure limit within the policy. Risk generating business units of each division are required to have an approved bank or country limit prior to granting any credit facility, or approving any obligation or commitment which has the potential to create interbank or country exposure.

Risk monitoring and reporting

Credit managers pro-actively manage the Group's credit risk exposures at transaction and relationship level. Credit risk at a portfolio level is monitored and reported regularly to senior management and the Board. A detailed credit review, including information on provisions, is prepared quarterly.

Single name counterparty concentrations are monitored at transaction level. Large exposures and portfolio concentrations are reported regularly to senior management and the Board.

Provisioning for impairment

The identification of loans for assessment as impaired is facilitated by the Group's rating systems. As described under the Risk identification and assessment section, changes in the variables which drive the borrower's credit grade 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 rating of an exposure is one of the key factors used to determine the provisioning in AIB Group; it triggers the process which results in the creation of a specific impairment provision on individual loans where there is doubt on recoverability. Loans are identified for assessment as impaired if they are past due typically for more than ninety days or the borrower exhibits, through lender assessment, an inability to meet his obligations to the Group based on objective evidence of loss events. The types of loss events include;

- significant financial difficulty of the borrower;
- a breach of contract, such as being past due typically for ninety days in interest or principal payments;
- when it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; and
- the lender granting a concession that would not otherwise be considered as a result of economic or legal reasons relating to the borrower's financial difficulty.

Impairment triggers may be identified during the assessment process as a result of one or more of these loss events. The Group provides for impairment in a prompt and consistent way across the credit portfolios.

As part of its impairment methodology, the Group makes use of two types of impairment provision: a) Specific; and b) Incurred but not reported ("IBNR") which represents a collective provision relating to the portfolio of performing loans.

<u>Specific impairment provisions</u>

Specific impairment provisions arise when the recovery of a specific loan or group of loans is in doubt based on specific impairment triggers as described above and assessment that all the expected future cash flows either from the loan itself or the associated collateral will not be sufficient to repay the loan. The amount of the specific impairment provision will reflect the financial position of the borrower and the net realisable value of any security held for the loan or group of loans. In practice, 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 and individually insignificant.

Individually significant impairment

Each division sets a threshold above which cases are assessed on an individual basis. For those loans identified as being impaired and which require assessment on an individual basis, the impairment provision is calculated by discounting the expected future cash flows at the exposure's original effective interest rate and comparing the result (the estimated recoverable amount) to the carrying amount of the loan to determine the level of provision required. Specific impairments for larger loans (individually significant) are raised 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 into account in estimating the future cash flows and discounting these back to present value.

As property loans represent a significant concentration within the Group's advances, some key principles have been applied in respect of property collateral held by the Group.

For impaired property and construction exposures, cash flows will generally emanate from the development and/or disposal of the assets which comprise the collateral held by the Group. The Group's preference is to work with the obligor to progress the realisation of the collateral although in some cases the Group will foreclose its security to protect its position. AIB typically holds various types of collateral as security for these loans, e.g. land, developments available for sale/rent and investment properties or a combination of these assets via cross collateralisation.

The Group uses a number of methods to assist in reaching appropriate valuations for the collateral held, given the absence of a liquid market for property related assets in Ireland at present. These include: (a) consultations with valuers; (b) use of professional valuations; (c) use of internally developed residual value methodologies; (d) the application of local market knowledge in respect of the property and its location, and (e) use of internal guidelines for deriving the valuation of investment property. These are described below.

- Consultations with valuers would represent circumstances where local external valuers are asked to give verbal "desk top" updates on their view of the assets' value. Consultation also takes place on general market conditions to help inform the Group's view on the particular property valuation. The valuers are external to the Group and are familiar with the location and asset for which the valuation is being requested.
- Use of professional valuations would represent circumstances where external firms are requested to provide formal written valuations in respect of the property. Up to date external professional valuations are sought in circumstances where it is believed that sufficient transactional evidence is available to support an expert objective view. Historic valuations are also used as benchmarks to compare against current market conditions and assess peak to trough reductions. Available market indices for relevant assets, e.g. residential and investment property, are also used in valuation assessments.
- The residual value methodology assesses the value in the land or property asset after meeting the incremental costs to complete the development. This approach looks at the cost of developing the asset to determine the residual value for the Group, including covering the costs to complete and additional funding costs. The key factors considered include: (i) the development potential given the location of the asset; (ii) its current or likely near term planning status; (iii) levels of current and likely future demand; (iv) the relevant costs associated with the completion of the project; and (v) expected market prices of completed units. If, following internal considerations which may include consultations with valuers, it is concluded that the optimal value for the Group will be obtained through the development/completion of the project, a residual value methodology is used. When, in the opinion of AIB, the land is not likely to be developed or it is non-commercial to do so, agricultural/green field values may be applied.
- Application of local market knowledge would represent circumstances where the local bank management familiar with the property concerned, with local market conditions, and with knowledge of recent completed transactions would provide indications of the likely realisable value and a potential timeline for realisation.
- In valuing investment property, yields are applied to current rentals having considered current yields and estimated likely yields for a more normal market environment for relevant asset classes.

Applying one or a combination of the above methodologies has resulted in a wide range of discounts to original collateral valuations, influenced by the nature, status and year of purchase of the asset. All relevant costs likely to be associated with the realisation of the collateral are taken into account in the cash flow forecasts. The spread of discounts is influenced by the type of collateral, e.g. land, developed land or investment property and also its location. The valuation arrived at is therefore a function of the nature of the asset, e.g. unserviced land in a rural area will most likely suffer a greater reduction in value if purchased at the height of a property boom than a fully let investment property with strong lessees. The discounts to original collateral value, having applied our valuation methodologies to reflect current market conditions, can be as high as 95% for land assets where values have been marked down to agricultural/green field site values.

When assessing the level of provision required for property loans, apart from the value to be realised from the collateral, other cashflows, if available, for example recourse to other assets or sponsor support, are also considered. The other key driver is the time it takes to receive the funds from the realisation of collateral. While it depends on the type of collateral and the stage of its development, the period of time to realisation is typically two to seven years but sometimes this time period is exceeded. These estimates are frequently reassessed on a case by case basis. In accordance with IAS 39, AIB discounts these cash flows at the assets' original effective interest rate to calculate their net present value and compares this with the carrying value of the asset, the difference being the level of provision required.

Each division has a dedicated approach to loan workout and to monitoring and proactively managing impaired loans. Ultimately the loan workout manager will decide on the method(s) to be used based on his/her expert judgement. The loan workout manager then recommends the required impairment to the appropriate approval authority. The Group operates a tiered approval framework for impairments which are approved, depending on amount, by various delegated authorities up to divisional Credit Committee/Special Credit Committee level. These committees are chaired by the divisional Chief Credit Officer/Managing Director, where the valuation/impairment is reviewed and challenged for appropriateness and adequacy. Impairments in excess of divisional authorities are approved by the GCC.

These valuation assumptions and approaches are documented and the resultant impairments are reviewed and challenged as part of the approval process by divisional and Group senior management.

Impairment of individually insignificant exposures

The calculation of an impairment charge for credits below the 'significant' threshold is undertaken on a collective basis. Loans are grouped together in homogeneous pools sharing common characteristics. Recovery rates are established for each pool by assessing the Group's loss experience for these pools over the past four to five years. Loss experience is determined by examining the amount and timing of cash flows received (typically over four years) from the date the loan was identified as impaired. These recovery rates are updated at a minimum on a yearly basis. Impairment provisions are then raised on new impaired loans and updated on existing impaired loans, reflecting the Group's updated recovery experience.

While a uniform approach is adopted throughout the Group, depending upon the range/depth of customer and portfolio information available, the methodologies used in establishing the level of impairment may vary across the divisions, given that the nature of the asset pools differs across divisions.

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

Collective impairment for performing book Incurred but not reported ("IBNR")

IBNR provisions are maintained to cover loans which are impaired at the reporting date and, while not specifically identified, are known from experience to be present in any portfolio of loans but have not yet emerged. 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 portfolios and to the credit environment at the reporting date.

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

The approach used for the collective evaluation of impairment is to split the performing financial assets into homogeneous pools on the basis of similar risk characteristics.

The asset pools are multiplied by the 'average annual loss rate' (i.e. average of five year annual loss rate) for that pool, suitably adjusted where appropriate by management for any factors currently affecting the portfolio that may not have been a feature in the past or vice versa. However, where it is deemed that the average historic loss rate does not accurately reflect incurred loss, reference may be made to the most recent specific provision 'run rate' for each pool. The use of such 'adjustment factors' is permitted by IAS 39. The resultant amount is then adjusted to reflect the

emergence period, i.e. the time it takes following a loss event for an individual loan to be recognised as impaired requiring a specific provision.

The emergence period is key in determining the level of collective provisions. Emergence periods for each divisional portfolio are determined by taking into account current credit management practices, historical evidence of assets moving from 'good' to 'bad' as a result of a 'loss event' and include case sampling. The range of emergence periods applied by AIB is three to twelve months with the majority of the portfolio having a three to six month emergence period applied.

The management process for the identification of loans requiring impairment provision is underpinned by independent tiers of review. Credit quality and impairment provisioning are independently monitored by credit and risk management on a regular basis.

Loan portfolio

AIB Group's loan portfolio comprises loans (including overdrafts), instalment credit and finance lease receivables.

The overdraft provides demand credit facility combined with a current account. Borrowings occur when the customer's drawings take the current account into debit. The balance may therefore fluctuate with the requirements of the customer. Although overdrafts are contractually repayable on demand (unless a fixed term has been agreed), provided the account is deemed to be satisfactory, full repayment is not generally demanded without notice.

The credit portfolio is diversified within each of its geographic markets (Ireland, United Kingdom, United States, Poland[1], and Europe) by spread of locations, industry classification and individual customer.

Other than construction and property in Ireland[2] (16.8%) and residential mortgages in Ireland[2] (26.6%), as at 31 December 2010 no one industry, or loan category, in any geographic market accounts for more than 10% of AIB Group's total loan portfolio[2].

3.2 Liquidity risk

The objective of liquidity management is to ensure that, at all times, the Group holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties at an economic price.

Risk identification and assessment

Liquidity risk is assessed by modelling the net cash outflows of the Group over a series of maturity bands. Behavioural assumptions are applied to those liabilities whose contractual repayment dates are not reflective of their inherent stability. These net cash outflows are compared against the Group's stock of liquid assets to consider, within each maturity band, the adequacy of the Group's liquidity position.

Risk management and mitigation

The principles behind the Group's liquidity management policy aim to ensure that the Group can, at all times, meet its obligations as they fall due at an economic price. The Group manages its liquidity in a number of ways. Firstly, through the active management of its liability maturity profile, it aims to ensure a balanced spread of repayment obligations with a key focus on 0 – 8 day and 9 day – 1 month time periods. Monitoring ratios apply to periods in excess of 1 month. Secondly, the Group aims to maintain a stock of high quality liquid assets to meet its obligations as they fall due. Discounts are applied to these assets based upon their cash-equivalence and price sensitivity. Thirdly, net outflows are monitored on a daily basis. Finally, the Group endeavours to maintain a diversified funding base across all segments of the markets in which it operates, while focusing on minimising concentration in any single source of funding and maintaining a balance between short-term and long-term funding sources.

Customer deposits represent the largest source of funding, with the Group's core retail franchise and accompanying core retail deposit base in Ireland, the UK and Poland providing the Group with a stable and reasonably predictable source of funds. Although a significant element of these retail deposits are contractually repayable on demand or at short notice, the Group's customer base and geographic spread generally mitigates against this risk. While BZWBK was a very well funded banking franchise, its funding and liquidity was managed on an 'arms length basis'

[1]For 2010, Poland is classified as a discontinued operation under IFRS 5.
[2]Excluding loans and receivables held for sale to NAMA.

from Group and there has been no adverse consequence to the funding position at Group level following the disposal.

The Group manages and monitors the funding support provided by its deposit base to its loan book through a series of measures including its externally reported customer loan-to-deposit ratio. More refined measures are utilised internally which recognise the capacity to generate contingent liquidity out of the Group's loan book, the structure of the Group's wholesale term funding and the stability of its customer deposit base. Arising from the Irish banking system and sovereign difficulties during the year, the Group experienced a material outflow of deposits totalling € 21 billion during 2010. Most of these outflows were experienced from institutional and corporate customers, but some reductions also occurred in AIB Bank ROI and AIB Bank UK. As a consequence, the Group's loan-to-deposit ratio increased from 123% at 31 December 2009 to 151% at 31 December 2010 (165% after exclusion of BZWBK).

Global Treasury, through its Wholesale Treasury operations, manages on a global basis the liquidity and funding requirements of the Group. Euro, sterling, Polish zloty and US dollar represent the most important currencies to the Group from a funding and liquidity perspective. Global Treasury is active in the wholesale funding markets including the interbank and corporate deposit markets. This is supplemented by commercial paper, certificate of deposit, medium term note, covered bond and other issuance programmes which have served to further diversify the Group's sources of funding. The extreme market conditions in 2010 have resulted in a severe contraction of wholesale market appetite on the part of participants for liquidity risk from Ireland. This has manifested itself through a shortening of duration and contraction in supply of wholesale funding available, leading to a significant shortening in the term funding profile of many institutions including AIB. As a consequence, AIB had to increase its use of secured funding to offset reduced wholesale market activity, including accessing a range of central bank liquidity facilities. The Group participates in global central bank money market repurchase agreement operations as part of its normal day-to-day funding activity. These facilities are part of standard central bank operations. The Group has also accessed a range of liquidity facilities from central banks, including certain additional market wide schemes during the period of dislocation within the funding markets.

The Irish Government introduced the Eligible Liabilities Guarantee ("ELG") Scheme on 9 December 2009. AIB joined the ELG Scheme on 21 January 2010. On 19 November 2010, the EC approved an amendment to the ELG Scheme to extend the 'issuance window' to 30 June 2011, which was further extended to 31 December 2011 by the EU Commission on 1 June 2011.

The Group's debt rating as at 22 March 2011 for all debt/deposits not covered by the Credit Institutions (Eligible Liability Guarantee) Scheme 2009 are as follows: Standard and Poor's long-term "BB" and short-term "B", Fitch long-term "BBB" and short-term "F2", Moody's long-term "Baa3" for deposits and "Ba2" for senior unsecured debt and short-term "P-3" for deposits and "Not Prime" for senior unsecured debt.

The Group's debt rating as at 22 March 2011 for all debt/deposits covered by the Credit Institutions (Eligible Liability Guarantee) Scheme 2009 are as follows: Standard and Poor's long-term "A-" and short-term "A-2", Fitch long-term "BBB+" and short-term "F2", Moody's long-term "Baa1" and short-term "P-2".

The Group's liquidity management policy aims to ensure that it has sufficient liquidity to meet its current requirements. In addition, it operates a funding strategy designed to anticipate additional funding requirements based upon projected balance sheet movements. The Group undertakes liquidity stress testing and contingency planning to deal with unforeseen events. Stress tests include both firm specific and systemic risk events and a combination of both. These scenario events are reviewed in the context of the Group's liquidity contingency plan, which details corrective action options under various levels of stress events. The purpose of these actions is to ensure continued stability of the Group's liquidity position within the Group's pre-defined liquidity risk tolerance levels.

The Group's approach to liquidity management complies with the Central Bank's revised 'Requirements for the Management of Liquidity Risk', introduced in July 2007. As a consequence of the contraction of customer and wholesale funding and shortening duration, the Group liquidity position went below regulatory ratio requirements in November 2010. Given the market access difficulties for the Irish Sovereign as well as the Irish banks, the Group recognises that significant restructuring of its balance sheet is a prerequisite to returning the Group to a normalised funding position. In this regard the Group engaged in a comprehensive Prudential Liquidity Assessment Review ("PLAR") for the Central Bank of Ireland run in conjunction with a Prudential Capital Assessment Review ("PCAR").This process identified the structural balance changes that will be required in order to provide the foundations for a normalised funding and liquidity position. These

changes are likely to include a significant reduction in balance sheet size by way of selected loan asset deleveraging and disposal of non-core businesses. These actions are expected to facilitate a substantial reduction in the usage of central bank support facilities. In addition, the Group will be required to achieve a loan to deposit ratio of 122.5% by December 2013.

The Group is cognisant of the changing funding and liquidity requirements which will be required as the Basel III proposals are rolled out into regulatory requirements. These requirements will place a high value on the Group's retail franchise deposits. The Group will also seek to build an appropriate mix of wholesale market issuance into its funding position in order to assist in achieving the level of term stability that will be required under Basel III. More information on the Group's current funding mix is included within the 'Funding' section under 'Commentary on results' in the Group's 2010 Annual Financial Report.

Risk monitoring and reporting

The liquidity position of AIB is measured and monitored daily within Global Treasury. The daily liquidity report shows the Group's principal operating currencies of euro, sterling, US dollar and Polish zloty. During the year the Group's liquidity contingency plans were activated and committees comprising members of senior management, Global Treasury and Group Finance met on a daily basis to monitor the position. In addition to the regular Group ALCo and Board monthly reporting on the liquidity and funding position of the Group, the Group Executive Committee and the Board were briefed on liquidity and funding on an ongoing basis.

3.3 Market risk

Market risk is the risk relating to the uncertainty of returns attributable to fluctuations in market factors such as adverse movements in the level or volatility of market prices of items such as debt instruments, equities and currencies. Where the uncertainty is expressed as a potential loss in value, it represents a risk to the income and capital position of the Group.

The Group, primarily through its Global treasury function, assumes market risk as a consequence of the risk management services it provides to its client base and through risk positioning in selected wholesale markets. In addition, the Group assumes market risk as a result of its pro-active balance sheet and capital management activity (see Capital and capital management).

Global Treasury which incorporated BZWBK Treasury until its sale, is also authorised to trade on its own account in selected wholesale markets. The strategies employed are desk and market specific and approved on an annual basis by the Market Risk Committee.

Until its sale, BZWBK was also mandated to take moderate equity risk through its brokerage business, namely Dom Maklerski's equity market-making team.

Risk identification and assessment

Independent risk functions exist within each trading business and are tasked with capturing all material sources of market risk within their respective portfolios. The Group Market Risk function is the second line of defence for market risk providing independent oversight and assurance to the Risk Committees and Board.

In quantifying the portfolio's market risk profile, the Group's risk measurement systems are configured to address all material risk factors, including price dynamics, volatilities and correlation behaviour. The Group's core risk measurement methodology is based on a variance co-variance application of the industry standard Value at Risk ("VaR") technique that incorporates the portfolio diversification effect within each standard risk factor (interest rate, foreign exchange, equity, as applicable). This VaR metric is derived from an observation of historical prices over a period of three years, assessed at a 99% statistical confidence level and using a 1 month holding period. Instruments with significant embedded or explicit option characteristics receive special attention, including Monte Carlo simulation and a full analysis of option sensitivities.

Although an important measure of risk, VaR has limitations as a result of its use of historical data, assumed distribution, holding periods and frequency of calculation. Furthermore, the use of confidence intervals does not convey any information about potential loss when the confidence level is exceeded. The Group recognises these limitations and supplements its use with a variety of other techniques, including sensitivity analysis, interest rate gaps by time period and daily open foreign exchange and equity positions. In particular, the sensitivity of the Group's AFS securities portfolio to a one basis point shift in credit spreads is actively monitored and the AFS securities portfolio is subject to additional nominal limits. The size of the Group's AFS portfolio and the net unrealised gains/losses are set out in note 32 of the 2010 Annual Financial Report.

Stress-testing and scenario analysis are employed on an ongoing basis to gauge the Group's vulnerability to loss under stressful market conditions. For example, for interest rate risk portfolios, principal components analysis ("PCA") is used to analyse interest rate term structure factor sensitivity measures i.e. it identifies the three most predictive elements driving interest rate changes, namely parallel shift, twist and bow. For foreign exchange and equity portfolios, historical simulation techniques are used to determine potential worst case outcomes.

Risk management and mitigation

In managing and overseeing market risk, the Group makes a distinction between its trading and non-trading activities. All trading positions arise in a dealing room environment, are subject to the rigour of the Group's market risk management framework and are overseen by the Market Risk Committee, irrespective of accounting or regulatory treatment.

All other positions most of which are structural in nature are considered 'non-trading' and are subject to a governance framework that is overseen by the Group ALCo e.g. the risk management of non-interest bearing current account balances.

Market risk management in the Group is actively administered on the basis of clearly delegated authorities that reflect the appropriate segregation of duty, fit for purpose trading environments with enabling technology and competent personnel with relevant skill and experience. It should be noted that credit risk issues inherent in the market risk portfolios are subject to the credit risk framework that was described in the previous section. A comprehensive suite of policies and standards clarifies roles and responsibilities, and provides for effective risk assessment measurement, monitoring and review of trading positions.

Market risk management aligns with trading business strategy through the articulation of an annual risk strategy and appetite statement. This process yields a suite of market risk limits that considers both the risk (e.g. VaR) and financial (e.g. Embedded Value and Stop Loss) impacts of treasury activities.

Risk monitoring & reporting

Quantitative and qualitative information is used at all levels of the organisation, up to and including the Board, to identify, assess and respond to market risk. The actual format and frequency of risk disclosure depends on the audience and purpose and ranges from transaction-level control and activity reporting to enterprise level risk profiles. For example, front office and risk functions receive the full range of daily control and activity, valuation, sensitivity and risk measurement reports, while the Board receives a monthly market risk commentary and summary risk profile.

3.4 Non-trading interest rate risk

Non-trading interest rate risk is defined as the Group's sensitivity to earnings volatility in its non-trading activity arising from movements in interest rates. This is referred to as interest rate risk in the banking book. It reflects a combination of non-trading treasury activity and interest rate risk arising in the Group's retail, commercial and corporate operations. AIB's treasury activity includes its money market business and management of internal funds flows with the Group's businesses. These treasury transactions are also captured under the market risk VaR assessment measure. Non-trading interest rate risk in retail, commercial and corporate banking activities can arise from a variety of sources, including where those assets and liabilities and off-balance sheet instruments have different repricing dates.

Risk identification and assessment

Banking book interest rate risk is calculated in each business unit on the basis of establishing the repricing behaviour of each asset, liability and off-balance sheet product. For some products the actual interest repricing characteristics differ from the contractual repricing arrangements. In these cases, the repricing maturity is determined by the market interest rates that most closely fit the behaviour of the product interest rate. For non-interest bearing current accounts, the repricing maturity is determined by the stability of the portfolio. The assumptions behind these repricing maturities and the stability levels of portfolios are reviewed annually by the relevant divisional asset and liability committees. The risks from these exposures are managed through a series of VaR, basis point sensitivity and earnings at risk measures.

Risk management and mitigation

As a core risk management principle, the Group requires that all material interest rate risk is transferred to Global Treasury. This transferred banking book risk is managed as part of Global Treasury's overall interest rate risk position. The Group manages structural interest rate risk

volatility by maintaining a portfolio of instruments with interest rates fixed for several years. The size and maturity of this portfolio is determined by characteristics of the interest-free or fixed-rate liabilities or assets and, in the case of equity, an assumed average maturity.

Risk monitoring and reporting
Group ALCo monitors the Group's banking book interest rate risk and has oversight responsibility for non-treasury banking book risk. Treasury banking book risk is overseen by the Market Risk Committee. Group ALCo meets on a monthly basis and receives standing reports on the Group's asset and liability risk profile. It monitors positions against these limits on a monthly basis. The Board reviews and approves relevant policies and limits.

3.5 Structural foreign exchange risk

Structural foreign exchange rate risk arises from the Group's non-trading net asset position in foreign currencies. This arises almost entirely from the Group's net investments in its sterling, US dollar and Polish zloty-based subsidiaries and associates.

Risk identification and assessment
The Group prepares its consolidated balance sheet in euro. Accordingly, the consolidated balance sheet is affected by movements in the exchange rates between these currencies and the euro. Due to the Group's diversified international operations, the currency profile of its capital may not necessarily match that of its assets and risk-weighted assets. These positions are not actively hedged, although some mitigation of euro/sterling and euro/zloty positions arises from the Group's capital structure. In relation to the sale agreement for BZWBK, a forward exchange contract was put in place contingent on completion of the transaction.

The Group also has a structural exposure to foreign exchange risk arising from its share of earnings from overseas subsidiaries and associates. Group ALCo sets the framework for and reviews the management of these activities. Open positions are reported as differences between expected earnings in the current year and the value of hedges in place.

Risk management and mitigation
The Group's structural foreign exchange hedging activity is overseen by the Hedging Committee, a sub-committee of the Group ALCo. The objective of the Group's hedging policy is to manage the Group's foreign currency earnings within tolerance levels based on the budget for the forthcoming year, making use of other natural hedges within the Group's balance sheet where these are available.

Risk monitoring and reporting
Group ALCo monitors the Group's structural foreign exchange risks. It meets on a monthly basis and receives standing reports on the Group's asset and liability risk profile including structural foreign exchange risk. The Board reviews and approves relevant policies and limits.

3.6 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk, but excludes strategic, business and reputational risk. In essence, operational risk is a broad canvas of individual risk types which include information technology and business continuity risk, internal and external fraud risk and fiduciary and legal risk.

Risk identification and assessment
Risk and Control Self-Assessment ('self-assessment') is a core process in the identification and assessment of operational risk across the enterprise. The process serves to ensure that key operational risks are proactively identified, evaluated, monitored and reported, and that appropriate action is taken. Self-assessment of risks is completed at business unit level and these are incorporated into the Operational Risk Self Assessment Risk template ("SART") for the business unit. SARTs are regularly reviewed and updated by business unit management. A matrix is in place to enable the scaling of risks and plans must be developed to introduce mitigants for more significant risks. Assurance processes are in place at divisional level where divisional Operational Risk Teams undertake reviews to ensure the completeness and robustness of each business unit's self-assessment, and that appropriate attention is given to more significant risks.

Risk management and mitigation
Each business area is primarily responsible for managing its own operational risks. An overarching Group Operational Risk Management ("ORM") policy is in place, designed to establish an effective and consistent approach to operational risk management across the enterprise. The Group ORM policy is also supported by a range of specific policies addressing issues such as information security and business continuity management.
An important element of the Group's operational risk management framework is the ongoing monitoring through self-assessment of risks, control deficiencies and weaknesses, the tracking of incidents and loss events and the use of a structured 'lessons learned' process to ensure that, once identified, control deficiencies are communicated and remedied across the Group. The role of Group ORMCo is to review and coordinate operational risk management activities across the Group including setting policy and promoting best practice disciplines.

The Group requires all business areas to undertake risk assessments and establish appropriate internal controls in order to make sure that all components, taken together, deliver the control objectives of key risk management processes. In addition, an insurance programme is in place, including a self insured retention, to cover a number of risk events which would fall under the operational risk umbrella. These include financial lines policies (comprehensive crime/computer crime; professional indemnity/civil liability; employment practices liability; Directors and officers liability) and a suite of general insurance policies to cover such things as property and business interruption, terrorism, combined liability and personal accident.

Risk monitoring and reporting
The primary objective of the operational risk management reporting and control process within the Group is to provide timely, pertinent operational risk information to the appropriate management level so as to enable appropriate corrective action to be taken and to resolve material incidents which have already occurred. A secondary objective is to provide a trend analysis on operational risk and incident data for the Group. The reporting of operational incidents and trend data at Group ORMCo supports these two objectives. In addition, the Board, Audit Committee and the GEC receive summary information on significant operational incidents on a regular basis.

Business units are required to review and update their assessment of their operational risks on a regular basis. Specialist operational risk management teams at a Divisional level undertake review and challenge assessments of the business unit risk assessments. In addition, quality assurance teams which are independent of the business undertake reviews of the operational controls in the retail branch networks (as part of a combined regulatory/compliance/operational risk programme).

3.7 Regulatory compliance risk

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

Regulatory Compliance is an enterprise-wide function which operates independently of the business. The function is responsible for identifying compliance obligations arising from 'conduct of business' (customer-facing) regulations in each of the Group's operating markets. There are Regulatory Compliance teams in each division that work closely with management in assessing compliance risks and provide advice and guidance on addressing these risks. Risk-based monitoring of compliance by the business with regulatory obligations is undertaken. The Regulatory Compliance function also promotes the embedding of an ethical framework within AIB's businesses to ensure that the Group operates with honesty, fairness and integrity. A code of Business Ethics is in place for all staff alongside a Leadership Code for more senior staff. These are supported by a suite of policies. New Board driven codes are being put in place to enhance and build on the existing codes.

Risk identification and assessment
The Regulatory Compliance function is specifically responsible for independently identifying and assessing current and forward looking 'conduct of business' compliance obligations, including anti-money laundering and regulation on privacy and data protection. The identification, interpretation and communication roles relating to other legal and regulatory obligations have been assigned to functions with specialist knowledge in those areas. For example, employment law is assigned to Human Resources, taxation law to Group Taxation and prudential regulation to the Finance and Risk functions.

Regulatory Compliance undertakes a periodic detailed assessment of the key 'conduct of business' compliance risks and associated mitigants at divisional and enterprise level. Divisional risks are discussed and agreed at divisional management boards. These are collated and processed by Regulatory Compliance into an overall enterprise-wide review of compliance risks. This is reviewed at the GEC and ultimately the Audit Committee. The Regulatory Compliance function supports and validates this approach by operating a risk framework model that is used in collaboration with business units to identify, assess and manage key compliance risks at business unit level. These risks are incorporated into the SARTs for the relevant business unit.

Risk management and mitigation

The Board, operating through the Audit Committee, has approved the Group's compliance policy and the mandate for the Regulatory Compliance function. The Audit Committee reviews the Group's key compliance risks on a regular basis to assess the extent to which they are being managed effectively.

Management is responsible for ensuring that the Group complies with its regulatory responsibilities. GEC's responsibilities in respect of compliance include the establishment and maintenance of the framework for internal controls and the control environment in which compliance policy operates thereby ensuring that Regulatory Compliance is suitably independent from business activities and that it is adequately resourced.

The primary role of the Regulatory Compliance function is to provide direction and advice to enable management to discharge its responsibility for managing the Group's compliance risks. Regulatory Compliance is also mandated to conduct investigations of possible breaches of compliance policy and to appoint outside legal counsel or other specialist external resources to perform this task if appropriate.

The principal compliance risk mitigants are risk identification, assessment, measurement and the establishment of suitable controls at business level. In addition, the Group has insurance policies that cover a number of risk events which fall under the regulatory compliance umbrella.

Risk monitoring and reporting

Regulatory Compliance undertakes risk-based monitoring of compliance with relevant policies, procedures and regulatory obligations. Monitoring can be undertaken by either dedicated compliance monitoring teams or quality assurance teams in retail divisions (covering both operational risk and regulatory compliance) at the direction of the compliance function, or in the case of the Capital Markets division by the business unit compliance officers.

Risk prioritised annual compliance monitoring plans are prepared based on the risk assessment process. Monitoring is undertaken both on a business unit and a process basis. The annual monitoring plan is reviewed regularly, and updated to reflect changes in the risk profile from emerging risks, changes in risk assessments and new regulatory 'hotspots'. Issues emerging from compliance monitoring are escalated for management attention, and action plans and implementation dates are agreed. The implementation of these action plans is monitored by Regulatory Compliance.

Regulatory Compliance report to the Executive Risk Committee, divisional boards and independently to the Board of Directors (through the Audit Committee) on the effectiveness of the processes established to ensure compliance with laws and regulations within scope.

3.8 Pension risk

Pension risk is the risk that the funding position of the Group's defined benefit plans would deteriorate to such an extent that the Group would be required to make additional contributions to cover its pension obligations towards current and former employees. Pension risk includes market risk, investment risk and actuarial risk. The Group maintains a number of defined benefit pension schemes for past and current employees. The ability of the pension funds to meet the projected pension payments is maintained through the diversification of the investment portfolio across geographies and across a wide range of assets including equities, bonds and property. Market risk arises because the estimated market value of the pension fund assets might decline or their investment returns might reduce. Actuarial risk is the risk that the estimated value of the pension liabilities might increase. In these circumstances, the Group could be required, or might choose, to make extra contributions to the pension fund.

4. Capital and capital management

The objectives of the Group's capital management policy are to at all times comply with regulatory capital requirements and to ensure that the Group has sufficient capital to cover the current and future risks of its business and support its future development. The Group does this through an Internal Capital Adequacy Assessment Process ("ICAAP"), which is subject to supervisory review and evaluation. The capital adequacy requirements set by the Central Bank, which reflect the requirements of the Capital Requirements Directive ("CRD") establish a floor of 8% under which the total capital ratio must not fall (4% core tier 1, 4% tier 1). At 31 December 2010, the actual total capital ratio was 9.2% (4% core tier 1, 4.3% tier 1 ratio).These ratios form the basis of the Group's capital management policy.

During December 2010, the Group breached its capital ratios on a consolidated and individual basis, for a period of six days. This occurred between the transfer of financial instruments to NAMA on 17 December 2010 and the subsequent receipt of capital from the NPRFC on 23 December 2010 which remedied the breach. The breach was reported to the Central Bank.

The Group's regulatory capital position at 31 December 2010 benefited from the following derogations from certain regulatory capital requirements granted by the Central Bank, on a temporary basis, following requests from the Group:

- that tier 2 capital cannot exceed tier 1 capital (Regulation 11 (1)(a) of the European Communities (Capital Adequacy of Credit Institutions) Regulation 2006 (SI No. 661 of 2006)); and
- that lower tier 2 capital cannot exceed 50% of tier 1 capital (Regulation 11 (1)(b) of SI No. 661 of 2006).

The requirement for this derogation is as a result of loan impairment provisions at 31 December 2010. These derogations remained in place until the completion of the liability management exercise on 24 January 2011.

The Capital Requirements Directive

The CRD is set out in three distinct 'pillars' and has introduced some significant amendments to the capital adequacy framework since its implementation in 2007. In terms of minimum capital requirements ('Pillar 1') it brings greater granularity in risk weightings. Under Pillar 2 ('supervisory review') banks may estimate their own internal capital requirements. Pillar 3 ('market discipline') involves the disclosure of a suite of qualitative and quantitative risk management information to the market. The Group most recently disclosed this information in May 2010.

The European Commission issued Directive 2009/111/EC ("CRD 2") in December 2009 which was transposed into Irish law at the end of 2010.The measures introduced by CRD 2 were amendments to the original CRD and reflected in the main; new requirements on hybrid tier one capital instruments; updates to the large exposures regime; improved risk management requirements for securitisations; and changes to trading book capital requirements. These amendments have not had a material impact on the capital position of the Group.

Prudential Capital Assessment Review

Market expectations regarding capital ratios for banks have risen following the increase in loss expectations across the international banking industry. This has had a pronounced impact on Irish banks given the challenges currently facing the Irish economy as a whole and the Irish banking industry in particular. In light of the continued instability in the Irish banking industry, the Central Bank undertook Prudential Capital Assessment Reviews ("PCARs") in 2010 and 2011 to determine the forward-looking prudential capital requirements of certain of the Irish credit institutions, including the Group, covered by the Government guarantee. The PCAR assesses the capital requirements arising for expected loan losses, and other financial developments, over a three year time horizon.

2010

The Central Bank undertook a PCAR in March 2010, with subsequent capital review updates in September and November 2010. These resulted in the Group being required by the Central Bank to raise c. € 13.1 billion of equivalent core tier 1 capital (sufficient to achieve a target capital ratio of at least 12% core tier 1, minimum 10.5% core tier 1).This c. € 13.1 billion is the total of the additional core tier 1 capital requirements prescribed for the Group in the Central Bank announcements dated 30 March 2010 (€ 4,865 million), 30 September 2010 (€ 3,000 million) and 28 November 2010 (€ 5,265 million).

After taking into account the equivalent core tier 1 capital generated by the M&T disposal, the BZWBK disposal, the issue of equity capital to the Irish Government, a liability management exercise undertaken in January 2011 and other capital-generating activities undertaken by the Group, the Group had residual equity capital of € 4,225 million to raise in order to meet its regulatory capital requirement under 2010 PCAR.

2011
Under the terms of the Joint EU-IMF Programme for Ireland, a further PCAR exercise was undertaken by the Central Bank in early 2011. The outcome of this review was published by the Central Bank in the Financial Measures Programme Report on 31 March 2011.The Group is now required to remain above a minimum capital target ratio of 10.5% core tier 1 in the base scenario and 6% core tier 1 in the stress scenario. The equivalent core tier 1 capital requirement to meet these minimum targets is € 10.5 billion. The Central Bank has also allowed for an additional protective buffer of € 2.8 billion (€1.4 billion equity capital and €1.4 billion contingent capital), bringing the total capital requirement of the Group to € 13.3 billion. These additional capital requirements supersede the previous additional capital requirements imposed by the Central Bank in 2010.

Capital adequacy information

Table 1, on the following page, sets out the components and calculation of the Group's capital ratios under the CRD at 31 December 2010 and 31 December 2009.

Core tier 1 capital was € 3.9 billion at 31 December 2010, compared with € 9.5 billion at 31 December 2009.The decrease is primarily driven by the losses incurred on the transfer of loans to NAMA of € 6.0 billion (pre-tax), credit impairment losses of € 6.1 billion (pre-tax) and a provision for loss amounting to € 1.0 billion (being expected discount) on loans due to transfer to NAMA in 2011, partly offset by the issue of € 3.7 billion (€ 3.8 billion less costs and cancellation of warrants) of equity in December 2010, a gain of € 0.4 billion on the capital exchange and a capital gain on the disposal of the Group's investment in M&T Bank Corporation of € 0.9 billion.

Tier 1 capital was € 4.2 billion at 31 December 2010, down from € 8.7 billion at 31 December 2009. The decrease reflects the movements described above offset by reduced supervisory deductions of € 1.1 billion[1].This primarily relates to the elimination of the expected loss deduction.

Tier 2 capital increased by € 1.2 billion to € 5.0 billion in the period to 31 December 2010.The increase reflects the reduced supervisory deductions[1] from tier 2 capital of € 1.1 billion and increased credit provision add-backs under both the standardised and IRB methods of € 0.4 billion offset by a net reduction in subordinated liabilities of € 0.3 billion under the capital exchange.

The Group's capital ratios are based on Pillar 1 ('Minimum Capital Requirements') under the Capital Requirements Directive. Under Pillar 2 ('Supervisory Review') banks may estimate their own capital requirements through an ICAAP which is subject to supervisory review and evaluation.

Further information and analysis is available in the 2010 Annual Financial Report, available on the Group's website: www.aibgroup.com.

[1]The movement in the supervisory deduction from tier 1 capital and tier 2 capital primarily relates to the expected loss adjustment which is deducted 50% from tier 1 capital and 50% from tier 2 capital to the extent that there is an excess of expected loss on the IRBA portfolios over the IFRS provision on the IRBA portfolios. During 2010, the property model reverted from the Foundation IRB Approach to the Standardised Approach. Accordingly no such excess existed at 31 December 2010.

Table 1: Capital adequacy information – components of capital base

		2010 €m		2009 €m
Tier 1				
Paid up share capital and related share premium		**9,054**		5,304[1]
Eligible reserves		**(4,776)**		4,977[1]
Equity non-controlling interests in subsidiaries		**501**		437
Supervisory deductions from core tier 1 capital				
Intangible assets and goodwill	**(704)**		(1,044)	
Other regulatory deductions	**(147)**		(143)	
		(851)		(1,187)
Core tier 1 capital		**3,928**		9,531
Non-equity non-controlling interests in subsidiaries		**189**		189
Non-cumulative perpetual preferred securities		**138**		136
Reserve capital instruments		**239**		239
Supervisory deductions from tier 1 capital				
Expected loss adjustment	**-**		(1,101)	
Securitisation positions	**(191)**		(205)	
Holdings in other credit and financial institutions	**(68)**		(119)	
		(259)		(1,425)
Total tier 1 capital		**4,235**		8,670
Tier 2[2]				
Eligible reserves		**212**		239
IBNR provisions		**929**		510
Subordinated perpetual loan capital		**197**		189
Subordinated term loan capital		**3,931**		4,261
Supervisory deductions from tier 2 capital				
Expected loss adjustment	**-**		(1,101)	
Securitisation positions	**(191)**		(205)	
Holdings in other credit and financial institutions	**(67)**		(119)	
		(258)		(1,425)
Total tier 2 capital		**5,011**		3,774
Gross capital		**9,246**		12,444
Supervisory deductions				
Holdings in insurance undertakings		**(141)**		(129)
Total capital		**9,105**		12,315
Risk weighted assets				
Credit risk		**89,415**		110,376
Market risk		**1,494**		2,196
Operational risk		**7,859**		7,808
Total risk weighted assets		**98,768**		120,380
Capital ratios				
Core tier 1		**4.0%**		7.9%
Tier 1		**4.3%**		7.2%
Total		**9.2%**		10.2%

[1]The share premium arising on the issue of both ordinary and 2009 Preference Shares has been reclassed from 'Eligible reserves' to 'Paid up share capital and related share premium'. In 2010, the share premium also includes that which arose on the issue of CNV shares.

[2]The Group's regulatory capital position at 31 December 2010 benefited from the following derogations from certain regulatory capital requirements granted by the Central Bank, on a temporary basis, following requests from the Group:

- that tier 2 capital cannot exceed tier 1 capital (Regulation 11 (1)(a) of the European Communities (Capital Adequacy of Credit Institutions) Regulation 2006 (SI No. 661 of 2006)); and
- that lower tier 2 capital cannot exceed 50% of tier 1 capital (Regulation 11(1)(b) of SI No. 661 of 2006).

Table 2 below, summarises the risk weighted assets ("RWA"), minimum capital requirement and total exposures ("EAD") that the Group was subject to at 31 December 2010. These are further analysed throughout this report.

Table 2: Group capital adequacy information

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

			2009
	Total exposures	Risk weighted assets	Minimum capital requirement
	€m	€m	€m
Credit risk – Standardised approach	54,594	48,013	3,841
Credit risk – IRB approach	134,540	62,363	4,989
Market risk – Standardised approach	N/A	2,196	176
Operational risk – Standardised approach	N/A	7,808	625
	189,134	120,380	9,631

Excluding BZWBK (the sale of which was completed on 1 April 2011) table 2a would be as follows. Further details in relation to the capital base and minimum capital requirement of BZWBK are included in Appendix 1.

Table 2a: Capital adequacy information (Group excluding BZWBK)

			2010
	Total exposures	**Risk weighted assets**	**Minimum capital requirement**
	€m	**€m**	**€m**
Credit risk – Standardised approach	**62,304**	**51,900**	**4,152**
Credit risk – IRB approach	**105,640**	**28,900**	**2,312**
Market risk – Standardised approach	**N/A**	**1,385**	**111**
Operational risk – Standardised approach	**N/A**	**6,482**	**519**
	167,944	**88,667**	**7,094**

Table 2b: Market risk – minimum capital requirement

	2010	2009
Market risk – minimum capital requirement	**€m**	€m
Interest rate PRR[1]	**53**	60
Equity rate PRR	**4**	6
Foreign exchange PRR	**36**	66
Investment firms	**27**	44
	120	176

[1]Position risk requirement

5. Credit Risk – Overview

The Group's main source of income arises from granting credit. Accordingly this exposes it to its most significant risk, namely credit risk. As described in section 3.1, Credit Risk is the risk that a customer or counterparty will be unable or unwilling to meet a commitment that it has entered into and that the Group is unable to recover the full amount that it is owed through the realisation of any security interests. The most significant credit risks in AIB Group arise from traditional lending activities to customers and banks. Credit risk also arises through the use of derivatives, off-balance sheet guarantees and commitments and through the Group's trading and 'available for sale' portfolios of financial instruments. Capital requirements are based on the perceived level of risk of individual credit exposures.

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

a) The Standardised Approach; and
b) Internal Ratings Based Approach ("IRB Approach"), which can be sub divided into
   i. Foundation Internal Ratings Based Approach ("Foundation IRB Approach");
   ii. Advanced Internal Ratings Based Approach ("Advanced IRB Approach"); and
   iii. Retail Internal Ratings Based Approach ("Retail IRB Approach").

Under the Standardised Approach, risk weightings for rated counterparties are determined on the basis of the external credit rating assigned to the counterparty. For non-rated counterparties and certain other types of exposure, regulatory-determined standardised risk weightings are used.

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

As at 31 December 2010, the Group uses a combination of Standardised and IRB Approaches for assessing its capital requirements for credit risk. It has received regulatory approval to use the Foundation IRB Approach for certain sovereign, bank and corporate exposures, and uses the Retail IRB Approach for certain residential mortgage exposures (henceforth, for ease of reference within this document, this combination of Foundation and Retail IRB approval will be referred to as approval to use a Foundation IRB Approach).

As at 31 December 2010, 67.5% (2009: 43.5%) of the Group's credit risk capital requirement has been calculated on the basis of the Standardised Approach, with the remainder calculated using the Foundation IRB Approach. The increase is predominantly as a result of a review of the property model in 2010, when it was determined that the model was no longer "fit for purpose" and AIB reverted from Foundation IRB Approach to the Standardised Approach for the calculation of regulatory capital for exposures on this model. Details of the approvals for Foundation IRB are set out in section 7. Capital requirements for portfolios where the Group is migrating to Foundation IRB over a timeframe agreed with the Central Bank are calculated using the Standardised Approach.

The Group's exposures under both Standardised and Foundation IRB approaches are set out in sections 6 and 7. Additional commentary on specific credit risks arising from certain transactions including derivative transactions, repurchase agreements and securitisations are set out in sections 10 and 11 of this document.

These disclosures have been provided on a Group consolidated basis and include assets which, as at 31 December 2010 and 2009, were held for sale to NAMA. Further information and analysis is available in the 2010 Annual Financial Report, available on the Group website: www.aibgroup.com.

The following definitions apply to the tables throughout this document:

a) The Group reports exposure values as Exposure at Default ("EAD").
b) Total gross exposure is before Credit Risk Mitigation ("CRM"), Credit Conversion Factors ("CCFs") and offsets;
c) Total exposure is after CRM, CCFs and after specific offsets;

d) Items belonging to high risk categories include, subject to the discretion of competent authorities, exposures associated with particularly high risks such as investments in venture capital firms and private equity investments;

e) Collective Investment Undertakings ("CIU") include:

i. undertakings where the sole object is the collective investment in transferable securities of capital raised from the public and which operate on the principle of risk-spreading; and

ii. units which are, at the request of the holders, repurchased or redeemed, directly or indirectly, out of those undertakings' assets. Action taken by a CIU to ensure that the stock exchange value of its units does not vary significantly from their net asset value shall be regarded as equivalent to such repurchase or redemption.

f) "Other items" refers to other assets including land and buildings, plant and machinery, other fixtures and fittings, tools and equipment, payments on account, current tax and deferred tax.

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

Table 3: Total exposures (EAD) by exposure class and related minimum capital requirements

	2010		2009	
	Total exposures	**Minimum capital requirement**	Total exposures	Minimum capital requirement
Exposure class	**€m**	**€m**	€m	€m
Standardised exposure class				
Central governments and central banks	**8,473**	**-**	620	-
Regional governments or local authorities	**29**	**-**	20	-
Administrative bodies and non-commercial undertakings	**191**	**15**	481	39
Institutions[1]	**248**	**6**	29	1
Corporates	**14,172**	**1,129**	15,002	1,179
Retail	**8,540**	**512**	9,574	574
Secured on real estate property	**25,803**	**1,833**	22,658	1,573
Past due items[2]	**8,777**	**894**	2,913	317
Items belonging to regulatory high risk categories	**1,528**	**183**	103	13
Collective investment undertakings	**14**	**1**	13	1
Other items	**4,408**	**257**	3,181	144
Total for Standardised Approach	**72,183**	**4,830**	54,594	3,841
Foundation IRB exposure class				
Central governments and central banks	**43,225**	**17**	21,776	10
Institutions[1]	**11,556**	**136**	15,537	180
Corporates	**24,251**	**1,421**	65,043	4,145
Retail[3]	**25,668**	**553**	25,876	406
Securitisation positions[4]	**4,864**	**195**	6,300	247
Non-credit obligation assets	**9**	**1**	8	1
Total for Foundation IRB Approach	**109,573**	**2,323**	134,540	4,989
Total for Credit Risk[5]	**181,756**	**7,153**	189,134	8,830

[1]Institutions exposure class predominantly relates to banks.

[2]The Basel standardised asset class past due items only includes exposures that are (a) standardised; (b) greater than 90 days past due or defaulted; and (c) impaired. A profile of contractually past due (but not impaired) facilities, for both the Standardised and Foundation IRB Approaches, is contained in table 14, set out in Section 9.

[3]Secured by real estate collateral.

[4]2009 securitisation positions EAD is restated from €6,326 million to €6,300 million.

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

6. Credit Risk – Standardised Approach

Exposures rated under Standardised Approach amounted to € 72,183 million, with a capital requirement of € 4,830 million as at 31 December 2010 (2009: exposures of € 54,594 million, capital requirement of € 3,841 million). This amounts to 67.5% (2009: 43.5%)[1] of the total capital requirement for credit risk. The following tables analyse the Credit Risk Exposures under the Standardised Approach by sector on the following bases:

a) Industry (table 4);
b) Geography (table 5); and
c) Residual maturity (table 6).

Use of external credit ratings

AIB uses Standard and Poor's Rating Services, Moody's Investors Service and Fitch Ratings as its nominated External Credit Assessment Institutions ("ECAIs") for a small part of its credit risk corporate asset class exposures under the Standardised Approach (see also section 11).

Exposures to which credit ratings are assigned are mapped to risk weights using mapping guidelines issued by the Central Bank. These guidelines are identical to those issued by the European Banking Authority ("EBA")[2]. The externally rated credit risk exposures represent 12% of standardised exposures and 4.7% of the total (Standardised Approach and Foundation IRB Approach) credit risk exposures (2009: 1.8% and 0.5% respectively). An immaterial portion has been rated using credit quality assessment steps. These relate to exposures where a preferential risk weight is applied to the exposures when there is no rating agency but other criteria are met to apply a risk bucket other than unrated.

Of the total Standardised exposures after credit risk mitigation amounting to € 72,183 million (2009: € 54,594 million), € 8,524 million (2009: € 917 million) is rated by ECAIs, the majority of which (€ 8,052 million) relates to the NAMA bonds received as consideration for the loans and receivables transferred to NAMA during 2010. € 144 million (2009: € 78 million) is rated using credit quality assessment steps. These are set out in tables 7 and 8 in this section.

[1] In 2010, it was determined that the property model was no longer "fit for purpose" and AIB has reverted from the Foundation IRB Approach to the Standardised Approach for the calculation of regulatory capital for exposures on this model. For further details see Section 7.
[2] The European Banking Authority ("EBA") was established by Regulation (EC) No. 1093/2010 of the European Parliament and of the Council of 24 November 2010. The EBA has officially come into being as of 1 January 2011 and has taken over all existing and ongoing tasks and responsibilities from the Committee of European Banking Supervisors ("CEBS").

Table 4: Industry distribution of credit exposures (EAD) – Standardised Approach

														2010
	Agriculture	Construction	Distribution	Energy	Financial	Home loans	Manufacturing	Other loans - personal	Other services	Property	Transport & communication	Bank, sovereign & public sector	Other	Total exposures
Exposure class	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Central governments and central banks	-	-	-	-	-	-	-	-	-	-	-	8,473	-	8,473
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	29	-	29
Administrative bodies and non-commercial undertakings	-	-	-	-	-	-	-	-	-	-	-	191	-	191
Institutions	-	-	-	-	-	-	-	-	-	-	-	248	-	248
Corporates	658	434	2,702	123	1,193	12	989	1,548	4,237	1,410	652	-	214	14,172
Retail	846	307	810	17	58	714	322	4,088	763	396	219	-	-	8,540
Secured on real estate property[1]	85	670	411	26	185	6,131	505	90	625	17,015	60	-	-	25,803
Past due items	177	1,144	500	5	52	546	108	874	300	5,025	45	-	1	8,777
Items belonging to regulatory high risk categories	-	396	5	7	18	-	31	-	54	1,012	5	-	-	1,528
Collective investment undertakings	-	-	-	-	14	-	-	-	-	-	-	-	-	14
Other items	-	7	6	19	243	-	5	1	27	-	2	-	4,098	4,408
	1,766	2,958	4,434	197	1,763	7,403	1,960	6,601	6,006	24,858	983	8,941	4,313	72,183

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

Table 4: Industry distribution of credit exposures (EAD) – Standardised Approach

2009

Exposure class	Agriculture €m	Construction €m	Distribution €m	Energy €m	Financial €m	Home loans €m	Manufacturing €m	Other loans - personal €m	Other services €m	Property €m	Transport & communication €m	Bank, sovereign & public sector €m	Other €m	Total exposures €m
Central governments and central banks	-	-	-	-	-	-	-	-	-	-	-	620	-	620
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	20	-	20
Administrative bodies and non-commercial undertakings	-	-	-	-	-	-	-	-	-	-	-	481	-	481
Institutions	-	-	-	-	-	-	-	-	-	-	-	29	-	29
Corporates	711	671	2,107	158	1,168	15	1,264	1,294	4,907	1,915	553	-	239	15,002
Retail	871	445	876	21	68	802	361	4,561	807	493	269	-	-	9,574
Secured on real estate property[1]	86	1,247	534	32	315	5,308	528	183	669	13,715	41	-	-	22,658
Past due items	61	341	251	9	78	201	101	440	178	1,228	25	-	-	2,913
Items belonging to regulatory high risk categories	1	1	4	7	14	-	10	2	60	-	4	-	-	103
Collective investment undertakings	-	-	-	-	13	-	-	-	-	-	-	-	-	13
Other items	-	-	2	-	320	-	1	-	29	-	1	-	2,828	3,181
	1,730	2,705	3,774	227	1,976	6,326	2,265	6,480	6,650	17,351	893	1,150	3,067	54,594

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

Table 5: Geographic[1] distribution of credit exposures (EAD) – Standardised Approach

								2010
Exposure class	Republic of Ireland €m	United Kingdom €m	Poland €m	United States of America €m	Rest of the world €m	Total exposures €m	Total gross exposures €m	Average exposures over the period €m
Central governments and central banks	8,418	-	50	-	5	8,473	8,523	3,317
Regional governments or local authorities	-	-	29	-	-	29	59	25
Administrative bodies and non-commercial undertakings	-	-	4	187	-	191	192	389
Institutions	22	208	10	-	8	248	533	72
Corporates	5,530	6,839	1,502	297	4	14,172	16,549	14,591
Retail	5,253	1,166	2,059	-	62	8,540	13,864	9,100
Secured on real estate property[2]	10,710	8,829	5,114	653	497	25,803	26,267	24,401
Past due items	6,544	1,831	334	58	10	8,777	13,054	6,790
Items belonging to regulatory high risk categories	1,467	16	-	45	-	1,528	1,605	1,081
Collective investment undertakings	-	-	14	-	-	14	14	13
Other items	2,749	873	764	20	2	4,408	4,418	3,449
	40,693	19,762	9,880	1,260	588	72,183	85,078	63,228

[1]AIB Group monitors geographic breakdown based primarily on the location of the office recording the transaction.
[2]The total exposures (EAD) in the secured on real estate property exposure class includes a significant portion of property portfolios in AIB Bank ROI, AIB Bank UK and Capital Markets, as well as residential mortgages in AIB Bank UK and CEE.

Table 5: Geographic[1] distribution of credit exposures (EAD) – Standardised Approach

								2009
	Republic of Ireland	United Kingdom	Poland	United States of America	Rest of the world	Total exposures	Total gross exposures	Average exposures over the period
Exposure class	€m	€m	€m	€m	€m	€m	€m	€m
Central governments and central banks	614	-	-	-	6	620	620	416
Regional governments or local authorities	-	-	20	-	-	20	46	31
Administrative bodies and non-commercial undertakings	21	8	4	448	-	481	482	122
Institutions	2	16	4	1	6	29	169	84
Corporate	4,417	8,314	1,638	594	39	15,002	17,456	17,055
Retail	6,137	1,298	2,069	-	70	9,574	15,164	10,028
Secured on real estate property[2]	5,240	10,827	5,253	708	630	22,658	23,361	23,360
Past due items	1,162	1,419	288	44	-	2,913	4,260	2,176
Items belonging to regulatory high risk categories	57	-	-	46	-	103	136	130
Collective investment undertakings	-	-	13	-	-	13	13	12
Other items	1,907	481	782	5	6	3,181	3,174	3,657
	19,557	22,363	10,071	1,846	757	54,594	64,881	57,871

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

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

Table 6: Residual maturity of credit exposures (EAD) – Standardised Approach

2010

Exposure class	On demand €m	0 < 3 months €m	3 < 6 months €m	6 months < 1 year €m	1 < 3 years €m	3 < 5 years €m	5 < 10 years €m	10 years + €m	No maturity €m	Total exposures €m
Central governments and central banks	-	8,423	-	-	50	-	-	-	-	8,473
Regional governments or local authorities	2	5	-	1	5	4	6	6	-	29
Administrative bodies and non-commercial undertakings	-	39	27	8	113	1	2	1	-	191
Institutions	200	15	5	-	5	2	21	-	-	248
Corporates	164	1,487	676	2,466	3,308	1,703	1,248	3,120	-	14,172
Retail	21	635	350	1,942	1,552	1,785	960	1,295	-	8,540
Secured on real estate property[1]	496	3,314	1,472	3,662	4,097	3,283	2,231	7,248	-	25,803
Past due items	378	627	222	4,617	464	1,436	196	837	-	8,777
Items belonging to regulatory high risk categories	28	418	107	687	41	40	55	152	-	1,528
Collective investment undertakings	4	-	-	2	8	-	-	-	-	14
Other items	167	1	3	108	121	18	-	-	3,990	4,408
	1,460	14,964	2,862	13,493	9,764	8,272	4,719	12,659	3,990	72,183

2009

Exposure class	On demand €m	0 < 3 months €m	3 < 6 months €m	6 months < 1 year €m	1 < 3 years €m	3 < 5 years €m	5 < 10 years €m	10 years + €m	No maturity €m	Total exposures €m
Central governments and central banks	-	620	-	-	-	-	-	-	-	620
Regional governments or local authorities	6	2	-	1	4	3	2	2	-	20
Administrative bodies and non-commercial undertakings	-	14	4	22	325	112	3	1	-	481
Institutions	16	6	-	-	4	3	-	-	-	29
Corporates	86	1,621	750	2,357	3,305	2,420	1,254	3,209	-	15,002
Retail	55	815	420	2,038	1,721	2,150	1,067	1,308	-	9,574
Secured on real estate property[1]	433	3,150	1,279	2,459	3,456	4,383	1,654	5,844	-	22,658
Past due items	250	213	144	685	219	992	151	259	-	2,913
Items belonging to regulatory high risk categories	-	-	-	54	4	22	23	-	-	103
Collective investment undertakings	3	-	-	-	10	-	-	-	-	13
Other items	156	1	1	83	113	17	-	-	2,810	3,181
	1,005	6,442	2,598	7,699	9,161	10,102	4,154	10,623	2,810	54,594

[1]The total exposures (EAD) in the secured on real estate property exposure class includes a significant portion of property portfolios in AIB Bank ROI (2010 only), AIB Bank UK, Capital Markets and CEE, as well as residential mortgages in AIB Bank UK and CEE.

Table 7: Standardised Approach credit risk exposure class

2010

	Standard and Poors (ECAI 1)	**Moody's (ECAI 2)**	**Fitch (ECAI 3)**	**DBRS (ECAI 4)**	**Credit Quality Assessment Steps**	**Total unrated**	**Total**
Central governments and central banks	**8,095**	**-**	**7**	**-**	**51**	**320**	**8,473**
Regional governments or local authorities	**-**	**-**	**-**	**-**	**-**	**29**	**29**
Administrative bodies and non-commercial undertakings	**159**	**-**	**28**	**-**	**-**	**4**	**191**
Institutions	**26**	**-**	**-**	**-**	**6**	**216**	**248**
Corporates	**123**	**-**	**40**	**-**	**43**	**13,966**	**14,172**
Retail	**-**	**-**	**-**	**-**	**-**	**8,540**	**8,540**
Secured on real estate property	**-**	**-**	**-**	**-**	**36**	**25,767**	**25,803**
Past due items	**2**	**-**	**-**	**-**	**-**	**8,775**	**8,777**
Items belonging to regulatory high risk categories	**44**	**-**	**-**	**-**	**-**	**1,484**	**1,528**
Collective investment undertakings	**-**	**-**	**-**	**-**	**-**	**14**	**14**
Other items	**-**	**-**	**-**	**-**	**-**	**4,408**	**4,408**
	8,449	**-**	**75**	**-**	**136**	**63,523**	**72,183**

2009

	Standard and Poors (ECAI 1)	Moody's (ECAI 2)	Fitch (ECAI 3)	DBRS (ECAI 4)	Credit Quality Assessment Steps	Total unrated	Total
Central governments and central banks	-	-	-	-	620	-	620
Regional governments or local authorities	-	-	-	-	-	20	20
Administrative bodies and non-commercial undertakings	302	95	45	-	-	39	481
Institutions	-	-	-	-	1	28	29
Corporates	229	121	74	-	70	14,508	15,002
Retail	-	-	-	-	-	9,574	9,574
Secured on real estate property	-	-	-	-	8	22,650	22,658
Past due items	5	-	-	-	-	2,908	2,913
Items belonging to regulatory high risk categories	46	-	-	-	-	57	103
Collective investment undertakings	-	-	-	-	-	13	13
Other items	-	-	-	-	-	3,181	3,181
	582	216	119	-	699	52,978	54,594

Table 8: Total Exposure (EAD) value (after CRM) split by credit quality – Standardised Approach

									2010
Credit quality[1] assessment steps	**Step 1**	**Step 2**	**Step 3**	**Step 4**	**Step 5**	**Step 6**	**Total rated**	**Total unrated**	**Total**
Central governments and central banks	**8**	**74**	**8,071**	**-**	**-**	**-**	**8,153**	**320**	**8,473**
Regional governments or local authorities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**29**	**29**
Administrative bodies and non-commercial undertakings	**155**	**-**	**32**	**-**	**-**	**-**	**187**	**4**	**191**
Institutions	**5**	**5**	**-**	**-**	**-**	**22**	**32**	**216**	**248**
Corporates[2]	**36**	**58**	**88**	**24**	**-**	**-**	**206**	**13,966**	**14,172**
Retail	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8,540**	**8,540**
Secured on real estate property	**-**	**-**	**5**	**-**	**-**	**31**	**36**	**25,767**	**25,803**
Past due items	**-**	**-**	**-**	**-**	**-**	**2**	**2**	**8,775**	**8,777**
Items belonging to regulatory high risk categories	**-**	**-**	**-**	**-**	**33**	**11**	**44**	**1,484**	**1,528**
Collective investment undertakings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14**	**14**
Other items	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,408**	**4,408**
	204	**137**	**8,196**	**24**	**33**	**66**	**8,660**	**63,523**	**72,183**

									2009
Credit quality[1] assessment steps	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Total rated	Total unrated	Total
Central governments and central banks	620	-	-	-	-	-	620	-	620
Regional governments or local authorities	-	-	-	-	-	-	-	20	20
Administrative bodies and non-commercial undertakings	214	220	8	-	-	-	442	39	481
Institutions	1	-	-	-	-	-	1	28	29
Corporates	93	232	143	26	-	-	494	14,508	15,002
Retail	-	-	-	-	-	-	-	9,574	9,574
Secured on real estate property	5	-	3	-	-	-	8	22,650	22,658
Past due items	-	-	-	-	-	5	5	2,908	2,913
Items belonging to regulatory high risk categories	-	-	-	-	32	14	46	57	103
Collective investment undertakings	-	-	-	-	-	-	-	13	13
Other items	-	-	-	-	-	-	-	3,181	3,181
	933	452	154	26	32	19	1,616	52,978	54,594

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

Credit quality assessment step 1: AAA to AA (S&P / Fitch / DBRS); Aaa to Aa3 (Moody's)
Credit quality assessment step 2: A+ to A- (S&P / Fitch / DBRS); A1 to A3 (Moody's)
Credit quality assessment step 3: BBB+ to BBB- (S&P / Fitch / DBRS); Baa1 to Baa3 (Moody's)
Credit quality assessment step 4: BB+ to BB- (S&P / Fitch / DBRS); Ba1 to B3 (Moody's)
Credit quality assessment step 5: B+ to B- (S&P / Fitch / DBRS); B1 to B3 (Moody's)
Credit quality assessment step 6: CCC+ and below (S&P / Fitch / DBRS); Caa1 and below (Moody's)

[2] For the Standardised Approach, the total exposure after netting and volatility adjustments covered by eligible financial collateral is €38 million (2009: Nil).

7. Credit risk - Foundation Internal Ratings Based Approach

The Credit risk – Foundation Internal Ratings Based Approach section in this report is as set out in the 2010 Annual Financial Report, and reflects the organisational structure of AIB Group as at 31 December 2010. A new organisational structure has since been announced which is in the process of being implemented. Details of the new integrated bank structure are available on the Group's website: www.aibgroup.com.

Exposures rated under Foundation IRB Approach amounted to € 109,573 million, with a capital requirement of € 2,323 million as at 31 December 2010 (2009: exposures of € 134,540 million, capital requirement of € 4,989 million). This amounts to 32.5% (2009: 56.5%) of the total capital requirement for credit risk.

Regulatory approval and transition

As at 31 December 2010, the Group has received approval from the Central Bank of Ireland ('Central Bank') for use of the Foundation IRB Approach for the portfolios and exposure classes listed in the table below. It should be noted that following a review of the property model in 2010, it was determined that the model was no longer "fit for purpose" and AIB has reverted to the Standardised Approach for the calculation of regulatory capital for exposures on this model.

Division	AIB Portfolio	Exposure class
AIB Bank ROI	Commercial / large SME Residential Mortgages	Corporates Retail
Capital Markets	Bank Corporates Not-for-profit Project finance Sovereign	Institutions Corporates Corporates Corporates Central governments and central banks
AIB Bank UK	Bank Sovereign	Institutions Central governments and central banks
Central & Eastern Europe	Bank Sovereign	Institutions Central governments and central banks

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

AIB will revert to the Foundation IRB approach for property exposures following redevelopment and approval of the property model.

Governance of the rating process

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

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

Credit Risk Control function

The Credit Risk Control function within the Group is an integrated set of independent units and functions which share responsibility for key control aspects of the Group's rating systems. These

responsibilities include rating model development, use, performance monitoring and oversight. The Credit Risk Control function supports risk management organisation and governance structures at Group and divisional level. The Group Chief Risk Officer and the Group Chief Credit Officer have primary responsibility for the Credit Risk Control function at Group level. At divisional level, responsibility is divided between the Chief Risk Officer (rating model design and development, performance monitoring) and the Chief Credit Officer (rating system implementation), in line with credit process responsibilities.

To ensure independence, credit risk management functions have separate reporting lines into the divisional Chief Risk Officers and the divisional Chief Credit Officers respectively. Divisional Chief Risk Officers report directly to the Group Chief Risk Officer and divisional Chief Credit Officers report directly to the Group Chief Credit Officer. Divisional Chief Credit Officers also have a secondary reporting line into their divisional managing directors. Details of how credit is managed in AIB Group are outlined in section 3.

Use of rating models

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

a) Credit approval: Grades assigned by IRB risk models are a key input to the assessment of credit applications. Grades are also used in determining the size of delegated credit authorities. The outputs of the models are also used in assessing risk-return and pricing of loans;

b) Risk management and decision-making processes: In the management of existing exposures grades, rating models are fundamental to management reporting and in determining the level and nature of management attention applied to exposures;

c) Internal capital allocation: The outputs from IRB risk models are a core input to the Internal Capital Adequacy Assessment Process (“ICAAP”) including stress tests of capital adequacy;

d) Annual planning: Risk forecasts based on the outputs of IRB models are embedded in the annual planning process.

Use of and process for recognising credit risk mitigation

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

The Group uses its own estimates of LGD in the calculation of risk weighted assets for exposures secured on residential real estate in its retail (home mortgage) portfolio. The Group's approach to taking, perfecting, valuing and monitoring real estate collateral is consistent with its broad framework for credit risk mitigation as described in section 8.

Internal ratings process by exposure class

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

(a) Corporates

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

Division	AIB Portfolio	Portfolio description
AIB Bank ROI	Commercial / large SME	Predominantly commercial business - all sectors except property.

Division	AIB Portfolio	Portfolio description
Capital Markets	Corporate	Companies that are engaged in the provision of goods or services with the intention of generating profit for the owners. Excluded from this category are: a) Financial service providers; b) Special purpose entities that do not have a diversified income stream; and c) Special purpose entities set up to facilitate securitisations.
Capital Markets	Not-for-profit	Exposures to not-for-profit entities in Allied Irish America.
Capital Markets	Project finance	Long-term loans made to projects in the energy, infrastructure and transportation sectors in Europe, North America, Middle East and Asia-Pacific.

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

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

(b) Central governments and central banks

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

Division	AIB Portfolio	Portfolio description
Capital Markets	Sovereign	Central governments Central banks Other specified multinational development banks and international organisations
AIB Bank UK	Sovereign	Central governments Central banks Other specified multinational development banks and international organisations
Central & Eastern Europe	Sovereign	Central governments Central banks Other specified multinational development banks and international organisations

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

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

(c) Institutions

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

Division	AIB Portfolio	Portfolio description
Capital Markets	Bank	Banks Securities firms subject to the same regulation as banks
AIB Bank UK	Bank	Banks Securities firms subject to the same regulation as banks
Central & Eastern Europe	Bank	Banks Securities firms subject to the same regulation as banks

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

Ratings are assigned on the basis of a hybrid model (a statistical model or scorecard with some expert judgement). External ratings for the country of domicile are used to establish a 'country ceiling' on the rating, and as an input into the quantitative score. Due to the lack of internal default data, PDs are calibrated to an equivalent external rating grade. The definition of default is consistent with that used by the rating agencies, which in general is considered to occur at an earlier stage than that defined by the CRD and hence considered to be more conservative.

(d) Retail

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

Division	AIB Portfolio	Portfolio description
AIB Bank ROI	Home mortgages	Home mortgage lending and first four buy-to-lets

Under the IRB Approach for retail, the Group uses its own estimates of PD, LGD and EAD in calculating risk weighted assets for residential mortgages originated in Ireland. The rating methodology is primarily statistical, with limited use of expert judgement. Application and behavioural scorecards are used. PDs and LGDs are calibrated on the basis of internal data, supplemented with benchmarking to external sources. EAD is calculated both on drawn facilities and on 'pipeline' business (mortgages which have been sanctioned but not yet drawn down). The definition of default is consistent with the CRD definition of default.

Table 9: Industry distribution of credit exposures (EAD) - Foundation IRB Approach

2010

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

2009

Exposure class / Sector	Central governments and central banks €m	Institutions €m	Corporates €m	Retail €m	Securitisation positions €m	Non-credit obligation assets €m	Total €m
Agriculture	-	-	672	-	-	-	672
Construction[1]	-	-	13,425	-	-	1	13,426
Distribution	-	-	8,644	-	-	3	8,647
Energy	-	-	2,274	-	-	-	2,274
Financial	-	-	503	-	4,859	-	5,362
Home loans	-	-	1,574	25,876	-	-	27,450
Manufacturing	-	-	5,103	-	-	-	5,103
Other loans – personal	-	-	1,861	-	-	-	1,861
Other services	-	-	10,134	-	1,432	1	11,567
Property[1]	-	-	17,790	-	9	-	17,799
Transport and communication	-	-	3,063	-	-	3	3,066
Bank, sovereign & public sector entities	21,776	15,537	-	-	-	-	37,313
	21,776	15,537	65,043	25,876	6,300	8	134,540

[1]The significant majority of the total exposures (EAD) under the construction and property sector codes represent, in 2009, property exposures in AIB Bank ROI. For 2010, these are included in the Standardised Approach tables (see section 6).

Table 10: Geographic[1] distribution of credit exposures (EAD) - Foundation IRB Approach

2010

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

2009

Geography Exposure Class	Republic of Ireland €m	United Kingdom €m	Poland €m	United States of America €m	Rest of the World €m	Total exposures €m	Total gross exposures[2] €m	Average exposures over the period €m
Central governments and central banks	12,754	5,280	3,567	162	13	21,776	25,148	19,279
Institutions	14,095	601	196	416	229	15,537	31,009	17,532
Corporates	56,268	1,608	-	6,084	1,083	65,043	68,027	68,468
Retail[3]	25,876	-	-	-	-	25,876	26,148	24,387
Securitisation positions	5,865	-	-	435	-	6,300	6,324	6,906
Non-credit obligation assets	8	-	-	-	-	8	8	7
	114,866	7,489	3,763	7,097	1,325	134,540	156,664	136,579

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

[2]All exposures under the IRB Approach for retail are secured by real estate collateral and represent the residential mortgage portfolio in the Republic of Ireland.

Table 11: Residual maturity of credit exposures (EAD) – Foundation IRB Approach

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

							2009
Residual maturity	Central governments and central banks €m	Institutions €m	Corporates €m	Retail €m	Securitisation positions €m	Non-credit obligation assets €m	Total €m
On demand	1,081	5	1,989	31	-	-	3,106
< 3 months	6,565	3,340	10,841	249	-	2	20,997
3 < 6 months	962	1,292	2,531	545	-	1	5,331
6 months < 1 year	1,703	1,611	17,311	360	9	2	20,996
1 < 3 years	4,555	5,247	11,499	578	61	2	21,942
3 < 5 years	3,711	1,718	8,331	396	282	1	14,439
5 < 10 years	2,233	1,871	4,622	1,611	532	-	10,869
10 years +	966	453	7,919	22,106	5,416	-	36,860
	21,776	15,537	65,043	25,876	6,300	8	134,540

Foundation IRB obligor grades

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

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

- Grades 1 – 3 would typically include strong corporate and commercial lending combined with elements of the retail portfolios and residential mortgages;
- Grades 4 – 10 would typically include new business written and existing satisfactorily performing exposures across all portfolios. The lower end of this category (grade 10) includes a portion of the Group's criticised loans (i.e. loans requiring additional management attention over and above that normally required for the loan type);
- Grades 11 – 13 contains the remainder of the Group's criticised loans, including impaired loans, together with loans written at a high PD where there is a commensurate higher margin for the risk taken.

Table 12 sets out the analysis of EAD of the exposure classes by obligor grade, within the Foundation IRB Approach for the Group, excluding the securitisations (2010: € 4,864 million; 2009: €6,300 million), which are analysed in greater detail in section 11.

Table 12: Foundation IRB - Obligor grade disclosures (excluding securitisations)

2010

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

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

2009

Obligor grade	Central Government & central banks		Institutions		Corporates	
	Exposure value (EAD)[1]	Exposure-weighted average risk weight	Exposure value (EAD)[1]	Exposure-weighted average risk weight	Exposure value (EAD)[1]	Exposure-weighted average risk weight
	€m	%	€m	%	€m	%
Grade 1 - 3	21,776	1	15,501	14	6,041	28
Grade 4 - 10	-	-	7	122	37,894	102
Grade 11 - 13	-	-	29	-	21,108	55
	21,776	1	15,537	14	65,043	80

Obligor grade	Retail		Non-credit obligation assets		Total Foundation - IRB[3]	
	Exposure value (EAD)[1]	Exposure-weighted average risk weight	Exposure value (EAD)[1]	Exposure-weighted average risk weight	Exposure value (EAD)[1]	Exposure-weighted average risk weight
	€m	%	€m	%	€m	%
Grade 1 - 3	14,175	3	-	-	57,493	8
Grade 4 - 10	10,187	23	8	100	48,096	85
Grade 11 - 13	1,514	144	-	-	22,651	61
	25,876	20	8	100	128,240	46

[1]Includes EAD in relation to impaired loans.
[2]Excludes EAD of securitisation positions of €4,864 million.
[3]Excludes EAD of securitisation positions of €6,300 million.

Table 13: Foundation IRB - Exposure-weighted average LGD

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

	2009	
	Retail	
	Exposure value (EAD)	Exposure-weighted average LGD
Obligor grade	€m	%
Grade 1 - 3	14,175	20
Grade 4 - 10	10,187	23
Grade 11 - 13	1,514	24
	25,876	22

AIB

8. Credit Risk Mitigation

Within both the Standardised and Foundation IRB Approaches, an important element in managing exposure to credit risk for AIB Group is the use of Credit Risk Mitigation ("CRM") techniques. However AIB takes limited account of CRM in its calculation of minimum Pillar 1 capital.

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

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

- Home mortgages: The Group takes collateral in support of lending transactions for the purchase of residential property. There are clear policies in place which set out the type of property acceptable as collateral and the relationship of loan to property value. All properties are required to be fully insured and be subject to a legal charge in favour of the Group.
- Corporate and commercial lending: For property related lending, it is normal practice to take a charge over the property being financed. This includes investment and development properties. For non-property related lending, collateral typically includes a charge over business assets such as stock and debtors but which may also include property. In some circumstances, personal guarantees supported by a lien over personal assets are also taken as security.

Cross guarantees from companies within a connected group may also be taken to facilitate cross collateral cover. AIB rarely uses credit default swaps to mitigate credit risk. In assessing and approving overall credit limits for borrowers or groups of borrowers, the levels of guarantees given by such borrowers to third parties are taken into consideration. AIB monitors the nature and value of collateral by type, geography and sector.

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

For the Standardised Approach the total exposure after netting and volatility adjustments covered by eligible financial collateral is € 38 million (2009: Nil). In addition € 8,052 million (2009: Nil) of NAMA senior bonds are guaranteed by the Irish Government. For the Foundation IRB Approach the total exposure after netting and volatility adjustments covered by eligible financial collateral is Nil (2009: € 681 million, all of which relates to the institutions exposure class). Further information in relation to CRM framework is discussed within section 3.1. There is also more information in relation to repurchase transactions in section 10 Counterparty credit risks.

9. Credit Risk - Impairment

Criticised loans

Criticised loans are subject to regular assessment and review due to the increased risk associated with them and are subject to intensive credit management which may include restructuring of facilities.

Criticised loans include 'Watch' (Grade 8), 'Vulnerable' (Grade 9) and 'Impaired' loans (Grade 10) which are defined as follows:

Watch:	The credit is exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cashflows.
Vulnerable:	Credit where repayment is in jeopardy from normal cashflows and may be dependent on other sources.
Impaired:	As described below.

Impairment

A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if:

a) 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 balance sheet date, ('a loss event'); and

b) 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 Group about the following loss events:

a) significant financial difficulty of the issuer or 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 Group would not otherwise consider;

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

e) the disappearance of an active market for that financial asset because of financial difficulties; or

f) 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 adverse changes in the payment status of borrowers in the portfolio and/or national or local economic conditions that correlate with defaults on the assets in the portfolio.

Determining impairment provisions and value adjustments

The Group 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 Group 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. 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. For loans and receivables and assets held to maturity, 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 effective interest rate. The amount of the loss is recognised using an allowance account and is included in the income statement.

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 selling the collateral, whether or not foreclosure is probable.

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

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 may be concluded that there is no real prospect of recovery. When this point is reached, the amount of the loan which is considered to be beyond the prospect of recovery is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

Assets acquired in exchange for loans and receivables in order to achieve an orderly realisation are accounted for as a disposal of the loan and an acquisition of an asset. Any further impairment of the assets or business acquired is treated as an impairment of the relevant asset and not as an impairment of the original instrument.

In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the instrument below its cost is considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that had previously been recognised in other comprehensive income is recognised in the income statement as a reclassification adjustment. Reversals of impairment of equity securities are not recognised in the income statement and increases in the fair value of equity securities after impairment are recognised directly in other comprehensive income.

In the case of debt securities classified as available for sale, impairment is assessed based on the same criteria as for all other financial assets. Impairment is recognised by transferring the cumulative loss that has been recognised directly in other comprehensive income to the income statement. Any subsequent increase in the fair value of an available for sale debt security is included in other comprehensive income unless the increase in fair value can be objectively related to an event that occurred after the impairment was recognised in the income statement, is which case the impairment loss, or part thereof, is reversed.

Renegotiated loans

Loans and receivables renegotiated are those facilities at the current reporting date that, during the financial year, have had their terms renegotiated resulting in an upgrade from 91+ days past due or impaired status to performing status such that if they were not renegotiated they would be otherwise past due or impaired. Renegotiated loans and receivables, on a Group basis, comprising loans and receivables renegotiated within continuing operations (including loans and receivables held for sale to NAMA) and discontinued[1] operations, were € 2,511 million as at 31 December 2010 (2009: € 4,459 million).

Both tables 14 and 15 below, are based on loans and receivables to customers, including loans and receivables within the balance sheet captions "Financial assets held for sale to NAMA", and "Disposal groups and non-current assets held for sale". Disposal groups and non-current assets held for sale includes loans and receivables within continuing operations and discontinued operations.

[1]According to IFRS 5 Non current assets Held for Sale and Discontinued Operations

Table 14: Contractually past due[1] - industry and geographic[2] distribution

2010

Industry	Past due 1 < 30 days €m	Past due 31 < 60 €m	Past due 61 < 90 days €m	Past due 91 days + €m	Total €m
Agriculture	**101**	**42**	**17**	**46**	**206**
Energy	**6**	**1**	**1**	**2**	**10**
Manufacturing	**60**	**18**	**12**	**18**	**108**
Construction and property	**682**	**500**	**219**	**861**	**2,262**
Distribution	**250**	**124**	**61**	**208**	**643**
Transport	**44**	**8**	**6**	**8**	**66**
Financial	**13**	**2**	**-**	**13**	**28**
Other services	**189**	**55**	**25**	**108**	**377**
Personal					
Home mortgages	**598**	**254**	**174**	**353**	**1,379**
Credit cards	**69**	**24**	**14**	**10**	**117**
Other personal	**259**	**113**	**60**	**232**	**664**
	2,271	**1,141**	**589**	**1,859**	**5,860**

Geography	€m	€m	€m	€m	€m
Republic of Ireland	**1,802**	**938**	**442**	**1,768**	**4,950**
United Kingdom	**226**	**139**	**130**	**59**	**554**
Poland	**220**	**64**	**17**	**3**	**304**
United States of America	**-**	**-**	**-**	**29**	**29**
Rest of the World	**23**	**-**	**-**	**-**	**23**
	2,271	**1,141**	**589**	**1,859**	**5,860**

2009

Industry	Past due 1 < 30 days €m	Past due 31 < 60 €m	Past due 61 < 90 days €m	Past due 91 days + €m	Total €m
Agriculture	134	36	15	14	199
Energy	3	7	-	1	11
Manufacturing	85	20	10	7	122
Construction and property	2,022	711	299	496	3,528
Distribution	297	165	63	62	587
Transport	56	23	4	6	89
Financial	32	8	1	3	44
Other services	255	74	21	47	397
Personal					
Home mortgages	417	184	94	132	827
Credit cards	68	20	11	8	107
Other personal	385	173	58	126	742
	3,754	1,421	576	902	6,653

Geography	€m	€m	€m	€m	€m
Republic of Ireland	3,177	1,257	510	815	5,759
United Kingdom	317	102	46	83	548
Poland	255	59	20	4	338
United States of America	-	3	-	-	3
Rest of the World	5	-	-	-	5
	3,754	1,421	576	902	6,653

[1]Contractually past due and not impaired: Under IFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due.
[2]AIB Group monitors geographic breakdown based primarily on the location of the office recording the transaction.

Past due

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

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

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

Table 15: Impaired exposures and provisions - industry and geographic[1] distribution

				2010
	Loans and receivables to customers – gross of provisions	Impaired exposures	Specific balance sheet provisions	Specific provision charge for year
Industry	€m	€m	€m	€m
Agriculture	2,139	215	112	62
Energy	1,427	9	6	2
Manufacturing	4,666	433	190	101
Construction and property	30,362	7,853	3,136	2,846
Distribution	11,217	1,873	837	718
Transport and communications	1,715	106	58	62
Financial	2,074	78	49	55
Other services	9,814	578	276	302
Personal				
Home loans	32,805	1,211	256	173
Other loans	7,091	943	593	359
Lease financing	1,457	170	129	72
	104,767	13,469	5,642	4,752
Geography	€m	€m	€m	€m
Republic of Ireland	70,506	10,215	4,362	4,010
United Kingdom	22,610	2,524	976	587
Poland	8,641	587	259	114
United States of America	1,968	75	22	29
Rest of the World	1,042	68	23	12
	104,767	13,469	5,642	4,752
IBNR provision			2,330	1,368
Specific provision in relation to loans and receivables to banks			4	-
Total impairment			7,976	6,120

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

Table 15: Impaired exposures and provisions - industry and geographic distribution *(continued)*

				2009
	Loans and receivables to customers – gross of provisions	Impaired exposures	Specific balance sheet provisions	Specific provision charge for year
Industry	€m	€m	€m	€m
Agriculture	2,289	134	57	38
Energy	1,748	38	13	17
Manufacturing	5,746	314	120	123
Construction and property	48,802	13,443	4,216	3,820
Distribution	12,540	1,362	481	448
Transport and communications	1,795	44	26	30
Financial	2,354	160	87	93
Other services	11,181	449	175	175
Home loans	33,225	603	122	102
Other loans - personal	8,441	775	419	307
Lease financing	1,681	131	78	6
	129,802	17,453	5,794	5,159
Geography	€m	€m	€m	€m
Republic of Ireland	91,587	14,922	4,950	4,497
United Kingdom	25,811	1,944	626	525
Poland	8,728	477	188	97
United States of America	2,570	42	6	11
Rest of the World	1,106	68	24	29
	129,802	17,453	5,794	5,159
IBNR provision			1,358	191
Specific provision in relation to loans and receivables to banks			4	5
Total impairment			7,156	5,355

Table 16: Movement in impairment provisions of loans and receivables

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

			2009
	Specific	IBNR	Total
	€m	€m	€m
At 1 January	1,148	1,146	2,294
Exchange translation adjustments	10	21	31
Transfer between specific and IBNR provisions	5,164	(5,164)	-
Charge against income statement (see below)	-	5,355	5,355
Amounts written off	(520)	-	(520)
Recoveries of amounts written off in previous periods	6	-	6
Transfers out	(10)	-	(10)
At 31 December	5,798	1,358	7,156

The charge against income statement for 2010 of € 6,120 million (2009: € 5,355 million) comprises € 4,752 million (2009: € 5,164 million) of a specific provision charge for impaired loans and € 1,368 million (2009: € 191 million) of an incurred but not reported ("IBNR") provision charge for perceived losses in the performing book.

Further information and analysis is available in the 2010 Annual Financial Report on the Group's website: www.aibgroup.com.

Loss experience in the preceding period – Foundation IRB Approach

An analysis of the expected loss ("EL") and actual loss experience by exposure class for the year ended 31 December 2010 is outlined in table 17. The EL is the level of loss that was expected in 2010, in the performing book based on the grade profile and associated probability of default ("PD") of the relevant exposures at the end of 2009. The actual loss is the specific provision charged to the income statement for the year ended 31 December 2010 in relation to exposures newly impaired in the period and rated under the Foundation IRB approach at 31 December 2010.

Regulatory expected loss versus actual losses

Provisions are driven by accounting standards and are calculated at point in time. Regulatory EL provides a view of the expected losses that are likely to emerge in the loan book within one year, recognising the grade profile of the book at the time at which the EL is estimated. It does not forecast changes that will emerge in the grade profile of the book in the relevant year, nor does it take into account any likely future changes in the credit environment.

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

The excess of actual loss over expected loss as estimated by the corporate rating models in 2010 is due to the significant downgrades and/or migration to impaired grade and the associated losses during 2010.

As previously advised, the property model reverted to the Standardised Approach during 2010. Accordingly, the figures in Table 17 below, for 2010, "Expected loss analysis – Foundation IRB Approach" do not include property.

Table 17: Expected loss analysis – Foundation IRB Approach

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

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

[1]Expected loss is derived at the end of the preceding year, i.e. as at 31 December 2009.

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

Table 17: Expected loss analysis – Foundation IRB Approach *(continued)*

	2009	
Exposure class	Expected loss[1] €m	Actual loss €m
Institutions	1	4
Corporates	591	3,598
Retail	38	57
Securitisation positions[2]	-	37
Total	630	3,696

Exposure class	Expected loss[1] €m	Actual loss €m
Retail exposures secured by real estate collateral	38	57
Total retail	38	57

	2008	
Exposure class	Expected loss[1] €m	Actual loss €m
Institutions	2	-
Corporates	308	455
Retail[3]	-	10
Securitisation positions[2]	-	8
Total	310	473

Exposure class	Expected loss[1] €m	Actual loss €m
Retail exposures secured by real estate collateral	-	10
Total retail	-	10

The Group's risk weightings for Foundation IRB models as at 31 December 2010 and 31 December 2009 are detailed in the table below. These weightings are influenced by the grade profile and associated PD of the portfolios, having applied loss given defaults ("LGD") of 45% for all portfolios, with the exception of residential mortgages which had an average LGD of 22% applied as at 31 December 2010 and 31 December 2009.

Table 18: CRD risk weightings (as a percentage of EAD) for Foundation IRB models

Foundation IRB rating models	**2010 %**	2009 %
Property	**-**	126
Commercial	**101**	115
Mortgage	**27**	20
Corporates	**82**	89
Bank	**15**	15
Sovereign	**-**	1
Not-for-profit	**26**	25
Project finance	**92**	96

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

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

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

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

[3]The Foundation IRB retail model was approved in May 2008; therefore there were no comparable EL figures at the end of 2007.

10. Counterparty credit risks

Assigning internal capital and credit limits for counterparty credit exposure

The Group is predominately exposed to counterparty credit exposure through its portfolio of derivatives and repurchase agreements ('repos').

Derivatives

Credit exposure arises on derivative transactions as there is a risk that the counterparty to the contract defaults prior to its maturity. If at that time, the Group would incur a loss to replace the contract this gives rise to a claim on the counterparty.

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

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

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

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

Those sanctioning CCE limits must be satisfied that they sufficiently understand the risks involved in the proposed transactions and the models used to measure the exposures arising. It is Group practice, where possible and relevant, that all appropriate documentation, such as facility letters or International Swaps and Derivatives Association (“ISDA”) agreements be put in place before any limits are made available for use. Further details of master netting agreements are available in note 26 in the Group’s 2010 Annual Financial Report.

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

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

Repurchase agreements

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

Repo/reverse repos and SBB/BSB are products which are economically equivalent. Where appropriate netting documentation is in place, both sets of products also become legally equivalent from a credit mitigation perspective. The Group only engages in such transactions once the appropriate documentation has been executed.

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

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

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

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

As an IRB bank, AIB applies the Financial Collateral Comprehensive method for the purposes of calculating counterparty credit exposure for repurchase type transactions.

Policies for securing collateral and establishing credit reserves

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

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

Policies with respect to one-way exposures

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

Change in credit rating

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

Credit derivative hedges

The Group had minimal credit derivative hedging activity during the year ended 31 December 2010.

Derivatives counterparty credit risk

Table 19 analyses the counterparty credit risk exposure of derivative transactions. Over the counter ("OTC") derivatives are contracts that are traded (and privately negotiated) directly between two parties, without going through an exchange or other intermediary. Credit derivatives are financial instruments with which credit risk connected with loans, bonds or other risk-weighted assets or market risk positions is transferred to counterparties providing credit protection.

Table 19: Counterparty credit risk - trading & banking book

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

						2009
	Positive fair value of contracts[1] €m	Add-ons €m	Netting benefits €m	Gross positive fair value of contracts (incl. add-ons) €m	Financial collateral held €m	Net derivatives credit exposure €m
OTC derivatives	6,071	1,194	(2,293)	4,972	-	4,972
Credit derivatives	-	3	-	3	-	3
Total derivatives	6,071	1,197	(2,293)	4,975	-	4,975

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

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

Non-trading derivative transactions comprise transactions held for hedging purposes as part of the Group's risk management strategy against assets, liabilities, positions and cash flows.
The netting benefits relate to cross currency interest rate swaps only.

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

[1]Cross currency interest rate swaps are shown net on the statement of financial position in 2010, but were shown gross in 2009.

Credit derivative transactions product distribution

Table 19a analyses the notional value of credit derivative transactions by product type, according to their origin and the purposes for which they are used.

Table 19a: Credit derivative transactions product distribution

				2010
	Notional credit derivative transactions			
	Group's own credit portfolio use		**Intermediation activities**	
	Purchased	**Sold**	**Purchased**	**Sold**
Credit derivative product type	**€m**	**€m**	**€m**	**€m**
Credit default swaps	**60**	**312**	**-**	**-**
Credit linked notes	**-**	**226**	**-**	**-**
Total	**60**	**538**	**-**	**-**

				2009
	Notional credit derivative transactions			
	Group's own credit portfolio use		Intermediation activities	
	Purchased	Sold	Purchased	Sold
Credit derivative product type	€m	€m	€m	€m
Credit default swaps	55	602	-	-
Credit linked notes	-	213	-	-
Total	55	815	-	-

11. Securitisations

Roles played by the Group in the securitisation process

AIB has primarily been an investor in securitisations issued by other credit institutions.

As an originator, the Group has arranged five structured bond transactions (Collateralised Debt Obligations ("CDOs") and Collateralised Bond Obligations ("CBOs")) in order to meet specific customer preferences in terms of credit risk, interest rate risk, prepayment risk, maturity etc.

The Group has originated securitisations to support the funding activities of the Group. The assets held in these securitisations have not been derecognised from the Group consolidated accounts.

In addition, AIB acts as a sponsor to, and investor in, a small portfolio of transactions where AIB initially selected (and has the ability to manage on an ongoing basis) the asset portfolio of the securitisation vehicle.

Objectives in relation to securitisation activity

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

As an investor:

- Global Treasury has invested in securitisations as part of the ongoing management of the Group's interest rate and liquidity risk;
- Corporate Banking has invested in securitisations where the transaction offered an appropriate risk adjusted return opportunity.

As a sponsor:

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

As an originator:

- Both Global Treasury and Corporate Banking have originated securitisations to meet customer demand to offer a full range of investment opportunities by making available opportunities to invest in AIB-managed CDOs and CBOs;
- The Group has also originated and invested in three securitisation vehicles[1]: Causeway Securities p.l.c.; Clogher Securities Limited; and Wicklow Gap Limited. These securitisations support the funding activities of the Group; the assets held in the securitisation vehicles have not been derecognised and the investments are eliminated on consolidation.

Extent of the Group's involvement in each securitisation

Securitisations form a small part of AIB's balance sheet, accounting for less than 6% of total consolidated Group assets. The Group's exposure to securitisations continued to decrease over the course of 2010; there were no new investments in third party securitisations during 2010.

The most significant involvement with securitisations has been through Global Treasury's purchases of senior tranches of predominantly AAA-rated prime Residential Mortgage Backed Securities ("RMBS"). This portfolio was originally purchased as part of Global Treasury's primary interest rate and liquidity management objective, subject to qualifying criteria, including LTV, credit enhancement, seasoning, location and quality of originator. A smaller proportion of the overall portfolio is held in other asset classes, including a portfolio of AAA rated US Student Loan ABS which benefits from US government guarantees.

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

The Corporate Banking business is also a sponsor of securitisation transactions. These CDO structures form a small part of their portfolio.

[1]On 17 January 2011 Causeway Securities p.l.c. notes, on 21 February 2011 Clogher Securities Limited notes and on 6 April 2011 Wicklow Gap Limited notes were redeemed in full.

Finally, the Group has small equity interests in five CDO/CBO[1] transactions which are not consolidated in the Group's Financial Accounts. The Group does not have control over these CDOs, nor does it bear the significant risks and rewards that are inherent in these assets. The deals are funded with long term financing which consists of approximately 90% rated debt notes and 10% equity. Four of these vehicles (CDOs) were created primarily to fund the European buyout market, while the fifth is invested in US High yield Bonds (CBO).

AIB does not provide liquidity lines to Asset-Backed Commercial Paper conduits or similar entities.

Accounting policies

Under IFRS, transactions and events are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. As a result, the substance of transactions with a special purpose entity ("SPE") forms the basis for their treatment in the Group's financial statements. An SPE is consolidated in the financial statements when the substance of the relationship between the Group and the SPE indicates that the SPE is controlled by the entity and meets the criteria set out in IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation - Special Purposes Entities. The primary form of SPE utilised by the Group are securitisations and employee compensation trusts.

Calculating risk weighted exposure amounts

As an IRB bank, AIB Group primarily uses the Ratings Based Method to calculate the risk-weighted exposure amount for securitisations. Under this approach, where investments are rated, risk weights are assigned to securitisation tranches on the basis of the credit ratings applied to these by approved External Credit Assessment Institutions ("ECAIs"). Where there is no credit rating, but other criteria are met to apply a risk band other than unrated, the Supervisory Formula Method is applied to the exposures to establish the relevant risk weight.

External Credit Assessment Institutions

AIB uses the following ECAIs for securitisation exposures:

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

The process used to assign credit assessments to risk weights follows the mapping guidelines issued by the European Banking Authority ("EBA")[2] and adopted by the Central Bank. There is no outstanding amount of securitised revolving exposures. In relation to the following sets of tables:

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

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[1]On 31 March 2011, the Group completed the sale of its collateral management business and it was replaced as the investment manager of the CDO funds.

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

Table 20 details the Group's outstanding amount of securitisations by securitisation type, and exposure type, excluding the equity interests retained in the CDO/CBO of € 26 million (2009: € 28 million).

Table 20: Securitisation losses and assets impaired or past due

2010

Retained and purchased	**Outstanding amount of exposures subject to securitisation framework**			**Of which:**		
	Traditional transactions	**Synthetic transactions**	**Total**	**Impaired**	**Past due**	**Recognised losses**
Exposure type	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Residential mortgages	**3,251**	**56**	**3,307**	**27**	**-**	**(24)**
Commercial mortgages	**287**	**122**	**409**	**24**	**-**	**(16)**
Leasing	**10**	**-**	**10**	**-**	**-**	**-**
Loans to corporates or SMEs	**331**	**409**	**740**	**4**	**-**	**(2)**
Consumer loans	**417**	**-**	**417**	**-**	**-**	**-**
	4,296	**587**	**4,883**	**55**	**-**	**(42)**

2009

Retained and purchased	Outstanding amount of exposures subject to securitisation framework			Of which:		
	Traditional transactions	Synthetic transactions	Total	Impaired	Past due	Recognised losses
Exposure type	€m	€m	€m	€m	€m	€m
Residential mortgages	4,043	62	4,105	69	-	(38)
Commercial mortgages	331	179	510	-	-	-
Leasing	18	-	18	-	-	-
Loans to corporates or SMEs	428	424	852	-	-	-
Consumer loans	813	-	813	-	-	-
	5,633	665	6,298	69	-	(38)

Table 21 details the Group's involvement in securitisations by risk weight bands, split between the equity interests retained in the CDO/CBO transactions where AIB Group has acted as originator and the investments made by Global Treasury and Corporate Banking in asset backed securities as either sponsor or investor, the most significant of which are in AAA-rated prime RMBS.

Table 21: Securitisation positions - risk weight bands

				2010
	Securitisation positions – outstanding amount			
	Retained		**Purchased**	**Total**
	Originator	**Sponsor**	**Investor**	
Risk weight band	**€m**	**€m**	**€m**	**€m**
7 – 10%	**-**	**-**	**3,451**	**3,451**
11 – 19%	**-**	**-**	**275**	**275**
20 – 49%	**-**	**31**	**120**	**151**
50 – 75%	**-**	**-**	**25**	**25**
75 – 99%	**-**	**8**	**69**	**77**
100 – 249%	**-**	**115**	**28**	**143**
250 – 349%	**-**	**-**	**46**	**46**
350 – 424%	**-**	**-**	**-**	**-**
425 – 649%	**-**	**217**	**54**	**271**
650 – 1249%	**-**	**-**	**38**	**38**
1250% or deducted	**26**	**-**	**406**	**432**
	26	**371**	**4,512**	**4,909**

				2009
	Securitisation positions – outstanding amount			
	Retained		Purchased	Total
	Originator	Sponsor	Investor	
Risk weight band	€m	€m	€m	€m
7 – 10%	-	-	4,933	4,933
11 – 19%	-	51	76	127
20 – 49%	-	65	89	154
50 – 75%	-	104	111	215
75 – 99%	-	-	-	-
100% – 249%	-	30	53	83
250% – 349%	-	-	50	50
350% – 424%	-	-	-	-
425% – 649%	-	-	44	44
650%	-	5	55	60
651% – 1249%	-	219	-	219
1250% or deducted	28	22	391	441
	28	496	5,802	6,326

12. Equity exposures in the banking book

AIB calculates its capital requirements for equity exposures in the banking book using the Standardised Approach. The Group's equity activity can be divided into the following five sub-categories:

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

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

The principal accounting policies applied by the Group to equity investments is informed by International Accounting Standards IFRS 7, IAS 28 and IAS 39 which set out the rules for classification, balance sheet recognition, methods of valuation (i.e. fair value), income and impairment recognition and disclosures. Further information in relation to the Group accounting policies for financial assets, which include equities, can be found in the Group's 2010 Annual Financial Report. Investments in associated undertakings are initially recorded at cost and increased (or decreased) each year by the Group's share of the post acquisition net income (or loss), and other movements reflected directly in the equity of the associated undertaking. Other banking book equities are carried on the balance sheet at fair value.

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

The cumulative realised gains from sales and liquidations in the banking book of equity investments amount to € 13 million for the year ended 31 December 2010 (2009: € 7 million excluding € 1 million for Poland). The total unrealised losses as at 31 December 2010, gross of tax, in the banking book of equity investments amounts to € 19 million; of which unrealised losses of € 51 million relates to NAMA subordinated bonds and unrealised gains of € 32 million relates to other equity securities (2009: unrealised gains € 151 million, all relating to other equity securities). An unrealised loss, after tax, of € 73 million (2009: € 9 million) is included in tier 1 capital whilst an unrealised gain, after tax, of € 92 million (2009: € 131 million) is included in tier 2 capital for regulatory capital calculations. There were no latent revaluation gains or losses. Further details in relation to this are contained in Appendix 2: Own funds.

Table 22: Banking book equity values

	Type	Nature		2010 Carrying value €m
Exchange traded exposures	Quoted	A limited number of straight equity positions that are quoted on recognised stock exchanges.		**42**
Other exposures	Unquoted	Exposure to equities or the equity tranche in a structural transaction or SPE		**327**[1]
	Funds	Exposure to the equity component of a managed investment fund.		**91**
	CDOs/CBOs	Equity interest in Collateralised Debt Obligation SPEs created and managed by Group on an ongoing basis.		**26**
				486[2]
Investments in associate undertakings			**301**	
Less goodwill[3]			**(3)**	
				298
				784
Of which are risk weighted				**507**
Of which deducted from capital				**277**
				784

	Type	Nature		2009 Carrying value €m
Exchange traded exposures	Quoted	A limited number of straight equity positions that are quoted on recognised stock exchanges.		53
Other exposures	Unquoted	Exposure to equities or the equity tranche in a structural transaction or SPE		150
	Funds	Exposure to the equity component of a managed investment fund.		96
	CDOs/CBOs	Equity interest in Collateralised Debt Obligation SPEs created and managed by Group on an ongoing basis.		28
				327
Investments in associate undertakings			1,641	
Less goodwill[3]			(684)	
				957
				1,284
Of which are risk weighted				922
Of which deducted from capital				362
				1,284

[1]Of which €169 million relates to NAMA subordinated bonds (2009: Nil)
[2]Of which € 172 million (Quoted: € 5 million, Unquoted: € 96 million, Funds € 71 million, CDOs/CBOs: Nil) relates to discontinued operations (i.e. Bank Zachodni WBK S.A.)
[3]Deducted from tier 1 capital

Table 23: Risk weighted asset equivalents of equity exposures

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

	2009	
	Exposure €m	Risk weighted asset €m
Equity investments subject to a 100% risk weight	824	824
Equity investments subject to a 150% risk weight	98	147
	922	971

13. Non-trading interest rate risk

As already described in section 3.4, non-trading interest rate risk is the Group's sensitivity to earnings volatility in its non-trading activity arising from movements in interest rates. The nature of interest rate risk arising in the banking book and the key assumptions used in measuring interest rate risk are also explained in section 3.4.

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

Table 24: Non-trading interest rate risk

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

				2009
	Interest rate risk variation			
	Absolute €m		% of Own funds	
Currency	+1%	-1%	+1%	-1%
EUR	168	(178)	1.4	(1.4)
GBP	28	(24)	0.2	(0.2)
PLN	(15)	15	(0.1)	0.1
USD	(23)	23	(0.2)	0.2
Other	(5)	4	-	-
	153	(160)	1.3	(1.3)

The key drivers of the change in non-trading interest rate risk sensitivity from December 2009 to December 2010 include the following:

- a shortening in the maturity profile of the Group's liabilities as term funding, including debt issued under the Government guarantee, matured during the period;
- a decrease in the free funds arising from Net Interest Rate Insensitive Liabilities ("NIRIL"); and
- a reduction in the capital available for investment during the year.

Appendix 1: Parent and subsidiary disclosures

Article 72 of the CRD requires the Group to disclose various information on the calculation of capital ratios and own funds of its significant subsidiaries. The Group has provided this information on the following pages for the parent and significant subsidiaries as at 31 December 2010:

a) Allied Irish Banks, p.l.c.;
b) AIB Mortgage Bank;
c) AIB Group (UK) p.l.c.; and
d) Bank Zachodni WBK S.A.[1]

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

Figures reported for Allied Irish Banks, p.l.c. reflect the solo consolidation of Allied Irish Banks, p.l.c. Figures reported for AIB Group (UK) p.l.c. and Bank Zachodni WBK S.A. ("BZWBK") represent the position as reported to their local regulators. The closing exchange rate on 31 December 2010 used to translate Polish zloty ("PLN") and sterling ("Stg£") to euro are € 1 = PLN 3.9750 and € 1 = Stg£ 0.8608 respectively, consistent with the 2010 Annual Financial Report.

The total exposures, risk weighted assets and minimum capital requirement disclosures for BZWBK, which was a discontinued operation in the financial statements of AIB Group at 31 December 2010, are shown below.

Table 25: BZWBK capital adequacy information[2]

			2010
	Total exposures	**Risk weighted assets**	**Minimum capital requirement**
	€m	**€m**	**€m**
Credit risk – Standardised approach	**9,880**	**8,476**	**678**
Credit risk – IRB approach	**3,932**	**139**	**11**
Market risk – Standardised approach	**N/A**	**109**	**9**
Operational risk – Standardised approach	**N/A**	**1,377**	**110**
	13,812	**10,101**	**808**

[1]On 10 September 2010, AIB Group announced it had agreed to sell its interests in Bank Zachodni WBK S.A. to Banco Santander S.A. The sale completed on 1 April 2011.
[2]From AIB Group perspective

Table 26: Capital base of significant subsidiaries - as reported to local regulators

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

[1]Following the application of the CRD requirements, the risk weightings of the assets within AIB Mortgage Bank reduced considerably. As a result AIB Mortgage Bank was the only licensed bank within AIB Group that was impacted by the capital floor requirements as discussed in section 4.
[2]On 10 September 2010, AIB Group announced it had agreed to sell its interests in Bank Zachodni WBK S.A to Banco Santander S.A. The sale completed on 1 April 2011.
[3]In Allied Irish Banks, p.l.c., the share premium includes that which arose on the issue of ordinary shares, 2009 Preference Shares and CNV shares.

Table 26: Capital base of significant subsidiaries - as reported to local regulators *(continued)*

	Allied Irish Banks, p.l.c. €m	AIB Mortgage Bank[1] €m	AIB Group (UK) p.l.c. €m	2009 Bank Zachodni WBK S.A. €m
Tier 1				
Paid up share capital and related share premium	5,304[2]	450	1,678	178
Eligible reserves	3,522	120	22	1,097
Equity non-controlling interests in subsidiaries	-	-	-	26
Supervisory deductions from core tier 1 capital	(428)	-	(1)	(44)
Core tier 1 capital	8,398	570	1,699	1,257
Non-equity non-controlling interests in subsidiaries	189	-	-	-
Non-cumulative perpetual preferred securities	136	-	-	-
Reserve capital instruments	239	-	-	-
Supervisory deductions from tier 1 capital	(1,959)	(39)	(21)	(8)
Total tier 1 capital	7,003	531	1,678	1,249
Tier 2				
Fixed asset revaluation reserve	28	-	4	76
IBNR provisions (Standardised portfolio)	259	2	160	-
Subordinated perpetual loan capital	189	200	1,424	-
Subordinated term loan capital	4,261	100	-	-
Supervisory deductions from tier 2 capital	(1,959)	(39)	(21)	(8)
Total tier 2 capital	2,778	263	1,567	68
Gross capital	9,781	794	3,245	1,317
Supervisory deductions	-	-	-	-
Total capital	9,781	794	3,245	1,317
Risk weighted assets				
Credit risk	84,278	5,010	19,398	8,633
Market risk	1,616	-	-	182
Operational risk	4,915	181	1,123	1,333
Capital floor	-	4,013	-	-
Total risk weighted assets	90,809	9,204	20,521	10,148
Capital ratios				
Core tier 1	9.2%	6.2%	8.3%	12.4%
Tier 1	7.7%	5.8%	8.2%	12.3%
Total	10.8%	8.6%	15.8%	13.0%

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

[2]In Allied Irish Banks, p.l.c., the share premium arising on the issue of both ordinary and 2009 Preference Shares has been reclassed from 'Eligible reserves' to 'Paid up share capital and related share premium'. In 2010, the share premium also includes that which arose on the issue of CNV shares.

Table 27: Minimum capital requirement of significant subsidiaries - as reported to local regulators

				2010
	Allied Irish Banks, p.l.c.	AIB Mortgage Bank[1]	AIB Group (UK) p.l.c.	Bank Zachodni WBK S.A[2]
	€m	€m	€m	€m
Standardised credit risk exposure class				
Central governments and central banks	**-**	**-**	**29**	**1**
Administrative bodies and non-commercial undertakings	**15**	**-**	**-**	**1**
Institutions[3]	**191**	**3**	**-**	**8**
Corporates	**937**	**-**	**754**	**119**
Retail	**319**	**-**	**66**	**121**
Secured on real estate property	**872**	**73**	**88**	**356**
Past due items[4]	**655**	**31**	**34**	**33**
Items belonging to regulatory high risk categories	**281**	**-**	**-**	**-**
Collective investment undertakings	**-**	**-**	**-**	**1**
Other items	**153**	**-**	**56**	**38**
Total for Standardised Approach	**3,423**	**107**	**1,027**	**678**
Foundation IRB exposure class				
Central governments and central banks	**2**	**-**	**-**	**-**
Institutions[2]	**133**	**-**	**-**	**-**
Corporates	**1,420**	**1**	**-**	**-**
Retail	**173**	**381**	**-**	**-**
Securitisation positions	**195**	**-**	**-**	**-**
Non-credit obligation assets	**1**	**-**	**-**	**-**
Total for Foundation IRB Approach	**1,924**	**382**	**-**	**-**
Total for credit risk	**5,347**	**489**	**1,027**	**678**
Total for market risk	**62**	**-**	**-**	**9**
Total for operational risk	**414**	**17**	**93**	**110**
Total for capital floor	**-**	**250**	**-**	**-**
Total minimum capital requirement	**5,823**	**756**	**1,120**	**797**

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

[2]On 10 September 2010, AIB Group announced it had agreed to sell its interests in Bank Zachodni WBK S.A to Banco Santander S.A. The sale completed on 1 April 2011.

[3]Institution exposure class predominantly relates to banks.

[4]The Basel Standardised asset class past due items only includes exposures that are (a) standardised, (b) greater than 90 days past due or defaulted and (c) impaired.

Table 27: Minimum capital requirement of significant subsidiaries - as reported to local regulators *(continued)*

				2009
	Allied Irish Banks, p.l.c.	AIB Mortgage Bank[1]	AIB Group (UK) p.l.c.	Bank Zachodni WBK S.A
	€m	€m	€m	€m
Standardised credit risk exposure class				
Central governments and central banks	-	-	-	1
Administrative bodies and non-commercial undertakings	38	-	-	-
Institutions[2]	290	-	1	5
Corporates	673	-	1,208	130
Retail	372	-	75	122
Secured on real estate property	497	12	97	377
Past due items[3]	132	3	151	30
Items belonging to regulatory high risk categories	21	-	-	-
Collective investment undertakings	-	-	-	1
Other items	124	-	20	30
Total for Standardised Approach	2,147	15	1,552	696
Foundation IRB exposure class				
Central governments and central banks	1	-	-	-
Institutions[2]	178	-	-	-
Corporates	4,024	122	-	-
Retail	142	264	-	-
Securitisation positions	247	-	-	-
Non-credit obligation assets	1	-	-	-
Total for Foundation IRB Approach	4,593	386	-	-
Total for credit risk	6,740	401	1,552	696
Total for market risk	124	-	-	15
Total for operational risk	393	14	80	107
Total for capital floor	-	252	-	-
Total minimum capital requirement	7,257	667	1,632	818

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

[2]Institution exposure class predominantly relates to banks.

[3]The Basel Standardised asset class past due items only includes exposures that are (a) standardised, (b) greater than 90 days past due or defaulted and (c) impaired.

Appendix 2: Own funds

Summary information on the main components of own funds items, and their terms and conditions as applicable, is set out below. Further information on the terms and conditions of the government preference shares and warrants is available in the 2010 Annual Financial Report on the Group website: www.aibgroup.com.

TIER 1

Core tier 1

Paid up share capital and related share premium

Ordinary, convertible non-voting and preference share capital comprising shares of the parent company represent funds raised by issuing shares in return for cash or other consideration. When shares are issued at a premium whether for cash or otherwise, the excess of the amount received over the par value of the shares is transferred to share premium.

The paid up share capital and related share premium predominantly relates to the convertible non-voting shares and non-cumulative redeemable preference shares issued to the Irish Government, through the National Pension Reserve Fund Commission ("NPRFC").

Eligible reserves

Included in the eligible reserves are the following capital components:

Revenue reserves
Revenue reserves represent retained earnings of the parent company, subsidiaries and its associated undertakings. Revenue reserves are shown gross of the cumulative deficit within the defined benefit pension schemes.

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

Foreign currency translation reserves
The foreign currency translation reserves represent the cumulative gains and losses on the retranslation of the Group's net investment in foreign operations, at the rate of exchange at the reporting date.

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

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

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

Equity non-controlling interests in subsidiaries

Equity non-controlling interests in subsidiaries relate to interests of outside shareholders in consolidated subsidiaries.

Non-core tier 1

Non-equity non-controlling interests in subsidiaries

The € 1 billion Fixed Rate/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities ('Preferred Securities') were issued through a Limited Partnership ("LPI") at par and have the benefit of a subordinated guarantee of Allied Irish Banks, p.l.c. ("AIB").The Preferred Securities have no fixed final redemption date and the holders have no rights to call for the redemption of the Preferred Securities. At 31 December 2010, € 189 million remained outstanding following the redemption in June 2009 of € 801 million of the Preferred Securities.

The Preferred Securities are redeemable in whole but not in part at the option of the general partner and with the agreement of the Central Bank (i) upon the occurrence of certain events, or (ii) on or after 17 December 2014, subject to the provisions of the Limited Partnership Act, 1907.

Distributions on the Preferred Securities are non-cumulative. The distributions are payable at a rate of 4.781% per annum up to 17 December 2014 and thereafter at the rate of 1.10% per annum above 3 month EURIBOR, reset quarterly. The discretion of the Board of Directors of AIB to resolve that a distribution should not be paid is unfettered. The coupon on the Preferred Securities which was due to be paid on 17 December 2010 was not paid.

In the event of the dissolution of the Limited Partnership, holders of Preferred Securities will be entitled to receive a liquidation preference in an amount equal to the distributions that those holders would have received in a dissolution of AIB at that time, if they had held, instead of the Preferred Securities, non-cumulative preference shares issued directly by AIB, having the same liquidation preference as the Preferred Securities, and ranking junior to all liabilities of AIB including subordinated liabilities.

Non-cumulative perpetual preferred securities

In June 2006 Stg£ 350 million and € 500 million Fixed Rate/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities ('Preferred Securities') were issued through Limited Partnerships. The Preferred Securities were issued at par, have the benefit of a subordinated guarantee of Allied Irish Banks, p.l.c. ("AIB"), have no fixed final redemption date and the holders have no rights to call for the redemption of the Preferred Securities. The substitution of the Preferred Securities with fully paid non-cumulative preference shares issued by the Guarantor is subject, in particular cases, to certain events and conditions that are beyond the control of both the Guarantor and the holders of the Preferred Securities.

The distributions on the Preferred Securities are non-cumulative. The Board of Directors has the discretion not to pay a distribution on the Preferred Securities, unless the Preferred Securities no longer qualify as regulatory capital resources of AIB, and AIB is in compliance with its capital adequacy requirements.

In the event of the dissolution of the Limited Partnerships, holders of Preferred Securities will be entitled to receive a liquidation preference in an amount equal to the distributions that those holders would have received in a dissolution of AIB at that time, if they had held, instead of the Preferred Securities, non-cumulative preference shares issued directly by AIB, having the same liquidation preference as the Preferred Securities, and ranking junior to all liabilities of AIB including subordinated liabilities.

The distributions on the Stg£ 350 million Preferred Securities ("LP3") are payable at a rate of 6.271% semi-annually until 14 June 2016 and thereafter at a rate of 1.23% per annum above 3 month LIBOR, payable quarterly. The coupon on LP3 which was due to be paid on 14 December 2010 was not paid. The LP3 Preferred Securities are redeemable in whole but not in part at the option of the general partner and with the agreement of the Central Bank (i) upon the occurrence of certain events or (ii) on or after 14 June 2016. At 31 December 2010, Stg£ 36.7 million remained outstanding following the redemption in June 2009 of Stg£ 313 million of the preferred securities.

The distributions on the € 500 million Preferred Securities ("LP2") are payable at a rate of 5.142% per annum until 16 June 2016 and thereafter at a rate of 1.98% per annum above 3 month LIBOR, payable quarterly. The LP2 preferred securities are redeemable in whole but not in part at the option of the general partner and with the agreement of the Central Bank (i) upon the occurrence of certain events or (ii) on or after 16 June 2016. At 31 December 2010, € 95 million remained outstanding following the redemption in June 2009 of € 405 million of the preferred securities.

Reserve capital instruments

In February 2001, Reserve Capital Instruments ("RCIs") of € 500 million were issued by Allied Irish Banks, p.l.c. at an issue price of 100.069%.The RCIs are perpetual securities and have no maturity date. The RCIs are redeemable, in whole but not in part, at the option of the Bank and with the agreement of the Central Bank (i) upon the occurrence of certain events, or (ii) on or after 28 February 2011, an authorised officer having reported to the Trustees within the previous six months that a solvency condition is met.

The RCIs bear interest at a rate of 7.50% per annum from (and including) 5 February 2001 to (and including) 28 February 2011 and thereafter at 3.33% per annum above three month EURIBOR, reset quarterly.

At 31 December 2010, € 239 million remained outstanding following the redemption in June 2009 of € 258 million of the RCI.

The rights and claims of the RCI holders and the coupon holders are subordinated to the claims of the senior creditors and the senior subordinated creditors of the issuer. In the event of a winding up of the issuer, the RCI holders will rank *pari passu* with the holders of the classes of preference shares (if any) from time to time issued by the issuer and in priority to all other shareholders. The coupon on the RCI which was due to be paid on 28 February 2010 was not paid.

TIER 2

Upper level tier 2

Eligible reserves

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

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

Credit provisions

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

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

Subordinated perpetual loan capital

This consists of the following capital issues:
a) US$ 100 million Floating Rate Primary Capital Perpetual Notes;
b) € 200 million Fixed Rate Perpetual Subordinated Notes; and
c) Stg£ 400 million Perpetual Callable Step-Up Subordinated Notes.

The US$ 100 million Floating Rate Primary Capital Perpetual Notes, with interest payable quarterly, have no final maturity but may be redeemed at par at the option of the Group, on each coupon payment date, with the prior approval of the Central Bank of Ireland ('the Central Bank').

The € 200 million Fixed Rate Perpetual Subordinated Notes, with interest payable quarterly at a rate of 2.25% per annum above 3 month EURIBOR since 3 August 2009, have no final maturity but may be redeemed at the option of the Group, with the prior approval of the Central Bank, on each coupon payment date on or after 3 August 2009. At 31 December 2010, € 53.8 million remained outstanding following the redemption in June 2009 of € 146.2 million of the subordinated notes.

The Stg£ 400 million Perpetual Callable Step-Up Subordinated Notes with interest payable annually up to 1 September 2015 and with interest payable quarterly thereafter, have no final maturity but may be redeemed at the option of the Group, with the prior approval of the Central Bank, on 1 September 2015 and on every interest payment date thereafter. At 31 December 2010, Stg£ 58.6 million remained outstanding following the redemption in June 2009 of Stg£ 341.4 million of the subordinated notes.

Lower level tier 2

Subordinated term loan capital

The dated loan capital in this section issued under the European Medium Term Note Programme is subordinated in right of payment to the ordinary creditors, including depositors, of the Group. The Group redeemed certain of its subordinated liabilities and other capital instruments in both March 2010 and June 2009, details of which are set out in the 2010 Annual Financial Report.

This consists of the following capital issued by Allied Irish Banks, p.l.c.:
European Medium Term Note programme:

US$ 400m Floating Rate Notes due July 2015
€ 400m Floating Rate Notes due March 2015
€ 500m Callable Step-up Floating Rate Notes due October 2017
€ 419m 10.75% Subordinated Notes due March 2017
US$ 177m 10.75% Subordinated Notes due March 2017
€ 869m 12.5% Subordinated Notes due June 2019
Stg£ 368m 12.5% Subordinated Notes due June 2019
Stg£ 1,096m 11.50% Subordinated Notes due March 2022
Stg£ 700m Callable Fixed/Floating Rates Notes due July 2023
Stg£ 500m Callable Fixed/Floating Rate Notes due March 2025
Stg£ 350m Callable Fixed/Floating Rate Notes due November 2030
JPY 20bn Callable Step-up Fixed/Floating Rate Notes due March 2042

The US$ 400 million Floating Rate Notes* with interest payable quarterly, may be redeemed, in whole but not in part, on any interest payment date falling on or after July 2010. The Group redeemed US$ 221.4 million of these notes in March 2010, leaving US$ 178.6 million outstanding following redemption.

The € 400 million Floating Rate Notes* with interest payable quarterly, may be redeemed, in whole but not in part, on any interest payment date falling on or after March 2010. The Group redeemed € 212.2 million of these notes in March 2010, leaving € 187.8 million outstanding following redemption.

The € 500 million Callable Subordinated Step-Up Floating Rate Notes* with interest payable quarterly may be redeemed in whole but not in part on any interest payment date falling on or after 24 October 2012. The Group redeemed € 332.5 million of these notes in March 2010, leaving € 167.5 million outstanding following redemption.

The € 419 million Subordinated Notes* with interest paid annually in arrears, at a rate of 10.75% per annum until maturity in March 2017, may be redeemed at par, up to and including 29 March 2017.

The US$ 177 million Subordinated Notes* with interest paid annually in arrears, at a rate of 10.75% per annum until maturity in March 2017, may be redeemed at par, up to and including March 2017.

The € 869 million Subordinated Notes* with interest paid annually in arrears, at a rate of 12.5% per annum until maturity in June 2019, may be redeemed at par, on 25 June 2019.

The Stg£ 368 million Subordinated Notes* with interest paid annually in arrears, at a rate of 12.5% per annum until maturity in June 2019, may be redeemed at par, on 25 June 2019.

The Stg£ 1,096 million Subordinated Debt Notes* with interest paid annually in arrears, at a rate of 11.5% per annum until maturity in March 2022, may be redeemed at par, up to and including 29 March 2022.

The Stg£ 700 million Callable Dated Subordinated Fixed/Floating Rate Notes* with interest paid semi-annually in arrears, at a rate of 7.875% per annum until June 2018. The notes may be redeemed, in whole but not in part, on any quarterly interest payment date falling on or after June 2018 during which period the floating rate will be 3.5% above 3 month sterling Libor. The Group

redeemed Stg£ 548.6 million of these notes in March 2010, leaving Stg£ 151.4 million outstanding following redemption.

The Stg£ 500 million Subordinated Callable Fixed/Floating Rate Notes* with interest payable annually, up to 10 March 2020 at a rate of 5.25% and with interest payable quarterly thereafter at a rate of 1.28% above 3 month sterling Libor may be redeemed, in whole but not in part on any interest payment date falling on or after 10 March 2020.The Group redeemed Stg£ 481 million of these notes in March 2010, leaving Stg£ 19 million outstanding following redemption.

The Stg£ 350 million Callable Fixed/Floating Rate Notes* with interest payable annually in arrears on 26 November in each year, at a rate of 5.625% up to November 2025. The notes may be redeemed, in whole but not in part, on the 26 November 2025 and on each interest payment date thereafter during which period the floating rate will be 1.45% above 3 month sterling Libor. The Group redeemed Stg£ 323.3 million of these notes in March 2010, leaving Stg£ 26.7 million outstanding following redemption.

The Japanese Yen ("JPY") 20 billion Callable Subordinated Step-up Fixed/Floating Rate Notes* with interest payable semi-annually at a rate of 2.75% up to March 2037 and with interest payable semi annually thereafter at a rate of 0.78% above JPY Libor, are redeemable in whole but not in part on any interest payment date falling on or after 8 March 2037.

The instruments denoted by* were partially/fully exchanged for cash in January 2011[1].

Supervisory deductions from core tier 1

Goodwill and intangible assets

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

Pension filter

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

Supervisory deductions from tier 1 and tier 2 capital

Holdings in other credit and financial institutions

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

Expected loss adjustment

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

Securitisation positions

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

Supervisory deductions from gross capital

Holdings in insurance undertakings

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

[1]On 13 January 2011, AIB offered to purchase for cash at 30 per cent. of their face value, lower tier 2 securities (subordinated debt) with a nominal value of € 3.9 billion. On 24 January 2011, the Board approved tender offers for approximately € 2 billion of these lower tier 2 securities. In addition, € 0.2 billion was exchanged for cash in a private placement. These transactions gave rise to a gain of c. € 1.5 billion, increased core tier 1 capital by € 1.5 billion and will be reflected as profit in the 2011 financial statements.

Glossary of definitions and explanations

A

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

B

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

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

C

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

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

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

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

Conversion factor – is the ratio of the currently undrawn amount of a commitment that will be drawn and outstanding at default to the currently undrawn amount of the commitment, the extent of the commitment shall be determined by the advised limit, unless the unadvised limit is higher.

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

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

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

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

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

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

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

D

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

Default – when a customer breaches a term and/or condition of a loan agreement, a loan is deemed to be in default for case management purposes. Depending on the materiality of the default, if left unmanaged it can lead to loan impairment. Default is also used in Basel II context when a loan is either 91+ days past due or impaired, and may require additional capital to be set aside.

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

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

E

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

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

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

(b) debt securities issued by central governments or central banks, which securities have a credit assessment by an ECAI or export credit agency recognised as eligible for the purposes of Articles 78 to 83 which has been determined by the competent authority to be associated with credit quality step 4 or above under the rules for the risk weighting of exposures to central governments and central banks under Articles 78 to 83;

(c) debt securities issued by institutions, which securities have a credit assessment by an eligible ECAI which has been determined by the competent authority to be associated with credit quality step 3 or above under the rules for the risk weighting of exposures to credit institutions under Articles 78 to 83;

(d) debt securities issued by other entities, which securities have a credit assessment by an eligible ECAI which has been determined by the competent authority to be associated with credit quality step 3 or above under the rules for the risk weighting of exposures to corporates under Articles 78 to 83;

(e) debt securities with a short-term credit assessment by an eligible ECAI which has been determined by the competent authority to be associated with credit quality step 3 or above under the rules for the risk weighting of short term exposures under Articles 78 to 83;

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

(g) gold

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

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

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

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

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

F

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

G

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

I

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

Items belonging to regulatory high risk categories:[1]

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

L

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

M

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

N

NAMA – National Assets Management Agency.

NPRFC – National Pension Reserve Fund Commission

NTMA – The National Treasury Management Agency

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

O

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

Originator – is either of the following:

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

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

P

Past due items – the Basel standardised asset class '*Past due items*' only includes exposures that are (a) Standardised, and (b) greater than 90 days past due or defaulted.

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

R

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

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

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

S

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

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

Securitisation position – an exposure to a securitisation.

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

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

T

Total exposure – see exposure value.

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

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

V

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