PILLAR 3 DISCLOSURES 2013

AIB Group
31 December 2013

Forward-looking statements

This document contains certain forward-looking statements within the meaning of Section 27A of the US Securities Act of 1933, as amended, and Section 21E of the US Securities Exchange Act of 1934, as amended, with respect to the financial condition, results of the operations and business of the Group and certain of the plans and objectives of the Group. In particular, among other statements in the Annual Financial Report, with regard to management objectives, trends in results of operations, margins, risk management, competition and the impact of changes in International Financial Reporting Standards are forward-looking in nature. These forward looking statements can be identified by the fact that they do not relate to historical or current facts. Forward-looking statements sometimes use words such as 'aim', 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'may', 'could', 'will', 'seek', 'continue', 'should', 'assume', or other words of similar meaning. Examples of forward-looking statements include among others, statements regarding the Group's future financial position, income growth, loan losses, business strategy, projected costs, capital ratios, estimates of capital expenditures, and plans and objectives for future operations. Because such statements are inherently subject to risks and uncertainties, actual results may differ marginally from those expressed or implied by such forward-looking information. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These are set out in 'Risk factors' on pages 61 to 66 of the 2013 Annual Financial Report. These factors include, but are not limited to the Group's access to funding and liquidity is impacted by the financial instability within the euro zone; constraints on liquidity, and market reaction to factors affecting Ireland and the Irish economy have created a challenging environment for the management of the Group's liquidity; the Group's business may be adversely affected by a deterioration in economic and market conditions; contagion risks could disrupt the markets and adversely affect the Group's financial condition; the Group faces market risks, including non-trading interest rate risk; the Group is subject to rigorous and demanding Government supervision and oversight; the future of the Group's business activities are subject to possible interventions by the Irish Government or the disposal of the Irish State's ownership interest in the Group; the Group may be subject to the risk of having insufficient capital to meet increased minimum regulatory requirements; the Group's business activities must comply with increasing levels of regulation; the Group's participation in the NAMA Programme gives rise to certain residual financial risks; the Group may be adversely affected by further austerity and budget measures introduced by the Irish Government; the value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgements, and estimates that may change over time, or may ultimately not turn out to be accurate, and the value realised by the Group for these assets may be materially different from their current, or estimated, fair value; the Group's deferred tax assets depend substantially on the generation of future profits over an extended number of years; he Group is subject to inherent credit risks in respect of customers and counterparties which could adversely affect the Group's results, financial condition and future prospects; the Group faces heightened operational risks; he Group's risk management strategies and techniques may be unsuccessful; and there is always a risk of litigation arising from the Group's activities. Any forward-looking statements made by or on behalf of the Group speak only as of the date they are made. AIB cautions that the foregoing list of important factors is not exhaustive. Investors and others should carefully consider the foregoing factors and other uncertainties and assumptions, the forward-looking events discussed in this document and the Annual Financial Report may not occur. The Group does not undertake to release publicly any revision to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date hereof.

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Background and context

Background

The aim of the Basel II capital adequacy framework is to underpin the way regulatory capital requirements reflect a credit institutions' underlying risks. The legal basis for implementing Basel II in the European Union is the Capital Requirements Directive ("CRD"), which was transposed into Irish law at the end of 2006. This framework is based on three pillars:

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

This document represents the 'Pillar 3' disclosures for AIB Group as at 31 December 2013, as required by directives 2006/48/EC, 2006/49/EC and 2010/76/EU of the CRD relating to the taking up and pursuit of the business of credit institutions.

CRD IV entered in to force from 1 January 2014 and will impact Pillar 3 disclosures from the year-ended 31 December 2014. There is no impact on disclosures for 31 December 2013. The Group is considering all proposed changes and enhancements to Pillar 3 disclosures and they will be reflected in the 31 December 2014 document.

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" or "CBI"). 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 2013. These disclosures cover both the Pillar 3 qualitative and quantitative disclosure requirements and incorporate the requirements of the amending Directive 2010/76/EU which sets out additional requirements for the trading book, re-securitisations and the supervisory review of remuneration policies.

The Pillar 3 disclosures have been prepared to explain the basis on which the Group has prepared and disclosed capital requirements and information about the management of certain risks and for no other purpose. They do not constitute any form of financial statement and should not be relied upon exclusively in making any judgement on the Group. They should be read in conjunction with the other information made public by AIB Group and available on the AIB Group website, including the 2013 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 and approved the policy in 20143.

Media and location
The Pillar 3 report is published on AIB Group's website (www.aibgroup.com), alongside the 2013 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 2013 Annual Financial Report and have not been audited by the Group's external auditors. Any audited information that has been included in these disclosures is included in the 2013 Annual Financial Report.

1. Introduction and AIB Group key information

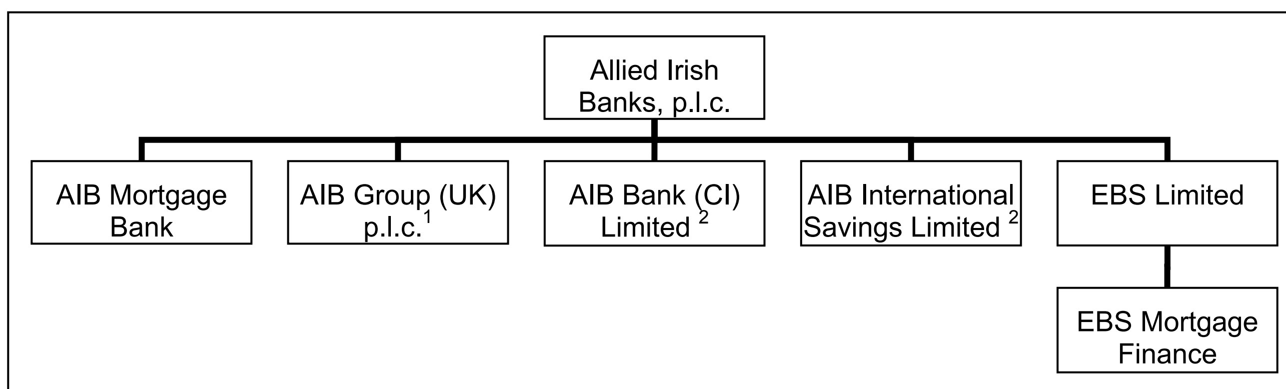
Overview

i. Basis of consolidation for accounting and prudential purposes

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

Organisational structure of licensed banks within AIB Group[3]

as at 31 December 2013



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 are unable to remit capital to the parent when to do so would result in such ratios being breached.

iii. Solo consolidation

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

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

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

[2] On 5 April 2012, AIB announced that it is winding down its operations in Jersey and the Isle of Man and ceased operating on these islands on 31 December 2013. The entities still formed part of the structure of licensed banks in AIB Group as at 31 December 2013.

[3] For a description of the Group's 2013 operating market segments please refer to pages 11 – 14 of the 2013 Annual Financial Report.

There are certain criteria that must be met before the Central Bank will approve the inclusion of non-authorised subsidiaries in the 'solo consolidation'. Allied Irish Banks, p.l.c. has received approval to prepare its regulatory return on a solo consolidation basis. However, certain legal entities are treated differently for statutory reporting purposes and compared to their CRD regulatory accounting as follows:

Entity	Statutory accounting treatment	CRD regulatory treatment
Associated undertakings[1]	Equity Accounting	For holdings in associated undertakings the entire investment is deducted from Group capital (50:50 from Core tier 1 and Tier 2 capital).
Ark Life Assurance Company Limited ("Ark Life")[2]	Accounted for under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* [2]	The deduction element of the Group's holding in Ark Life is deducted from Group capital (50:50 from Core tier 1 and Tier 2 capital)
Securitisation vehicles	Fully consolidated	Positions retained in originated securitisations which have obtained **Pillar 1** derecognition are risk weighted at 1,250%.

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.

There were no capital initiatives during 2013 as AIB's capital requirements as set out in the Central Bank's Financial Measures Programme were met by 31 July 2011 through the various recapitalisation measures by the Irish Government in addition to certain measures undertaken by AIB.

The 2013 Annual Financial Report compiles information based on IFRS accounting standards, whereas certain information presented in this Pillar 3 report has been compiled based on capital adequacy concepts and rules, as contained in CRD. It should be noted that there are significant differences in the two bases of calculation of the financial data. This, in particular, relates to credit risk disclosures where the credit exposure under CRD, is defined as the expected amount of Exposure at Default ("EAD") and is estimated under specified regulatory rules. The total assets under IFRS at 31 December 2013 were € 118 billion whereas the total regulatory EAD was € 125 billion, a difference of € 7 billion.

The main drivers of this difference are as follows:

- The inclusion in EAD of € 3.8 billion non-collateralised repurchase agreement borrowings at 31 December 2013. The resulting exposure to banks and central banks arises in cases where the fair value of collateral provided to secure the borrowing is in excess of the cash received.
- Specific provisions on IRB exposures of € 3.7 billion are not reflected in the calculation of EAD for IRB portfolios, whereas from an IFRS treatment perspective these assets will be shown net of all provisions.
- Incurred but not reported ("IBNR") provisions of € 1.2 billion which are not reflected in the calculation of EAD on either Standardised or Internal Ratings Based ("IRB") portfolios, whereas from an IFRS treatment perspective these assets will be shown net of all provisions.
- The inclusion in EAD of undrawn committed credit facilities, contingent liabilities and other off balance sheet items in the amount of € 2.3 billion. For the purposes of the calculation of EAD, regulatory credit conversion factors are applied to convert the contractual amount of a commitment into a credit equivalent amount. This is not reflected in the IFRS assets.
- An amount of € 2.7 billion IFRS assets, in respect of the subsidiary Ark Life Assurance Company Limited which is held for sale/disposal is not reflected in EAD as the equity investment in Ark Life Assurance Company Limited is deducted from regulatory capital.
- Available for Sale ("AFS") securities are carried at market value in IFRS assets; however they are reflected at book value in EAD, resulting in EAD being lower by € 1.0 billion.

[1] Associated undertakings – From 1 January 2013 the treatment of participation in insurance undertakings has changed. The regulatory treatment is to fully deduct the investment in the associate from capital, split 50:50 from Core tier 1 and Tier 2 capital.

[2] AIB acquired its investment in Ark Life in March 2013 with a view to its resale. Accordingly, AIB has adopted the approach set out in IFRS 5 implementation guidance, example 13, in accounting for its investment in Ark Life. For presentation purposes in the statement of financial position, the entity's identifiable liabilities are measured at fair value and this amount is added to the fair value less costs to sell figure to ascertain the value of assets to be disclosed.

2. Capital and capital management

Introduction

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 inherent in its business and to support its future development.

The Group does this through an Internal Capital Adequacy Assessment Process ("ICAAP"), which is subject to supervisory review and evaluation. The minimum regulatory capital requirements set by the Central Bank which reflect the requirements of the CRD established a floor of 4% under which the core tier 1 capital ratio must not fall (8% for total capital ratio).

Following the Prudential Capital Assessment Review ("PCAR") in March 2011, the Central Bank announced a new minimum capital target for AIB of 10.5% core tier 1 capital ratio in a base scenario and 6% core tier 1 capital ratio in a stressed scenario. These target ratios form the basis of the Group's capital management policy and are the capital adequacy requirements effective as at 31 December 2013.

The Group's core tier 1 capital ratio was 14.3% as at 31 December 2013, down from 15.2% as at 31 December 2012.

Table 2 – "Capital adequacy information" on page 11 summarises the Group's risk weighted assets and key capital ratios.

Capital Requirements Directive ("CRD")

The CRD, which came into force on 1 January 2007, is the EU directive that establishes the regulatory capital adequacy requirements for credit institutions. It is set out in three distinct 'Pillars'. Pillar 1 is concerned with the calculation of the minimum capital requirements for credit risk, market risk and operational risk. It introduced greater granularity and sensitivity in risk weightings, including for certain portfolios risk weightings determined by regulatory approved internal rating models (known as the Internal Ratings Based ("IRB") approach). Under Pillar 2, banks are required to estimate their own internal capital requirements to cover all material risks (not limited to the Pillar 1 risks) as part of their ICAAP which is then subject to supervisory review and evaluation (known as the "SREP"). Pillar 3 ('market discipline') involves the disclosure of a suite of qualitative and quantitative risk management information to the market.

Since it first came into effect, the CRD has been amended a number of times ("CRD II" and "CRD III"). These amendments reflected in the main; new requirements on hybrid tier one capital instruments; updates to the large exposures regime; improved risk management requirements for securitisations; and changes to trading book capital requirements. These amendments have not had a material impact on the capital position of the Group.

In 2013, the European Union ("EU") adopted a legislative package known as "CRD IV", to strengthen the regulation of the banking sector and to implement the Basel III agreement in the EU legal framework. The EU text was formally published in the Official Journal of the EU on 27 June 2013. The CRD IV package entered into force on 1 January 2014, with some of the new provisions being phased-in between 2014 and 2019.

CRD IV consists of the Capital Requirements Regulation ("CRR"), which is directly applicable to firms across the EU, and the new CRD, which was signed in to Irish law on 31 March 2014. These include enhanced requirements for quality and quantity of capital, a basis for new liquidity and leverage requirements, new rules for counterparty risk, and new macro prudential standards including a countercyclical capital buffer and capital buffers for systemically important institutions. CRD IV also makes changes to rules on corporate governance, including remuneration, and introduces standardised EU regulatory reporting - referred to as COREP and FINREP. These reporting requirements will specify the information that firms must report to supervisors in areas such as own funds, large exposures and financial information.

Based on full implementation of the CRD IV regulations, the Group's pro-forma Common Equity Tier 1 ("CET 1") ratio, including the 2009 Preference Shares (which will continue to be considered as CET 1 until 31 December 2017), is estimated at 10.5% as at 31 December 2013. Based on the transitional provisions of CRD IV, the Group's pro-forma CET 1 ratio, including the 2009 Preference Shares, is estimated at 15.0% as at 31 December 2013.

CRD IV also introduces a Leverage Ratio, designed to act as a non-risk sensitive back-stop measure to reduce the risk of a build-up of excessive leverage in an individual bank and the financial system as a whole. It is defined as tier 1 capital divided by a non-risk adjusted measure of assets. Based on full implementation of CRD IV, the pro-forma Leverage Ratio, including the 2009 Preference Shares, is estimated at 5%.

Irish banks are required to maintain a 4.0% CET 1 ratio, a 5.5% Tier 1 ratio and 8% total capital ratio in 2014. However the ECB has publicly stated that a CET 1 ratio of 8% will constitute a capital threshold and will be set as a benchmark for the outcome of the ECB Single Supervisory Mechanism ("SSM") Comprehensive Assessment exercise. Until such time as formal capital guidance is issued to replace the PCAR 2011 requirements, the Central Bank expects AIB to maintain a prudent capital buffer over the minimum ECB requirements (i.e. CET 1 ratio of 8%).

Balance Sheet Assessment ("BSA")

The CBI concluded a BSA of the three credit institutions covered under the Eligible Liability Guarantee Scheme, including AIB, in the fourth quarter of 2013. This review included an assessment of asset quality, risk weighted assets and point in time capital adequacy as at 30 June 2013. As disclosed in early December 2013, AIB was advised of the findings of this review and has considered them in the preparation of the Group's year end December 2013 impairment provisions, capital position and financial statements.

The BSA review process included a top down mortgage modelling exercise and a review of the classification of 670 mortgages. 1,210 non-mortgage sample file reviews were also performed. The review was conducted in line with the CBI impairment guidelines issued in May 2013.

The CBI 'point in time' BSA exercise was conducted as at 30 June 2013. The findings suggested higher mean impairment provisions of € 1,135 million and higher risk weighted assets of € 1,564 million for consideration by the Group.

The Group determines impairment provisions on an on-going basis in accordance with IFRS accounting standards, which takes into account impairment triggers, collateral valuations and the timing of realisation. In arriving at the 2013 total credit impairment provisions charge of € 1,916 million, the Group also considered the CBI BSA findings and impairment guidelines.

The Group's own assessment of the impairment charge for 2013 is substantially consistent with all of the BSA mean provision finding of € 1,135 million.

Regulatory capital ratios

Risk weighted assets ("RWAs") reduced by € 9.0 billion in the year to 31 December 2013. The credit RWAs reduction of € 7.3 billion is primarily a result of amortisations, deleveraging, increased provisions and foreign exchange movements, which were offset to a degree by changes implemented in risk models, including those identified as part of the BSA exercise, and deterioration in credit quality, particularly in the mortgage portfolio. The RWAs attaching to market risk reduced by € 0.4 billion, primarily due to the maturing of positions in traded debt instruments and equities. The RWAs attaching to operational risk reduced by € 1.3 billion in 2013 reflecting the reduced levels of income in the annual calculation, arising in the main from disposals and the impact of the economic decline in the last three years.

Core tier 1 capital has reduced by € 1.9 billion in the year; this is primarily due to the loss for 2013 and an increase in supervisory deductions. The impact of this movement which was partly offset by the RWA reductions as outlined above resulted in a reduction in the core tier 1 capital ratio from 15.2% at 31 December 2012 to 14.3% at 31 December 2013. The core tier 1 ratio is in excess of the 10.5% target core tier 1 requirement as announced under the Financial Measures Programme in March 2011.

Total capital reduced by € 2.3 billion in the year to 31 December 2013, due to the € 1.9 billion movements in core tier 1 capital described above and a € 0.5 billion reduction in tier 2 capital. The reduction in tier 2 capital primarily results from the continued amortisation of the contingent capital instrument that is due to mature in July 2016. The impact of this reduction in capital was partly offset by the RWA reductions, resulting in a reduction in the total capital ratio from 17.8% at 31 December 2012 to 16.6% at 31 December 2013.

Table 2: Capital adequacy information – components of capital base

		2013		Restated* 2012
		€ m		€ m
Core tier 1				
Paid up share capital and related share premium		**8,096**		8,096
Eligible reserves		**1,436**		3,113
Regulatory adjustments:				
Defined benefit pension adjustment	**(242)**		(107)	
Intangible assets	**(176)**		(187)	
Other	**(30)**		(18)	
		(448)		(312)
Core tier 1 capital		**9,084**		10,897
Supervisory deductions from tier 1				
Unconsolidated financial investments	**(158)**[1]		(6)	
Securitisations	**-**		(45)	
		(158)		(51)
Total core tier 1 capital (including supervisory deductions)		**8,926**		10,846
Tier 2				
Eligible reserves		**140**		125
IBNR provisions		**595**		682
Subordinated term loan capital		**833**		1,154
Supervisory deductions from tier 2 capital				
Unconsolidated financial investments	**(158)**[1]		(6)	
Securitisations	**-**		(45)	
		(158)		(51)
Total tier 2 capital		**1,410**		1,910
Gross capital		**10,336**		12,756
Supervisory deductions – Holdings in insurance undertakings		**-**		(74)
Total capital		**10,336**		12,682
Risk weighted assets				
Credit risk		**59,038**		66,335
Market risk		**177**		616
Operational risk		**3,180**		4,466
Total risk weighted assets		**62,395**		71,417
Capital ratios				
Core tier 1		**14.3%**		15.2%
Total		**16.6%**		17.8%

* Restated due to change in accounting policy for retirement benefits (see note 60 to the 2013 Annual Financial Report).

[1] Supervisory deductions relate to the life assurance business, Ark Life, which was acquired exclusively for resale in March 2013.

Table 3a below summarises the risk weighted assets ("RWA"), minimum capital requirements and total exposures (Exposures at Default) of the Group, which are further analysed throughout this report.

Table 3a: Group capital adequacy information

			2013
	Total exposures[1]	**Risk weighted assets**	**Minimum capital requirement**[2]
	€ m	**€ m**	**€ m**
Credit risk – Standardised approach	**60,221**	**36,956**	**2,956**
Credit risk – IRB approach	**64,900**	**22,082**	**1,767**
Market risk – Standardised approach (Table 3b)	**N/A**	**177**	**15**
Operational risk – Standardised approach	**N/A**	**3,180**	**254**
	125,121	**62,395**	**4,992**

			2012
	Total exposures[1]	Risk weighted assets	Minimum capital requirement[2]
	€ m	€ m	€ m
Credit risk – Standardised approach	70,081	43,633	3,491
Credit risk – IRB approach	65,119	22,702	1,816
Market risk – Standardised approach (Table 3b)	N/A	616	49
Operational risk – Standardised approach	N/A	4,466	357
	135,200	71,417	5,713

Table 3b: Market risk – minimum capital requirement

	2013	2012
Market risk – minimum capital requirement	**€ m**	€ m
Interest rate PRR[3]	**11**	26
Equity rate PRR	**3**	7
Foreign exchange PRR	**-**	11
Investment firms	**1**	5
	15	49

[1] 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.

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

[3] Position risk requirement.

3. Risk management

Introduction

The Group assumes a variety of risks in undertaking its business activities. Risk is defined as any event that could damage the core earnings capacity of the Group, increase earnings or cash-flow volatility, reduce capital, threaten business reputation or viability, and/or breach regulatory or legal obligations. AIB has adopted an Enterprise Risk Management approach to identifying, assessing and managing risks, the core elements of which are set out in a Board approved Enterprise Risk Management Framework. This framework is in turn supported by a number of other Board approved frameworks covering the management of specific risk categories including credit risk, operational risk and other risks. The core aspects of the Group's risk management approach are described on pages 67 – 69 of the 2013 Annual Financial Report.

Risk factors

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

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

– Macro-economic and geopolitical risk;

– Macro-prudential, regulatory and legal risks to the business model; and,

– Risks relating to business operations, governance and internal control systems.

The risks pertaining to each of these categories are described in detail on pages 61 to 66 of the 2013 Annual Financial Report.

Individual risk types

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

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

The individual risk types listed above are described in detail on pages 71 – 169 of the 2013 Annual Financial Report, with prefaces to Credit risk, Market risk and Operational risk included below. Further discussion on Credit Risk can also be found in Sections 4 - 9 of this Report.

Credit risk

Credit risk is the risk that the Group will incur losses as a result of a customer or counterparty being unable or unwilling to meet a commitment that it has entered into. Credit exposure arises in relation to lending activities to customers and banks, including 'off-balance sheet' guarantees and commitments, the trading portfolio, financial investments available for sale, and derivatives. Concentrations in particular portfolio sectors, such as property and construction, can impact the overall level of credit risk. As at 31 December 2013, the Group uses a combination of Standardised and IRB Approaches for assessing its capital requirements for credit risk.

Market risk

Market risk is the risk relating to the uncertainty of returns attributable to fluctuations in market factors. Where the uncertainty is expressed as a potential loss in earnings or value, it represents a risk to the income and capital position of the Group. The Group is primarily exposed to market risk through interest rate and credit spread risk factors and to a lesser extent through foreign exchange, equity and inflation rate risk factors. AIB Group uses the Standardised Approach for assessing its capital requirements for trading book market risk. As set out on page 12, of the total minimum capital requirement of € 4,992 million, the minimum capital requirement for Market risk amounts to € 15 million. A description of AIB Group's (a) 'identification and assessment'; (b) 'management and mitigation'; and (c) 'monitoring and reporting' of market risk is set out on pages 164 and 165 of the 2013 Annual Financial Report. A sensitivity analysis of the Group's banking book to movements in interest rates is set-out on page 165 of the 2013 Annual Financial Report, together with a VaR profile for both the banking and trading book.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk, but excludes strategic and business risk. In essence, operational risk is a broad range of individual risk types which include information technology, business continuity, health and safety risks, and legal risk. AIB Group uses the Standardised Approach for assessing its capital requirements for operational risk. As set out on page 12, of the total minimum capital requirement of € 4,992 million, the minimum capital requirement for Operational risk amounts to € 254 million. A description of AIB Group's (a) 'identification and assessment'; (b) 'management and mitigation' and (c) 'monitoring and reporting' of operational risk as set out on page 167 of the 2013 Annual Financial Report.

4. Credit Risk – Overview

One of the Group's main sources of income from on-going activities arises from granting credit. Accordingly, this exposes it to its most significant risk, namely credit risk. The most significant credit risks in AIB Group arise from traditional lending activities to corporate, commercial and personal customers and to sovereigns and banks. Credit risk also arises through the use of derivatives, off-balance sheet guarantees and commitments and through the Group's trading and 'available for sale' portfolios of financial instruments. Capital requirements are based on the perceived level of risk of individual credit exposures. A description of how AIB manages monitors and reports credit risk is outlined in the "Risk management" section on pages 70 - 152 of the 2013 Annual Financial Report.

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

a) The Standardised Approach; and
b) The Internal Ratings Based Approach ("IRB Approach")

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

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

As at 31 December 2013, the Group used a combination of Standardised and IRB Approaches for assessing its capital requirements for credit risk. It has received regulatory approval to use the Foundation IRB Approach for certain sovereign, bank and corporate exposures, and to use the Retail IRB Approach for certain residential mortgage exposures. Henceforth, for ease of reference within this document, this combination of Foundation and Retail IRB approval will be referred to as approval to use a Foundation IRB Approach.

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

These disclosures have been provided on a Group consolidated basis and include assets which, as at 31 December 2013, were classified as "Disposal groups and non-current assets held for sale", with the exception of the Group's subsidiary Ark Life Assurance Company Limited which is held as a subsidiary exclusively acquired for resale. The investment in Ark Life is deducted in full from capital as described on page 8 of this document.

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

a) The Group reports exposure values as Exposure at Default ("EAD") which is after the application of Credit Risk Mitigation ("CRM"), Credit Conversion Factors ("CCFs") and specific offsets;
b) "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;
c) "Other items" refers to other assets including land and buildings, plant and machinery, other fixtures and fittings, tools and equipment, payments on account, current tax and deferred tax.

[1] The portfolios for which AIB has received regulatory approval to use the IRB Approach are outlined in Section 6 of this document.

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

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

	2013		2012	
Exposure class	**Total exposures €m**	**Minimum capital requirement €m**	Total exposures €m	Minimum capital requirement €m
Standardised exposure class				
Central governments and central banks	**16,044**	**-**	18,516	3
Regional governments or local authorities	**-**	**-**	-	-
Administrative bodies and non-commercial undertakings	**35**	**3**	38	3
Institutions[1]	**342**	**6**	1,098	27
Corporates	**5,776**	**462**	6,935	555
Retail	**4,539**	**272**	4,983	299
Secured on real estate property[2]	**17,658**	**877**	20,354	1,055
Past due items[3]	**10,036**	**913**	11,676	1,094
Items belonging to regulatory high risk categories	**179**	**21**	194	23
Covered Bonds	**-**	**-**	426	8
Securitisations	**80**	**27**	85	28
Other items	**5,532**	**375**	5,776	396
Total Standardised Approach	**60,221**	**2,956**	70,081	3,491
Foundation IRB exposure class				
Central governments and central banks	**21,979**	**5**	20,064	6
Institutions	**7,236**	**86**	6,036	88
Corporates	**10,925**	**702**	13,047	636
Retail[4]	**24,069**	**941**	24,663	989
Securitisation positions	**684**	**32**	1,303	96
Non-credit obligation assets	**7**	**1**	6	1
Total Foundation IRB Approach	**64,900**	**1,767**	65,119	1,816
Total Credit Risk[5]	**125,121**	**4,723**	135,200	5,307

Overall total exposures fell by 7.5% (€ 10.1 billion) in 2013 compared to 2012, comprising a € 9.9 billion decrease in standardised exposures and a € 0.2 billion decrease in IRB exposures, reflecting the Group's non-core deleveraging and loan repayments exceeding loan demand in 2013. The credit risk capital requirement also fell and was down 11.0% in the year.

Within the standardised portfolio, the main drivers of the reduction in exposures occurred in the "Central governments and central banks", "Secured on real estate property" and "Past due items" exposure classes which decreased by € 2.5 billion, € 2.7 billion and € 1.6 billion respectively. The decrease in the "Central governments and central banks" exposure class is primarily due to

[1] Institutions exposure class predominantly relates to banks.

[2] The EAD in the secured on real estate property exposure class includes a significant portion of property portfolios in Financial Solutions Group ("FSG"), Domestic Core Bank ("DCB") and AIB UK, as well as residential mortgages in DCB (relating to EBS) and AIB UK. The Group operating market segments for 2013 are described on pages 11-14 of the 2013 Annual Financial Report.

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

[4] 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, excluding EBS, which are included in Standardised Approach.

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

further repayment of the NAMA senior bond. The decrease in the “Secured on real estate property” and “Past due items” exposure classes is attributable to repayments of debt and higher provisions in the “Property” and “Home loans” sectors, as well as write-offs and asset sales in the “Property” sector. There was also a decrease in the “Corporates” exposure class of € 1.2 billion, which was evident across a range of industry sectors. The covered bonds, which relate to bonds issued by EBS, were transferred to AIB plc during 2013 and as such are included within the “Institutions” exposure class under the IRB Approach in the table above.

The € 0.2 billion decrease in the IRB exposures was driven by a € 2.1 billion decrease in the “Corporate” exposure class reflecting the impact of asset sales, write-offs and repayments, with smaller decreases in the “Retail” and “Securitisation positions” exposure classes (decreases of € 0.6 billion and € 0.6 billion respectively). The majority of the decrease was offset by an increase of € 1.9 billion in the “Central governments and central banks” exposure class reflecting an increased holding in government bonds in 2013 and a € 1.2 billion increase in the “Institutions” exposure class driven by increases in the bank securities held in the “Available for sale” portfolio and the transfer of the EBS covered bonds as mentioned above.

The decreases in the standardised and IRB exposures as described above resulted in a decrease in the minimum capital requirement of € 0.6 billion (11.0%) in the period, comprising a € 0.5 billion decrease in the minimum capital requirement for standardised exposures and a € 0.1 billion decrease in the minimum capital requirement for IRB exposures.

In terms of the standardised exposures, the most significant movements in the minimum capital requirement were due to decreases in the “Secured on real estate property” and “Past due items” exposure classes, while the decrease in exposures to “Central government and central banks” as described above had no material impact on capital.

The small decrease in the minimum capital requirement for IRB exposures was driven by the decreases in the IRB exposures discussed above, offset by increases to the risk weighted assets amounts as a result of changes implemented in risk models, including those identified as part of the CBI BSA in 2013. Further details are included on page 38 of this document.

5. Credit Risk – Standardised Approach

Exposures rated under the Standardised Approach amounted to € 60,221 million, with a capital requirement of € 2,956 million as at 31 December 2013 (31 December 2012: exposures of € 70,081 million with a capital requirement of € 3,491 million). The main drivers of the reduction in exposures occurred in the "Central governments and central banks" and "Secured on real estate property" exposure classes which decreased by € 2.5 billion and € 2.7 billion respectively, as outlined on page 17.

Use of external credit ratings

Under the CRD, Institutions are permitted to determine the risk weights of an exposure with reference to the credit assessments of External Credit Assessment Institutions ("ECAIs"). AIB uses Standard & Poor's Rating Services, Fitch Ratings, Moody's Investors Service and Dominion Bond Rating Service ("DBRS") as its nominated ECAIs for a small part of its credit risk exposures rated under the Standardised Approach (see also Section 10 Securitisations). 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").

Of the total Standardised exposures after credit risk mitigation of € 60,221 million (31 December 2012: € 70,081 million), € 16,390 million has been assigned a credit quality assessment step using mapping guidelines issued by the Central Bank, of which € 471 million or 0.8% of the Standardised exposures (31 December 2012: € 1,812 million or 2.6% of the Standardised exposures) is rated by ECAIs.

Of the remaining exposures of € 15,963 that have been assigned a credit quality assessment step, the majority (€ 15,616 million) relates to the NAMA senior bonds received as consideration for the loans and receivables transferred to NAMA during 2010 and 2011 and for the transfer of the Anglo deposit business to the Group during 2011. Whilst these bonds do not have an external credit rating, the Group has attributed to them a rating of BBB+ (31 December 2012: BBB+) which is the Ireland sovereign external rating, as the bonds are guaranteed by the Irish Government. The bonds have been assigned to a credit quality assessment step on that basis.

Tables 8 and 9 on pages 24 and 25 give an analysis of the exposures rated under the Standardised Approach by ECAI and credit quality assessment step.

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

2013

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	-	-	-	-	-	-	-	-	-	-	-	16,044	-	16,044
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Administrative bodies and non-commercial undertakings	-	-	-	-	-	-	-	-	35	-	-	-	-	35
Institutions	-	-	-	-	-	-	-	-	-	-	-	342	-	342
Corporates	474	193	1,199	77	400	-	234	434	2,291	162	312	-	-	5,776
Retail	671	73	348	7	27	423	70	2,124	446	277	73	-	-	4,539
Secured on real estate property	102	32	76	-	78	11,670	2	67	514	5,095	22	-	-	17,658
Past due items	285	423	624	10	164	2,428	112	567	272	5,130	21	-	-	10,036
Items belonging to regulatory high risk categories	5	42	4	-	11	-	12	-	33	72	-	-	-	179
Covered Bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Securitisations	-	-	-	-	80	-	-	-	-	-	-	-	-	80
Other items	-	-	1	-	35	-	1	-	7	-	-	-	5,488	5,532
	1,537	763	2,252	94	795	14,521	431	3,192	3,598	10,736	428	16,386	5,488	60,221

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

	2012													
	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	-	-	-	-	-	-	-	-	-	-	-	18,516	-	18,516
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Administrative bodies and non-commercial undertakings	-	-	-	-	-	-	-	-	38	-	-	-	-	38
Institutions	-	-	-	-	-	-	-	-	-	-	-	1,098	-	1,098
Corporates	476	214	1,225	64	547	2	254	645	2,661	459	388	-	-	6,935
Retail	662	90	375	7	28	613	80	2,278	482	290	78	-	-	4,983
Secured on real estate property	117	61	56	-	95	12,925	3	71	513	6,482	29	-	2	20,354
Past due items	327	521	734	14	24	2,499	98	658	303	6,467	28	-	3	11,676
Items belonging to regulatory high risk categories	5	36	21	-	10	-	17	-	28	77	-	-	-	194
Covered Bonds	-	-	-	-	426	-	-	-	-	-	-	-	-	426
Collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Securitisations	-	-	-	-	85	-	-	-	-	-	-	-	-	85
Other items	-	-	1	-	175	-	1	1	10	2	-	-	5,586	5,776
	1,587	922	2,412	85	1,390	16,039	453	3,653	4,035	13,777	523	19,614	5,591	70,081

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

							2013
	Republic of Ireland	**United Kingdom**	**United States of America**	**Rest of the world**	**Total exposures**	**Total gross exposures[2]**	**Average exposures over the period[3]**
Exposure class	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Central governments and central banks	**16,044**	**-**	**-**	**-**	**16,044**	**16,997**	**17,477**
Regional governments or local authorities	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Administrative bodies and non-commercial undertakings	**-**	**-**	**35**	**-**	**35**	**35**	**37**
Institutions	**302**	**40**	**-**	**-**	**342**	**442**	**668**
Corporates	**2,131**	**3,637**	**8**	**-**	**5,776**	**7,314**	**6,307**
Retail	**3,740**	**799**	**-**	**-**	**4,539**	**8,837**	**4,736**
Secured on real estate property	**12,742**	**4,916**	**-**	**-**	**17,658**	**17,927**	**18,804**
Past due items	**8,407**	**1,629**	**-**	**-**	**10,036**	**22,077**	**10,937**
Items belonging to regulatory high risk categories	**175**	**4**	**-**	**-**	**179**	**231**	**200**
Covered Bonds	**-**	**-**	**-**	**-**	**-**	**-**	**248**
Collective investment undertakings	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Securitisations	**80**	**-**	**-**	**-**	**80**	**80**	**83**
Other items	**4,803**	**728**	**1**	**-**	**5,532**	**5,551**	**5,637**
	48,424	**11,753**	**44**	**-**	**60,221**	**79,491**	**65,134**

[1] AIB Group monitors geographic breakdown based primarily on the location of the office recording the transaction.
[2] Total gross exposure is before CRM, CCFs and offsets.
[3] Average exposures over the period are based on Total exposures (EAD).

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

							2012
	Republic of Ireland	United Kingdom	United States of America	Rest of the world	Total exposures	Total gross exposures[2]	Average exposures over the period[3]
Exposure class	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Central governments and central banks	18,516	-	-	-	18,516	20,873	22,156
Regional governments or local authorities	-	-	-	-	-	-	-
Administrative bodies and non-commercial undertakings	-	-	38	-	38	38	39
Institutions	787	311	-	-	1,098	1,626	1,910
Corporates	2,484	4,442	9	-	6,935	8,766	7,786
Retail	3,990	993	-	-	4,983	9,400	5,303
Secured on real estate property	14,852	5,502	-	-	20,354	20,594	23,783
Past due items	9,528	2,113	35	-	11,676	22,800	11,604
Items belonging to regulatory high risk categories	175	7	12	-	194	242	328
Covered Bonds	426	-	-	-	426	426	464
Collective investment undertakings	-	-	-	-	-	-	-
Securitisations	85	-	-	-	85	85	87
Other items	4,594	1,181	1	-	5,776	5,785	5,706
	55,437	14,549	95	-	70,081	90,635	79,166

[1] AIB Group monitors geographic breakdown based primarily on the location of the office recording the transaction.
[2] Total gross exposure is before CRM, CCFs and offsets.
[3] Average exposures over the period are based on Total exposures (EAD).

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

2013

Exposure class	**On demand € m**	**0 < 3 months € m**	**3 < 6 months € m**	**6 months < 1 year € m**	**1 < 3 years € m**	**3 < 5 years € m**	**5 < 10 years € m**	**10 years + € m**	**No maturity € m**	**Total exposures € m**
Central governments and central banks	**-**	**15,740**	**-**	**-**	**84**	**-**	**-**	**220**	**-**	**16,044**
Administrative bodies and non-commercial undertakings	**-**	**-**	**-**	**-**	**34**	**-**	**1**	**-**	**-**	**35**
Institutions	**3**	**302**	**-**	**-**	**-**	**-**	**-**	**37**	**-**	**342**
Corporates	**244**	**465**	**166**	**936**	**866**	**1,109**	**648**	**1,342**	**-**	**5,776**
Retail	**10**	**246**	**181**	**1,266**	**604**	**701**	**607**	**924**	**-**	**4,539**
Secured on real estate property	**313**	**497**	**410**	**968**	**999**	**1,008**	**1,365**	**12,098**	**-**	**17,658**
Past due items	**342**	**181**	**185**	**4,534**	**301**	**1,330**	**498**	**2,665**	**-**	**10,036**
Items belonging to regulatory high risk categories	**5**	**8**	**28**	**88**	**16**	**1**	**7**	**26**	**-**	**179**
Covered Bonds	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Collective investment undertakings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Securitisations	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**80**	**-**	**80**
Other items	**-**	**7**	**1**	**11**	**-**	**-**	**-**	**-**	**5,513**	**5,532**
	917	**17,446**	**971**	**7,803**	**2,904**	**4,149**	**3,126**	**17,392**	**5,513**	**60,221**

2012

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	-	17,387	165	15	411	-	305	233	-	18,516
Administrative bodies and non-commercial undertakings	-	37	-	-	-	-	1	-	-	38
Institutions	325	393	47	75	212	5	-	41	-	1,098
Corporates	202	664	241	1,239	1,232	799	647	1,911	-	6,935
Retail	21	308	155	1,308	745	716	649	1,081	-	4,983
Secured on real estate property	463	956	430	1,069	1,515	1,365	1,442	13,114	-	20,354
Past due items	439	502	462	4,863	497	1,619	436	2,858	-	11,676
Items belonging to regulatory high risk categories	1	18	28	100	8	2	13	24	-	194
Covered Bonds	-	21	-	48	326	31	-	-	-	426
Collective investment undertakings	-	-	-	-	-	-	-	-	-	-
Securitisations	-	-	-	-	-	-	-	85	-	85
Other items	-	1	1	58	3	-	-	-	5,713	5,776
	1,451	20,287	1,529	8,775	4,949	4,537	3,493	19,347	5,713	70,081

Table 8: Total Exposure (EAD) value (after CRM) split by external rating and credit quality assessment step

2013

Exposure class	**Standard and Poor's (ECAI 1) € m**	**Moody's (ECAI 2) € m**	**Fitch (ECAI 3) € m**	**DBRS (ECAI 4) € m**	**Credit Quality Assessment Steps € m**	**Total rated € m**	**Total unrated € m**	**Total € m**
Central governments and central banks	**-**	**428**	**-**	**-**	**15,616**	**16,044**	**-**	**16,044**
Regional governments or local authorities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Administrative bodies and non-commercial undertakings	**-**	**-**	**-**	**-**	**-**	**-**	**35**	**35**
Institutions	**39**	**-**	**-**	**-**	**303**	**342**	**-**	**342**
Corporates	**4**	**-**	**-**	**-**	**-**	**4**	**5,772**	**5,776**
Retail	**-**	**-**	**-**	**-**	**-**	**-**	**4,539**	**4,539**
Secured on real estate property	**-**	**-**	**-**	**-**	**-**	**-**	**17,658**	**17,658**
Past due items	**-**	**-**	**-**	**-**	**-**	**-**	**10,036**	**10,036**
Items belonging to regulatory high risk categories	**-**	**-**	**-**	**-**	**-**	**-**	**179**	**179**
Covered Bonds	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Collective investment undertakings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Securitisations	**-**	**-**	**-**	**-**	**-**	**-**	**80**	**80**
Other items	**-**	**-**	**-**	**-**	**-**	**-**	**5,532**	**5,532**
	43	**428**	**-**	**-**	**15,919**	**16,390**	**43,831**	**60,221**

2012

Exposure class	Standard and Poor's (ECAI 1) € m	Moody's (ECAI 2) € m	Fitch (ECAI 3) € m	DBRS (ECAI 4) € m	Credit Quality Assessment Steps € m	Total rated € m	Total unrated € m	Total € m
Central governments and central banks	-	1,388	-	-	17,128	18,516	-	18,516
Regional governments or local authorities	-	-	-	-	-	-	-	-
Administrative bodies and non-commercial undertakings	-	-	-	-	-	-	38	38
Institutions	204	216	-	-	656	1,076	22	1,098
Corporates	4	-	-	-	2	6	6,929	6,935
Retail	-	-	-	-	-	-	4,983	4,983
Secured on real estate property	-	-	-	-	-	-	20,354	20,354
Past due items	-	-	-	-	-	-	11,676	11,676
Items belonging to regulatory high risk categories	-	-	-	-	-	-	194	194
Covered Bonds	-	-	-	-	339	339	87	426
Collective investment undertakings	-	-	-	-	-	-	-	-
Securitisations	-	-	-	-	-	-	85	85
Other items	-	-	-	-	-	-	5,776	5,776
	208	1,604	-	-	18,125	19,937	50,144	70,081

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

2013

Exposure class	**Step 1 € m**	**Step 2 € m**	**Step 3 € m**	**Step 4 € m**	**Step 5 € m**	**Step 6 € m**	**Total rated € m**	**Total unrated € m**	**Total € m**
Central governments and central banks	**119**	**-**	**15,616**	**309**	**-**	**-**	**16,044**	**-**	**16,044**
Regional governments or local authorities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Administrative bodies and non-commercial undertakings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**35**	**35**
Institutions	**153**	**114**	**-**	**75**	**-**	**-**	**342**	**-**	**342**
Corporates[2]	**-**	**-**	**-**	**4**	**-**	**-**	**4**	**5,772**	**5,776**
Retail	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,539**	**4,539**
Secured on real estate property	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**17,658**	**17,658**
Past due items	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**10,036**	**10,036**
Items belonging to regulatory high risk categories	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**179**	**179**
Covered Bonds	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Collective investment undertakings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Securitisations	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**80**	**80**
Other items		**-**	**-**		**-**	**-**	**-**	**5,532**	**5,532**
	272	**114**	**15,616**	**388**	**-**	**-**	**16,390**	**43,831**	**60,221**

2012

Exposure class	Step 1 € m	Step 2 € m	Step 3 € m	Step 4 € m	Step 5 € m	Step 6 € m	Total rated € m	Total unrated € m	Total € m
Central governments and central banks	301	-	17,128	1,087	-	-	18,516	-	18,516
Regional governments or local authorities	-	-	-	-	-	-	-	-	-
Administrative bodies and non-commercial undertakings	-	-	-	-	-	-	-	38	38
Institutions	234	680	66	96	-	-	1,076	22	1,098
Corporates[2]	-	-	4	2	-	-	6	6,929	6,935
Retail	-	-	-	-	-	-	-	4,983	4,983
Secured on real estate property	-	-	-	-	-	-	-	20,354	20,354
Past due items	-	-	-	-	-	-	-	11,676	11,676
Items belonging to regulatory high risk categories	-	-	-	-	-	-	-	194	194
Covered Bonds	51	79	148	61	-	-	339	87	426
Collective investment undertakings	-	-	-	-	-	-	-	-	-
Securitisations	-	-	-	-	-	-	-	85	85
Other items	-	-	-	-	-	-	-	5,776	5,776
	586	759	17,346	1,246	-	-	19,937	50,144	70,081

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

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

[2] Of the gross standardised exposures (before credit risk mitigation) of € 79,491 million at 31 December 2013, € 27 million is covered by eligible financial collateral (31 December 2012: gross standardised exposures of € 90,635, of which € 56 million was covered by eligible financial collateral.

6. Credit Risk – Foundation Internal Ratings Based Approach

Exposures rated under the Foundation IRB Approach amounted to € 64,900 million, with a capital requirement of € 1,767 million as at 31 December 2013 (31 December 2012: exposures of € 65,119 million, capital requirement of € 1,816 million).

As described on page 18 of this document, the € 0.2 billion decrease in the IRB exposures was driven by a € 2.1 billion decrease in "Corporate" exposures and decreases of € 0.6 billion each in "Retail" and "Securitisation positions" exposures, offset by increases of € 1.9 billion in "Central governments and central banks" exposures and € 1.2 billion in the "Institutions" exposures.

Regulatory approval and transition

As at 31 December 2013, the Group used the Foundation IRB Approach for the portfolios and exposure classes listed in the table below, having received approval from the Central Bank.

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

The Group has an on-going IRB roll-out plan to continue to transition standardised portfolios to the IRB Approach and thus increase IRB coverage.

Governance of the rating process

AIB has a formalised governance framework around the entire internal ratings model process. The Group Asset and Liability Committee ("ALCo"), a sub-committee of the Leadership Team, is designated as the Group's strategic balance sheet management forum combining a business-decisioning and risk governance mandate. The Capital Committee, which is a sub-committee of the ALCo, has responsibility for fostering sound capital management and planning and the quality and quantum of capital held by the Group. The Capital Committee has delegated authority to the Capital Models Governance Committee ("CMGC") as the body responsible for approval of material aspects of credit risk measurement systems and processes. The Committee's responsibilities include:

a) approval of Group standards for the development, validation, maintenance and use of credit risk rating models, including compliance with the CRD;
b) 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;
c) establishment and maintenance of governance structures and processes required for credit risk rating model development and validation; and
d) 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 use, performance monitoring and oversight.

Use of rating models

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

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

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

c) *Internal capital allocation:* The outputs from Foundation IRB risk models are an input to the Internal Capital Adequacy Assessment Process ("ICAAP") including stress tests of capital adequacy;

d) *Annual planning:* Risk forecasts based on the outputs of Foundation IRB models are incorporated 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 (residential mortgage) portfolio but does not recognise credit risk mitigation techniques in the sovereign, institution and corporate exposure classes, with the exception of financial collateral.

The Group uses its own estimates of LGD in the calculation of risk weighted assets for exposures secured on residential real estate in its retail (residential mortgage) portfolio originated in the Republic of Ireland, excluding those originated through EBS. The Group's approach to taking, perfecting, valuing and monitoring real estate collateral is consistent with its broad framework for credit risk mitigation as described in Section 7.

Internal ratings process by exposure class

The following tables set out the 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*

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

Under the Foundation IRB Approach, internal rating models are used to assign corporate obligors to borrower grades in the Domestic Core Bank and Financial Solutions Group segments[1], to which estimates of Probability of Default 'PD' are attached. The Group uses regulatory LGD and EAD measures in calculating risk weighted assets.

The ratings methodology and criteria used in assigning borrowers to grades vary across the model used for the four portfolios, but all the models use a combination of statistical analysis (using both financial and non-financial inputs) and expert judgement. PDs are calibrated on the basis of both internal and external available loss data and through benchmarking. 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

[1] The Group operating market segments for 2013 are described on pages 11-14 of the 2013 Annual Financial Report.

definition. The Group's validation processes are rigorous. They test, *inter alia*, the rank ordering of borrowers in terms of probability of default, the stability of the ratings, the stability of the portfolio and the probability of default estimates.

(b) Central governments and central banks

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

Under the Foundation IRB Approach, internal rating models are used to assign central governments and central banks obligors to borrower grades in the Domestic Core Bank and AIB UK segments[1], to which estimates of PD are attached. The Group uses regulatory LGD and EAD measures in calculating risk weighted assets.

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

(c) Institutions

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

Under the Foundation IRB Approach, internal rating models are used to assign institution obligors to borrower grades in the Domestic Core Bank and AIB UK segments[1], 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

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

The Group uses the IRB Approach for assessing its capital requirements for residential mortgages originated in the Republic of Ireland, excluding those originated through EBS[1], which use the Standardised Approach.

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

[1] The Group operating market segments for 2013 are described on pages 11-14 of the 2013 Annual Financial Report.

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

2013

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

2012

Sector	Central governments and central banks €m	Institutions €m	Corporates €m	Retail €m	Securitisation positions €m	Non-credit obligation assets €m	Total €m
Agriculture	-	-	396	-	-	-	396
Construction	-	-	352	-	-	-	352
Distribution	-	-	5,026	-	-	1	5,027
Energy	-	-	666	-	-	-	666
Financial	-	-	141	-	1,293	-	1,434
Home loans	-	-	25	24,663	-	-	24,688
Manufacturing	-	-	1,497	-	-	1	1,498
Other loans – personal	-	-	222	-	-	-	222
Other services	-	-	2,652	-	10	1	2,663
Property	-	-	628	-	-	-	628
Transport and communication	-	-	1,442	-	-	3	1,445
Bank, sovereign & public sector entities	20,064	6,036	-	-	-	-	26,100
	20,064	6,036	13,047	24,663	1,303	6	65,119

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

2013

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

2012

Exposure Class	Republic of Ireland €m	United Kingdom €m	United States of America €m	Rest of the World €m	Total exposures €m	Total gross exposures[2] €m	Average exposures over the period[3] €m
Central governments and central banks	15,295	4,463	306	-	20,064	39,823	17,570
Institutions	4,561	1,398	77	-	6,036	11,509	6,458
Corporates	11,738	878	431	-	13,047	14,461	14,263
Retail	24,663	-	-	-	24,663	24,751	24,840
Securitisation positions	1,293	-	10	-	1,303	1,303	1,964
Non-credit obligation assets	6	-	-	-	6	6	7
	57,556	6,739	824	-	65,119	91,853	65,102

[1] AIB Group monitors geographic breakdown based primarily on the location of the office recording the transaction.
[2] Total gross exposure is before CRM, CCFs and offsets.
[3] Average exposures over the period are based on Total exposures (EAD).

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

							2013
Residual maturity	**Central governments and central banks € m**	**Institutions € m**	**Corporates € m**	**Retail € m**	**Securitisation positions € m**	**Non-credit obligation assets € m**	**Total € m**
On demand	**3,525**	**168**	**212**	**25**	**-**	**2**	**3,932**
< 3 months	**799**	**992**	**288**	**22**	**-**	**1**	**2,102**
3 < 6 months	**351**	**228**	**399**	**85**	**-**	**1**	**1,064**
6 months < 1 year	**199**	**1,209**	**3,015**	**29**	**-**	**1**	**4,453**
1 < 3 years	**6,091**	**1,794**	**1,698**	**183**	**-**	**2**	**9,768**
3 < 5 years	**4,926**	**1,988**	**2,217**	**526**	**13**	**-**	**9,670**
5 < 10 years	**5,773**	**721**	**1,488**	**2,105**	**-**	**-**	**10,087**
10 years +	**315**	**136**	**1,608**	**21,094**	**671**	**-**	**23,824**
	21,979	**7,236**	**10,925**	**24,069**	**684**	**7**	**64,900**

							2012
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	1,155	135	263	17	-	-	1,570
< 3 months	2,396	899	852	26	-	1	4,174
3 < 6 months	218	104	335	115	-	1	773
6 months < 1 year	223	1,652	3,803	41	-	1	5,720
1 < 3 years	4,970	1,069	2,220	171	34	3	8,467
3 < 5 years	6,175	1,638	1,609	471	59	-	9,952
5 < 10 years	4,435	339	1,828	1,943	25	-	8,570
10 years +	492	200	2,137	21,879	1,185	-	25,893
	20,064	6,036	13,047	24,663	1,303	6	65,119

Foundation IRB internal 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 with an associated PD. These obligor grades are a risk category within the Group's rating systems. An obligor grade is assigned on the basis of rating criteria within each rating model from which estimates of PD are derived. These rating models have been calibrated at an individual business unit level. These individual rating models continue to be refined and recalibrated based on experience.

For the purposes of Pillar 3 reporting, the Group has used a 13-point ratings master scale which provides a framework for aggregating, comparing and reporting exposures with a similar PD across all lending portfolios. Under the ratings master scale:

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

Table 13 sets out the analysis of EAD of the exposure classes by obligor grade, within the Foundation IRB Approach for the Group, excluding the securitisations rated on IRB approved models (2013: € 684 million; 2012: € 1,303 million), which are analysed in greater detail in Section 10.

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

2013

	Central Government & central banks		Institutions		Corporates	
Obligor grade	**Exposure value (EAD)[1] € m**	**Exposure-weighted average risk weight %**	**Exposure value (EAD)[1] € m**	**Exposure-weighted average risk weight %**	**Exposure value (EAD)[1] € m**	**Exposure-weighted average risk weight %**
Grade 1 – 3	**21,973**	**-**	**6,548**	**11**	**1,045**	**45**
Grade 4 – 10	**6**	**134**	**411**	**37**	**4,924**	**118**
Grade 11 - 13	**-**	**-**	**277**	**69**	**4,956**	**51**
	21,979	**-**	**7,236**	**15**	**10,925**	**80**

	Retail		Non-credit obligation assets		Total Foundation - IRB[2]	
Obligor grade	**Exposure value (EAD)[1] € m**	**Exposure-weighted average risk weight %**	**Exposure value (EAD)[1] € m**	**Exposure-weighted average risk weight %**	**Exposure value (EAD)[1] € m**	**Exposure-weighted average risk weight %**
Grade 1 – 3	**6,977**	**6**	**-**	**-**	**36,543**	**5**
Grade 4 – 10	**10,880**	**49**	**2**	**100**	**16,223**	**70**
Grade 11 - 13	**6,212**	**96**	**5**	**100**	**11,450**	**76**
	24,069	**49**	**7**	**100**	**64,216**	**34**

2012

	Central Government & central banks		Institutions		Corporates	
Obligor grade	Exposure value (EAD)[1] € m	Exposure-weighted average risk weight %	Exposure value (EAD)[1] € m	Exposure-weighted average risk weight %	Exposure value (EAD)[1] € m	Exposure-weighted average risk weight %
Grade 1 – 3	20,037	-	5,589	14	1,254	33
Grade 4 – 10	27	82	226	66	7,028	95
Grade 11 - 13	-	-	221	84	4,765	18
	20,064		6,036	18	13,047	61

	Retail		Non-credit obligation assets		Total Foundation - IRB[2]	
Obligor grade	Exposure value (EAD)[1] € m	Exposure-weighted average risk weight %	Exposure value (EAD)[1] € m	Exposure-weighted average risk weight %	Exposure value (EAD)[1] € m	Exposure-weighted average risk weight %
Grade 1 – 3	4,833	5	1	100	31,714	5
Grade 4 – 10	13,443	21	2	100	20,726	47
Grade 11 - 13	6,387	145	3	100	11,376	91
	24,663	50	6	100	63,816	34

The exposure weighted average risk weight percentages above include the impact of the IRB rating model enhancements and updates deployed over the course of 2013 which are described on page 37, as well as changes implemented in risk models identified as part of the CBI Balance Sheet Assessment during the year.

[1] Includes EAD in relation to impaired loans.

[2] Excludes EAD of securitisation positions of € 684 million (31 December 2012: € 1,303 million).

Table 14: Foundation IRB - Exposure-weighted average LGD

	2013	
	Retail	
	Exposure value (EAD)	**Exposure-weighted average LGD**
Obligor grade	**€ m**	**%**
Grade 1 – 3	**6,977**	**27**
Grade 4 – 10	**10,880**	**29**
Grade 11 – 13	**6,212**	**38**
	24,069	**31**

	2012	
	Retail	
	Exposure value (EAD)	Exposure-weighted average LGD
Obligor grade	€ m	%
Grade 1 – 3	4,833	18
Grade 4 – 10	13,443	21
Grade 11 – 13	6,387	40
	24,663	25

The majority of the increase in the exposure weighted average LGD above was driven by the deployment of a new residential mortgage LGD model in 2013 which included more current estimates of various model parameters, including additional loss parameters assessed on restructuring outcomes.

7. Credit Risk Mitigation

The assessed strength of a borrower's repayment capacity is the primary factor in granting a loan; however, AIB uses various approaches to help mitigate risks relating to individual credits including: transaction structure, collateral and guarantees. Collateral or guarantees are usually required as a secondary source of repayment in the event of the borrower's default. The main types of collateral for loans and receivables to customers are described below. The methodologies applied and processes used to assess the value of property assets taken as collateral are described on pages 76 to 79 of the 2013 Annual Financial Report.

Collateral

The principle collateral types for loans and receivables are:

- Charges over business assets such as premises, inventory and accounts receivables; and
- Mortgages over residential and commercial real estate.

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

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

Collateral is discussed in more detail in the "Risk Management" section of the 2013 Annual Financial Report on pages 76 to 79, which includes a discussion on the methodologies for valuing collateral. Further information in relation to repurchase transactions is set out below in Section 9 Counterparty credit risks.

Credit risk mitigation for regulatory capital requirements calculation

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

Of the gross Standardised exposures (before credit risk mitigation) of € 79,491 million at 31 December 2013 (2012: € 90,635 million), € 27 million (2012: € 56 million) is covered by eligible financial collateral. Of the remaining gross standardised exposures not covered by eligible financial collateral, € 15,616 million (2012: € 17,128 million) relating to NAMA senior bonds are guaranteed by the Irish Government. For the Foundation IRB Approach, of the gross exposures (before credit risk mitigation) of € 92,905 million at 31 December 2013 (2012: € 91,853 million), the amount covered by eligible financial collateral is € 13 million (2012: €14 million).

8. Credit Risk – Credit profile of the loan portfolio

AIB's customer loan portfolio comprises loans (including overdrafts), instalment credit and finance lease receivables. Table 15 below profiles the customer loan portfolio, loans past due but not impaired, impaired loans and impairment provisions by industry sector and geography. The credit quality of the customer loan portfolio is discussed in detail on pages 87 - 130 of the 2013 Annual Financial Report.

Past due

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

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.

Impairment

Credit grading and scoring systems facilitate the early identification and management of any deterioration in loan quality. When loans are deemed to be impaired, the Group raises specific impairment provisions in a timely and consistent way across portfolios. The Group utilises two types of impairment provision: (a) Specific; and (b) Incurred but not reported ("IBNR") which represents a collective provision relating to the portfolio of performing loans. Details of the methodologies adopted by the Group in identifying, monitoring and managing impaired loans are set out on pages 79 to 86 of the 2013 Annual Financial Report, whilst the relevant accounting policy can be found on pages 219 to 221 of the 2013 Annual Financial Report.

The following table profiles the customer loan portfolio, loans past due but not impaired, impaired loans and impairment provisions by industry sector and geography. Loans which are both past due and deemed to be impaired are classified as "Impaired". The credit quality of the loan portfolio is discussed in detail on pages 87 - 130 of the 2013 Annual Financial Report.

Table 15: Loans and receivables, loans past due but not impaired, impaired loans and provisions - industry and geographic[1] distribution

					2013
Industry	**Loans and receivables to customers – gross of provisions €m**	**Of which: Loans past due but not impaired €m**	**Of which: Impaired €m**	**Specific balance sheet provisions €m**	**Impairment provision charge for year €m**
Agriculture	**1,830**	**152**	**345**	**255**	**24**
Energy	**296**	**4**	**74**	**43**	**9**
Manufacturing	**1,547**	**55**	**405**	**255**	**20**
Property and construction	**19,747**	**658**	**13,176**	**8,136**	**816**
Distribution	**6,927**	**191**	**3,053**	**1,857**	**228**
Transport	**1,026**	**14**	**173**	**127**	**28**
Financial	**650**	**19**	**230**	**134**	**1**
Other services	**5,772**	**167**	**949**	**666**	**89**
Personal					
Residential Mortgages	**40,764**	**1993**	**9,083**	**3,333**	**696**
Other	**4,292**	**333**	**1,423**	**1,092**	**147**
	82,851	**3,586**	**28,911**	**15,898**	**2,058**

Table 15: Loans and receivables, loans past due but not impaired, impaired loans and provisions - industry and geographic[1] distribution *(continued)*

Geography	Loans and receivables to customers – gross of provisions € m	Of which: Loans past due but not impaired €m	Of which: Impaired € m	Specific balance sheet provisions € m	Impairment provision charge for year € m
Republic of Ireland	**69,535**	**3,207**	**25,319**	**13,877**	**1,767**
United Kingdom	**13,208**	**379**	**3,576**	**2,012**	**289**
United States of America	**108**	**-**	**16**	**9**	**2**
Rest of the World	**-**	**-**	**-**	**-**	**-**
	82,851	**3,586**	**28,911**	**15,898**	**2,058**
Specific provision in relation to loans and receivables to banks				**7**	**3**
Total specific provisions for impairment on loans and receivables				**15,905**	**2,061**

					2012
Industry	Loans and receivables to customers – gross of provisions € m	Of which: Loans past due but not impaired €m	Of which: Impaired € m	Specific balance sheet provisions € m	Impairment provision charge for year € m
Agriculture	1,809	139	341	240	36
Energy	473	8	44	36	4
Manufacturing	1,678	41	487	313	91
Property and construction	22,294	893	13,830	7,707	1,440
Distribution	7,861	275	3,472	2,042	417
Transport	1,231	32	376	233	148
Financial	787	23	245	168	11
Other services	6,519	190	1,059	683	188
Personal					
Residential Mortgages	42,521	2,073	8,130	2,699	1,118
Other	4,699	365	1,432	1,064	303
	89,872	4,039	29,416	15,185	3,756
Republic of Ireland	73,535	3,654	24,719	12,864	3,014
United Kingdom	16,064	385	4,641	2,305	742
United States of America	273	-	56	16	-
Rest of the World	-	-	-	-	-
	89,872	4,039	29,416	15,185	3,756
Specific provision in relation to loans and receivables to banks				4	-
Total specific provisions for impairment on loans and receivables				15,189	3,756

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

Table 16: Movement in provisions for impairment on loans and receivables

	2013	2012
	€ m	€ m
At 1 January	**16,532**	14,945
Exchange translation adjustments	**(76)**	47
Transfers	**(14)**	34
Charge against income statement (see below)	**1,916**	2,434
Amounts written off	**(1,134)**	(673)
Recoveries of amounts written off in previous periods	**2**	4
Provisions on loans and receivables returned by NAMA	**-**	4
Disposals	**(136)**	(263)
At 31 December	**17,090**	16,532

Statement of financial position loan impairment provisions of € 17,090 million (31 December 2012: € 16,532 million) comprise specific provisions of € 15,905 million (31 December 2012: € 15,189 million) and incurred by not reported ("IBNR") provisions of € 1,185 million (31 December 2012: € 1,343 million). The charge against the income statement for 2013 of € 1,916 million (2012: € 2,434 million) comprises € 2,061 million (2012: € 3,756 million) of a specific provision charge for impaired loans and a release of IBNR provisions of € 145 million (2012: release of € 1,322 million) for unidentified losses in the performing book.

Further information and analysis is available in the 2013 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 2013 is outlined in table 17.

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

Actual loss in table 17 is the specific provision charged to the income statement for the year ended 31 December 2013 in relation to exposures newly impaired in the period and rated under the IRB approach at 31 December 2013. These specific provisions are driven by accounting standard requirements and are calculated at a point in time.

Because the parameters (PD, LGD & EAD) used to calculate the EL represent through-the-cycle estimates, the EL should, realistically, be compared to the average annual losses over the full economic cycle rather than actual losses in a given (good or bad) year. Table 17 should be read with this caveat in mind.

The income statement specific provision charge for the year ended 31 December 2013, of which the actual loss on the IRB approach is a component, is discussed in detail in the "Risk management" section of the 2013 Annual Financial Report.

Table 17: Expected loss analysis – Foundation IRB Approach

Exposure class	2013 Expected loss[1] € m	 Actual loss € m
Institutions	**1**	**-**
Corporates	**191**	**252**
Retail exposures secured by real estate collateral	**86**	**265**
Securitisation positions[2]	**-**	**-**
	278	**517**

Exposure class	2012 Expected loss[1] € m	 Actual loss € m
Institutions	8	-
Corporates	176	519
Retail exposures secured by real estate collateral	178	641
Securitisation positions[2]	-	-
	362	1,160

The Group's risk weightings for Foundation IRB models as at 31 December 2013 are detailed below. The weightings are influenced by the grade profile and associated PD of the portfolios, having applied the regulatory loss given defaults ("LGD") of 45% for the majority[3] of the non-retail portfolios (31 December 2012: 45% for the majority), and the Group's own estimate of LGD for the retail portfolio (residential mortgages), which had an average LGD of 31% applied as at 31 December 2013 (31 December 2012: 25%). The non-retail loans classified as defaulted have been excluded from the calculation of the risk weightings as these loans influence the EL calculation and not the risk weighted assets calculation.

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

Foundation IRB rating models	2013 %	2012 %
Sovereign	**-**	-
Bank	**6**	10
Commercial	**132**	107
Corporate	**107**	79
Not-for-profit	**86**	39
Project finance	**122**	108
Residential Mortgage	**49**	50

The increases in the above percentage weightings in 2013 were impacted by a combination of factors including changes in the grade profile of the portfolios and the deleveraging of elements of the loan portfolio in the period, as well as changes implemented in risk models as described below, including those identified as part of the CBI Balance Sheet Assessment in 2013.

As part of the Bank's normal activities associated with its IRB status, a number of model enhancements and updates were deployed over the course of 2013. These included calibrations for the Sovereign and Corporate models, an interim re-calibration of the Commercial model in advance of a full model rebuild in 2014 and some adjustments to the PD and LGD models used in the rating of residential mortgages. The collective impact of these actions is captured in risk weightings above.

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

9. Counterparty credit risks

Assigning internal capital and credit limits for counterparty credit exposure

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

Derivatives

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

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

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

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

Pre-settlement CCE limits must be approved in advance of any transactions being entered into by the appropriate credit approval authority. This forms 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 set out in note 45 in the 2013 Annual Financial Report.

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

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

The Group has established the capacity to clear derivatives in line with European Markets Infrastructure Regulation requirements for central counterparty clearing. However, as at year end 2013, the clearing of ‘over-the-counter’ derivatives had not yet commenced.

Repurchase agreements

AIB Group is 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 a bilateral and tri-party basis.

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

Risk Management functions, independent of the front office, have responsibility for managing the margining of the Group’s bilateral repo / reverse repo and SBB/BSB activities. Margining has

been predominantly cash-based although the documentation in general allows for securities to be used as collateral. Tri-party margining is managed through Euroclear. The associated credit risk is managed in the same way as other types of credit exposure. Exposures are calculated to take account of historical price volatility reflecting the maturity of both the collateral and repurchase transaction. The exposures are aggregated with all other exposures to the counterparty.

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

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

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

Policies for securing collateral and establishing credit reserves

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

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

Policies with respect to wrong-way exposures

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

Change in credit rating

A downgrade in the Group's credit rating could have the effect of reducing the market value threshold for margin calls on some of the Credit Support Annexes ("CSAs"). This would result in a potential increase in the amount of collateral the Group would have to provide against the derivatives within the CSAs. However, due to the very small number of CSAs with downgrade triggers, this is not deemed a significant risk for the Group. In addition, a downgrade in the Group's credit rating 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. In the past, some counterparties required an 'independent amount' to be deposited in advance of transacting derivative business. The requirement for independent amounts reduced during 2012 and 2013 when compared to 2011 due to the unwinding of certain credit derivatives. As at the end of 2013, the Group only had one CSA in place which contains a requirement for AIB to post an independent amount.

Credit derivative hedges

The Group had minimal credit derivative hedging activity during the year ended 31 December 2013 and there were no open contracts at the end of December 2013.

Derivatives counterparty credit risk

Table 19 below analyses the counterparty credit risk exposure of derivative transactions, the positive fair value of which is presented in line with the technical disclosure requirements of CRD III and as reported for regulatory purposes. Over the counter ("OTC") derivatives are contracts that are traded (and privately negotiated) directly between two parties, without going through an exchange or other intermediary.

Table 19: Counterparty credit risk - trading and banking book

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

						2012
	Positive fair value of contracts € m	Add-ons € m	Netting benefits € m	Gross positive fair value of contracts (incl. add-ons) € m	Financial collateral held € m	Net derivatives credit exposure € m
OTC derivatives	2,835	518	-	3,353	-	3,353
Credit derivatives	-	2	-	2	-	2
Total derivatives	2,835	520	-	3,355	-	3,355

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

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

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

AIB does not apply the use of netting benefits and collateral held for regulatory credit exposure reporting purposes. The gross positive fair value of contracts in table 19 above differs from the derivative financial instruments in the Group's 2013 Annual Financial Report due to adjustments referred to as 'add-ons' which are required for regulatory purposes.

10. Securitisations

Objectives in relation to securitisation activity

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

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

Extent of the Group's involvement in each securitisation

Investor

AIB has primarily been an investor in securitisations issued by other credit institutions. The most significant investment in securitisations has been through Treasury's purchases of senior tranches of predominantly AAA-rated prime Covered Bond holdings. This portfolio is held as part of Treasury's primary interest rate and liquidity management objective, subject to qualifying criteria, including loan-to-value ("LTV"), seasoning, location and quality of originator.

At 31 December 2013, the Group also has a small residual portfolio of investments in securitisations, which comprises both cash and synthetic structures across a variety of asset classes, including Residential Mortgage Backed Securities ("RMBS"), Commercial Mortgage Backed Securities ("CMBS") and CDOs.

Originator

As an originator of securitisations, the Group has sold "Loans and receivables to customers" (mainly mortgages and credit card receivables), to special purpose entities ("SPEs"), which, in turn, have issued notes or deposits to external investors. The notes or deposits issued by the SPEs are on terms which result in the Group retaining the majority of ownership risks and rewards and, consequently, the loans and receivables continue to be recognised on the Group's statement of financial position. The Group remains exposed to credit risk, interest rate risk and foreign exchange risk on the loans and receivables sold.

Arising from the acquisition of EBS on 1 July 2011, AIB controls three special purpose entities which had previously been set up by EBS. These securitisation structures support the funding activities of the Group. In addition, the Group has established two other securitisation entities for funding purposes, namely Tenterden Funding p.l.c. and Goldcrest Funding No. 1 Limited.

The transferred loans and receivables have not been derecognised, as the Group retains substantially all the risks and rewards of ownership and the loans and receivables continue to be reported in the Group's financial statements. Similarly the transferred loans and receivables have not been derecognised for Pillar 1 purposes. These loans and receivables (amounting to € 4,489 million) are included in Table 16 "Loans and receivables to customers" in Section 8.

Further details on the above securitisation vehicles are contained in Notes 47 – 49 in the 2013 Annual Financial Report.

Sponsor

The Group previously acted as a sponsor to a securitisation whilst also being an investor in the vehicle. This securitisation was disposed of in Quarter 1, 2013.

Accounting policies

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

If substantially all of the risks and rewards of ownership associated with the financial asset are transferred outside the Group, the financial asset is derecognised in full. The asset is derecognised in its entirety if the transferee has the ability to sell the financial asset; otherwise, the financial asset continues to be recognised to the extent of the Group's continuing involvement.

Securitisation risks, monitoring and hedging policies

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

Such risks are identified, managed and monitored in line with the Group's Risk Management Framework as described on pages 67 to 69 of the 2013 Annual Financial Report and as described in detail in the "Risk management" section of the 2013 Annual Financial Report. Securitisation positions are typically unhedged.

Calculating risk weighted exposure amounts

AIB Group uses the IRB approach to calculate the risk-weighted exposure amount for the majority of its securitisation positions (primarily those the group has purchased as an investor), within which the Ratings Based Method is primarily used. Under this approach, where investments are rated, risk weights are assigned to securitisation tranches on the basis of the credit ratings applied to these by approved External Credit Assessment Institutions ("ECAIs"). 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.

The Standardised approach is used to calculate the risk-weighted exposure amount in relation to securitisations originated by the Group and for a small proportion of those in which the Group has invested.

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") and adopted by the Central Bank. There is no outstanding amount of securitised revolving exposures. In relation to the following tables:

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

Table 20: Securitisation positions – by exposure type of underlying exposure

2013

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

2012

	Securitisation positions – outstanding amount			
	Retained		Purchased	Total
	Originator	Sponsor	Investor	
Exposure type	€ m	€ m	€ m	€ m
Residential mortgages	23	-	1,019	1,042
Commercial mortgages	-	-	91	91
Leasing	-	-	4	4
Loans to corporates or SMEs	-	-	27	27
Consumer loans	-	-	91	91
Re-securitisations	-	26	107	133
	23	26	1,339	1,388

Table 21: Securitisation positions - risk weight bands

2013

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

Table 21: Securitisation positions - risk weight bands *(continued)*

	2012			
	Securitisation positions – outstanding amount			
	Retained		Purchased	Total
	Originator	Sponsor	Investor	
Risk weight band	€ m	€ m	€ m	€ m
7 – 9%	-	-	286	286
10 – 19%	-	-	100	100
20 – 49%	-	-	362	362
50 – 74%	-	-	123	123
75 – 99%	-	-	-	-
100 – 249%	-	26	124	150
250 – 349%	-	-	67	67
350 – 424%	-	-	40	40
425 – 649%	-	-	90	90
650 – 1249%	-	-	56	56
1250% or deducted	23	-	91	114
	23	26	1,339	1,388

Table 22: Re-securitisation positions - risk weight bands

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

	2012			
	Securitisation positions – outstanding amount			
	Retained		Purchased	Total
	Originator	Sponsor	Investor	
Risk weight band	€ m	€ m	€ m	€ m
7 – 9%	-	-	-	-
10 – 19%	-	-	-	-
20 – 49%	-	-	-	-
50 – 75%	-	-	4	4
75 – 99%	-	-	-	-
100 – 249%	-	26	13	39
250 – 349%	-	-	37	37
350 – 424%	-	-	40	40
425 – 649%	-	-	13	13
650 – 1249%	-	-	-	-
1250% or deducted	-	-	-	-
	-	26	107	133

11. Equity exposures in the banking book

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

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 Special Purpose Entity ("SPE");
c) *Managed funds:* typically comprising exposure to the equity component of a managed investment fund;
d) *Investments in associate undertakings:* these are held by the Group for strategic purposes.

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

The principal accounting policies applied by the Group to equity investments is informed by International Accounting Standards IAS 28 and IAS 39 which set out the rules for classification, balance sheet recognition, methods of valuation (i.e. fair value) and income and impairment recognition. Further information in relation to the Group accounting policies for financial assets, which include equities, can be found in the Group's 2013 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 € 11 million for the year ended 31 December 2013 (2012: € 6 million).

The total unrealised gain as at 31 December 2013, gross of tax, in the banking book of equity investments amounted to € 38 million, all of which relates to other equity securities (2012: unrealised gain € 11 million, all of which related to other equity securities). In addition, provisions for impairment of available for sale equity investments of € 9 million (2012: € 86 million) were included in the income statement in 2013.

An unrealised loss, after tax, of € Nil (2012: € 15 million) is included in tier 1 capital whilst an unrealised gain, after tax, of € 33 million (2012: € 26 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 of this report.

Table 23: Banking book equity values

	Type	Nature		2013 Carrying value € m
Exchange traded exposures	Quoted	A limited number of straight equity positions that are quoted on recognised stock exchanges.		**12**
Other exposures	Unquoted	Exposure to equities or the equity tranche in a structural transaction or SPE.		**83**[1]
	Funds	Exposure to the equity component of a managed investment fund.		**22**
	CDOs/CBOs	Equity interest in Collateralised Debt Obligation SPEs created and managed by Group on an ongoing basis.		**-**
				117
Investments in associate undertakings			**58**	
Less goodwill [2]			**(3)**	
				55
				172
Of which are risk weighted				**157**
Of which deducted from capital				**15**
				172

	Type	Nature		2012 Carrying value € m
Exchange traded exposures	Quoted	A limited number of straight equity positions that are quoted on recognised stock exchanges.		58
Other exposures	Unquoted	Exposure to equities or the equity tranche in a structural transaction or SPE.		68[1]
	Funds	Exposure to the equity component of a managed investment fund.		17
	CDOs/CBOs	Equity interest in Collateralised Debt Obligation SPEs created and managed by Group on an ongoing basis.		-
				143
Investments in associate undertakings[3]			64	
Less goodwill[2]			(3)	
				61
				204
Of which are risk weighted				192
Of which deducted from capital				12
				204

[1] Of which € 73 million relates to NAMA subordinated bonds (2012: € 47 million).

[2] Deducted from Tier 1 capital.

[3] Investment in Aviva Life Holdings Limited ("ALH") was an associated undertaking that was accounted for at fair value through Profit & Loss. This investment was disposed of in March 2013 – see Supervisory deductions from gross capital on page 59.

Table 24: Risk weighted asset equivalents of equity exposures

	2013	
	Exposure €m	**Risk weighted asset €m**
Equity investments subject to a 100% risk weight	**126**	**126**
Equity investments subject to a 150% risk weight	**31**	**46**
	157	**172**

	2012	
	Exposure €m	Risk weighted asset €m
Equity investments subject to a 100% risk weight	153	153
Equity investments subject to a 150% risk weight	39	59
	192	212

12. Non-trading interest rate risk

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

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

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

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

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

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

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

Table 25: Non-trading interest rate risk variation

2013

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

2012

Interest rate risk variation	Absolute € m	% of Own funds
Interest rates +1%	23	0.2
Interest rates -1%	(199)	1.6
Interest rates +2%	342	2.7
Interest rates -2%	(299)	2.4
PCA Rates Higher	(35)	0.3
PCA Rates Lower	(197)	1.6

The absolute level of interest rate risk sensitivity, as represented by the -200 bps shock (against which IRRBB risk limit utilisation is measured), has declined over the course of 2013, reflecting a number of underlying issues:

- At the start of the year, the Capital Net Interest Rate Insensitive Liabilities (“NIRIL”) portfolio (representing net free reserves) was "under-invested" i.e. the available capital balance was larger than the associated AFS bond portfolio. The risk profile of the portfolio changed in line with quarterly updates to the assessment of the capital balance and the quantum of sovereign bonds being purchased as a hedge. In addition, the portfolio's sensitivity to the -200 bps shift increased due to the impact that higher market interest rates (evident during June 2013) had on the 'flooring effect'[1].
- The level of open interest rate risk associated with Treasury’s own position also changed during the year reflecting their evolving view of market rates and investment opportunity.
- The contribution of basis risk to the IRRBB measure reduced over the course of the year, mainly due to a reduction in the forecast level of net ECB dependence, i.e. the principal basis risk arises as a function of the spread between the ECB refi rate (used as the reference rate for AIB’s tracker mortgages) and Euribor.

[1] Flooring effects refer to the flooring of the IRRBB -200bps shock at zero (i.e. the size of actual shock being applied is determined by the shape/level of the market yield curve).

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 2013:

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

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

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

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

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

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

					2012
	Allied Irish Banks, p.l.c. € m	AIB Mortgage Bank € m	AIB Group (UK) p.l.c. € m	EBS Limited € m	EBS Mortgage Finance €m
Tier 1					
Paid up share capital and related share premium	8,096	1,545	4,541	1,324	477
Eligible reserves	3,165	(620)	(2,960)	(587)	(124)
Equity non-controlling interests in subsidiaries	-	-	-	-	-
Supervisory deductions from core tier 1 capital	(470)	-	-	(27)	(2)
Core tier 1 capital	10,791	925	1,581	710	351
Non-equity non-controlling interests in subsidiaries	-	-	-	-	-
Non-cumulative perpetual preferred securities	-	-	-	-	-
Reserve capital instruments	-	-	-	-	-
Supervisory deductions from tier 1 capital	-	-	-	-	-
Total tier 1 capital	10,791	925	1,581	710	351
Tier 2					
Eligible reserves	21	-	3	-	-
IBNR provisions (Standardised portfolio)	482	82	117	79	44
Subordinated perpetual loan capital	-	200	-	-	-
Subordinated term loan capital	1,154	100	-	-	-
Supervisory deductions from tier 2 capital	(196)	-	-	-	-
Total tier 2 capital	1,461	382	120	79	44
Gross capital	12,252	1,307	1,701	789	395
Supervisory deductions	(74)	-	(37)	(27)	(2)
Total capital	12,178	1,307	1,664	762	393
Risk weighted assets:					
Credit risk	47,723	12,708	8,660	6,185	3,465
Market risk	535	-	-	-	-
Operational risk	3,507	422	667	146	73
Capital floor	-	-	-	-	-
Total risk weighted assets	51,765	13,130	9,327	6,331	3,538
Capital ratios					
Core tier 1	20.9%	7.0%	17.0%	11.2%	9.9%
Tier 1	20.9%	7.0%	17.0%	11.2%	9.9%
Total	23.5%	10.0%	17.8%	12.5%	11.2%

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

	2013				
	Allied Irish Banks, p.l.c. € m	**AIB Mortgage Bank € m**	**AIB Group (UK) p.l.c. € m**	**EBS Limited € m**	**EBS Mortgage Finance €m**
Standardised credit risk exposure class					
Central governments and central banks	-	-	5	-	-
Administrative bodies and non-commercial undertakings	3	-	-	-	-
Institutions[1]	384	1	3	61	3
Corporates	535	-	260	91	-
Retail	224	-	48	-	-
Secured on real estate property	232	20	207	128	190
Past due items[2]	564	45	68	85	59
Items belonging to regulatory high risk categories	26	-	-	1	-
Collective investment undertakings	-	-	-	-	-
Covered Bonds	-	-	-	-	-
Securitisation Positions	-	-	-	27	-
Other items	274	17	33	78	2
Total for Standardised Approach	**2,242**	**83**	**624**	**471**	**254**
Foundation IRB exposure class					
Central governments and central banks	5	-	-	-	-
Institutions[1]	85	-	-	-	-
Corporates	702	1	-	-	-
Retail	57	883	-	-	-
Securitisation positions	32	-	-	-	-
Non-credit obligation assets	-	-	-	-	-
Total for Foundation IRB Approach	**881**	**884**	**-**	**-**	**-**
Total for credit risk	3,123	967	624	471	254
Total for market risk	14	-	-	-	-
Total for operational risk	197	20	-	9	8
Total for capital floor	-	-	-	-	-
Total minimum capital requirement	**3,334**	**987**	**624**	**480**	**262**

[1] Institution exposure class predominantly relates to banks.

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

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

	2012				
	Allied Irish Banks, p.l.c. € m	AIB Mortgage Bank € m	AIB Group (UK) p.l.c. € m	EBS Limited € m	EBS Mortgage Finance €m
Standardised credit risk exposure class					
Central governments and central banks	-	-	8	3	-
Administrative bodies and non-commercial undertakings	3	-	-	-	-
Institutions[1]	682	1	2	47	5
Corporates	680	-	286	92	-
Retail	238	1	57	-	-
Secured on real estate property	323	34	234	142	213
Past due items[2]	698	47	68	93	57
Items belonging to regulatory high risk categories	30	-	-	1	-
Collective investment undertakings	-	-	-	-	-
Covered Bonds	-	-	-	10	-
Securitisation Positions	-	-	-	28	-
Other items	277	17	38	78	2
Total for Standardised Approach	2,931	100	693	494	277
Foundation IRB exposure class					
Central governments and central banks	6	-	-	-	-
Institutions[1]	75	-	-	-	-
Corporates	636	-	-	-	-
Retail	72	917	-	-	-
Securitisation positions	96	-	-	-	-
Non-credit obligation assets	1	-	-	-	-
Total for Foundation IRB Approach	886	917	-	-	-
Total for credit risk	3,817	1,017	693	494	277
Total for market risk	43	-	-	-	-
Total for operational risk	281	34	53	12	-
Total for capital floor	-	-	-	-	6
Total minimum capital requirement	4,141	1,051	746	506	283

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

Appendix 2: Own funds

Summary information on the main components of own funds items, and their terms and conditions as applicable, is set out below. Further information on the terms and conditions of ordinary shares and the government preference shares is available in the 2013 Annual Financial Report on the Group website: www.aibgroup.com.

TIER 1

Core tier 1

Paid up share

Capital and related share premium

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

A bonus issue of 4,144,055,254 of new ordinary shares of € 0.01 each to the National Pension Reserve Fund Commission ("NPRFC") in lieu of settlement of a dividend payable by AIB p.l.c., resulted in a transfer of € 42 million from the share premium to ordinary share capital during 2013.

Eligible reserves

Included in the eligible reserves are the following capital components:

Revenue reserves
Revenue reserves represent retained earnings of the parent company, subsidiaries and its associated undertakings. Revenue reserves are shown gross of the cumulative deficit within the defined benefit pension schemes. A capital contribution amounting to € 6,054 million which was received from the Irish Minister for Finance and the NPRFC in July 2011 is also included within revenue reserves. The reduction in share premium and capital redemption reserves of € 2,000 million and € 3,958 million respectively were transferred to revenue reserves in 2012. € 219 million of capital contributions relating to the Anglo business transfer and the Contingent Capital Note issuance was deemed distributable in 2013 and transferred from capital reserves to revenue reserves.

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

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

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

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

Capital reserves
Capital reserves represent transfers from retained earnings in accordance with relevant legislation and also include capital contributions arising from the acquisition of the Anglo deposit business and the acquisition of EBS. The capital contribution arising from the Anglo transaction is treated initially as non-distributable as the assets received relate to NAMA bonds. However, as NAMA repays these bonds the proceeds will be deemed distributable and an equal amount will be transferred to revenue reserves. The capital contribution arising from the EBS transaction is treated as non-distributable as the related net assets received are largely non-cash in nature. However, € 178 million of the capital contribution arising from the acquisition of EBS related to the negative available for sale securities reserves and cash flow hedge reserves. Given the underlying portfolio has since largely matured or has been sold at fair value to AIB p.l.c., a transfer of € 178 million, being the original negative reserves, has taken place at Group level from capital contribution reserves to available for sale securities reserves/cash flow hedging reserves.

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.

Unrealised gains
Relates to unrealised gains following the disposal of Ark Life in 2006 and the acquisition of a 24.99% interest in Aviva Life Holdings which included Ark Life.

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.

IRB provision excess
Where there is an excess of provision on Internal Ratings Based Approach (“IRBA”) portfolios over the expected loss on IRBA portfolios, this excess is included as tier 2 capital subject to regulatory thresholds.

Subordinated term loan capital

At 31 December 2013, subordinated term loan capital is included within Tier 2 capital. This includes the balances outstanding on dated loan capital which were issued under the European Medium Term Note programme. During 2011, all outstanding amounts were either redeemed or purchased for cash apart from residual balances which were subject to a Subordinated Liabilities Order (“SLO”). The carrying value of these residual balances amounted to € 36 million at 31 December 2013.

On 26 July 2011, AIB issued € 1.6 billion in nominal value of Contingent Capital Notes (“CCNs”) to the Minister for Finance of Ireland for a cash consideration of € 1.6 billion. Under IFRS, the fair value of these notes was recorded as € 1,153 million with € 447 million accounted for as a capital contribution and included within capital reserves. However, for regulatory capital purposes, this capital contribution is filtered out. The € 1.6 billion is included within tier 2 capital. A restriction applies to the capital contribution from the subordinated term loan capital because it is amortised on a straight line basis during the last five years to maturity. The terms of these notes are as follows:

Issue of € 1.6 billion Contingent Capital Tier 2 Notes due 2016
With regard to the CCNs of € 1.6 billion nominal value described above, interest is payable annually in arrears at a fixed rate of 10% per annum on the nominal amount outstanding. These notes, which are unsecured, mature in 2016 and qualify as subordinated tier 2 instruments. They rank as (a) junior to claims of all holders of unsubordinated obligations of AIB; (b) pari passu with the claims of holders of all other subordinated obligations of AIB which qualify as consolidated tier 2 capital of the Group for regulatory purposes or which rank, or are expressed to rank, pari passu with the CCNs; and (c) senior to the claims of all other subordinated obligations of AIB which rank junior to the CCNs including any subordinated obligations of AIB which qualify as tier 1 capital of the Group for regulatory purposes.

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

Details of the Group's dated loan capital are set out in pages 296 to 297 of the Annual Financial Report 2013.

Regulatory adjustments to core tier 1

Defined benefit pension adjustment
Under the current pension regulatory rules, AIB reverses the pension deficit calculated on an IFRS basis and replaces it with 3 years supplementary contributions based on the tri-annual valuation or those agreed to eliminate a deficit on a Minimum Funding Standard ("MFS") basis. This can be reduced by any additional cash contributions made into the Scheme, amortised as appropriate.

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

Supervisory deductions from core tier 1 and tier 2 capital

Unconsolidated financial investments
Holdings in other credit and financial institutions' equity capital or other qualifying capital instruments are required to be deducted if the holding exceeds 10% of the regulatory capital of the institution. The deduction amounts to the excess of the investment in these instruments over 10% of the regulatory capital of the institution. The required deduction is made 50% from core tier 1 capital and 50% from tier 2 capital; however where equity or other qualifying instruments are held in an assurance or insurance entity then the total amount of the investment is deducted 50% from core tier 1 capital and 50% from tier 2 capital.

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

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

Supervisory deductions from gross capital
Holdings in insurance undertakings
The transitional provision allowing deductions regarding particular items from gross capital ended on 31/12/2012 hence there were no such deductions in 2013 given the fact that the Group's holding in insurance undertakings is now an unconsolidated financial investment as described above.

Appendix 3: Remuneration Disclosures

Introduction

This section reflects the requirements of the European Banking Authority Guidelines in relation to remuneration disclosures and should be read in conjunction with AIB's Annual Financial Report 2013.

In particular, this report addresses Section 5 of the Guidelines relating to Disclosure by providing further remuneration information in addition to that contained in the 2013 Annual Financial Report ("Remuneration Committee" and "Remuneration Policy and Governance" pages 195 to 197 and the "Report on directors' remuneration and interests" pages 331 to 335).

These disclosures summarise AIB's principal remuneration policies and practices in relation to decision making and governance of remuneration, the link between pay and performance, the remuneration of those staff whose professional activities are considered to have a material impact on AIB's risk profile and the design features of variable incentive schemes.

AIB's remuneration levels continued to be closely managed in 2013 with no general salary increases or increments paid. There were no bonuses or shares awarded in 2013. While there are currently no bonus schemes or share schemes in operation, any future schemes will be structured in line with the EBA Guidelines on Policies and Practices and AIB's Remuneration Policy.

Aggregate quantitative data on remuneration for those members of staff in employment during 2013 and whose professional activities are considered to have a material impact on AIB's risk profile is detailed below.

Table 28: Remuneration

2013

Segments and business Areas		**Domestic Core Bank**	**Financial Solutions Group**	**AIB UK**	**Support and control functions**	**Total**
Total Remuneration in 2013 (all forms of payments or benefits)	**€ m**	**10.8**	**4.0**	**3.8**	**18.9**	**37.5**
	Identified Staff	**44**	**18**	**18**	**84**	**164**
Total Variable Remuneration in 2013 (Severance payments in 2013)	**€ m**	**0.9**	**0.0**	**0.0**	**2.6**	**3.5**
	Identified Staff	**4**	**0**	**0**	**12**	**16**

2012

Segments and business Areas		**Personal & Business Banking**	**Corporate Institutional & Commercial Banking**	**AIB UK**	**EBS**	**Group**[1]	**Total**
Total Remuneration in 2012 (all forms of payments or benefits)	€ m	8.7	6.3	5.1	2.1	21.9	44.1
	Identified Staff	34	22	18	12	82	168

[1] The figures for Group segment for 2012 include the following centralised functions: Group Services and Transformation, Chief Financial Office, Chief Risk Office, Non-Core Unit, Corporate Affairs and Strategy, Office of Group General Counsel and Office of Group Internal Audit.

Variable Remuneration in 2012 (additional payments or benefits including contractual obligation)	**€ m**	0.1	0.1	0.0	0.0	0.0	0.2
	Identified Staff	1	3	0	0	0	4
Severance payments in 2012 (payments under the Voluntary Severance and Early Retirement schemes)	**€ m**	1.2	0.2	0.2	0.0	2.8	4.4
	Identified Staff	6	1	1	0	13	21
Total Variable Remuneration in 2012	**€ m**	1.3	0.3	0.2	0.0	2.8	4.6
	Identified Staff	6	4	1	0	13	24

2013

Functions		**Senior management[1]**	**Key control functions**	**Other material risk takers**	**Total**
Total Remuneration in 2013 (all forms of payments or benefits)	**€ m**	**18.3**	**7.1**	**12.1**	**37.5**
	Identified Staff	**65**	**41**	**58**	**164**
Total Fixed Remuneration in 2013 (salaries and other fixed benefits including pension contributions)	**€ m**	**17.4**	**5.6**	**11.0**	**34.0**
	Identified Staff	**65**	**41**	**58**	**164**
Total Variable Remuneration in 2013 (Severance payments in 2013)	**€ m**	**0.9**	**1.5**	**1.1**	**3.5**
	Identified Staff	**4**	**7**	**5**	**16**

2012

Functions		Senior management[1]	Key control functions	Other material risk takers	Total
Total Remuneration in 2012 (all forms of payments or benefits)	€ m	14.1	7.9	22.1	44.1
	Identified Staff	45	37	86	168
Total Fixed Remuneration in 2012 (salaries and other fixed benefits including pension contributions)	€ m	13.4	7.4	18.7	39.5
	Identified Staff	45	37	86	168
Variable Remuneration in 2012 (additional payments or benefits including contractual obligations)	€ m	0.0	0.0	0.2	0.2
	Identified Staff	0	0	4	4
Severance Payments in 2012 (payments under the Voluntary Severance and Early Retirement schemes)	€ m	0.7	0.5	3.2	4.4
	Identified Staff	3	3	15	21
Total Variable Remuneration in 2012	€ m	0.7	0.5	3.4	4.6
	Identified Staff	3	3	18	24

[1] For 2013, senior management comprised the current Leadership Team and direct reports to the Leadership Team members.

- Total variable remuneration of €3,527,129, comprising severance payments under the approved voluntary severance scheme and other contractual payments in relation to exited employees. Under the severance programme, the highest severance payment to any one person was €225,000 or GBP £190,000;
- No variable remuneration was paid in equity or other instruments;
- There was no deferred remuneration awarded in 2013. Details of any options that vested in previous years and exercisable are contained in Note 11 “Share Based Compensation Schemes” in the 2013 Annual Financial Report;
- There were no sign-on payments in respect of Identified Staff in 2013;
- Details of Directors’ remuneration are contained in Note 53 in the 2013 Annual Financial Report; and,
- The table above includes 5 individuals identified as Material Risk Takers during 2013 who were designated as Service Providers and whose remuneration was not directly paid by AIB. These costs amounted to €1,745,558 and are included within fixed remuneration.

The list of Identified Staff was compiled in full consultation with the relevant business areas and control functions while taking account of the extent of individuals’ reporting lines, and the degree to which individuals’ decision making was subject to control and approval through credit committees or trading limits. A total of 164 employees were considered as identified staff in 2013 (from 168 identified staff in 2012).

These Identified Staff considered to have a material impact on AIB’s risk profile include:

- Members of the Leadership Team;
- Other senior management such as members of Senior Management teams and those responsible for leading significant business lines including regions, trading and other pricing/funding activities;
- Senior management in Credit Risk including the Chief Credit Officer, Heads of Credit, their direct reports and other staff with delegated authority to chair credit committees with discretions greater than €10 million;
- Senior staff responsible for compliance, finance, risk management, human resources and internal audit; and
- Other risk takers whose professional activities individually or collectively exert influence on the institution’s risk profile, including staff capable of entering into contracts/positions and taking decisions that affect the institution’s risk positions. e.g. traders and credit officers.

Incentive Scheme Design Features

While there are currently no bonus or share schemes in operation, AIB’s Remuneration Policy reflects the provisions of the Capital Requirements Directive (CRD III) and the European Banking Authority Guidelines in relation to the required design features of variable incentive schemes.

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

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

Decision Making and Governance

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

AIB's remuneration policies are designed to support the long term performance and strategic objectives of the bank while also providing employees with a fair and competitive remuneration. The Committee takes account of appropriate input from AIB's control functions to ensure that its decision making process is aligned with the bank's financial performance, regulatory guidelines and stakeholders interests while also cognisant of the need to attract and retain the required talent and skills underpinning the Bank's future success and growth.

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

The members of the Committee during 2013 were David Hodgkinson, Jim O'Hara, Peter Hagan and Tom Foley. There were no changes in Committee membership during the year.

Pay and Performance

The Board recognises the need to ensure that each individual understands how their own performance contributes to the achievement of both their own business area objectives and also the overall strategic objectives of the Group. During 2013, AIB significantly enhanced its performance management process by creating a clear link between individual, team, business area and Group objectives. AIB uses a balanced scorecard approach in setting and measuring individual objectives over a multi-year timeframe. This enables the assessment of performance against a combination of financial and non-financial objectives.

AIB's remuneration policies are designed to provide a clear link between individual reward and performance. AIB's remuneration levels in 2013 continued to be closely managed in line with the Group's financial performance. There were no general salary increases awarded. Out of course salary increases were managed within tight budgetary parameters, the increases being primarily restricted to retaining key staff and skills or to instances where staff stepped up to expanded roles in light of restructuring or staff departures. There were no variable incentive schemes in operation during 2013.

Glossary of definitions and explanations

A

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

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

B

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

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

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

C

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

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

Capital requirements directive IV ("CRD IV") – CRD IV, which has not got legal effect, comprises a recast Capital Requirements Directive and a new Capital Requirements Regulation which implements the Basel III capital proposals together with transitional arrangements for some of its requirements.

Central Bank of Ireland - the Central Bank of Ireland ("Central Bank" or "CBI") is responsible for both central banking and financial regulation and was created under the Central Bank Reform Act 2010. The Central Bank has a legal mandate, in both domestic legislation and under the Maastricht treaty, to contribute to financial stability both in Ireland and across the 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.

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

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

Core tier 1 capital – the highest quality form of regulatory capital under Basel II that comprises total shareholders' equity and related non-controlling interests, less goodwill and intangible assets and certain other regulatory adjustments.

Core tier 1 ratio – Core tier 1 capital as a percentage of risk weighted assets.

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

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

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

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

D

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

E

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 External Credit Assessment Institution ("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, where the securities have a credit assessment by an eligible ECAI which has been determined by the competent authority to be associated with credit quality step 3 or above under the rules for the risk weighting of exposures to credit institutions under Articles 78 to 83;

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

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

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

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

Exposure at default ("EAD") – represents the institution's best estimate of its expected exposure, after credit risk mitigation, 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 – the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date.

Forbearance – Forbearance is a term that is used when repayment terms of a loan contract have been renegotiated in order to make repayment terms more manageable for borrowers. Forbearance techniques have the common characteristic of rescheduling principal or interest repayments, rather then reducing them. Standard forbearance techniques employed by the Group include: - interest only; a reduction in the payment amount; a temporary deferral of payment (a moratorium); extending the term of the mortgage; and capitalising arrears amounts and related interest.

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

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

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

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

Items belonging to regulatory high risk categories (Annex VI Standardised Approach: Directive 2006/48/EC):

- 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 are 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

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

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.

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

M

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

N

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

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

NPRFC – The National Pensions Reserve Fund was established in April 2001 to meet as much as possible of the costs of Ireland's social welfare and public service pensions from 2025 onwards, when these costs are projected to increase dramatically due to the ageing of the population. The Fund is controlled and managed by the National Pensions Reserve Fund Commission. The Commission's functions include the determination and implementation of the Fund's investment strategy in accordance with its statutory investment policy.

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

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, is involved in the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the exposure being securitised;

(b) an entity which purchases a third party's exposures onto its balance sheet and then securitises them.

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

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

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

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

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

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

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

R

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

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

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

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.

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, and where payments to investors in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures. 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.

Single Supervisory Mechanism ("SSM") - The Single Supervisory Mechanism (SSM) is the name for the mechanism which would grant the European Central Bank (ECB) a supervisory role to monitor the financial stability of banks based in participating states. Euro zone are obliged to participate, while Member state of the European Union outside the euro zone can voluntarily participate.

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

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

Sponsor – 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 the treasury function. These are revalued daily at market prices (marked 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.