ALLIED IRISH BANKS PLC
Form 20-F
April 25, 2014
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Form 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the year ended December 31, 2013

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-10284

Allied Irish Banks,

public limited company

(Exact name of registrant as specified in its charter)

Ireland

(Jurisdiction of incorporation or organization)

Bankcentre, Ballsbridge, Dublin 4, Ireland

(Address of principal executive offices)

David O Callaghan, Company Secretary

Allied Irish Banks, p.l.c.

Bankcentre, Ballsbridge

Dublin 4, Ireland

Telephone no: +353 1 6600311

(Name, telephone number and address of Company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act

None

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary shares of EUR 0.01 each	**521,296,831,617**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x **No** ¨

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x **No** ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ **Accelerated filer** x **Non-accelerated filer** ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP ¨ **IFRS** x **Other** ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ **Item 18** ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ **No** x

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Forward-looking information

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 operations and business of the Group and certain of the plans and objectives of the Group. In particular, among other statements in this 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 only to historical or current facts. Forward-looking statements sometimes use words such as aim , anticipate , target , expect , estimate , intend , plan , goal , believe , may , could , will 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 materially from those expressed or implied by such forward-looking information. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These are set out in Risk factors on pages 61 to 66. These factors include, but are not limited to the Group s access to funding and liquidity, impacted by the financial instability within the eurozone; constraints on liquidity, and market reaction to factors affecting Ireland and the Irish economy have created a challenging environment for the management of the 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; the 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; the 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 events when making an investment decision based on any forward-looking statement. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this 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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Financial highlights

	2013	Restated* 2012
	m	m
Results		
Total operating income	**1,710**	621
Operating loss	**(1,697)**	(3,744)
Loss before taxation from continuing operations before exceptional items[(1)]	**(1,450)**	(2,838)
Loss before taxation from continuing operations (including exceptional items)	**(1,687)**	(3,729)
Loss attributable to owners of the parent	**(1,597)**	(3,557)
Per ordinary share		
Loss basic from continuing operations	**(0.3c)**	(0.7c)
Loss diluted from continuing operations	**(0.3c)**	(0.7c)
Dividend		
Dividend payout		
Net assets	**0.02**	0.02
Performance measures		
Return on average total assets	**(1.32%)**	(2.7%)
Return on average ordinary shareholders equity	**(21.82%)**	(36.0%)
Statement of financial position		
Total assets	**117,734**	122,501
Ordinary shareholders equity	**6,994**	7,855
Shareholders equity	**10,494**	11,355
Loans and receivables to customers including held for sale	**65,741**	73,325
Customer accounts	**65,667**	63,610
Capital ratios		
Core tier 1 capital	**14.3%**	15.2%
Total capital	**16.6%**	17.8%

(1)Exceptional items are detailed on page 23 of the Management report.

*Restated due to accounting policy for employee benefits (note 60).

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Chairman s statement

The past year is one in which AIB made consistent progress in achieving the bank s business objectives. Progressively rebuilding trust with our customers, restoring the bank to better financial health and playing a robust role in the recovery of the Irish economy were critical priorities for the bank and we made solid progress across all these areas throughout 2013.

Evidence of AIB s pace of change is clear. We achieved significant cost restructuring, improved levels of lending, finalised the asset disposals required in our deleveraging plan, made tangible progress towards resolving the arrears problem, and completed four issuances in the funding markets. Stabilisation of the bank is now well advanced and we look forward to a return to profitability before tax during 2014. It has not been an easy journey for any stakeholder in AIB and while the path ahead is more encouraging, a number of challenges remain, for the bank and the wider Irish economy.

The AIB Group s UK operations, Allied Irish Bank (GB) and First Trust Bank in Northern Ireland also saw significant progress in continuing to win business in challenging environments.

Acutely aware of the financial stress facing many of our customers, AIB has progressively built its capabilities to deal more expeditiously with arrears and customers in financial difficulty. It is a significant task. The process is, by definition, labour-intensive and each case requires understanding, empathy with the difficulties facing customers, patience as well as persistence, but we are making significant inroads to reach appropriate, sustainable solutions in scale.

Our priority remains as it was to agree sustainable solutions with customers where possible. This requires borrowers in arrears to prioritise their mortgage debt, and pay back what is, affordable in the context of reasonable living expenses. We believe the loan loss provisions already made to date are sufficient to allow the debt restructuring that may be required.

Engagement is the key to reaching long-term arrears resolutions and in order to increase this we have actively sought to explore new avenues. This has included ongoing engagement with consumer advocacy groups.

A large portion of the national debate around arrears has been focused on the issue of mortgage arrears, to a far greater degree than that of SME arrears. This is despite the fact that SME arrears, in monetary terms, are the larger issue for AIB. As part of the overall resolution process AIB is making significant progress and continues to devote considerable time and resources working to return troubled SMEs to viability.

When it comes to banking services, we do not believe the concept of free banking is sustainable over the long term. AIB

has endeavoured to price its services to cover the costs incurred and offers more cost effective online, self-service and paperless options. Charging for our services must mean, however, that we continue to improve and focus on our customer service levels.

Whilst remaining prudent in the application of lending standards, AIB allows branch managers discretion to approve certain loan requests, as well as reinforcing the market and sectoral expertise of its relationship management teams. I firmly reject any assertion that the bank is not lending it is vital to our customers as well as the bank that we provide credit and we welcome constructive engagement to improve our offerings and resolve specific customer concerns.

There has been much commentary about the possible need for further recapitalisation after the Euro-wide stress tests later this year. AIB remains robustly capitalised relative to our minimum regulatory requirements and, unless external extenuating circumstances beyond our control dictate otherwise, I do not envisage any change in that situation.

Fulfilling the necessity to develop a banking model fit for the future has, and will continue to involve enormous determination on the part of AIB s Board, management and employees. We remain constantly aware and thankful for the support of the Irish taxpayer since the economic crisis began and our focus now is to deliver a return to the State over time as market conditions permit. After five years of economic turmoil, we are at last seeing welcome signs of a turnaround. In order to survive as a bank of systemic importance to the economy and in order to restore our customers lost trust, we had to undertake radical reform.

After a year of solid progress in 2013, I am very satisfied that AIB s recovery strategy allows us to play an increasingly important and beneficial role in Ireland s recovering economy. One of our objectives is that AIB will progressively move back into private ownership and we will work closely with the Government on how and when is best to achieve this, taking into account the capital structure of the bank in the context of emerging regulatory requirements. While dealing with a number of legacy issues, the bank s strategy is progressing and is evident in these annual results and we are focused on achieving our goals notwithstanding the ongoing challenges facing the bank.

In difficult circumstances, the bank s employees continue to work extremely hard and frequently absorb much criticism and I thank them for implementing the required changes and for striving to provide a consistently professional and reliable service to our customers. I also wish to sincerely thank our colleagues who have left the organisation in 2013 for their contribution to the bank and I wish them success in their future endeavours.

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In summary, to our customers and the Irish public, I again say thank you for your ongoing support. The Department of Finance and the Central Bank of Ireland continued to work closely and proactively with AIB throughout 2013.
Finally, I would like to acknowledge the on-going support and dedication of the Board of Directors. Together we look forward to reaching our mutual goal a sound, reliable and profitable AIB. No effort will be spared in the achievement of this objective.

David Hodgkinson

Chairman

4 March 2014

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Chief Executive s review

In the second year of our three-year strategic plan, we have met, and in some cases exceeded our targets in the delivery of our business agenda despite a challenging but improving external environment. We remain focused on sustainable growth and returning to profitability during 2014. Notwithstanding the ongoing challenges facing the bank, we are more optimistic for the outlook of both the bank and the Irish economy.

Strategic Objectives

Introduction

2013 was a year of steady progress at AIB as we implemented our key strategic objectives which saw the bank return to pre-provision, pre-exceptional operating profit for the year. A number of important milestones have been reached and the fundamentals of AIB s operating performance are now trending more positively both from a bank and economic perspective.

Pre-provision operating profit was achieved

AIB s financial performance in 2013 was a significant improvement on 2012, with pre-provision, pre exceptional operating profit of 445 million in 2013. This was achieved in part through continued positive momentum in our Net Interest Margin (NIM) which has increased by 15 basis points from 2012, to an average of 1.37% in 2013 excluding Eligible Liabilities Guarantee (ELG) costs. NIM increased by 27 bps from 2012 to an average of 1.54% in 2013 excluding ELG and NAMA bonds.

ELG costs have reduced by 215 million without materially impacting deposit balances. The bank has maintained an ongoing strong focus on efficiency and cost reductions particularly since mid 2012, the benefits of which were evidenced in 2013, with a 278 million or 16% year-on-year, reduction in operating expenses, pre exceptional items.

Impairment charges reducing

There has been stabilisation in the asset quality of our loan portfolios and the pace of growth in impaired loans, has slowed, relative to 2012, with the overall level of impaired and criticised loans reducing. Impairments and arrears in our mortgage portfolios increased during 2013, however, the pace of increase has slowed compared to 2012.

Our provision charges were 625 million lower in 2013 than in 2012. The bank determines impairment provisions on an ongoing 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 1.9 billion, the Group also considered the Central Bank of Ireland s (CBI) Balance Sheet Assessment (BSA) findings and impairment guidelines. The bank s own assessment of the impairment charge for 2013 is substantially consistent with all of the BSA mean provision finding of 1.1 billion. Our specific impairment provision coverage is now 55%. Including impairments and exceptional items, the bank s loss before tax reduced by 2.0 billion to 1.7 billion for 2013.

Balance sheet dynamics stabilising

Our gross loan book reduced by 7 billion in 2013, due to sales of non-core assets as well as amortisation exceeding demand for new credit. The Central Bank of Ireland s PLAR non-core deleveraging target of 20.5 billion was completed in September 2013, ahead of schedule and within capital assumptions. Our loan to deposit ratio reduced to 100% reflecting both increased customer accounts and a reduction in net loans. Our core tier one capital ratio, was 14.3%, well above the minimum regulatory requirement of 10.5%. 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.

Meeting targets in relation to arrears management

Arrears management and implementing resolutions for customers in financial difficulty has been a key focus of AIB during 2013 and has been designated as the number one area of focus for the bank.

AIB met the quarterly Mortgage Arrears Resolution Targets for sustainable offers during 2013. We have developed a range of tailored permanent solutions and we are implementing resolutions for customers who are engaging with the bank and who are prioritising their mortgage repayments.

We are making tangible progress in restructuring our facilities to SME customers in financial difficulty and are implementing a range of solutions across various asset classes. We aim to have completed a significant portion of SME restructures by the end of 2014 with co-operating customers while implementing our strategy of supporting viable businesses and protecting jobs where possible.

Successful return to the funding markets

Our funding profile was strengthened during 2013, due to stabilisation in both customer account balances and pricing together with the market issuances of 2 billion. These issuances, which included two Asset Covered Securities, the first Credit Card Securitisation in the Irish market and Senior Unsecured funding demonstrated further normalisation of market conditions.

Expected approval of the EU Restructuring Plan

AIB, through the Department of Finance, has been in detailed discussions with the European Commission to finalise the terms of the bank s EU Restructuring Plan. The bank expects to implement a range of commitments in line with operational expectations, given the restructuring that has taken place to date, and anticipates approval of the plan in the short term.

Employee commitment to our strategic objectives

The engagement, dedication and professionalism of AIB employees has remained outstanding in the face of significant restructuring following the reduction of c.3,600 employees since June 2012, including those who have left under our voluntary severance programme.

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I thank and commend all my colleagues for their hard work and commitment to AIB despite the many challenges.

Customers

We are well positioned in our customer businesses, we have leading market shares across the bank s key product lines in Ireland and we continue to invest in our franchise. We are committed, to supporting our customers and economic recovery in Ireland by providing credit and a wide range of products to our personal, business and corporate customers. We approved over 7 billion in mortgage, personal, SME and corporate lending into the Irish economy during 2013 and we are targeting 7 billion to 10 billion in lending approvals per year over the next five years.

Delivering differentiated customer service

During 2013, we continued to make investments in our branch transformation agenda and added further enhancements to our digital offering including the launch of tablet banking, the opening of a digital banking location called The Lab (learn about banking) and a continued integration and alignment of branch and online banking services for both personal and business customers. We also launched a comprehensive customer experience programme to enhance customer service insight and will continue to use the outputs to shape future offerings.

Focused on lending to Irish SMEs

We are focused on delivering a sectoral led approach which is customer centric. In partnership with key industry bodies, we are undertaking a series of Outlook Research Reports across the SME sector of which five were launched during 2013 covering the retail, hotel, dairy, licensed trade and energy sectors. The findings of these extensive reports represent the views of SMEs across a broad spectrum of the economy. AIB exceeded the Irish Government s 4 billion SME lending target in 2013 by approving credit to c.32,000 customers, including new, refinanced and restructured facilities. Lending approvals for new facilities increased year-on-year, with an improvement in market conditions in the fourth quarter.

In line with our sectoral strategy, and to meet the need of individual SME sectors, we have recruited expertise from some key growth sectors of the market such as Retail, Energy, Hospitality and Tourism, Healthcare and Life Sciences and Export which will complement our strong Agri team into the future.

The Irish mortgage market remains a key priority for the bank

The pace of drawdowns in the market in 2013 improved as the year progressed, however, the size of the market remains at historically low levels reflecting supply and demand dynamics in certain parts of the country, as well as underlying market conditions.

AIB has maintained a leading position with c. 38% market share of drawdowns in 2013, and approved mortgage lending to over 7,200 mortgage customers.

We have continued to develop our online presence and launched an online mortgage calculator and application, including an online sanction in principle facility. As well as our online presence, we also have a multi-channel distribution model which expands across branches, brokers and the EBS branch network.

Growth in Irish Corporate lending approvals

The corporate market was very active throughout 2013 and our Corporate business has a leading position in this sector. Corporate lending approvals to new and existing customers increased in comparison to 2012 and we maintained our status as the leading bank of choice for FDI companies in Ireland. We have a strong and active pipeline to support our business goals and our customer strategy is built on service and relationship.

AIB GB and First Trust Bank

The economic outlook for Northern Ireland and Great Britain improved in 2013 and AIB UK remains a core component of AIB s long term strategy. We are focused on growing the business while continuing to emphasise cost control and greater synergies with the domestic core bank

Outlook

Relationship with the Irish Government

We believe that re-establishing AIB as a profitable, investable bank is the best way to provide opportunity for the Irish Government to begin to recover the State s investment. Creating a stable and profitable model is a key strategic priority for the bank in order to return capital to the Irish Government over time. The bank continues to engage closely with the Department of Finance in line with the terms of the March 2012 Relationship Framework.

Reviewing options in relation to the bank s capital structure

During the course of 2014 we intend to provide further guidance on AIB s capital targets. The Department of Finance has indicated that it will enter into discussions with AIB during 2014 regarding AIB s future capital structure, including the potential conversion of the 2009 preference shares into equity and potential options, in respect of the contingent capital notes. Any possible actions would be subject to all required shareholder and regulatory approvals. The potential conversion of the 2009 Preference Shares into equity and the resulting clarity regarding AIB s fully loaded CRD IV CET1 position is considered a key step towards capital structure simplification.

Forward looking considerations

We made continuous and steady progress during 2013 however, a number of challenges remain as we seek to return the bank to fully normalised operations. While economic conditions improved in Ireland in 2013, unemployment levels remain elevated and recovery in the property market is still at an early stage. The bank s operating performance will be influenced by the continued stabilisation in the economic environment in Ireland, the UK and

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Chief Executive s review

the Eurozone, sustained recovery in business and consumer confidence, continued reductions in unemployment levels, an increase in credit demand, as well as the ongoing commitment and dedication of employees. Notwithstanding these and other dependencies, I remain confident of our ability to deliver against our strategic objectives in the coming period and our stated aim of returning to sustainable profitability during 2014 remains on target. The bank s forward strategy will continue to focus on:

- Supporting sustainable new lending in the markets in which we operate with a target medium term net interest margin of > 2.0% and a loan to deposit ratio of 100 120%.
- Implementing sustainable permanent solutions for our mortgage and SME customers in financial difficulty.
- Continuing to manage our cost base while investing in enhancing the bank s customer franchise and employees with a medium term target cost income ratio of < 50%.
- Ensuring ongoing measured engagement with the funding markets.
- Taking appropriate steps to deliver a path to a transparent CRD IV capital structure with a medium term target fully loaded CET1 ratio > 10%.
- Reducing impairment charges, subject to economic conditions, with impairment provision charges of < 65 bps over the medium term.

David Duffy

Chief Executive Officer

4 March 2014

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Corporate Social Responsibility

AIB seeks to make a positive contribution to the communities in which we and our customers operate. Central to this is our strategic objective to contribute to economic recovery in Ireland over time. The following section gives a brief overview of some of the actions undertaken by the bank as part of its four pillars of Corporate Social Responsibility activity in supporting these goals.

AIB in the Community

At AIB, we recognise that our involvement and responsibility extends beyond commercial activities and AIB has an established culture of encouraging staff to actively support a wide variety of groups in our local communities. AIB is actively involved in financial education initiatives in communities and schools, and supports organisations such as the National Consumer Agency and Junior Achievement in their financial education programmes.

AIB has been associated with the GAA for over 30 years and 2013 marked AIB s twenty second year as official sponsor of the GAA Football and Hurling All-Ireland Club Championships, which now encapsulates Junior, Intermediate and Senior level. In October 2013, AIB also announced the additional sponsorship of the AIB Camogie All Ireland Junior, Intermediate and Senior Club Championships. The Bank seeks to support clubs throughout the country and elevate the profile of the AIB GAA Club Championships.

AIB s Add More Green Programme continued in 2013 with AIB supporting the Grow It Yourself (GIY) Get Ireland Growing Fund, a community and environmental project. This fund is open to community groups, schools, allotments, community gardens and not-for-profits looking to develop or enhance an existing community food-growing initiative. In 2013, a total of 72 community food projects nationwide received grants from the GIY Get Ireland Growing Fund.

In 2013, AIB supported the Press Photographers Association of Ireland for the eleventh consecutive year in the Photojournalism Awards. These awards are open to members of the Press Photographer s Association of Ireland, and celebrate and reward excellence in Irish photojournalism. The AIB Photojournalism Exhibition visited 20 AIB branch locations nationwide and other venues throughout Ireland during the year. Classes for schools, camera clubs and photography students were also held.

AIB continued to support a number of charities across the country by organising a wide range of fundraising activities throughout the year. For example, various charities were invited into AIB Bankcentre to take part in a charity Christmas market in December. The money raised by purchases and donations made by AIB staff on the day made a tangible difference to these causes. EBS also continued its charity support with an ongoing partnership with Temple Street Children s Hospital in Dublin. AIB GB and First Trust also undertook numerous staff fundraising initiatives throughout 2013 and the GB Staff Care Committee made its annual charity donation.

AIB and the Environment

AIB continued to make progress in 2013 in the areas of energy and environmental management, with foundations laid for further work in 2014. AIB made its annual return to the Carbon Disclosure Project in May 2013 which showed an overall score of 85% for disclosure, moving from a performance band C to a performance band B . AIB retains its

position as a Carbon Leader , (exceeding the requisite score of 75%), demonstrating AIB s commitments and continued improvements within the energy and environmental management delivery.

In 2013, AIB undertook a project to commence implementation of an environmental management system (ISO14001 environmental management standard) and is on track to be awarded this standard in 2014 for its Bankcentre location.

AIB are working closely with the Sustainable Energy Authority of Ireland (SEAI) to promote energy efficiency and reduction of energy consumption. Considerable work has been completed to date with the objective of achieving the ISO50001 energy management standard in 2014.

Energy related projects undertaken included: upgrading in energy monitoring systems in head office locations; the addition of metering and monitoring systems for all catering facilities of significant size; development of an energy utility database and an upgrade of lighting control systems in Bankcentre.

Finally, in December 2013, AIB announced that it intends to make 100 million available for lending to enable Irish SMEs to lower their energy bills with the bank taking into account the projected savings from energy efficiency projects when calculating a borrower s repayment capacity.

AIB in the Marketplace

We are actively seeking to support economic recovery in Ireland through the provision of products and services to our business and personal customers. As part of this strategy in 2013, we continued to develop our customer proposition for our personal and business customers.

With the majority of AIB banking transactions now taking place away from the branch counter, we continued to invest in our technology banking platform in 2013. We increased investment in our physical banking infrastructure including the deployment of self-service banking kiosks and enhanced our offerings with improved availability and functionality of Intelligent Deposit Devices which are now in place at many branches nationwide. Our dedicated digital banking store The Lab opened in Dundrum Town Centre, Dublin, allowing customers to learn about the use of existing and emerging technologies in banking services. These enhancements to our physical branch network were made in tandem with improvements to our mobile and internet banking capabilities for our business and personal customers.

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Corporate Social Responsibility

AIB s strategy for the SME market has taken on a strong sectoral focus as we examine and address the specific needs of individual SME sectors. As part of our strategy development, we are aligning our strategy to those sectors of the market with the strongest potential to contribute to the recovery of Ireland and thus create jobs.

A core part of our new SME strategy is that we are equipped to support business needs across sectors and business disciplines. Progress has been made in recruiting external expertise from some key growth sectors to further develop our sectoral knowledge. AIB commissioned significant research throughout 2013, to deepen our understanding of customers needs, resulting in a series of sectoral Outlook reports. The reports analysed the key issues and opportunities in particular sectors within the Irish economy, offering opinion from relevant stakeholders. Five comprehensive reports have been issued to date focusing on the retail, hotels, licensed trade, dairy and energy sectors of the Irish economy.

Finally, AIB continued to support a number of national SME and Agricultural events throughout 2013, including the SFA National Small Business Awards, Business and Finance Awards and the National Ploughing Championships.

AIB and our people

Our employees are central to recovery at AIB and in 2013, we made tangible progress on our strategy of engaging with our employees across the business. We began the year with the launch of our new performance management programme which focused on aligning individual employee objectives more closely with AIB s strategic priorities. In 2013, we also made a significant investment in our people leadership agenda. This included the launch of our first People Leadership Summit which was attended by over 1,300 people leaders across the Bank. We also launched an employee survey, achieving significant overall response rates from employees which is being used to improve engagement levels across the bank. We will continue to focus on improving employee engagement during 2014.

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Business Overview

In the latter part of 2012 AIB commenced organising its internal structure to a more customer centric model comprising the following key segments: Domestic Core Bank (DCB), AIB UK,

Domestic Core Bank Overview

Business description

The Domestic Core Bank is made up of two business areas Personal, Business & Corporate Banking and Products.

Products

The Products area is responsible for portfolio and balance sheet management. It provides a portfolio of banking products for distribution across the bank. Through focused pricing strategies, the business area balances customer value with delivery of an appropriate return for the Bank. The area continues to redesign and simplify the bank s product portfolio to facilitate a digitally-enabled omni-channel distribution strategy with a customer centric focus. Products is also responsible for the bank s treasury & capital markets functions including identification and execution of specific balance sheet restructuring initiatives.

Personal, Business and Corporate Banking

Personal, Business and Corporate Banking (PBC) services the personal, business and corporate customers of AIB in the Republic of Ireland including wealth management services. PBC has a strong presence in all key sectors including SMEs, mortgages, personal banking and corporate banking. It provides customers with choice through a range of delivery channels consisting of a network of 200 AIB branches/outlets, 74 EBS offices, 10 business centres, c. 755 ATMs and AIB phone and internet banking as well as a partnership with An Post offering services at over 1,000 post offices nationwide.

Complementing the physical distribution channels of branches (including EBS) and business centres, is AIB s Direct Channels operation, offering self service capability through self-service kiosks and automated payments including telephone, internet, mobile and tablet banking.

The Wealth Management unit delivers wealth propositions to AIB customers, tailored to the needs of specific customer segments, including a Private Banking offering to high net worth clients. AIB Corporate banking provides a fully integrated relationship-based banking service to top-tier companies, both domestic and international, including financial institutions, Irish commercial state companies and large multinationals.

and Financial Solutions Group (FSG). Reporting on this new segment basis commenced in 2013. The following pages provide an overview of these business segments.

Customers	31/12/13	People & places	31/12/13
Personal	c. 2.0m	Staff (FTE)	5,185
Business	c. 180k	AIB Branches	200
Corporate	c. 1.3k	EBS offices	74

Balance sheet	31/12/13	Contribution statement	Year 2013
Gross loans	48bn	Total income	1,433m
New lending drawdowns	3bn	Operating contribution[1]	683m
Customer accounts	54bn	Cost income ratio	52%

EBS Limited, whilst part of the AIB Group, operates as a standalone, separately branded subsidiary of AIB with its own banking licence. EBS operates in the Republic of Ireland and has a countrywide network of 74 offices. EBS s network gives it a physical presence in communities across Ireland and this is important in allowing it to provide a high quality personal service to its customers. EBS offers residential mortgages and savings products, bancassurance, personal banking and general insurance products on an agency basis.

Customer Strategy

The strategy for the Domestic Core Bank is to be a customer-led bank. AIB s customer strategy is enabled by digital technology. Global consumer trends show that more and more consumers are using technology to make their lives easier. AIB is enabling its customers with technology to give greater flexibility as to how and when they want to interact with the bank. The bank s continued investment and development of technology complements the existing ways of banking through branch and phone channels, providing customers with an omni-channel banking experience.

[1]Contribution before central costs, provisions and exceptional items.

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Domestic Core Bank Overview

Personal Customers

For personal customers, AIB wants to be their bank of choice; a bank where customers choose to come to and be with because of the proposition and service provided. AIB s customer proposition is a combination of the wide range of products offered, relationship management approach and the capability customers have, to do their banking across multiple channels from branches through to online, mobile and tablet.

In 2013 customers continued to adapt to digital technology. 465,000 customers do their banking at a time and place that suits them using the Mobile Banking app on their smartphones. AIB launched Tablet Banking where a key feature is the My Money Manager tool. Customers are using this tool to classify their spending, create budgets and set savings goals helping them to manage their finances. AIB also launched its smartphone person-to-person payments app called Me2U. Customers send money to their friends by simply using the receiver s mobile phone number on Me2U.

For customers looking for mortgages in 2013, AIB estimates it provided c. 38% of all mortgage drawdowns and supported First Time and Second Time Buyers with financing their new home and providing funds to refurbish existing homes.

Business Customers

AIB is focused on Business Customers through a sectoral strategy approach. This strategic approach allows AIB to understand the challenges and opportunities that exist for customers in those sectors. To support this approach, in 2013 AIB commissioned in-depth research in partnership with key industry experts, on a number of sectors. AIB launched a series of sectoral research reports focused on specific sectors to include, Retail, Hotels, Dairy, Energy and the Licence Trade. AIB will continue with this programme in 2014.

AIB launched a series of funds in 2013 demonstrating commitment to customers. These included a 200m Renewable Energy Fund, 100m Energy Efficiency Finance Fund and a 200m EIB SME Loan Fund. In addition, a 50m Agri Loan Fund was made available to promote credit for farming customers in the agri

sector, during the harsh weather conditions of early 2013. AIB also launched the Small Business Internet Banking facility with enhanced capabilities on Internet Banking for SME customers to make banking online easier and more useful for them.

Corporate Customers

For corporate customers, AIB continued to develop and deepen relationships with existing and new corporate customers throughout 2013. AIB maintained its position as the No 1 bank of choice for providing banking services to Foreign Direct Investment companies in Ireland in 2013.

Investing in Distribution

To allow AIB to continue to serve its Personal, SME and Corporate customers, AIB have continued to invest in its physical channels.

AIB continues to maintain the largest physical distribution capability of any of the financial institutions in Ireland, with its branch locations, EBS offices in addition to its banking relationship with An Post.

In 2013, although AIB closed some branch locations, the bank has continued to invest in branches. AIB opened a new branch of the future in Dublin called the LAB (Learn About Banking). The Lab is an innovative learning and research banking store focused on helping customers to maximise their use of existing and new technologies in banking services. AIB continued to invest in Self-Service lobbies, with 11 now open, and plans to open more lobbies in 2014. These lobbies allow customers to do their banking outside of normal banking hours. In addition, AIB also continued to upgrade and invest in branches across the country to allow AIB to better serve its customers.

DCB Franchise in figures

2.2 million customers - 125 thousand net new customers in 2013
465 thousand mobile banking users[1]
c. 900 thousand internet banking customers[1]
AIB.ie - 62 million visits in 2013
> 33% of personal product sales conducted through direct channels in 2013
Exceeded Government s 4 billion SME lending approvals target
22% increase in SME new money lending approvals from 2012
34 thousand SME lending applications with a 92% approval rate
Estimated c. 38% mortgage drawdowns market share
> 70% increase in mortgage drawdowns H2 2013 v H1 2013
11% increase in mortgage sanctions H2 2013 v H1 2013
7 billion in lending approvals for customers in 2013

[1]As at February 2014

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AIB UK Overview

Business description

The AIB UK segment operates in two distinct markets, Great Britain and Northern Ireland, with different economies and operating environments. The segment s activities are carried out primarily through AIB Group (UK) p.l.c., a bank registered in the UK and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In addition, Structured Lending Solutions for the UK deals with all its customers in difficulty, and principally manages assets that are in AIB UK Loan Management and the UK Corporate Banking branch of AIB plc.

Great Britain

In this market, the segment operates under the trading name Allied Irish Bank (GB) from 20 locations in major business centres in Great Britain. The head office is located in Central London with a processing centre based in Belfast. A full banking service is offered to business customers (primarily owner managed businesses and professional services firms) and associated high net worth individuals with a strong focus placed on supporting British Irish Trade.

Northern Ireland

In this market, the segment operates under the trading name First Trust Bank from 32 branches and outlets throughout Northern Ireland. The First Trust Bank head office is located in Belfast, together with a processing centre. A full service, including online, mobile and telephone banking is offered to business and personal customers across a range of customer segments, including professionals, high net worth individuals, SMEs, as well as the public and corporate sectors.

Both of these institutions remain a core element of the future strategy for the bank.

Performance

The financial performance in 2013 has been achieved in an economic environment that has been particularly challenging in Northern Ireland and in the regions of GB, with resilient economic conditions in London and South East Great Britain.

Despite that challenging backdrop the bank is engaging in new business in both FTB and GB. The strength of our brands and the dedication of our employees demonstrates to customers that the bank can genuinely differentiate on quality of the service.

AIB GB

We believe that customers bank with Allied Irish Bank (GB) because of the quality of its customer service and its delivery of genuine relationship banking for businesses.

Tailoring services to British businesses

Allied Irish Bank (GB) has a long history of banking in Great Britain and can trace its roots back to London in 1825. Allied Irish Bank (GB) operates from 20 locations in major business centres across Great Britain and employs 700 staff. A full range of business banking, corporate banking and international trade services are available from Allied Irish Bank (GB), as well as dedicated wealth management, personal banking and direct savings

Customers	31/12/13	People & places	31/12/13
GB	85k	Staff (FTE)	1,303
FTB	286k	Branches	52

Balance sheet	31/12/13	Contribution statement	Year 2013
Gross loans	£ 11bn	Total income	£ 209m
New lending drawdowns	£ 1bn	Operating contribution(1)	£ 64m
Customer accounts	£ 9bn	Cost income ratio	69%

services. GB has also achieved considerable success in terms of deposit gathering from its traditional core relationship deposits in the branch network as well as its new Savings Direct retail offering via remote channels.

Award-winning commitment to exceptional service

It is a testament to the Bank s long standing commitment to exceptional customer service, that Allied Irish Bank (GB) boasts an impressive history of business awards. Winner of Best Business Fixed Account provider at Business Moneyfacts Awards in 2013. Moneyfacts Awards Finalist in three categories: Business Bank of the Year 2013, Best Service from a Business Bank 2013 and Best Business Card Provider 2013. Multiple former winner of Britain s Best Business Bank from the Forum for Private Business.

First Trust

Throughout 2013, First Trust Bank has been actively promoting its Open for business agenda with a clear focus on strengthening customer relationships and capitalising on new business opportunities, particularly in relation to home loans and SME lending.

In 2013 the Bank launched a new suite of mortgage products which have successfully achieved Moneyfacts 5* ratings. A mobile banking website and app were also launched to customers in June 2013, with significant numbers of downloads achieved in the first few months. Free Wifi was installed in all First Trust Bank branches from October 2013, primarily as an enabler for customer education and support in relation to online and mobile banking technologies.

For the SME market, two business lending funds have, and continue to be, actively promoted: the Business Support Fund and the Owner Managed Fund. Both offer transparent pricing with a clear application process in direct response to feedback from local SME customers. The Bank is keen to ensure that credit demand for viable business is met; thereby ensuring it plays its part in the recovery of the NI economy.

UK Structured Lending Solutions (SLS)

As a result of loan transfers AIB UK set up SLS to deal with all its customers in difficulty. This will ensure there is a centre of expertise where the right people with the appropriate products can tailor solutions for each customer on a case by case basis. In all cases possible AIB UK will work with its customers whether they be mortgage holders, SME s or Corporate to establish a path back to affordability/viability. The emphasis is on early engagement as it is

mutually beneficial for the bank and customers to manage issues in a constructive way.

[1]Contribution before central costs, provisions and exceptional items.

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Financial Solutions Group Overview

Business description

The Financial Solutions Group (FSG) is a segment dedicated to supporting business and personal customers in financial difficulties, including BTL (Buy To Let) mortgages. It also provides a service to DCB to manage its PDH (Private Dwelling House) arrears cases. The FSG team have the training, the focus and the products to tailor solutions for customers on a case by case basis. FSG consists of the following AIB business units:

FSG Corporate, Commercial, Retail

These three business units manage customers in financial difficulty, including corporates, SMEs and personal borrowers. The portfolio includes a wide spectrum of industries and asset types.

Arrears Support Unit

This unit includes AIB and EBS consumer mortgages that are either in arrears or in pre-arrears.

Third Party & Asset Managers

This team incorporates centralised asset management, litigation management and personal insolvency units.

Third Party Servicing

Third Party Servicing in AIB is a service provider to NAMA, assisting NAMA in the management of a portfolio of assets acquired by NAMA from AIB.

Strategy

FSG comprises staff trained in financial restructuring and applies tailored solutions through the use of established treatment strategies, focused on:

- supporting viable customers back to financial health where feasible
- ensuring consistent and fair treatment of all customers in compliance with regulatory and bank policy
- fulfilling all of its business and service obligations to NAMA as third party servicers to a substantial portfolio of NAMA assets

In order to be efficient and effective AIB have restructured the business to create a flatter, more streamlined, centralised operating model with regionalised teams that:

- can enable the delivery of FSG s strategic objectives
- is fully aligned with AIB s model
- is organised on a regional basis in line with business requirements and the structure of its domestic bank
- enables implementation of differentiated customer treatment strategies
- operate simplified and streamlined processes to enable AIB to accelerate the pace of restructuring
- supports a high performance, team culture across the entire FSG business

Mortgage Arrears Resolution

AIB s strategy is to stem the growth in arrears, to return as many loans as possible to performing status, and where necessary to make such modifications to loans as are necessary to have a sustainable outcome.

AIB s focus is on replacing short term forbearance measures with sustainable solutions including where necessary legal options for

	2013	2012
Balance sheet[1]		
Gross loans	**21.8 bn**	32.6 bn
Provisions	**11.6 bn**	13.8 bn
Net loans	**10.2 bn**	18.8 bn
Impaired loans	**18.3 bn**	23.4 bn
Impaired loans as a % of Gross loans	**84%**	72%
Provision coverage	**64%**	59%
Non-core deleveraging	**Complete (20.5bn)**	

non co-operating customers. Increasing levels of engagement with customers remains a crucial component of agreeing sustainable solutions.

The Central Bank of Ireland outlined Mortgage Arrears Resolution Targets in March 2013. In November 2013 the Central Bank of Ireland confirmed that in line with requirements AIB had reported sufficient proposed solutions to meet the target of 20% proposed sustainable solutions in Quarter 2 and 30% in Quarter 3. The bank has met the 50% target required for Quarter 4. In December 2013 and in line with the EU/IMF Programme, the Central Bank of Ireland set its expectation for end June 2014 which requires sustainable solutions offered to mortgage customers to reach 75% of over 90-days arrears and for concluded solutions to reach 35% by that date. AIB is focused on continuing to meet all relevant targets.

Non-core deleverage programme

On 24 September 2013 AIB confirmed completion of its deleveraging plan, a significant milestone in the bank s overall restructuring as part of its strategy to return to sustainable profitability. Under the terms of the March 2011 Prudential Liquidity Adequacy Review (PLAR) contained in the Financial Measures Programme, AIB was required to deleverage 20.5 billion of non-core net loans by December 2013.

Despite challenging market conditions in recent years the plan has been achieved ahead of schedule with a positive capital variance versus the Financial Measures Programme Assumptions. Deleveraging of 2.2 billion of non-core net loans was achieved in 2013. In addition, on completion of non-core deleveraging, 6.7 billion of loans were transferred from FSG to other segments. See page 38 for further details.

[1] Excludes PDHs where FSG provides a service to DCB to manage PDH arrears cases.

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Financial review

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Financial review -1. Business description

1.1 History

The AIB parent company, Allied Irish Banks, p.l.c., originally named Allied Irish Banks Limited, was incorporated in Ireland in September 1966 as a result of the amalgamation of three long established banks: the Munster and Leinster Bank Limited (established 1885), the Provincial Bank of Ireland Limited (established 1825) and the Royal Bank of Ireland Limited (established 1836).

The following material transactions have taken place since 1983:

1983 - AIB acquired 43% of the outstanding shares of First Maryland Bankcorp (FMB), and completed the acquisition of 100% of the outstanding shares of common stock of FMB in 1989. Additional bolt-on acquisitions were completed during the 1990s including, Dauphin Deposit Bank and Trust Company and subsequently, all banking operations were merged into Allfirst. In 2003, Allfirst was integrated with M&T Bank Corporation (M&T). Under the terms of the agreement AIB received 26.7 million shares in M&T, representing a stake of approximately 22.5% in the enlarged M&T;
1995 - AIB acquired a non-controlling interest in Polish bank Wielkopolski Bank Kredytowy S.A. (WBK). In 1999 AIB acquired an 80% shareholding in Bank Zachodni S.A. (Bank Zachodni) from the Polish State Treasury. In June 2001, WBK merged with Bank Zachodni to form BZWBK, following which the Group held a 70.5% interest in the newly-merged entity;
1996 - AIB s retail operations in the United Kingdom were integrated and the enlarged entity was renamed AIB Group (UK) p.l.c. with two distinct trading names, First Trust Bank in Northern Ireland and Allied Irish Bank (GB) in Great Britain; and
2006 - Aviva Life & Pensions Ireland Limited and AIB s life assurance subsidiary, Ark Life, were brought together under a holding company Aviva Life Holdings Ireland Limited (ALH), formerly Hibernian Life Holdings Limited. This resulted in AIB owning an interest of 24.99% in ALH.

1.2 Developments in recent years

A key element of AIB s pre-crisis market positioning was its involvement in the Irish property sector, which was the fastest growing segment of the Irish economy. From the late 1990s to 2006, the mortgage market in Ireland expanded rapidly as housing prices soared, driven in part by economic and wage growth and a low interest rate environment.

The global financial system began to experience difficulties in mid-2007 resulting in severe dislocation of international financial markets around the world with unprecedented levels of illiquidity in the global capital markets and significant declines in the values of asset classes. Governments throughout the world took action to support their financial systems and banks, given the critical role which properly functioning financial systems and banks play in economies.

Global financial market conditions triggered a substantial deterioration in domestic economic conditions and property values. In 2008, as the Irish economy started to decline and as

interest rates continued to increase, housing oversupply persisted and mortgage delinquencies increased. Declining residential and commercial property prices also led to a significant slowdown in the construction sector in Ireland. As a result, loan impairments in the Irish construction and property and residential mortgage sectors, to which AIB was heavily exposed, increased substantially. These dynamics began to present funding and liquidity issues for AIB as well as a rapid deterioration in the Group s capital base.

The Irish Government recognised the pressing need to stabilise Irish financial institutions and to create greater certainty for all stakeholders. A number of measures were implemented by the Irish Government in response to the crisis including:

30 September 2008 - the Minister for Finance guaranteed certain liabilities of covered institutions, including AIB, until 29 September 2010;

13 May 2009 - a 3.5 billion subscription into AIB by the National Pension Reserve Fund Commission (NPRFC) for the 2009 Preference Shares and 2009 Warrants;

December 2009 - The Minister for Finance established the Credit Institutions (Eligible Liabilities Guarantee) (ELG) Scheme which facilitates participating institutions issuing debt securities and taking deposits during an issuance window and with a maximum maturity of 5 years. AIB joined the ELG Scheme on 21 January 2010;

December 2009 - The Irish Government established the National Asset Management Agency (NAMA) which has acquired certain performing and non-performing land and development and associated loans from participating banks, with the aim of freeing up banks balance sheets and facilitating the easier flow of credit throughout the Irish economy. AIB transferred approximately 20 billion of assets to NAMA during 2010 and 2011;

30 March 2010 - The original Prudential Capital Assessment Review (PCAR) announced by the Central Bank of Ireland (the Central Bank) assessed the capital requirement of Irish credit institutions in the context of expected losses and other financial developments, under both base and stress-case scenarios, over the period from 2010 to 2012. A requirement was imposed on AIB, among other credit institutions, to strengthen and increase its capital base to help restore confidence in the Irish banking sector;

10 September 2010 - AIB announced the sale of its Polish interests to Banco Santander S.A. for a total cash consideration of 3.1 billion. This transaction completed on 1 April 2011 and AIB generated core tier 1 capital of approximately 2.3 billion as a result of the disposal;

4 November 2010 - AIB disposed of its stake in M&T generating core tier 1 capital of 0.9 billion;

AIB also disposed of Goodbody Holdings Limited; AIB International Financial Services Limited; AIB Jerseytrust Limited; its 49.99% shareholding in Bulgarian-American Credit Bank and AIB Asset Management Holdings (Ireland) Limited, including AIB Investment Managers;

23 December 2010 - a direction order under the Credit Institutions (Stabilisation) Act 2010 with the consent of AIB, directed AIB to issue 3.8 billion of new equity capital to the

NPRFC. This issuance ultimately resulted in the NPRFC s shareholding in AIB increasing to 92.8%. This also resulted in the delisting of AIB s ordinary shares from both the Main Securities Market of the Irish Stock Exchange and from the Official List maintained by the UK Financial Services Authority. AIB s ordinary shares were subsequently admitted, in January 2011, to the Enterprise Securities Market of the Irish Stock Exchange. Furthermore, AIB announced in August 2011 that its American Depository Shares (ADSs) were delisted and ceased to be traded on the New York Stock Exchange.

On 24 February 2011, AIB acquired deposits of 7 billion and NAMA senior bonds with a nominal value of 12 billion from Anglo Irish Bank, pursuant to a transfer order issued by the High Court under the Credit Institutions (Stabilisation) Act 2010. AIB also acquired Anglo Irish Bank Corporation (International) PLC in the Isle of Man, including customer deposits of almost 1.6 billion.

31 March 2011 - The Central Bank of Ireland published its Financial Measures Programme Report , which detailed the outcome of PCAR 2011 and Prudential Liquidity Assessment Review (PLAR) 2011 for certain Irish credit institutions, including AIB and EBS. The Central Bank stated that it had set a new capital target for AIB and EBS with a total of 14.8 billion of additional capital to be generated. This additional capital requirement was satisfied in July 2011 through:

- AIB s placing of 5.0 billion of new ordinary shares with the NPRFC at 0.01 per share, following which the NPRFC owned 99.8% of the ordinary shares of AIB. AIB had 521,261,151,503 ordinary shares outstanding at 31 December 2013;
- Capital contributions totalling 6.1 billion from the Minister for Finance (the Minister) and the NPRFC;
- The issue of 1.6 billion of contingent capital notes at par to the Minister;
- Burden-sharing measures undertaken with the Group s subordinated debt-holders;
- July 2011 - AIB completed the acquisition of EBS for a nominal cash payment of 1.00. This transaction represented a significant consolidation within the Irish banking sector, resulting in the formation of one of two pillar banks in Ireland;

In addition, the following notable events occurred during 2013:

- AIB disposed of its investment in ALH and re-acquired Ark Life, exclusively held for resale;
- With effect from 28 March 2013 the ELG Scheme ended for all new liabilities reflecting improved and more stabilised funding conditions; and
- The Central Bank of Ireland conducted a Balance Sheet Assessment (BSA)/Asset Quality Review (AQR) which concluded in November 2013. AIB did not have to raise additional capital to meet ongoing regulatory capital requirements of 10.5% core tier one capital ratio as a result of this process.

1.3 Competition

Republic of Ireland

Competition in the retail banking sector in the Republic of Ireland has changed significantly since 2008 as a result of the prolonged downturn in the Irish economy and changes to the operating models of both foreign and domestic institutions. The number of banks (both domestic and foreign) operating in Ireland has declined significantly from pre crisis levels and a majority of the banks still operating in Ireland have received state sponsored capital injections which has necessitated a restructuring of operating models as well as the transfer of property related assets to the

National Asset Management Agency in some instances.

The focus of retail banking continues to be to provide sustainable credit to customers, in particular SMEs and mortgages to support stimulation of economic turnaround, provision of support for customers in financial difficulty, as well as retention and gathering of deposits. Activity in the mortgage market in 2013 was constrained due to limited supply of appropriate housing in many urban areas, however, a stabilisation in the housing market has led to increased competition and availability of credit. Deposits pricing continues to be competitive although market pricing levels have declined from elevated rates. Demand for business lending has improved although the overhang from legacy debt associated in large part with property, continues to constrain demand.

UK

While the UK economy has had limited growth over the past three years, signs of improvement were evident in 2013 with growth forecasts for 2014 now exceeding most other European countries.

The UK government continues to play an active role in the banking market through initiatives designed to drive bank support for business and retail customers. New entrants continue to emerge with established players developing their offerings. As a result, the competitive landscape in the UK continues to evolve.

AIB s focus remains on maintaining close customer relationships and community links throughout Great Britain and Northern Ireland.

1.4 Economic conditions affecting the Group

AIB s activities in Ireland accounted for the bulk of the Group s business. As a result, the performance of the Irish economy is extremely important to the Group. The Group also continues to operate significant business in the United Kingdom, which means that it is also influenced directly by political, economic and financial developments there.

The United States, the United Kingdom and the Eurozone are Ireland s three most important trading partners. A moderate recovery in activity has been underway in all three economies in 2013. US GDP is estimated by the IMF to have grown by 1.9% in 2013 following growth of 2.8% in 2012, with the IMF forecasting

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Financial review -1. Business description

growth of 2.8% for 2014. Meanwhile, GDP in the United Kingdom is estimated to have risen by 1.9% in 2013 after growth of 0.3% in 2012, and the IMF is forecasting UK GDP growth of 2.4% for 2014. For the Eurozone, the IMF estimates the economy to have contracted by 0.4% in 2013, following a 0.7% decline in 2012. Both the IMF and ECB forecast that the eurozone GDP will grow by 1% this year.

According to Ireland s Central Statistics Office (CSO) National Accounts data, real GDP in Ireland rose by 0.2% in 2012, following growth of 2.2% in 2011. CSO data currently available for 2013 covers up to end of the third quarter, and shows that GDP is 0.5% lower in the first three quarters of 2013 than in the same period of 2012

The slowdown in growth in 2012 2013 was mainly due to a slower rate of growth in exports, arising from the slowdown in our key trading partners and weak pharmaceutical exports due to the impact from the patent cliff which was the clustering of a number of patented drugs going off patent in quick succession.

The Irish Department of Finance estimates another modest rise in GDP of around 0.2% in 2013. For 2014, the Department is forecasting GDP growth of 2%, helped by a pick up in exports and some modest growth in domestic demand. (Source: Dept of Finance Budget 2014).

In terms of the labour market, conditions improved steadily over the course of 2013. Employment rose for the fifth consecutive quarter in the fourth quarter of 2013. There was a rise of 61,000 in employment, or 3.3%, compared to the corresponding quarter of 2012 (Source: CSO Quarterly National Household Survey Q4 2013). The unemployment rate fell to 12.1% in the fourth quarter, from 12.7% in quarter two and 14.2% a year earlier. (Source: CSO Quarterly National Household Survey Q4 2013).

Credit growth remained weak in Ireland in 2013. Total household loans outstanding were down 4.1% year-on-year at end of December 2013, while lending for house purchase fell by 3.0% in the same period. (Source: Central Bank of Ireland, Money and Banking Statistics December 2013).

House prices rose every month from April through to December 2013 according to the CSO house price index. As a result, prices were up by 6.4% year on year by end December. (Source: CSO Residential Property Price Index, December 2013). Overall, the housing market showed signs of stabilising last year, albeit at low activity levels, with increases in mortgage approvals and transactions, as well as prices increases.

The European Central Bank, which has responsibility for monetary policy in the Euro area as a whole, cut the official refinancing rate by 50 basis points (bps) over the course of 2013 (25 bps in May and November), with the rate finishing the year at 0.25%. The ECB also introduced forward guidance on interest rate policy at its July meeting, by stating that it expects the key ECB interest rates to remain at present or lower levels

for an extended period of time (Source: European Central Bank Governing Council Statement July 2013).

After having deteriorated sharply during the recession, Irish public finances continued to show improvement over the course of 2013. The Department of Finance estimates that the budget deficit declined to 7.3% of GDP in 2013. This

compares to a high of 11% in the underlying deficit in 2010. As of Budget 2014, the Government has now implemented 30 billion of the planned 32 billion fiscal consolidation programme, leaving around 2 billion to be completed in 2015 with the aim of reducing the deficit to below 3% of GDP by 2015. (Source: Department of Finance, Budget 2014).

Ireland s General Government Gross debt/GDP ratio is estimated by the Department of Finance (Budget 2014) to have peaked at 124% of GDP at end 2013, up from 117% in 2012, however, the high Exchequer cash balances and deposits, reduces the Net debt ratio to 98.7% at end 2013.

Since the middle of 2011, there has been a marked improvement in market sentiment towards Ireland with a consequent sharp drop in yields on Irish Government bonds. The National Treasury Management Agency issued 3.75 billion of ten year debt at a yield of 3.54% on the 7 January 2014. This ten year bond yield is a material reduction from the peak of 14% back in 2011 (Source: Thomson Datastream). This represented Ireland s first debt issuance since it exited the EU/IMF programme on the 15 December 2013.

In January 2014, Moody s restored Ireland s long-term sovereign credit ratings to investment grade of Baa3. S&P and Fitch had Ireland at an investment grade rating of BBB+ in 2013. Both S&P and Moody s have Ireland on a positive outlook, while Fitch has the sovereign on a stable outlook for their respective ratings. (Source: National Treasury Management Agency).

Financial review - 2. Financial data

Summary of consolidated income statement

The financial information in the tables below for the years ended 31 December 2013, 2012, 2011, 2010 and 2009 has been derived from the audited consolidated financial statements of AIB Group for those periods. AIB Group s consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and IFRS as adopted by the European Union (EU). The EU adopted version of IAS 39 currently relaxes some of the hedge accounting rules in IAS 39 *Financial Instruments: Recognition and Measurement* . The Group has not availed of these, therefore, these financial statements comply with both IFRS as issued by the IASB and IFRS as adopted by the EU. This information should be read in conjunction with, and is qualified by reference to, the accounting policies adopted, the consolidated financial statements of AIB Group and notes therein for the years ended 31 December 2013, 2012 and 2011 included in this Annual Financial Report. The summary of consolidated income statement represents the results of continuing operations, where the results of Bank Zachodni WBK S.A. (BZWBK), M&T Bank Corporation and Bulgarian American Credit Bank AD as applicable, are accounted for as discontinued operations net of taxation for all relevant years.

	Years ended 31 December				
		Restated*	Restated*		
	2013	2012	2011	2010**	2009**
	m	m	m	m	m
Net interest income	**1,348**	1,106	1,350	1,844	2,872
Other income/(loss)	**362**	(485)	2,990	(5,201)	1,234
Total operating income/(loss)	**1,710**	621	4,340	(3,357)	4,106
Total operating expenses	**(1,483)**	(1,836)	(1,751)	(1,649)	(1,522)
Operating profit/(loss) before provisions	**227**	(1,215)	2,589	(5,006)	2,584
Provisions	**(1,924)**	(2,529)	(7,728)	(7,118)	(5,267)
Operating loss	**(1,697)**	(3,744)	(5,139)	(12,124)	(2,683)
Associated undertakings	**7**	10	(37)	18	(3)
Profit/(loss) on disposal of property	**2**	2	(1)	46	23
Construction contract income					1
Profit/(loss) on disposal of businesses[1]	**1**	3	38	(11)	

Loss before taxation from continuing operations	**(1,687)**	(3,729)	(5,139)	(12,071)	(2,662)
Income tax credit from continuing operations	**90**	172	1,193	1,710	373
Loss after taxation from continuing operations	**(1,597)**	(3,557)	(3,946)	(10,361)	(2,289)
Discontinued operations, net of taxation			1,628	199	(45)
Loss for the year	**(1,597)**	(3,557)	(2,318)	(10,162)	(2,334)
Non-controlling interests from discontinued operations			(20)	(70)	(79)
Distributions to RCI holders(2)					(44)
Loss for the year attributable to owners of the parent	**(1,597)**	(3,557)	(2,338)	(10,232)	(2,457)
Basic (loss)/earnings per ordinary/CNV share(3)					
Continuing operations	**(0.3c)**	(0.7c)	(1.6c)	(571.1c)	(203.5c)
Discontinued operations			0.7c	7.1c	(11.7c)
	(0.3c)	(0.7c)	(0.9c)	(564.0c)	(215.2c)
Diluted (loss)/earnings per ordinary/CNV share(3)					
Continuing operations	**(0.3c)**	(0.7c)	(1.6c)	(571.1c)	(203.5c)
Discontinued operations			0.7c	7.1c	(11.7c)
	(0.3c)	(0.7c)	(0.9c)	(564.0c)	(215.2c)

*Restated due to change in accounting policy for employee benefits (note 60).

**The financial information for 2010 and 2009 has not been restated because it was impracticable to do so.

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Financial review - 2. Financial data

Selected consolidated statement of financial position data

	Years ended 31 December				
	2013	Restated* 2012	Restated* 2011	2010	2009
	m	m	m	m	m
Total assets	**117,734**	122,501	136,651	145,222	174,314
Loans and receivables to banks and customers[(4)]	**67,761**	75,886	88,258	91,212	131,464
Deposits by central banks and banks, customer accounts and debt securities in issue	**97,547**	102,718	113,218	117,922	147,940
1.6bn Contingent Capital Tier 2 Notes due 2016[(5)]	**1,316**	1,237	1,177		
Dated loan capital	**36**	34	32	3,996	4,261
Undated loan capital				197	189
Other capital instruments				138	136
Non-controlling interests in subsidiaries				690	626
Shareholders funds: other equity interests				239	389
Shareholders equity[(6)]	**10,494**	11,355	14,463	3,420	10,320
Total capital resources	**11,846**	12,626	15,672	8,680	15,921

*Restated due to change in accounting policy for employee benefits (note 60).

	Years ended 31 December				
	2013	2012	2011	2010	2009
	m	m	m	m	m
Share capital - ordinary shares					

Number of shares outstanding	**521,296.8**	517,152.8	513,528.8	1,791.6	918.4
Nominal value of 0.01 per share (2010: 0.32 per share)	**5,213**	5,171	5,135	573	294
<u>Share capital - convertible non-voting shares</u>[3]					
Number of shares outstanding				10,489.9	
Nominal value of 0.32 per share				3,357	
<u>2009 Preference shares</u>[7]					
Number of shares outstanding	**3,500**	3,500	3,500	3,500	3,500
Nominal value of 0.01 per share	**35**	35	35	35	35

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Selected consolidated statement of financial position data (continued)

Other financial data[8]

	Years ended 31 December				
		Restated*	Restated*		
	2013	2012	2011	2010**	2009**
	%	%	%	%	%
Return on average total assets	**(1.32)**	(2.76)	(1.66)	(6.21)	(1.29)
Return on average ordinary shareholders equity	**(21.51)**	(37.0)	(48.8)	(222.5)	(24.8)
Dividend payout ratio					
Average ordinary shareholders equity as a percentage of average total assets	**6.1**	7.5	5.8	2.8	4.3
Year end impairment provisions as a percentage of total loans to customers:[4]					
Total Group	**20.6**	18.4	15.1	7.1	5.5
Continuing operations	**20.6**	18.4	15.1	7.4	5.5
Net interest margin[9]	**1.21**	0.91	1.03	1.49	1.92
Core tier 1 capital ratio[10][11]	**14.3**	15.2	17.9	4.0	7.9
Total capital ratio[10][11]	**16.6**	17.8	20.5	9.2	10.2

[1]Profit of 1 million on disposal of businesses in 2013 relates to deferred consideration received from previous disposals (note 15).

The profit of 3 million on disposal of businesses in 2012 relates to the sale of AIB Asset Management Holdings (Ireland) Limited - 2 million (tax charge: Nil) and the sale of an Offshore subsidiary - 1 million (tax charge: Nil).

The profit on disposal of businesses in 2011 relates to (a) AIB International Financial Services Limited and related companies 27 million (tax charge Nil); (b) AIB Jerseytrust Limited 10 million (tax charge Nil); and (c) deferred consideration of 1 million from the sale of Goodbody Holdings Limited in 2010 (note 15).

The loss on disposal of businesses in 2010 of 11 million relates to the sale of AIB s investment in Goodbody Holdings Limited and related companies

[2]The distributions in 2009 relate to the Reserve Capital Instruments which were redeemed/purchased for cash in 2009 and 2011 respectively.

[3]Convertible non-voting shares issued to the NPRFC on 23 December 2010 ranked equally with ordinary shares and were convertible into ordinary shares on a one to one basis. These converted to ordinary shares in April 2011.

[4]Loans and receivables to customers included loans and receivables held for sale to NAMA in 2009 and 2010.

[5]Relates to the issue of 1.6 billion in Contingent Capital Notes to the Minister for Finance of Ireland during 2011 (note 40).

[6]Includes ordinary shareholders equity (in July 2011, 500 billion ordinary shares were issued to the NPRFC at a subscription price of 0.01 per share and 3,500 million 2009 Preference Shares were issued to the NPRFC in May 2009 (note 41) and the convertible non-voting shares issued to the NPRFC on the 23 December 2010 which were converted to ordinary shares in April 2011).

[7]2009 Preference Shares issued to the NPRFC on 13 May 2009.

[8]The calculation of the average balances includes daily and monthly averages and are considered to be representative of the operations of the Group.

[9]Net interest margin represents net interest income as a percentage of average interest earning assets. The net interest margin is presented on a continuing basis for 2013, 2012, 2011, 2010 and 2009.

[10]The minimum regulatory capital requirements set by the Central Bank of Ireland, which reflect the requirements of the Capital Requirements Directive (CRD), established a floor of 4% under which the core tier 1 capital ratio must not fall (8% for total capital ratio). These ratios were the capital adequacy requirements effective up to 31 December 2010. Following the Prudential Capital Assessment Review (PCAR) in March 2011, the Central Bank of Ireland announced a new minimum capital target for AIB Group of 10.5% core tier 1 ratio in a base scenario and 6% core tier 1 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.

[11]Please see Capital Management section for further detail.

*Restated due to accounting policy for employee benefits (note 60).

**The financial information for 2010 and 2009 has not been restated because it was impracticable to do.

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Financial review - 3. Management report

Basis of presentation+

The following management report is prepared in line with how management views the ongoing performance of the Group. The information is presented with exceptional and one-off items which management deem do not present an accurate reflection of performance during the period highlighted separately. A list of the items classified as exceptional and one-off are included below. Comparative data has been restated to reflect the impact of IAS 19 *Employee benefits* (see note 12 for further details). Percentages presented throughout this report are calculated on the underlying figures and therefore may differ from the percentages based on the rounded numbers in the report.

The summary income statement comparing 2013 with 2012 is set out on page 24 with the relevant commentary on pages 25 to 42. The performance commentary comparing 2012 with 2011 is set out on pages 43 to 46.

Exceptional items

The Group s performance is presented to exclude those items that management believe obscures the underlying performance trends in the business.

Loss on disposal of loans and transfer of financial instruments to NAMA: There was 226 million loss on disposal of loans and transfer of financial instruments to NAMA. The loss on disposal of loans of 201 million mainly related to the deleveraging programme in the non-core portfolio compared with 962 million loss in 2012. The deleveraging programme was completed in 2013, meeting the Central Bank of Ireland target set on asset deleveraging of 20.5 billion. The loss also included a 25 million loss on transfer of financial instruments to NAMA compared to a profit of 159 million in 2012. This is due to valuation adjustments on previous transfers of financial assets to NAMA (see note 8 to the financial statements for further detail).

Interest rate hedge volatility of 9 million positive compared with nil in 2012.

Gain arising on disposal of Aviva Life Holdings (ALH) of 10 million. See note 31 to the financial statements for further detail.

Termination benefits: Termination benefits from the voluntary severance programme were 86 million in 2013 compared to 164 million* in 2012. See note 10 to the financial statements for further detail.

Retirement benefit curtailment of 240 million in 2013 was due to the closure of the defined benefit pension schemes to future accrual and removal of discretionary pension increases. In 2012, AIB affirmed its approach to the

funding of the Irish pension scheme which resulted in a reduction in the scheme obligations under IAS 19 *Employee Benefits* of 204 million which was recognised in the income statement.

Restructuring and restitution expenses of 184 million compared with 128 million in 2012. These include restructuring costs associated with a range of management actions including:

- restitution expenses including a UK interest rate hedging provision
- re-organisation of premises
- writedown of intangible assets
- closure of AIB s operations in the Isle of Man and Channel Islands
- expenses relating to the acquisition of AIB s interest in Ark Life.

+Discussion of the Group s performance focuses on the management view which at times includes non-GAAP financial measures as the Group believes that such measures allow a more meaningful analysis of the Group s financial condition and the results of its operations. A body of generally accepted accounting principles such as IFRS is commonly referred to as GAAP . A non-GAAP financial measure is defined as one that measures historical or future financial performance, financial position or cash flows but which excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. Reconciliations to the GAAP measures are provided as appropriate in the Management report and in note 1 to the financial statements Segmental information.

The disclosure of CRD IV requirements also represents a non-GAAP financial measure given it is a metric that is not yet required by a government, governmental authority or self-regulatory organisation to be disclosed.

*Restated due to change in accounting policy for employee benefits (note 60).

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Financial review - 3. Management report

Summary income statement	**2013** **m**	Restated* 2012 m	*% change*
Net interest income	**1,345**	1,106	*22*
Fee and commission income	**378**	367	*3*
Trading and other operating income	**192**	(49)	-
Other income	**570**	318	*79*
Total operating income	**1,915**	1,424	*34*
Personnel expenses	**(851)**	(1,041)	*-18*
General and administrative expenses	**(519)**	(589)	*-12*
Depreciation[1], impairment and amortisation[2]	**(100)**	(118)	*-15*
Total operating expenses	**(1,470)**	(1,748)	*-16*
Operating profit/(loss) before provisions[3]	**445**	(324)	-
Provisions for impairment on loans and receivables	**(1,916)**	(2,434)	*-21*
Writeback/(provisions) for liabilities and commitments	**3**	(9)	-
Writeback/(provisions) for impairment on financial investments available for sale	**9**	(86)	-
Total provisions	**(1,904)**	(2,529)	*-25*
Operating loss	**(1,459)**	(2,853)	*49*
Associated undertakings	**7**	10	*-30*
Profit on disposal of property	**1**	2	*-50*
Profit on disposal of business	**1**	3	*-67*
Loss from continuing operations before exceptional items	**(1,450)**	(2,838)	*49*
Loss on disposal of loans and transfer of financial instruments to NAMA	**(226)**	(803)	-
Interest rate hedge volatility	**9**		-
Gain arising on disposal of Aviva Life Holdings (ALH)	**10**		-
Termination benefits	**(86)**	(164)	-
Retirement benefit curtailment	**240**	204	-
Restructuring and restitution expenses	**(184)**	(128)	-
Total exceptional items	**(237)**	(891)	-
Loss before taxation from continuing operations	**(1,687)**	(3,729)	*55*
Income tax credit from continuing operations	**90**	172	-

Loss for the period	**(1,597)**	(3,557)	*55*
	%	%	
Cost income ratio[4]	**77**	123	

Operating contribution before provisions by segment	**m**
Domestic Core Bank (DCB)	**683**
AIB UK	**74**
Financial Solutions Group (FSG)	**54**
Group	**(366)**
Operating profit before provisions[3]	**445**

[1]Depreciation of property, plant and equipment.

[2]Impairment and amortisation of intangible assets.

[3]Operating profit/(loss) before provisions and exceptional items.

[4]Excluding exceptional items.

*Restated due to change in accounting policy for employee benefits (note 60).

Overview of results

Operating profit before provisions and exceptional items of 445 million in 2013 compared to a loss of 324 million in 2012, a 769 million turnaround.

The Group recorded a loss before taxation from continuing operations of 1,687 million in 2013 compared to a loss of 3,729 million* in 2012. The performance reflected higher levels of income, lower costs and a reduction in provisions.

Net interest income increased by 239 million (22%) compared to 2012, reflecting a lower ELG charge (215 million lower) as a result of the cessation of the ELG scheme, a lower cost of

deposits and other liabilities and higher asset pricing, partly offset by lower average interest earning assets. Other income was 252 million (79%) higher with higher banking fee and commission income and increased non-banking fee income including a gain of 62 million resulting from re-estimating the timing of cash flows on NAMA senior bonds and investment asset realisations.

Total operating expenses were 278 million (16%) lower compared to 2012. This reduction in costs mainly related to the impact of staff exits in the latter part of 2012 and throughout 2013 as part of the voluntary severance/early retirement schemes, lower occupancy costs and lower external consultancy and advisory fees.

Provisions for impairment on loans and receivables reduced by 518 million to 1,916 million in 2013. See the Asset quality section (page 31 to page 32) for more detail on provisions.

At 31 December 2013, the Group remained well capitalised with a core tier 1 capital ratio of 14.3%, comfortably above the 10.5% minimum target level as prescribed by the Central Bank of Ireland. The Basel III fully loaded common equity tier 1 ratio was 10.5% at 31 December 2013 including the 2009 preference shares of 3.5 billion.

*Restated due to change in accounting policy for employee benefits (note 60).

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Financial review - 3. Management report

Net interest income

NIM EXCLUDING ELG UP 15 BPS TO 1.37%.

LOWER COST OF CUSTOMER ACCOUNTS AND REDUCED FUNDING COSTS.

NEGATIVE IMPACT OF LOW YIELDING NAMA BONDS IN 2013 OF 17 BPS.

Net interest income increased 239 million (22%) to 1,345 million in 2013 from 1,106 million in 2012. The increase of 239 million was mainly due to reductions in the cost of the ELG scheme of 215 million and lower costs of funding partly offset by lower loan income on lower loan balances.

The reduction in funding costs largely resulted from deposit pricing actions on interest bearing customer accounts which commenced in 2012 and continued during 2013. The gross cost of customer accounts decreased from 264 basis points (bps) in 2012 to 187 bps in 2013.

Market rates reduced between 2012 and 2013 driving lower yields on assets and reducing the cost of interest earning liabilities.

	2013	2012	%
	m	m	change
Net interest income	**1,345**	1,106	22
Average interest earning assets	**111,004**	122,200	-9
	%	%	change

Group net interest margin	**1.21**	0.91	0.30
Group net interest margin excluding ELG	**1.37**	1.22	0.15
Group net interest margin excluding ELG and NAMA Senior Bonds	**1.54**	1.27	0.27

The impact of the decreasing interest rate environment on asset yields and the bank s continued deposit pricing actions to manage down the cost of customer accounts resulted in the gap between asset yields and the cost of funds increasing from 73 bps in H1 2012 to 109 bps in H2 2013.

Yield %	**H1 2012**	**H2 2012**	**H1 2013**	**H2 2013**
Customer loans	3.37	3.28	3.27	3.39
Customer accounts[(2)]	2.70	2.58	2.07	1.68

Eligible liabilities guarantee (ELG)

The ELG charge was 173 million in 2013 compared with 388 million in 2012. The reduction in the charge was due to the withdrawal of AIB Group (UK) p.l.c. from the scheme in August 2012 and the cessation of the ELG scheme in the Republic of Ireland for new liabilities in March 2013. As existing liabilities that are covered by the scheme mature, the ELG charge will reduce.

ELG charge	**m**
Half-year to June 2012	215
Half-year to December 2012	173
Half-year to June 2013	123
Half-year to December 2013[(1)]	50

[(1)]The total liabilities guaranteed under the ELG Scheme at 31 December 2013 amounted to 8 billion.

[(2)]Includes Repos.

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Financial review - 3. Management report

Average Balance Sheet[1]

	Year ended 31 December 2013			Year ended 31 December 2012		
Assets	**Average balance m**	**Interest m**	**Average rate %**	Average balance m	Interest m	Average rate %
Loans and receivables to customers	**69,902**	**2,326**	**3.33**	81,003	2,701	3.32
NAMA senior bonds	**16,743**	**130**	**0.78**	18,957	329	1.73
Financial investments available for sale	**18,621**	**652**	**3.50**	14,510	579	3.98
Other	**5,738**	**19**	**0.33**	7,730	32	0.41
Net interest on swaps		**36**			130	
Average interest earning assets	**111,004**	**3,163**	**2.85**	122,200	3,771	3.08
Non interest earning assets	**9,635**			9,767		
Total assets	**120,639**	**3,163**		131,967	3,771	
Liabilities & stockholders equity						
Deposits by banks	**26,242**	**123**	**0.47**	33,522	261	0.78
Customer accounts	**51,669**	**968**	**1.87**	50,634	1,340	2.64
Subordinated liabilities	**1,311**	**241**	**18.38**	1,240	223	17.96
Other debt issued	**8,622**	**313**	**3.63**	12,294	453	3.67
Average interest earning liabilities	**87,844**	**1,645**	**1.87**	97,690	2,277	2.32
Non interest earning liabilities	**21,975**			20,899		
Shareholders equity	**10,820**			13,378		
Total liabilities & stockholders equity	**120,639**	**1,645**		131,967	2,277	
Net interest income excluding ELG		**1,518**	**1.37**		1,494	1.22
Eligible liabilities guarantee (ELG[1])		**(173)**	**(0.16)**		(388)	(0.31)
Net interest income including ELG		**1,345**	**1.21**		1,106	0.91

[1]The Average Balance Sheet (note 59 to the financial statements) is presented differently and includes the cost of ELG in interest within liabilities and stockholders equity.

Wholesale market rates reduced between 2012 and 2013 which impacted on the yields included in the table above. The average 1 month Euribor rate which is used for most non-mortgage lending and deposit pricing reduced from 33 bps to 13 bps while the average ECB Refi rate reduced from 88 bps to 55 bps.

Income from loans was lower than in 2012 as a result of an 11.1 billion reduction in average loans as loan amortisation and deleveraging exceeded new lending during the period. Lower loan balances and their impact on income along with reductions in wholesale market rates were partly offset by loan pricing actions during 2012/2013 and higher margins on new lending.

Income from financial investments available for sale increased 73 million following increased investment during 2013 to manage income volatility on interest free liabilities in a lower interest rate environment. NAMA senior bond income reduced 199 million as a result of both lower interest rates and reduced volumes following redemptions of 1.9 billion during 2013.

Average interest earning assets reduced from 122 billion to 111 billion as lower loans of 11.1 billion and lower NAMA senior

bonds of 2.2 billion were partly offset by increases in financial investments available for sale of 4.1 billion. Net interest on swaps reduced 93 million mainly due to the maturity of long term swaps on debt instruments (2.2 billion of Euro Medium Term Notes matured in 2013) and the impact of the lower interest rate environment on new or renewed swaps.

The cost of interest earning liabilities reduced from 2,277 million to 1,645 million in 2013 due to a reduced funding requirement which resulted in lower volumes of monetary authority funding and debt issued. This resulted in lower funding costs along with the impact of wholesale market rates on customer accounts and monetary authority funding.

The net interest margin excluding ELG increased 15 bps from 1.22% in 2012 to 1.37% in 2013. The factors contributing to the increase of 15 bps were a contraction in yields on interest earning assets (-23 bps) more than offset by a decrease in the cost of funding those assets (+38 bps).

The net interest margin has continued an upward trajectory since its trough in Q3 2012 with an increase of 25 bps in the half-year to

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December 2013 to 1.45% when compared with the half-year to December 2012. This increase was due to a lower cost of interest earning liabilities (+44 bps) and a reduction in the yield on interest earning assets (-19 bps).

Excluding the impact of the Group s low yielding NAMA senior bonds, the net interest margin excluding ELG was 1.54% in 2013 compared to 1.27% in 2012.

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Financial review - 3. Management report

Other income

INCREASE IN BANKING FEES AND COMMISSIONS.

IMPROVED TRADING INCOME FOLLOWING HIGHER LOAN BREAKAGE AND ASSOCIATED DELEVERAGING COSTS IN 2012.

62 MILLION GAIN FROM RE-ESTIMATING TIMING OF CASH FLOWS ON NAMA SENIOR BONDS.

Other income before exceptional items was 570 million in 2013 compared with 318 million in 2012, an increase of 252 million (79%). Other income consisted of fee and commission income of 378 million compared to 367 million in 2012 and trading/other income of 188 million compared to negative income of 50 million in 2012.

Fee and commission income

Net fee and commission income was 11 million higher than 2012 as current account fee income increased. This was partly offset by lower other fee and commission income following a transition in customer usage from credit cards to debit cards which generate lower income and the disposal of investment banking fee generating businesses (AIBIM was disposed in May 2012).

Trading income

Trading income of 84 million in 2013 compared to negative income of 100 million in 2012. Debt securities and interest rate contracts improved 119 million to 44 million and included improved mark to market on interest rate swaps of 69 million and 42 million deleveraging and associated loan breakage costs in 2012. Credit Derivatives in 2012 included 38 million losses as a result of the unwind of credit default swaps. Equity securities in 2012 were impacted by 32 million negative fair value movement on the options relating to the Aviva Life Holdings transaction (see note 6 to the financial statements for further detail).

Other operating income

Other operating income of 104 million in 2013 included a 62 million gain from re-estimating the timing of cash flows on NAMA senior bonds and a net profit of 41 million from the disposal of available for sale debt and equity securities. In 2012, there was a net profit of 31 million from the disposal of available for sale debt and equity

securities and income from asset disposals.

Other income	**2013 m**	2012 m	% *change*
Dividend income	**4**	1	300
Banking fees and commissions	***410***	*382*	*7*
Investment banking and asset management fees	***4***	*14*	*-71*
Fee and commission income	**414**	396	5
Less: Fee and commission expense	**(36)**	(29)	24
Trading income/(loss)[1]	**84**	(100)	-
Other operating income	**104**	50	108
Other income before exceptional items	**570**	318	79

[1]Trading income/(loss) includes foreign exchange contracts, debt securities and interest rate contracts, credit derivative contracts, equity securities and index contracts. See table below.

Net Trading income/(loss)	**2013 m**	2012 m	% *change*
Foreign exchange contracts	**37**	45	-18
Debt securities and interest rate contracts	**44**	(75)	-
Credit derivative contracts	**-**	(38)	-
Equity securities and index contracts	**3**	(32)	-
Net Trading income/(loss)	**84**	(100)	-

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Total operating expenses

COSTS DOWN 278 MILLION (16%).

AVERAGE STAFF NUMBERS DOWN 2,060 (14%).

ONGOING COST MANAGEMENT WITH COST INCOME RATIO DOWN TO 77% FROM 123%.

Total operating expenses before exceptional items were 1,470 million in 2013 compared with 1,748 million in 2012, a reduction of 278 million (16%). The reduction is evident across the main cost classifications and was mainly as a result of lower staff numbers and the impact of ongoing cost management.

		Restated*	
	2013	2012	%
Operating expenses	**m**	m	*change*
Personnel expenses	**851**	1,041	-18
General and administrative expenses	**519**	589	-12
Depreciation[1], impairment and amortisation[2]	**100**	118	-15
Total operating expenses before exceptional items	**1,470**	1,748	-16
Staff numbers at period end (FTE)[3][4]	**11,431**	13,429	-15
Average staff numbers (FTE)[4]	**12,648**	14,708	-14

[1]Depreciation of property, plant and equipment.

[2]Impairment and amortisation of intangible assets.

*Restated due to change in accounting policy for employee benefits

(note 60).

Personnel expenses

Personnel expenses reduced 190 million (18%) with a reduction in costs reflecting lower staff numbers. Average staff numbers reduced 2,060 (14%) which reflected the early retirement/ voluntary severance in the second half of 2012 and a full year impact in 2013. During 2013, 1,280 staff left as part of the early retirement/voluntary severance scheme with a total of 2,877 staff leaving under the scheme to date. 2013 also had lower expenses following elimination of preferential rates paid to staff on deposits in 2012 as part of cost saving measures introduced.

General and administrative expenses

Costs reduced 70 million (12%) to 519 million with reductions across most classifications as part of ongoing cost management and control. Occupancy costs reduced as a result of lower staff numbers and consolidation of head office locations. External provider fees were lower due to reduced reliance on external consultancy and advisory services. There were also lower expenses in relation to insurance costs, marketing and public

relations. Technology costs increased as investments were made as the bank continues to become more technology focused.

Depreciation, impairment and amortisation

The charge for depreciation, impairment and amortisation of 100 million was 18 million (15%) lower than 2012. The unwind of depreciation relating to capital investments in prior periods resulted in a lower depreciation charge in 2013, relative to 2012.

(3) Excluding Ark Life staff numbers of 146. Ark Life is held for sale at 31 December 2013.

(4) Staff numbers quoted in the commentary above are on a full time equivalent (FTE) basis.

Asset quality

The following commentary on asset quality summarises the key messages and trends. For a more detailed commentary and analysis, the reader should refer to the more extensive disclosures in the Risk Management section of this report from pages 60 to 182.

The total provision charge reduced by 625 million (25%), impaired loans reduced by 0.5 billion and total provisions as a percentage of total loans increased from 18% in 2012 to 21% in 2013.

Excluding IBNR, the income statement specific provision charge reduced by 45% in 2013, due to continued signs of stabilisation in the economic environment. The income statement total credit provision charge reduced by 21% in 2013.

Criticised loans decreased by 0.9 billion in the year, including a reduction in impaired loans of 0.5 billion due to write offs, repayments and asset sales, partly offset by new impaired loans.

There are indications of stabilisation in credit quality in the portfolio, particularly in the property and construction and SME/other commercial lending sectors, with the level of new loan impairments having reduced significantly in 2013. Despite the challenging conditions, 4.3 billion of SME loans and 1.3 billion of residential mortgages were approved in 2013.

While residential mortgage arrears have continued to increase over the past year, the rate of increase slowed significantly in the second half of the year. There was a notable decrease in loans in early arrears (less than 90 days past due) over the same period.

The CSO index for December 2013 provides evidence, especially in Dublin, of residential house price increases during 2013. Weighted average loan-to values in the residential mortgage portfolio improved

	2013	2012	%
Asset quality income statement	**m**	m	*change*
Credit provisions	**(1,916)**	(2,434)	-21
Other provisions	**12**	(95)	
Total provisions	**(1,904)**	(2,529)	-25

Provision charge %	**2.24**	2.57	
	31 Dec	31 Dec	
	2013	2012	%
Asset quality balance sheet	**bn**	bn	*change*
Impaired loans	**28.9**	29.4	-2
Balance sheet provisions	**17.1**	16.5	3
Amounts written off	**1.1**	0.7	68
	%	%	
Specific provisions/impaired loans	**55**	52	
Total provisions/Total loans	**21**	18	

from 110% at 31 December 2012 to 103% at 31 December 2013 due to price increases and amortisation. There are signs of recovery in the property investment markets with increased transactions and an uplift in prime rental and capital values in 2013.

The non-core deleveraging target of 20.5 billion of net loans was achieved, including 2.2 billion of net loans deleveraged in 2013 through sales and amortisation.

Specific provisions as a percentage of impaired loans increased from 52% at 31 December 2012 to 55% at 31 December 2013 driven by top-ups of existing provisions and repayments of impaired loans. The provision coverage increased on the residential mortgage portfolio due to changes in mortgage model assumptions to reflect current data on loss history and portfolio development as well as incorporating additional loss parameters assessed on restructuring outcomes.

The Group determines impairment provisions on an ongoing 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 impairment provision charge of 1.9 billion, the Group also considered the Central Bank of Ireland Balance Sheet Assessment and impairment guidelines. The Group s own charge for 2013 is substantially consistent with all of the Balance Sheet Assessment mean provision finding of 1.1 billion.

The stock of IBNR impairment provisions reduced by 0.2 billion to 1.2 billion at 31 December 2013, influenced by improved case review processes, the specific provisions processed during 2013 and the reduction in the performing portfolio. This was partly offset by an increase due to a change in the Emergence Period used in the calculation of IBNR impairment provisions for Republic of Ireland residential mortgages from 6 months to 9 months. The IBNR impairment provision level of 2.2% of performing loans is in line with the level at 31 December 2012.

The income statement impairment provision charge for 2013 was 1.9 billion (2012: 2.4 billion) including a write-back of IBNR of 0.1 billion.

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Financial review - 3. Management report

Credit Quality Metrics by Asset Class

Loan Book Sectoral Profile	Residential Mortgages	Property& Construction	SME/Other Commercial	Other Personal Lending	Corporate Lending	Total
December 2013	m	m	m	m	m	m
Gross loans to customers[1]	40,764	19,710	13,779	4,291	4,307	82,851
Impaired	9,083	13,154	4,775	1,423	476	28,911
Specific Impairment Charge	696	817	349	147	49	2,058
Impairment Charge[2] (12 Month P&L)	813	724	221	125	30	1,913
Balance Sheet Provisions (Specific + IBNR)	3,952	8,438	3,239	1,147	307	17,083
Specific Provisions / Impaired Loans (%)	37%	62%	66%	77%	48%	55%
Total Provisions / Total Loans (%)	10%	43%	24%	27%	7%	21%
December 2012	m	m	m	m	m	m
Gross loans to customers[1]	42,521	22,251	15,245	4,698	5,157	89,872
Impaired	8,130	13,804	5,248	1,431	803	29,416
Specific Impairment Charge	1,119	1,440	722	303	172	3,756
Impairment Charge[2] (12 Month P&L)	750	781	517	219	167	2,434
Balance Sheet Provisions (Specific + IBNR)	3,206	8,104	3,496	1,139	583	16,528
Specific Provisions / Impaired Loans (%)	33%	56%	62%	74%	60%	52%
Total Provisions / Total Loans (%)	8%	36%	23%	24%	11%	18%

Residential Mortgages

38.1 billion (94%) of the residential mortgage portfolio relates to residential mortgages in the Republic of Ireland and is split 81% owner occupier and 19% buy-to-let, with most of the remaining 2.6 billion relating to residential mortgages in Northern Ireland. The pace of increase in total residential mortgages in arrears in the Republic of Ireland decreased in the second half of the year whilst there was a notable decrease in loans in arrears for less than 90 days over the same period. Whilst impaired loans in Republic of Ireland increased by 0.9 billion in 2013, the level of newly impaired loans decreased by 40% in comparison to 2012. New impaired loans were split 62% owner occupier (3% of the opening non-impaired book) and 38% buy-to-let (12% of the opening non-impaired book). Specific

provision cover increased from 33% to 37% primarily driven by changes in mortgage model assumptions to reflect current data on loss history and portfolio development as well as incorporating additional loss parameters assessed on restructuring outcomes. The 55% peak-to-trough house price decline assumption used in the calculation of collective provisions remains unchanged based on the Group s assessment of property market conditions and liquidity, despite some evidence of increases in property prices in 2013 in certain areas. This will be reassessed in 2014.

Property and Construction

The property and construction portfolio comprises 66% investment loans (13.0 billion), 30% land and development loans (5.9 billion) and 4% of other property and construction loans (0.8 billion). 74% of the portfolio relates to the Republic of Ireland. The levels of impaired loans reduced by 0.6 billion to 13.2 billion reflecting the impact of asset sales, write-offs and repayments. The rate of new impairments also reduced significantly in 2013 partly reflecting the high level of current impairment and provisions in the portfolio (e.g. 90% of land and development impaired with 77% cover). Specific provision cover increased from 56% to 62% due to increased

provisions for some cases in secondary locations and the impact of debt repayments. During 2013, there was some evidence of recovery in property values especially in prime locations.

SME/Other Commercial

The SME/other commercial portfolio, of which 69% relates to the Republic of Ireland, is dependent on the domestic economy and reduced by 1.5 billion in 2013 reflecting the impact of asset sales, write-offs and repayments. The reduction was across all industry sectors, with the exception of the agriculture sector which remained flat in comparison to 31 December 2012. The levels of impaired loans reduced by 0.5 billion to 4.8 billion. Specific provision cover increased from 62% to 66% driven by increased provisions for impaired loans and debt repayments. Challenging economic conditions and the level of indebtedness in the sector (including property exposures) has resulted in many SMEs experiencing difficulty in managing the finances of their businesses. Consequently, AIB is engaged with customers in restructuring existing facilities where necessary in order to sustain viable businesses.

Other Personal Lending

Other personal lending mainly comprises loans and overdrafts and reduced by 0.4 billion during the year, reflecting accelerated repayments and subdued demand for credit. The levels of impaired loans were at a similar level to 31 December 2012, whilst the specific provision cover increased marginally from 74% to 77%.

Corporate Lending

The corporate lending portfolio continues to perform better than other sectors due to its lesser reliance on the domestic economy and property markets. The levels of impaired loans reduced by 0.3 billion to 0.5 billion and carry a specific provision cover of 48%.

(1)The table above reconciles to the Credit Risk notes in section 3.1 of the Risk management section.

(2)Impairment charge excludes provisions on loans to banks of 3 million in 2013 and nil in 2012.

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Associated undertakings

Income from associated undertakings in 2013 was 7 million compared with income of 10 million in 2012. Income in 2013 was mainly from AIB s share in the joint venture with First Data International trading as AIB Merchant Services. 2012 included Aviva Health Insurance Ireland Limited and AIB Merchant Services. On 1 July 2012, AIB re-designated its investment in Aviva Life Holdings as an equity investment at fair value through the income statement (see note 31 to the financial statements).

Income tax

The total taxation credit for 2013 was 90 million compared with a total taxation credit of 172 million in 2012 reflecting a reduction in the overall level of losses in 2013 as compared with 2012. The net credit is reduced by tax charges resulting from a reduction in the UK tax rate, which reduces the carrying value of UK deferred tax assets in the balance sheet, and deferred tax credits which have not been recognised for certain subsidiaries and branches. With specific exceptions as set out in note 34 to the financial statements, the largest of which relates to UK tax losses, deferred tax credit continues to be recognised in full for the value of tax losses arising in Group companies, as it is expected that the tax losses will be utilised in full against future profits.

Balance sheet commentary

500 MILLION DEBT ISSUE IN NOVEMBER 2013: FIRST FULLY UNSECURED, UNGUARANTEED DEBT TRANSACTION BY AIB SINCE 2009.

LOAN DEPOSIT RATIO IMPROVED FROM 115% TO 100%.

REDUCTION IN ECB FUNDING OF 9.5 BILLION (43%).

The following commentary highlights the main components of the balance sheet at 31 December 2013 and the movement in these components since 31 December 2012 unless otherwise noted.

Loans to customers

Gross loans to customers

Gross loans at 82.8 billion were down 7.1 billion (8%) since 31 December 2012 and 2.4 billion (3%) since 30 June 2013. The reduction since 2012 of 7.1 billion was due to loan amortisation of 8.4 billion and deleveraging of 2.5 billion during the period partly offset by new lending of 3.8 billion.

Provisions

Balance sheet provisions have increased from 16.6 billion to 17.1 billion. See the Risk management section (page 96 to page 97) for more detail on the provisions raised during 2013.

Net loans to customers

Net loans reduced 7.6 billion (10%) and reflect the gross loan movements as set out above along with the impact of provisions.

Non-core deleveraging

The Group s commitment as part of the Financial Measures Programme in 2011, required deleveraging of 20.5 billion of net loans by 31 December 2013. This requirement was met in September 2013 ahead of schedule and with a

positive variance compared with the original capital loss assumptions. Deleveraging of 2.2 billion in net loans was achieved in 2013.

The Group s loan to deposit ratio reduced from 115% to 100%. The reduction in the ratio was due to a reduction in net loans

Balance sheet	**31 Dec 2013 bn**	Restated* 31 Dec 2012 bn	% *change*
Gross loans to customers	**82.8**	89.9	-8
Provisions[(1)]	**(17.1)**	(16.6)	-3
Net loans to customers	**65.7**	73.3	-10
Financial investments available for sale	**20.4**	16.3	25
NAMA senior bonds	**15.6**	17.4	-10
Other assets	**16.0**	15.5	3
Total assets	**117.7**	122.5	-4
Customer accounts	**65.7**	63.6	3
Deposits by banks - ECB	**12.7**	22.2	-43
Other market funding	**10.4**	6.2	68
Debt securities in issue	**8.8**	10.7	-18
Other liabilities	**9.6**	8.4	14
Total liabilities	**107.2**	111.1	-4
Shareholders equity	**10.5**	11.4	-8
Total liabilities & stockholders equity	**117.7**	122.5	-4
	%	%	*change*
Loan deposit ratio	**100**	115	-15
Core tier 1 ratio	**14.3**	15.2	-0.9
Basel III fully loaded CET1 ratio[(2)]	**10.5**	10.2	0.3

arising from loan amortisation, deleveraging and provisions during the period while customer accounts increased which included Repos of 5.8 billion.

Financial investments available for sale (AFS)

AFS assets increased from 16.3 billion to 20.4 billion during 2013 reflecting the purchase of 6.8 billion, mainly in relation to reducing income volatility on interest free liabilities and capital balances in a low interest rate environment partly offset by disposals of 1.5 billion and maturities of 1.2 billion. The purchases were in Irish Government securities (2.7 billion), Euro government securities (3.4 billion) and non-Euro government securities (0.7 billion). Further detail in respect of AFS is covered on pages 150 to 152.

[1]Rounded figure at 31 December 2012. Actual figure is 16,532 million which includes loans to banks.

[2]Based on full implementation of Basel III CRD IV regulations and includes 2009 Preference Shares.

*Restated due to change in accounting policy for employee benefits (note 60).

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NAMA senior bonds

These bonds reduced 1.8 billion to 15.6 billion in 2013 due to redemptions by NAMA.

Other assets

Other assets of 16.0 billion comprised of:

- cash and loans to banks of 6.2 billion down 9% from 6.8 billion.
- deferred taxation of 3.8 billion broadly in line with 2012.
- assets held for sale (mainly Ark Life) 2.8 billion.
- derivative financial instruments of 1.6 billion down 43% from 2.8 billion.
- the remaining assets of 1.6 billion were down 27% from 2.2 billion.

Customer accounts

Customer accounts increased 2.1 billion (3%) to 65.7 billion due to an increase in Repos of 5.8 billion partly offset by Ark Life deposit elimination of 1.2 billion and a managed pricing reduction on deposit products contributed to a decrease of 3.7 billion. The average cost of customer accounts dropped from 264 bps in 2012 to 187 bps in 2013. There were no material outflows following the cessation of the ELG scheme for new deposits at the end of March 2013.

Deposits by banks - ECB

There was a reduction of 9.5 billion (43%) in monetary authority funding during the period as the overall funding requirement reduced during 2013. This was as a result of ongoing loan amortisation exceeding new lending, higher customer accounts and increased deposits from banks.

The funding gap[(1)] reduced to 0.1 billion at 31 December 2013 which is reflected in a loan to deposit ratio of 100%.

Other market funding

Other market funding increased 4.2 billion in 2013 as more normalised market conditions emerged and AIB was able to access additional sources of funds. A credit card securitisation was issued in October 2013 for 500 million based on high quality credit card receivables and was the first of its kind issued by an Irish bank.

Debt securities in issue

Debt securities in issue reduced 1.9 billion from 10.7 billion to

8.8 billion during 2013. 2.2 billion of European Medium Term Notes matured along with a 1.0 billion Asset Covered Securitisation bond. These maturities were partly offset by two Mortgage Bank bond issuances of 500 million in January and September 2013. In November 2013 AIB completed a 3 year 500 million fixed rate senior unsecured debt issue. It was the first fully unsecured, unguaranteed debt transaction by AIB since 2009. The issuances above have been part of a balanced and measured re-engagement in the wholesale markets.

Other liabilities

Other liabilities of 9.6 billion comprised of:

- derivative financial instruments of 2.0 billion down 1.3 billion (39%) from 3.3 billion.
- contingent convertible subordinated bond with a fair value of 1.4 billion (nominal value of 1.6 billion) up from 1.3 billion in 2012 as the bonds approach maturity in 2016.
- liabilities held for sale (Ark Life) 3.6 billion.
- retirement benefit liabilities 0.2 billion compared to 0.8 billion in 2012.
- the remaining liabilities of 2.4 billion were broadly in line with 2012.

Shareholders equity

Shareholders equity reduced 0.9 billion from 11.4 billion* in 2012 to 10.5 billion in 2013. This reduction was mainly due to the loss for the period of 1.6 billion partly offset by positive fair value on available for sale securities of 0.5 billion and an actuarial gain of 0.3 billion. The net pension deficit has materially reduced by 0.7 billion from a deficit of 0.8 billion at 31 December 2012 to 0.1 billion at 31 December 2013.

Funding

At 31 December 2013, the Group held 42 billion in qualifying liquid assets/contingent funding (excluding liquid assets in AIB Group (UK) p.l.c. which was unavailable for use at an overall Group level) of which approximately 28 billion was used in repurchase agreements.

Customer accounts contributed 60% of the total funding requirement at 31 December 2013, up from 55% at 31 December 2012.

(1) The funding gap reflects net loans (including held for Sale) less customer accounts.

* Restated due to change in accounting policy for employee benefits (note 60).

Capital

The capital ratios continue to be comfortably above minimum regulatory requirements with the core tier 1 ratio of 14.3% compared to the regulatory requirement of 10.5%.

Capital	2013 bn	Restated* 2012 bn	% *change*
Risk weighted assets	**62**	71	-13
	%	%	
Core tier 1 ratio	**14.3**	15.2	
Total capital ratio	**16.6**	17.8	
Basel III fully loaded CET1 ratio[1]	**10.5**	10.2	
Basel III transitional CET1 ratio[2]	**15.0**		

The core tier 1 ratio reduced to 14.3% from 15.2% at 31 December 2012 due to credit provisions partially offset by operating profit before provisions and lower risk weighted assets.

Risk weighted assets reduced 9 billion to 62 billion mainly as a result of lower net loan balances, available for sale disposals and reductions in both Operational and Market risk. These reductions were partly offset by increases due to changes in risk models and credit quality.

The total capital ratio reduced by 1.2% to 16.6% at 31 December 2013 following the reduction in core tier 1 as mentioned above along with a reduction due to the continued amortisation of the contingent capital instrument (CoCo).

The Basel III fully loaded CET1 ratio[1] of 10.5% at 31 December 2013 increased 0.3% from 31 December 2012. This increase was due to lower risk weighted assets, a reduction in the pension fund deficit and a capital benefit from disposals of available for sale securities partly offset by the loss in the period. The leverage ratio at 31 December 2013 was c. 5%[1].

For further commentary on capital, see the Capital Management section on pages 47 to 49.

Balance Sheet Assessment (BSA)

The Central Bank of Ireland (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 findings as at 30 June 2013 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 ongoing 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. The table on this page summarises AIB Group s capital ratios as at 31 December 2013 and 2012.

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.

(1)Based on full implementation of the Basel III CRD IV regulations and includes 2009 Preference Shares.

(2)Based on a phased implementation of the Basel III CRD IV regulations and includes 2009 Preference Shares.

*Restated due to change in accounting policy for employee benefits (note 60).

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Half-year analysis

Half-year balance sheet metrics	**31 December 2013 bn**	30 June 2013 bn	31 December 2012 bn	30 June 2012 bn
Gross loans	**82.8**	85.2	89.3	93.3
Gross loans held for sale	**-**	0.1	0.6	2.0
Net loans	**65.7**	68.7	72.9	78.0
Net loans held for sale	**-**	0.1	0.4	1.7
Customer accounts	**65.7**	64.8	63.6	63.6

Half-year income statement	**Half-year 31 December 2013 m**	Half-year 30 June 2013 m	Restated* Half-year 31 December 2012 m	Restated* Half-year 30 June 2012 m
Net interest income before ELG	**800**	718	711	783
ELG	**(50)**	(123)	(173)	(215)
Net interest income	**750**	595	538	568
Other income	**249**	321	115	203
Total operating income	**999**	916	653	771
Total operating expenses	**(716)**	(754)	(867)	(881)
Operating profit/(loss) before provisions	**283**	162	(214)	(110)
Total provisions	**(1,166)**	(738)	(1,556)	(973)
Operating loss	**(883)**	(576)	(1,770)	(1,083)
Associated undertakings	**4**	3	9	1
Profit/(loss) on disposal of property	**1**	-	2	-
Profit/(loss) on disposal of business	**-**	1	5	(2)
Loss before exceptional items	**(878)**	(572)	(1,754)	(1,084)
	%	%	%	%

Cost income ratio	**72**	82	133	114
Net interest margin excluding ELG	**1.45**	1.28	1.20	1.24
Loan deposit ratio	**100**	106	115	123

*Restated due to change in accounting policy for employee benefits (note 60).

Half-year 31 December 2013 v Half-year 30 June 2013

Net loans including held for sale reduced by 3.1 billion (5%) as a result of loan amortisation and provisions. Customer accounts increased 0.9 billion (1%) resulting in an improvement in the loan deposit ratio, reducing from 106% to 100%.

Net interest margin excluding ELG of 1.45% was 17 bps higher due to lower funding costs and the impact of asset and deposit re-pricing.

Operating profit before provisions of 283 million was 121 million (75%) higher. The increase reflected higher net interest income as a result of lower ELG and funding costs and lower operating expenses mainly driven by lower staff numbers. These positive drivers were partly offset by lower other income as the half-year to 30 June 2013 included a gain of 62 million resulting from re-estimating the timing of cash flows on NAMA senior bonds. The cost income ratio improved from 82% to 72%.

Half-year 31 December 2013 v Half-year 31 December 2012

Net loans including held for sale have reduced by 7.6 billion (10%) as a result of deleveraging, loan amortisation and provisions. Customer accounts increased 2.1 billion (3%) resulting in an improvement in the loan deposit ratio, reducing from 115% to 100%.

Net interest margin excluding ELG of 1.45% was 25 bps higher due to lower funding costs, and re-pricing of both customer accounts and loans.

Operating profit before provisions of 283 million was 497 million higher due to higher net interest income as a result of lower ELG and funding costs, higher other income, and lower operating expenses mainly driven by lower staff numbers and cost saving initiatives. The cost income ratio improved from 133% to 72%.

Segment reporting

In the latter part of 2012 AIB commenced organising its internal structure to a more customer centric model comprising the following key segments: Domestic Core Bank (DCB), AIB UK, and Financial Solutions Group (FSG). Reporting on this new segment basis commenced in 2013. Consequently, the full year to December 2012 has been presented in the new operating structure. Segment information for 2011 has not been prepared as the information is not available and the cost to develop it would be excessive. A number of significant transactions occurred during 2011 that does not make it possible to restate the 2011 performance in line with the segmental structure in operation for 2013. In particular, these include business disposals (e.g. AIB Polish Division), business acquisitions (e.g. EBS Limited), the finalisation of the transfer of loans to NAMA and Non Core deleveraging activity.

A summary description of each segment is outlined below with a more comprehensive overview available on pages 11 to 14.

Domestic Core Bank (DCB) services the personal, business and corporate customers of AIB in the Republic of Ireland, in addition to wealth management services and has a strong presence in all key sectors including SMEs, mortgages, personal and corporate banking. All owner occupier mortgages in the Republic of Ireland are reported in DCB. This segment also includes the bank s treasury and capital markets functions.

AIB UK comprises retail and commercial banking operations in Great Britain operating under the trading name Allied Irish Bank (GB) (AIB GB) and in Northern Ireland operating under the trading name First Trust Bank (FTB). UK Structured Lending Services (SLS) deals with AIB UK customers in difficulty within one centre of expertise.

Financial Solutions Group (FSG) segment is dedicated to supporting business and personal customers in financial difficulties on a case by case basis and Third Party Servicing of NAMA loans. Non-impaired loans connected to customers in financial difficulty are also reported in this segment.

Group includes AIB s operations in the Isle of Man/Channel Islands in 2012 (operations closed in 2013) and central control and support functions costs. Central control and support function costs include operations & technology, risk, audit, finance, general counsel, human resources and corporate affairs & strategy. Certain overheads related to these activities are managed and reported in the Group segment.

The segments performance statements include all income and direct costs but exclude certain overheads which are managed centrally and the costs of these are included in the Group segment. Funding and liquidity charges are based on actual wholesale funding costs incurred and segments net funding requirements. Income on capital is allocated to

segments based on each segment s capital requirement. The cost of services between segments and from central support functions is based on the estimated actual cost incurred in providing the service. A summarised view of the Group s segmental performance is available in note 1 to the financial statements.

Segment transfers

AIB completed non-core deleveraging during 2013 under the Financial Measures Programme. Upon completion of the non-core deleveraging target, certain assets were transferred back to the relevant segments. The table below gives a summary of the balance sheet transfers at 1 July 2013.

Balance sheet transfers	DCB bn	AIB UK bn	FSG bn	Total bn
Non-core				
Gross loans to customers	1.7	5.0	(6.7)	-
Credit provisions	(0.4)	(1.7)	2.1	-
Net loans to customers	1.3	3.3	(4.6)	-

In addition a decision was made to transfer management of Corporate Banking Britain (CBB) to AIB UK segment as part of a strategy change to grow and manage the corporate business under the AIB GB brand. This transfer is set out below.

Balance sheet transfers	DCB bn	AIB UK bn	FSG bn	Total bn
CBB				
Gross loans to customers	(0.7)	0.7	-	-
Credit provisions	-	-	-	-
Net loans to customers	(0.7)	0.7	-	-
Customer accounts	(0.9)	0.9	-	-

The table below gives a summary of the contribution statement impacts of the above mentioned transfers for the second half of 2013.

H2 2013

Contribution statement impact	DCB	AIB UK	FSG	Total
	m	m	m	m
Net interest income	6	16	(22)	-
Other income	(7)	3	4	-
Total operating expenses	1	(3)	2	-
Total provisions	2	(138)	136	-
Operating contribution	2	(122)	120	-

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Domestic Core Bank (DCB)

CONTRIBUTION BEFORE PROVISIONS OF 683 MILLION COMPARED TO A CONTRIBUTION OF 284 MILLION IN 2012.

TOTAL OPERATING INCOME WAS 340 MILLION (31%) HIGHER AND TOTAL OPERATING EXPENSES WERE 59 MILLION (7%) LOWER THAN 2012.

Balance sheet

Gross loans reduced 0.5 billion (1%) since 31 December 2012. There were 1 billion of loan transfers[(1)] into DCB which were more than offset by repayments which exceeded new lending. Customer accounts increased 2.4 billion (5%) since 31 December 2012 (including Repos of 5.8 billion). Excluding Repos, Ark Life deposit elimination and the 0.9 billion CBB deposits transferred to UK, customer accounts were 1.3 billion (3%) lower than 31 December 2012 as a result of balance sheet management.

Contribution

DCB operating contribution before provisions of 683 million was 399 million (140%) higher than 2012 with income 340 million (31%) higher and costs 59 million (7%) lower. After provisions of 843 million the negative contribution before exceptional items was 151 million, compared to a contribution of 8 million in 2012.

Net interest income

Net interest income of 973 million was 226 million (30%) higher than 2012 due to reductions in the ELG charge following cessation of the ELG scheme for new liabilities on 28 March 2013, lower funding costs, loan pricing actions and increased investments in securities. These positive impacts were partly offset by lower loan volumes; as repayments exceeded new lending, lower income on NAMA bonds, and the impact of lower interest rates and yields on treasury operations.

Other income

Other income improved 114 million (33%) to 460 million with higher current account fees, improved treasury income and the positive impact from re-estimating the timing of cash flows on NAMA senior bonds.

DCB balance sheet metrics[1]	**31 Dec 2013 bn**	31 Dec 2012 bn	% *change*
Gross loans	**47.6**	48.1	-1
Net loans	**44.3**	46.0	-4
Customer accounts	**53.6**	51.2	5
	%	%	*change*
Loan deposit ratio	**83**	90	-7

DCB contribution statement[1]	**2013 m**	2012 m	% *change*
Net interest income before ELG	**1,120**	1,068	5
ELG	**(147)**	(321)	-54
Net interest income	**973**	747	30
Other income	**460**	346	33
Total operating income	**1,433**	1,093	31
Total operating expenses	**(750)**	(809)	-7
Operating contribution before provisions	**683**	284	140
Total provisions	**(843)**	(290)	191
Operating contribution	**(160)**	(6)	-
Associated undertakings	**8**	13	-38
Contribution before disposal of property	**(152)**	7	-
Profit on disposal of property	**1**	-	-
Contribution before disposal of business	**(151)**	7	-
Profit on disposal of business	**-**	1	-
Contribution before exceptional items	**(151)**	8	-
	%	%	*change*
Cost income ratio	**52**	74	-22

Operating expenses

Total operating expenses reduced 59 million (7%) to 750 million as reduced staff numbers resulted in lower salary and associated costs compared with 2012.

Personnel expenses of 452 million were 65 million (13%) lower than 2012 mainly as a result of reductions in staff numbers. General and administrative expenses of 244 million were 6 million higher than 2012 due to higher technology costs as the bank continues to become more technology focused. The charge for depreciation, impairment and amortisation of 54 million was in line with 2012.

Provisions

Total provisions of 843 million were 553 million higher than 2012. The increase was mainly in mortgages reflecting changes in assumptions to reflect current data on loss history and portfolio development as well as incorporating additional loss parameters assessed on restructuring outcomes. The increase also included an increase in IBNR due to a change in the emergence period from 6 months to 9 months.

(1) For details of balance sheet transfers see page 38.

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AIB UK

OPERATING CONTRIBUTION BEFORE PROVISIONS OF £ 64 MILLION COMPARED TO A NEGATIVE CONTRIBUTION OF £ 31 MILLION IN 2012.

COST INCOME RATIO IMPROVEMENT, 69% IN 2013 COMPARED TO 123% IN 2012.

Balance sheet

AIB UK gross loans to customers increased £ 3.9 billion (53%) since 31 December 2012 including loan transfers[(1)]. Excluding the loan transfers gross loans reduced £ 1.0 billion to £ 6.3 billion following loan repayments during the period.

Customer accounts excluding transfers[(1)] reduced by £ 0.6 billion (7%) since 31 December 2012 following deposit pricing actions, which resulted in a managed reduction in UK deposits.

Loan deposit ratio has increased to 103% in 2013 compared to 76% in 2012. The increase was mainly driven by the CBB and non-core transfers into the UK segment on 1 July 2013.

Contribution

AIB UK operating contribution before provisions of £ 64 million was £ 95 million higher than the negative contribution of £ 31 million in 2012 with income £ 72 million (53%) higher and costs £ 23 million (14%) lower. The negative contribution before exceptional items was £ 68 million, an improvement of £ 40 million (37%) on 2012 negative contribution of £ 108 million.

Net interest income

Net interest income of £ 151 million was £ 68 million (82%) higher than 2012 mainly due to reductions in the ELG charge following AIB UK s withdrawal from the ELG scheme in August 2012 and lower funding costs as a result of deposit pricing actions along with the impact of loan repricing.

Other income

Other income of £ 58 million in 2013 was £ 4 million higher than 2012 following transfer of CBB and non-core on 1 July 2013.

Total operating expenses

Total operating expenses reduced £ 23 million (14%) to

	31 Dec 2013	31 Dec 2012	%
AIB UK balance sheet metrics[(1)]	**£ bn**	£ bn	*change*
Gross loans	**11.2**	7.3	53
Net loans	**9.4**	6.8	38
Customer accounts	**9.1**	8.9	2
	%	%	*change*
Loan deposit ratio	**103**	76	27

	2013	Restated* 2012	%
AIB UK contribution statement[(1)]	**£ m**	£ m	*change*
Net interest income before ELG	**161**	112	44
ELG	**(10)**	(29)	-66
Net interest income	**151**	83	82
Other income	**58**	54	7
Total operating income	**209**	137	53
Total operating expenses	**(145)**	(168)	-14
Operating contribution before provisions	**64**	(31)	-
Total provisions	**(133)**	(79)	68
Operating contribution	**(69)**	(110)	37
Associated undertakings	**1**	2	-50
Contribution before exceptional items	**(68)**	(108)	37
Contribution before exceptional items m	**(80)**	(133)	40
	%	%	*change*

Cost income ratio	**69**	123	-54

* Restated due to change in accounting policy for employee benefits (note 60).

£ 145 million. Personnel expenses of £ 92 million were £ 3 million (3%) higher than 2012. Reduced staff numbers resulted in lower salary and associated costs which were more than offset by higher retirement benefit expenses.

General and administrative expenses of £ 48 million were £ 22 million (31%) lower than 2012 mainly due to lower occupancy costs as a result of the restructuring of the UK business and the impact of lower staff numbers.

The increase in total income along with a decrease in total operating expenses resulted in an improvement in the cost income ratio from 123% in 2012 to 69% in 2013.

Provisions

Total provisions of £ 133 million were £ 54 million (68%) higher than 2012 due to loan transfers. Excluding transfers, provisions were lower than 2012.

(1)For details of balance sheet transfers see page 38.

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Financial review - 3. Management report

Financial Solutions Group (FSG)

GROSS LOANS REDUCED 10.8 BILLION SINCE 31 DECEMBER 2012 DUE TO TRANSFERS, DELEVERAGING AND LOAN AMORTISATION.

NON-CORE DELEVERAGING TARGET OF 20.5 BILLION (NET LOANS) ACHIEVED.

TOTAL PROVISIONS REDUCED BY 1,236 MILLION (58%) COMPARED TO 2012.

Balance sheet

Gross loans reduced 10.8 billion (33%) since 31 December 2012 mainly due to non-core deleveraging of 2.5 billion, loan transfers of 6.7 billion and loan amortisation/charge-offs of 1.6 billion during the period. Provisions have reduced 2.2 billion (16%) since 31 December 2012. Transfers accounted for 2.1 billion of the reduction with the remaining net movement mainly consisting of income statement provision charge, charge-offs and foreign exchange movement.

The non-core deleveraging target of 20.5 billion was successfully completed ahead of schedule, with 2.2 billion reduction in net loans achieved in 2013.

Contribution

FSG operating contribution before provisions of 54 million was 112 million higher than 2012 with income 30 million (16%) higher and total operating expenses 82 million (34%) lower. The negative contribution before exceptional items was 855 million, an improvement of 1,348 million (61%) compared with the 2012 negative contribution of 2,203 million.

Net interest income

Net interest income of 190 million was 40 million (17%) lower than 2012 due to lower loan volumes including transfers of loans to other segments. This was partly offset by reductions in the ELG charge following cessation of the ELG scheme for new liabilities on 28 March 2013 and lower funding costs.

Other income

Other income improved 70 million to 25 million. 2012 included higher loan breakage and associated costs relating to deleveraging and mark to market writedowns on credit default swaps.

	31 Dec	31 Dec	
	2013	2012	%
FSG balance sheet metrics[1]	**bn**	bn	*change*
Gross loans	**21.8**	32.0	-32
Gross loans held for sale	**-**	0.6	-
Net loans	**10.2**	18.4	-45
Net loans held for sale	**-**	0.4	-
Customer accounts	**1.1**	1.3	-15

	2013	2012	%
FSG contribution statement[1]	**m**	m	*change*
Net interest income before ELG	**204**	254	-20
ELG	**(14)**	(24)	-42
Net interest income	**190**	230	-17
Other income	**25**	(45)	-
Total operating income	**215**	185	16
Total operating expenses	**(161)**	(243)	-34
Operating contribution before provisions	**54**	(58)	-
Total provisions	**(906)**	(2,142)	-58
Operating contribution	**(852)**	(2,200)	61
Associated undertakings	**(3)**	(5)	40
Contribution before disposal of business	**(855)**	(2,205)	61
Profit on disposal of business	**-**	2	-
Contribution before exceptional items	**(855)**	(2,203)	61
	%	%	*change*

Cost income ratio	**75**	131	-56

Operating expenses

Total operating expenses reduced 82 million (34%) to 161 million with lower salary and associated costs and lower external consultancy and advisory fees compared with 2012.

Personnel expenses of 128 million were 40 million (24%) lower than 2012 as reduced staff numbers and the transfer of assets out of FSG on completion of the deleveraging programme resulted in lower salary and associated costs. FSG are resourced to manage impaired loans of c. 18 billion and support business and personal customers in financial difficulties.

General and administrative expenses of 32 million were 37 million (54%) lower than 2012 mainly due to lower external consultancy and advisory fees associated with deleveraging.

Provisions

Total provisions of 906 million were 1,236 million (58%) lower than 2012. While there have been positive indications that the Irish and global economies are stabilising, challenging conditions continue to remain.

(1)For details of balance sheet transfers see page 38.

(2)Includes amortisation, charge-offs and foreign exchange movements.

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Group

TOTAL OPERATING EXPENSES HAVE REDUCED BY 101 MILLION (21%), 388 MILLION IN 2013 COMPARED TO 489 MILLION IN 2012.

Contribution

Group operating contribution before provisions of 366 million was 146 million lower than 2012 with income 45 million higher and costs 101 million lower.

The negative contribution before exceptional items was 364 million, a decrease of 146 million on the 2012 negative contribution of 510 million.

Total operating income improved 45 million in 2013. 2012 income was negatively impacted by 32 million negative fair value movement on the options relating to the Aviva Life Holdings transaction.

Operating expenses

Total operating expenses reduced 101 million to 388 million in 2013 due to lower salary and associated costs resulting from reduced staff numbers, lower external consultancy and advisory fees and lower occupancy costs. Operating expenses in Group include unallocated overheads relating to operations & technology, risk, audit, finance, general counsel, human resources and corporate affairs & strategy.

Personnel expenses of 162 million in 2013 were 84 million (34%) lower than 2012 as a result of the reduction in staff numbers.

General and administrative expenses of 187 million in 2013 were 9 million (5%) lower than 2012 due to lower occupancy costs as a result of restructuring and the impact of lower staff numbers, and lower external consultancy and advisory fees.

The charge for depreciation, impairment and amortisation of 39 million in 2013 was 8 million (17%) lower than 2012 as a result of the unwind of depreciation relating to capital investments in prior periods.

Group contribution statement	**2013 m**	Restated* 2012 m	*% change*
Net interest income	**5**	27	-81
Other income	**17**	(50)	-
Total operating income	**22**	(23)	-
Total operating expenses	**(388)**	(489)	-21
Operating contribution before provisions	**(366)**	(512)	29
Total provisions	**1**	-	-
Contribution before disposal of property	**(365)**	(512)	31
Loss on disposal of property	**-**	2	-
Contribution before disposal of business	**(365)**	(510)	28
Contribution on disposal of business	**1**	-	-
Contribution before exceptional items	**(364)**	(510)	29

* Restated due to change in accounting policy for employee benefits (note 60).

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Performance commentary comparing 2012 with 2011

The following performance commentary compares 2012 with 2011. In the latter part of 2012 AIB commenced organising its internal structure to a more customer centric model. Therefore the comparison between 2012 and 2011 is prepared at a Group level and includes the restatement due to a change in accounting policy for employee benefits.

	Restated*	Restated*	
	2012	2011	
Summary income statement	**m**	m	% change
Net interest income	**1,106**	1,350	-18
Other income	**318**	438	-27
Total operating income	**1,424**	1,788	-20
Personnel expenses	**(1,041)**	(966)	8
General and administrative expenses	**(589)**	(637)	-8
Depreciation[(1)], impairment and amortisation[(2)]	**(118)**	(115)	3
Total operating expenses	**(1,748)**	(1,718)	2
Operating(loss)/profit before provisions	**(324)**	70	-
Provisions for impairment on loans and receivables	**(2,434)**	(7,861)	-69
Provisions for liabilities and commitments	**(9)**	(17)	-47
Provisions for impairment on financial investments available for sale	**(86)**	(283)	-70
Total provisions	**(2,529)**	(8,161)	-69
Operating loss	**(2,853)**	(8,091)	65
Associated undertakings	**10**	(37)	-
Profit/(loss) on disposal of property	**2**	(1)	-
Profit/(loss) on disposal of businesses	**3**	38	-92
Loss from continuing operations before exceptional items	**(2,838)**	(8,091)	65
Loss on disposal of loans	**(962)**	(322)	-
Profit/(loss) on transfer of financial instruments to NAMA	**159**	(364)	-
Gain on redemption of subordinated debt and other capital instruments		3,277	-
Interest rate hedge volatility		(39)	-
Retirement benefits curtailment	**204**		-
Restructuring and restitution expenses	**(292)**	(33)	-

Writeback/(charge) of contingent provisions for NAMA loans		433	-
Total exceptional items	**(891)**	2,952	-
Loss before taxation from continuing operations	**(3,729)**	(5,139)	27
Income tax credit from continuing operations	**172**	1,193	-86
Loss after taxation from continuing operations	**(3,557)**	(3,946)	10
Profit after taxation from discontinued operations		1,628	-
Loss for the year	**(3,557)**	(2,318)	-53

	2012	2011
	%	%
Cost income ratio[3]	**123**	96

[(1)]Depreciation of property, plant and equipment.

[(2)]Impairment and amortisation of intangible assets.

[(3)]Excluding exceptional items.

*Restated due to change in accounting policy for employee benefits (note 60).

Overview of results

The Group recorded a loss before taxation from continuing operations of 3.7 billion in 2012 compared to a loss of 5.1 billion in 2011. When exceptional items of 0.9 billion in 2012 are excluded the loss from continuing operations was 2.8 billion in 2012 compared to 8.1 billion in 2011. The performance reflected a material reduction in provisions and lower levels of income on reduced business volumes. Provisions for impairment on loans and receivables were 2.4 billion in 2012, a reduction of 5.4 billion from 2011. The level of provisions in 2012 continues to reflect the continued weak economic environment.

The Group recorded an operating loss before provisions and excluding exceptional items of 324 million in 2012 compared to 70 million profit in 2011. Net interest income reduced by 18% compared to 2011, reflecting lower loan balances following deleveraging, higher volumes

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of impaired loans and an increase in the cost of funds for the bank. Other income was 27% lower as fee and commission income reduced in 2012 reflecting subdued demand, lower business volumes and weak economic conditions. Total operating expenses were 2% higher compared to 2011, and 1% higher when the impact of EBS for the full twelve months in 2012 is taken into account. This increase in costs mainly related to additional external provider fees on credit management improvement, partially offset by the impact of staff exits in 2012.

At 31 December 2012, the Group remains well capitalised with a core tier 1 capital ratio of 15.2%, comfortably above the 10.5% minimum target level as prescribed by the Central Bank of Ireland.

Exceptional items

The Group s performance is presented to exclude those items that the Group believes obscure the underlying performance trends in the business.

Loss on disposal of loans: There was 962 million loss on disposal of loans of which 952 million related to the ongoing deleveraging programme in the Non-Core portfolio.
Profit/(loss) on transfer of financial instruments to NAMA: valuation adjustments on previous transfers of financial assets to NAMA.
Retirement benefits curtailment: AIB affirmed its approach to the funding of the Irish pension scheme during the year which resulted in a reduction in the scheme obligations under IAS 19 *Employee Benefits* of 204 million which was recognised in the income statement.
Restructuring and restitution expenses: includes early retirement/voluntary severance termination benefits, restructuring costs associated with the closure of AIB s operations in the Isle of Man and Channel Islands and restitution expenses for Payment Protection Insurance and the UK Derivatives investigation.

Net interest income

Net interest income was 1,106 million in 2012 compared with 1,350 million in 2011, a decrease of 244 million or 18%.

Average interest earning assets decreased by 9 billion in 2012 to 122 billion compared with 131 billion in 2011. Group net interest margin was 91 basis points (bps) in 2012 compared with 103bps in 2011.

The underlying reduction in net interest income mainly reflected lower loan balances along with higher funding costs through interest bearing customer accounts, which saw the average gross cost increase from 219bps to 264bps, notwithstanding appreciably lower wholesale market rates. These factors were partially offset by the impact of the recapitalisation during 2011 and lower wholesale funding costs in 2012. In the second half of 2012, deposit pricing actions along with the impact of standard variable rate mortgage increases have resulted in a stabilisation in the net interest margin.

The ELG charge for 2012 was 388 million as compared to 488 million for 2011. The reduction in the ELG charge is due to lower levels of wholesale funding in 2012, withdrawal of AIB UK from the ELG scheme in August 2012 and NTMA deposits of 11 billion which impacted the ELG charge until July 2011. Excluding ELG, net interest income reduced by 344 million or 19%.

Net interest income excluding ELG for EBS was 198 million for the full year in 2012 compared with 158 million from 1 July 2011, the date of EBS acquisition.

Excluding the cost of the ELG scheme, the net interest margin for 2012 was 1.22% compared with 1.40% in 2011. The factors contributing to the decline in the margin of 18bps are due to a contraction in yields on interest earning assets of 14bps and an increase of 4bps on the cost of funding those assets.

Other income

Other income before exceptional items was 318 million in 2012 compared with 438 million in 2011, a reduction of 120 million or 27%.

Fee and commission income decreased by 74 million as fees including those related to life assurance, ATM fees and various branch fees all reduced due to lower levels of activity. Investment banking and asset management fees were lower primarily due to the disposal of AIBIFS (November 2011) and AIBIM (May 2012).

Negative trading income was 100 million in 2012 compared to 74 million in 2011. Increase in negative income reflects a further fair value movement on the options relating to transactions on the expected disposal of Aviva Life Holdings (see note 31 to the financial statements) and loan breakage and associated costs relating to deleveraging.

Other operating income in 2012 was 50 million compared with 67 million in 2011. In 2012 there was a net 31 million profit from the disposal of available for sale debt and equity securities. The comparative period in 2011 included 61 million from litigation settlements, 40 million in foreign exchange gains and 8 million income from the disposal of available for sale equity shares, partially offset by a loss of 36 million from the disposal of available for sale debt securities which primarily related to bonds in peripheral Eurozone countries. Other income for EBS was 14 million for the full year in 2012 compared with 5 million from 1 July 2011, the date of EBS acquisition.

Total operating expenses

2012 operating expenses of 1,748 million includes EBS costs of 80 million for a full twelve months compared to 46 million for six months in 2011 (date of acquisition 1 July 2011). Adjusting for the acquired EBS business, operating costs of 1,668 million are 4 million lower than 2011.

Personnel expenses in 2012 were 1,041 million, an increase of 75 million or 8% compared with 966 million in 2011, and include the full year impact of EBS of 36 million compared to the six month impact of 21 million in 2011. The higher costs reflected the higher pension costs and an increase in the number of fixed term contract staff, particularly in credit management areas. The implementation of the early retirement/voluntary severance scheme in 2012 included the departure of 1,744 staff from AIB resulting in an overall net decrease in FTE of 1,072 compared to 2011. The majority of the early retirement/voluntary severance scheme exits occurred in the latter part of 2012.

General and administrative expenses of 589 million in 2012 were 48 million or 8% lower than 2011 and reflect lower external provider fees compared to 2011. External provider fees in both periods were associated with business outsourcing and credit management. Additionally, external provider fees in 2011 were incurred on capital raising initiatives.

Depreciation, impairment and amortisation expense of 118 million in 2012 was 3 million or 3% higher when compared to 2011.

Asset quality

The provision for impairment on loans and receivables reduced 69% from 7.9 billion (7.84% of average loans) in 2011 to 2.4 billion (2.57% of average loans) in 2012. Impaired loans increased from 24.8 billion (25% of loans) in 2011 to 29.4 billion (33% of loans) in 2012. Specific provisions as a percentage of impaired loans increased from 49% in 2011 to 52% in 2012. Total balance sheet provisions at 31 December 2012 were 16.5 billion up from 14.9 billion in 2011.

Associated undertakings

Income from associated undertakings in 2012 was 10 million compared with a loss of 37 million in 2011, 2012 income includes Aviva Health Insurance Ireland Limited and AIB s share in the joint venture with First Data International trading as AIB Merchant Services. On 1 July 2012, AIB re-designated its investment in Aviva Life Holdings as an equity investment at fair value through the income statement (see note 31 to the financial statements).

Income tax

The taxation credit for 2012 was 172 million (being a 172 million credit relating to deferred taxation), compared with a taxation credit of 1,193 million in 2011(including a credit of 1,153 million relating to deferred taxation). The credit is influenced by the geographic mix of profits and losses, which are taxed at the rates applicable in the jurisdictions where the Group operates. With specific exceptions, the largest of which relates to UK tax losses, deferred tax credit continues to be recognised in full for the value of tax losses arising in Group companies, as it is expected that the tax

losses will be utilised in full against future profits.

Discontinued operations

Discontinued operations recorded a profit after taxation of 1,628 million in 2011. BZWBK recorded a profit after taxation of 82 million in the three months to March 2011 and there was a profit on disposal of the business of 1,546 million, following completion of the sale on 1 April 2011.

Balance sheet commentary

The commentary on the balance sheet is on a continuing operations basis unless otherwise stated.

Gross loans[1]	**31 December 2012 bn**	31 December 2011 bn	% change
Total Core	**74.3**	76.9	-3
Non-Core	**15.0**	20.5	-27
Total gross customer loans	**89.3**	97.4	-8
Other gross loans held for sale (Non-Core)	**0.6**	1.2	-50
Total gross loans	**89.9**	98.6	-9

[1] The balance sheet identifies loans eligible for sale to NAMA and loans classified as held for sale as part of deleveraging measures (included in Disposal groups and non-current assets held for sale) separately from other customer loans.

Total gross loans were down 8.7 billion or 9% since 31 December 2011. This reduction reflected deleveraging measures and continued weak demand for credit from certain sectors in 2012. Total Core loans are down 2.6 billion which reflects lower demand from larger businesses and corporates, partially offset by new lending to personal and small businesses. Additionally 0.8 billion of loans were transferred from Core to Non-Core in 2012. Non-Core loans reduced by 6.1 billion or 28% and is in line with the Group s commitments to the Financial Measures Programme in 2011.

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Net loans[1]	**31 December 2012 bn**	31 December 2011 bn	% change
Total Core	**63.7**	68.7	-7
Non-Core	**9.2**	13.8	-33
Total net customer loans	**72.9**	82.5	-12
Other net loans held for sale (Non-Core)	**0.4**	1.2	-67
Total net loans	**73.3**	83.7	-12

(1) The balance sheet identifies loans eligible for sale to NAMA and loans classified as held for sale as part of deleveraging measures (included in Disposal groups and non-current assets held for sale) separately from other customer loans.

Total net loans decreased by 10.4 billion or 12%, reflecting the movement of gross loans as set out above and additional impairment charge in the year. The identified pool of Non-Core assets including net customer loans classified as held for sale reduced from 15.0 billion at 31 December 2011 to 9.6 billion at 31 December 2012.

Customer accounts	**31 December 2012 bn**	31 December 2011 bn	% change
Total Core	**63.6**	60.7	5
Non-Core			
Total customer accounts	**63.6**	60.7	5

Customer accounts of 63.6 billion are up 2.9 billion (5%) since 2011. The increase in 2012 was achieved despite a range of deposit pricing actions taken in 2012 and generally reflects a return to more normalised market behaviour.

Funding[1]

Customer accounts contributed 55% of the total funding requirement at 31 December 2012, up from 47% at 31 December 2011. This represents a 3 billion increase in customer accounts in 2012, notwithstanding outflows of 2 billion as a result of the announced closure of AIB s operations in Isle of Man and Channel Islands. This level of growth was noteworthy given management s focus on reducing the pricing of deposits in both the Irish and UK markets in the second half of 2012.

While wholesale funding markets continued to be challenging in 2012, the second half of the year showed significant improvement in sentiment towards Ireland. Given the emergence of a return to more normalised market operations, AIB re-entered the wholesale market issuing a 500 million covered bond in November 2012.

At 31 December 2012, the Group held 41 billion in qualifying liquid assets/contingent funding (excluding trapped liquidity at a Group level relating to AIB Group (UK) plc) of which approximately 28 billion was used in repurchase agreements. The Group continues to explore and develop contingent collateral and funding facilities to support its funding requirements. In this regard, AIB issued an external residential mortgage backed security (RMBS) in May 2012 using mortgage collateral from its UK operations, raising £ 0.3 billion in funding.

Deposits by central banks and banks decreased by 8 billion year on year. At 31 December 2012 AIB availed of Central Bank funding of 22 billion, down from 31 billion in 2011. This included the switching of an additional 8 billion from short term Central Bank drawings into the 3 year Long Term Repurchase Operation (LTRO), with the total 3 year LTRO balance of 11 billion at December 2012. The reduction in Central Bank drawings in 2012 was due to asset deleveraging, loan amortisation and continued weak demand for credit, the redemption of NAMA senior bonds and increased deposits, offset partially by maturing secured and unsecured bonds (ACS and medium term notes (MTN) respectively). Reducing the reliance on Central Bank funding will continue to be a key objective of the Group. The strong deposit growth and the lower loan balances, including deleveraging actions contributed to an improved Group loan to deposit ratio. The Group s loan to deposit ratio including loans and receivables held for sale decreased from 138% at 31 December 2011 to 115% at 31 December 2012.

Senior debt funding of 6 billion at 31 December 2012 decreased from 11 billion at 31 December 2011 due to contractual maturing bonds.

Segment reporting 2012 V 2011

While the full year to December 2012 has been presented in the new operating structure, segment information for 2011 has not been prepared as the information is not available and the cost to develop it would be excessive. A number of significant transactions occurred during 2011 that does not make it possible to restate the 2011 performance in line with the segmental structure in operation for 2013. In particular, these include business disposals (e.g. AIB Polish Division), business acquisitions (e.g. EBS Limited), the finalisation of the transfer of loans to NAMA and Non Core deleveraging activity.

[1]The funding commentary is on a total AIB Group basis.

Capital

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 of Ireland (the Central Bank) or (CBI), which reflect the requirements of the Capital Requirements Directive (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 (see page 49).

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 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. The Group issued its most recent Pillar 3 disclosures in June 2013.

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 new Capital Requirements Directive (CRD), which must be implemented by member states of the European

Union Economic area through national law. 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 macroprudential 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%.

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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.

The table on the following page summarises AIB Group s capital position as at 31 December 2013 and 2012.

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Financial review - 4. Capital management

Capital adequacy information*	**2013** **m**	Restated** 2012 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)
Supervisory deductions from core tier 1		
Unconsolidated financial investments[(1)]	**(158)**	(6)
Securitisations		(45)
Total core tier 1 capital	**8,926**	10,846
Tier 2		
Eligible reserves	**140**	125
Credit provisions	**595**	682
Subordinated term loan capital	**833**	1,154
Supervisory deductions from tier 2 capital[(1)]	**(158)**	(51)
Total tier 2 capital	**1,410**	1,910
Gross capital	**10,336**	12,756
Supervisory deductions[(1)]		(74)
Total capital	**10,336**	12,682
Risk weighted assets (unaudited)		
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 (unaudited)		

Core tier 1	**14.3%**	15.2%
Total	**16.6%**	17.8%

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

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.

*Forms an integral part of the audited financial statements.

**Restated due to change in accounting policy for employee benefits (Note 60).

Financial review - 5. Critical accounting policies and estimates

The Group s accounting policies are set out on pages 209 to 235 of this report.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates.

The accounting policies that are deemed critical to AIB s results and financial position, in terms of the materiality of the items to which the policy is applied and the estimates that have a significant impact on the financial statements are set out in this section. In addition, estimates with a significant risk of material adjustment in the next year are also discussed.

Going concern*

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

In making its assessment, the Directors have considered a wide range of information relating to present and future conditions. These have included financial plans prepared in November 2013 covering the period 2014 to 2016, the restructuring plan submitted to the European Commission in September 2012, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios. In addition, the Directors have considered the commitment of support provided to AIB by the Irish Government. Furthermore, the Directors have considered the outlook for the Irish, the eurozone and UK economies.

Loan impairment*

AIB s accounting policy for impairment of financial assets is set out in accounting policy number 15. The provisions for impairment on loans and receivables at 31 December 2013 represent management s best estimate of the losses incurred in the loan portfolios at the reporting date.

The estimation of loan losses is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, local and international economic climates, conditions in various industries to which AIB Group is exposed and other external factors such as legal and regulatory requirements.

Credit risk is identified, assessed and measured through the use of credit rating and scoring tools. The ratings influence the management of individual loans. Special attention is paid to lower quality rated loans and when appropriate, loans are transferred to specialist units to help avoid default, or where in default, to help minimise loss. The credit rating triggers the impairment assessment and if relevant the raising of specific provisions on individual loans where there is doubt about their recoverability.

The management process for the identification of loans requiring provision is underpinned by independent tiers of review. Credit quality and loan loss provisioning are independently monitored by credit and risk management on a regular basis. All AIB segments assess and approve their provisions and provision adequacy on a quarterly basis. These provisions are in turn reviewed and approved by the AIB Group Credit Committee on a quarterly basis with ultimate Group levels being approved by the Audit Committee and the Board.

Key assumptions underpinning the Group s estimates of collective and IBNR provisioning are back tested with the benefit of experience and revisited for currency on a regular basis.

Specific provisions

A specific provision is made against problem loans when, in the judgement of management, the estimated repayment realisable from the obligor, including the value of any security available, is likely to fall short of the amount of principal and interest outstanding on the obligor s loan or overdraft account. The amount of the specific provision made in the Group s consolidated financial statements is intended to cover the difference between the assets carrying value and the present value of estimated future cash flows discounted at the assets original effective interest rates. Specific provisions are created for cases that are individually significant (i.e. above certain thresholds), and also collectively for assets that are not individually significant.

The amount of specific provision required on an individually assessed loan is highly dependent on estimates of the amount of future cash flows and their timing. Individually insignificant impaired loans are collectively evaluated for impairment provisions. As this process is model driven, the total amount of the Group s impairment provisions on these loans is somewhat uncertain as it may not totally reflect the impact of the prevailing market conditions. For further details please refer to: Impact of changes to key assumptions and estimates on the impairment provisions on pages 85 and 86 of the Risk managment section of this report.

*Forms an integral part of the audited financial statements.

Specific provisions (continued)

The property and construction loan portfolio continues to be adversely impacted by the downturn in both the Irish and UK economies. Collateral values have significantly reduced and, particularly in Ireland, market activity is very low in the sector. Accordingly, the estimation of cash flows likely to arise from the realisation of such collateral is subject to a high degree of uncertainty.

Incurred but not reported provisions

Incurred but not reported (IBNR) provisions are also maintained to cover loans which are impaired at the reporting date and, while not specifically identified, are known from experience to be present in any portfolio of loans. IBNR provisions are maintained at levels that are deemed appropriate by management having considered: credit grading profiles and grading movements; historic loan loss rates; changes in credit management; procedures, processes and policies; levels of credit management skills; local and international economic climates; portfolio sector profiles/industry conditions; and current estimates of loss in the portfolio.

The total amount of impairment loss in the Group s non-impaired portfolio, and therefore, the adequacy of the IBNR allowance, is inherently uncertain. There may be factors in the portfolio that have not been a feature of the past and changes in credit grading profiles and grading movements may lag the change in the credit profile of the customer. In addition, current estimates of loss within the non-impaired portfolio and the period of time it takes following a loss event for an individual loan to be recognised as impaired (emergence period) are subject to a greater element of estimation due to the speed of change in the economies in which the Group operates and the unprecedented market conditions. Furthermore, the potential impact of customers attitudes to debt obligations following new Personal Insolvency legislation, which took effect in December 2013, may impact the level of impairment provisions required. For further details of the potential impact of an increase in the emergence period, please refer to: Impact of changes to key assumptions and estimates on the impairment provisions on pages 85 and 86 of the Risk managment section of this report.

Forbearance

The Group s accounting policy for forbearance is set out in accounting policy number 15 Impairment of financial assets which incorporates forbearance.

The Group has developed a number of forbearance strategies for both short-term and longer-term solutions to assist customers experiencing financial difficulties. The forbearance strategies involve modifications to contractual repayment terms in order to improve the collectability of outstanding debt, to avoid default, and where relevant, to avoid repossessions. The longer-term advanced forbearance strategies are currently in the process of being rolled out to relevant residential mortgage customers in Ireland. Forbearance strategies take place in both retail and business portfolios, particularly, residential mortgages. Where levels of forbearance are significant, higher levels of uncertainty with regard to judgement and estimation are involved in determining their effects on impairment provisions. Further information on forbearance strategies is set out in the Risk management section of this report.

Deferred taxation*

The Group s accounting policy for deferred tax is set out in accounting policy number 13. Details of the Group s deferred tax assets and liabilities are set out in note 34.

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

In assessing the future profitability of the Group, the Board has considered a range of positive and negative evidence for this purpose. Among this evidence, the principal positive factors include:

- the financial support provided to the Irish State under the EU/IMF programme and the fact that Ireland successfully exited the three-year bailout programme in December 2013 without a back-up credit line;
- the financial support provided by the Irish Government to AIB as agreed with the EU/IMF from 2009 to 2011;
- the Irish Government s committed support to AIB and its nomination of the Group as one of two pillar banks in the smaller reconstructed Irish banking sector;
- the updated restructuring plan submitted to the European Commission in September 2012, targeting a return to profitability in 2014 and the ability to grow profits thereafter;
- Management actions during 2012 and 2013 in returning the Group to a normalised earnings path;
- the absence of any expiry dates for Irish and UK tax losses;
- the non-enduring nature of the loan impairments at levels which resulted in recent years losses; and
- external forecasts for Ireland, the UK and eurozone economies which indicate continued economic recovery through the period of the medium-term financial plan. This is evident in a levelling off of bad debts growth, reductions in unemployment and increased spending.

*Forms an integral part of the audited financial statements.

Financial review - 5. Critical accounting policies and estimates

Deferred taxation* ***(continued)***

The Board considered negative evidence and the inherent uncertainties in any long-term financial assumptions and projections, including:

- the absolute level of deferred tax assets compared to the Group s equity;
- the reduced size of the Group s operations following re-structuring;
- the quantum of profits required to be earned and the extended period over which it is projected that the tax losses will be utilised;
- the challenge of forecasting over a long period, taking account of the level of competition, market dynamics and resultant margin and funding pressures;
- potential instability in the eurozone and global economies over an extended period; and
- recent taxation changes (including Bank Levy) and the likelihood of future developments and their impact on profitability and utilisation.

The Group s strategy and its medium term financial plan targets a return to profitability by 2014 and growth in profitability thereafter. The expected realisation of this objective has been reaffirmed in the annual planning exercise undertaken by the Group in the second half of 2013. Growth assumptions and profitability levels underpinning the plan are within market norms.

Taking account of all relevant factors, and in the absence of any expiry date for tax losses in Ireland, the Group further believes that it is more likely than not that there will be future profits in the medium term and beyond, in the relevant Irish Group companies against which to use the tax losses. In this regard, the Group has carried out an exercise to determine the likely number of years required to utilise the deferred tax asset under the following scenario based on the financial planning outturn 2014-2016. Assuming a sustainable market return on equity (8.5%) over the long term for future profitability levels in Ireland and a GDP growth in Ireland of 2.5%, based on this scenario, it will take in excess of 20 years for the deferred tax asset (3.36 billion) to be utilised. Furthermore, under this scenario, it is expected that 45% of the deferred tax asset will be utilised in 15 years with 73% utilised in 20 years.

In a more stressed scenario with a return on equity of 7% and GDP growth of 1.5%, the utilisation period increases by a further 4 years. The Group s analysis of the results of the scenarios examined would not alter the basis of recognition or the current carrying value.

Notwithstanding the absence of any expiry date for tax losses in the UK, AIB has concluded that the recognition of deferred tax assets in its UK subsidiary be limited to the amount projected to be realised within a time period of 15 years. This is the timescale within which the Group believes that it can assess the likelihood of its profits arising as being more likely than not.

However, for certain other subsidiaries and branches, the Group has also concluded that it is more likely than not that there will be insufficient profits to support recognition of deferred tax assets. The amount of recognised deferred tax assets arising from unused tax losses amounts to 3,871 million of which 3,361 million relates to Irish tax losses and 510 million relates to United Kingdom tax losses. IAS 12 does not permit a company to apply present value discounting to its deferred tax assets or liabilities, regardless of the estimated timescales over which those assets or liabilities are projected to be realised. AIB Group s deferred tax assets are projected to be realised over a long

timescale, benefiting from the absence of any expiry date for Irish or UK tax losses. As a result, the carrying value of the deferred tax assets on the statement of financial position does not reflect the economic value of those assets.

Determination of fair value of financial instruments*

The Group s accounting policy for the determination of fair value of financial instruments is set out in accounting policy number 16.

The best evidence of fair value is quoted prices in an active market. The absence of quoted prices increases reliance on valuation techniques and requires the use of judgement in the estimation of fair value. This judgement includes but is not limited to: evaluating available market information; determining the cash flows for the instruments; identifying a risk free discount rate and applying an appropriate credit spread.

Valuation techniques that rely to a greater extent on non-observable data require a higher level of management judgement to calculate a fair value than those based wholly on observable data.

The choice of contributors, the quality of market data used for pricing, and the valuation techniques used are all subject to internal review and approval procedures. Given the uncertainty and subjective nature of valuing financial instruments at fair value, any change in these variables could give rise to the financial instruments being carried at a different valuation, with a consequent impact on shareholders equity and, in the case of derivatives and contingent capital instruments, the income statement.

*Forms an integral part of the audited financial statements.

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NAMA senior bonds designation and valuation*

The Group s accounting policy for NAMA senior bonds is set out in accounting policy number 17. These bonds are separately disclosed in the statement of financial position.

NAMA senior bonds are designated as loans and receivables as they meet the criteria to be so designated.

The bases for measurement, interest recognition and impairment for NAMA senior bonds are the same as those for loans and receivables (see accounting policy numbers 6, 15, and 18). There is no active market for the NAMA senior bonds, accordingly, the fair value at initial recognition was determined using a valuation technique.

The absence of quoted prices in an active market required an increased use of management judgement in the estimation of fair value. This judgement included, but was not limited to: evaluating available market information; determining the cash flows generated by the instruments and their expected timing; identifying a risk free discount rate and applying an appropriate credit spread.

The valuation technique and critical assumptions used were subject to internal review and approval procedures. While the Group believes its estimates of fair value are appropriate, the use of different measurements, valuation techniques or assumptions could have given rise to the NAMA senior bonds being measured at a different valuation at initial recognition, with a consequent impact on the income statement.

During 2013, AIB reviewed its assumptions as to the expected timing of future cash flows based on its experience of repayments to date, as required by IAS 39, AG8. Following this review, AIB adjusted the carrying value of the bonds and reflected the difference (62 million) between the previous carrying value and new carrying value in the income statement. If the revised assumptions when reassessed prove to be different, this will impact the carrying value and income statement in future periods.

NAMA senior bonds are subject to the same credit review processes and procedures as for loans and receivables (accounting policy number 15).

Retirement benefit obligations*

The Group s accounting policy for retirement benefit plans is set out in accounting policy number 11.

The Group provides a number of defined benefit and defined contribution retirement benefit schemes in various geographic locations, the majority of which are funded. All defined benefit schemes were closed to future accrual with effect from 31 December 2013.

Scheme assets are valued at fair value. Scheme liabilities are measured on an actuarial basis, using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

In calculating the scheme liabilities and the charge to the income statement, the Directors have chosen a number of financial and demographic assumptions within an acceptable range, under advice from the Group s actuaries which include price inflation, pension increases, earnings growth and the longevity of scheme members. The impact on the income statement and statement of financial position could be materially different if a different set of assumptions were used. The assumptions adopted for the Group s pension schemes are set out in note 12 to the financial statements, together with a sensitivity analysis of the scheme liabilities to changes in those assumptions.

Basis of consolidation*

For third party acquisitions, assets acquired and liabilities assumed are measured at their acquisition date fair values.

Where these acquisitions relate to the acquisition of a business between entities under the control of the Irish Government, assets acquired and liabilities assumed are measured at their carrying value in the books of the transferor at the date of transfer, adjusted for any differences in accounting policies.

*Forms an integral part of the audited financial statements.

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Financial review - 6. Deposits and short term borrowings

Customer accounts

The following table analyses average deposits by customers based on the location of the offices in which the deposits are recorded for 2013, 2012 and 2011:

	2013	2012	2011
	Total	Total	Total
	m	m	m
Domestic offices			
Current accounts	**12,177**	11,251	11,179
Deposits:			
Demand	**7,029**	7,311	5,388
Time	**30,281**	30,986	31,068
Repurchase agreements	**3,808**		
	53,295	49,548	47,635
Foreign offices			
Current accounts	**4,442**	4,326	4,144
Deposits:			
Demand	**2,276**	2,368	1,920
Time	**4,633**	6,646	6,759
	11,351	13,340	12,823
Total	**64,646**	62,888	60,458

Current accounts are both interest bearing and non-interest bearing checking accounts raised through AIB Group s branch network in Ireland, Northern Ireland and Great Britain.

Demand deposits attract interest rates which vary from time to time in line with movements in market rates and according to size criteria. Such accounts are not subject to withdrawal by cheque or similar instrument and have no fixed maturity dates.

Time deposits are generally larger, attract higher rates of interest than demand deposits and have predetermined maturity dates.

Customer accounts by currency

The following table analyses customer deposits by currency as at 31 December:

	2013	2012	2011
	Total	Total	Total
	m	m	m
Euro	**52,788**	49,755	46,376
US dollar	**1,143**	1,145	1,197
Sterling	**11,631**	12,567	12,974
Other currencies	**105**	143	127
Total	**65,667**	63,610	60,674

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Large time deposits and certificates of deposit

The following tables show details of the Group s large time deposits and certificates of deposit (US$ 100,000 and over or the equivalent in other currencies) by time remaining until maturity as at 31 December 2013, 2012 and 2011.

					2013
	3 months or less	**After 3 months but within 6 months**	**After 6 months but within 12 months**	**After 12 months**	**Total**
	m	**m**	**m**	**m**	**m**
Large time deposits					
Domestic offices	**8,505**	**3,123**	**4,096**	**2,698**	**18,422**
Foreign offices	**1,737**	**809**	**621**	**164**	**3,331**
Total	**10,242**	**3,932**	**4,717**	**2,862**	**21,753**

					2012
	3 months or less	After 3 months but within 6 months	After 6 months but within 12 months	After 12 months	Total
	m	m	m	m	m
Large time deposits					
Domestic offices	10,570	4,574	5,622	2,851	23,617
Foreign offices	1,895	707	890	366	3,858
Certificates of deposit					
Domestic offices	8	23	3		34
Foreign offices					
Total	12,473	5,304	6,515	3,217	27,509

	2011				
	3 months or less	After 3 months but within 6 months	After 6 months but within 12 months	After 12 months	Total
	m	m	m	m	m
Large time deposits					
Domestic offices	8,479	2,867	3,389	1,953	16,688
Foreign offices	2,912	935	1,464	357	5,668
Certificates of deposit					
Domestic offices	36	5	17		58
Foreign offices	194		19		213
Total	11,621	3,807	4,889	2,310	22,627

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Financial review - 6. Deposits and short term borrowings

Short-term borrowings

The following table shows details of short-term borrowings of AIB Group for the years ended 31 December 2013, 2012 and 2011:

	2013	2012	2011
	Total **m**	Total m	Total m
Commercial Paper:			
End of year outstandings	**79**		
Highest month-end balance	**234**		423
Average balance	**122**		35
Average rate of interest			
At end of year	**0.56%**		
During the year	**0.93%**		1.25%
Repurchase agreements:			
End of year outstandings	**16,394**	16,700	32,878
Highest month-end balance	**19,442**	32,845	49,088
Average balance	**18,052**	21,891	39,646
Average rate of interest			
At end of year	**0.19%**	0.58%	0.98%
During year	**0.38%**	0.78%	1.33%
Other short-term borrowings:			
End of year outstandings	**1,496**	4,283	6,752
Highest month-end balance	**3,918**	8,499	11,987
Average balance	**1,492**	7,470	7,363
Average rate of interest			
At end of year	**3.09%**	3.30%	2.21%
During year	**1.04%**	3.51%	1.99%

Average interest rates during the year are computed by dividing total interest expense by the average amount borrowed. Average interest rates at the year end are average rates for a single day and as such may reflect one-day market distortions which may not be indicative of generally prevailing rates. Other short-term borrowings consist principally of borrowings in the inter-bank market included within Deposits by central banks and banks and Debt securities in issue in the consolidated financial statements and generally have remaining maturities of one year or less. The maturity profiles of the above outstandings are disclosed in pages 161 and 162 of the Risk management section of this report.

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Financial review - 7. Financial investments available for sale

Available for sale debt securities

The following tables categorise AIB Group s available-for-sale debt securities by contractual residual maturity and weighted average yield at 31 December 2013, 2012 and 2011:

								2013
	Within 1 year		**After 1 but within 5 years**		**After 5 but within 10 years**		**After 10 years**	
	m	**Yield %**	**m**	**Yield %**	**m**	**Yield %**	**m**	**Yield %**
Irish Government securities			**5,513**	**4.8**	**4,517**	**4.3**	**298**	**5.2**
Euro government securities	**226**	**1.6**	**804**	**1.7**	**805**	**2.7**	**133**	**3.7**
Non Euro government securities	**81**	**2.3**	**250**	**1.2**	**136**	**3.8**	**141**	**4.3**
Supranational banks and government agencies	**381**	**2.1**	**1,942**	**1.2**	**761**	**1.5**	**8**	**0.5**
Other asset backed securities			**13**	**0.4**			**522**	**0.5**
Euro bank securities	**461**	**1.3**	**2,823**	**1.9**	**387**	**1.4**		
Non Euro bank securities	**34**	**2.9**						
Non Euro corporate securities	**3**							
Other investments			**12**					
Total	**1,186**	**1.7**	**11,357**	**3.2**	**6,606**	**3.6**	**1,102**	**2.6**

								2012
	Within 1 year		After 1 but within 5 years		After 5 but within 10 years		After 10 years	
		Yield		Yield		Yield		Yield
	m	%	m	%	m	%	m	%
Irish Government securities			3,563	5.7	3,784	5.0	241	5.3
Euro government securities	67	1.7	833	1.9	534	2.7	320	3.5
Non Euro government securities	56	0.4	344	1.5	150	3.5	162	3.9
Supranational banks and government agencies	83	0.9	1,491	1.7	98	2.0	10	0.6
Collateralised mortgage obligations			13	1.2	9	1.2		
Other asset backed securities			53	0.4	3	0.3	864	0.4
Euro bank securities	932	3.5	2,048	3.1	90	2.7		

Non Euro bank securities	35	4.0	126	2.8				
Euro corporate securities	26	3.4	45	6.6	8	6.2	8	7.4
Non Euro corporate securities	44	4.1	82	4.1	39	6.4	28	6.0
Other investments			12	6.9				
Total	1,243	3.1	8,610	3.8	4,715	4.6	1,633	2.2

								2011
	Within 1 year		After 1 but within 5 years		After 5 but within 10 years		After 10 years	
		Yield		Yield		Yield		Yield
	m	%	m	%	m	%	m	%
Irish Government securities	693	3.8	2,204	6.9	2,113	6.6	207	6.5
Euro government securities	137	2.5	810	2.0	621	2.9	292	3.8
Non Euro government securities	63	0.7	361	1.7	417	3.7	429	3.9
Supranational banks and government agencies	131	3.7	896	2.0	107	2.6	14	1.0
Collateralised mortgage obligations			9	1.9	10	3.9	489	0.6
Other asset backed securities			29	2.3	32	2.0	1,149	2.0
Euro bank securities	968	2.3	1,896	4.3	191	4.1		
Non Euro bank securities	232	1.7	200	2.9	44	3.0		
Euro corporate securities	17	3.1	74	6.4	12	9.2	7	8.3
Non Euro corporate securities	35	2.7	154	4.9	65	8.0	25	6.3
Other investments			12	6.9				
Total	2,276	2.7	6,645	4.4	3,612	5.3	2,612	2.7

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Financial review - 7. Financial investments available for sale

Available for sale debt securities *(continued)*

Financial investments available for sale unrealised gains/losses

The following table gives the fair value of financial investments available for sale by major classifications together with the gross unrealised gains and losses at 31 December 2011. See note 29 of the financial statements for this analysis for 2013 and 2012.

						2011
	Fair value m	Unrealised gross gains m	Unrealised gross losses m	Net unrealised gains/(losses) m	Tax effect m	Net after tax m
Debt securities						
Irish Government securities	5,217	40	(531)	(491)	61	(430)
Euro government securities	1,860	102	(62)	40	(5)	35
Non Euro government securities	1,270	207	(3)	204	(40)	164
Supranational banks and government agencies	1,147	10	(1)	9	(1)	8
Collateralised mortgage obligations	509		(12)	(12)	2	(10)
Other asset backed securities	1,210		(353)	(353)	44	(309)
Euro bank securities	3,055	43	(77)	(34)	4	(30)
Non Euro bank securities	476	4	(12)	(8)	1	(7)
Euro corporate securities	110	4	(6)	(2)		(2)
Non Euro corporate securities	279	15	(5)	10	(2)	8
Other investments	12					
Total debt securities	15,145	425	(1,062)	(637)	64	(573)
Equity securities						
Equity securities - NAMA subordinated bonds	132					
Equity securities - other	112	18	(24)	(6)		(6)
Total financial investments available for sale	15,389	443	(1,086)	(643)	64	(579)

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Financial review - 8. Contractual obligations

Financial liabilities by undiscounted contractual cash flows are set out in pages 162 and 163 of the Risk management section of this report. The tables in this section provide details of the contractual obligations of the Group as at 31 December 2013, 2012 and 2011 in respect of capital expenditure and operating lease commitments.

					2013
	Less than 1 year	**1 to 3 years**	**3 to 5 years**	**After 5 years**	**Total**
	m	**m**	**m**	**m**	**m**
Contractual obligations					
Capital expenditure commitments	**25**				**25**
Operating leases	**66**	**123**	**373**	**196**	**758**
Total	**91**	**123**	**373**	**196**	**783**

					2012
	Less than 1 year	1 to 3 years	3 to 5 years	After 5 years	Total
	m	m	m	m	m
Contractual obligations					
Capital expenditure commitments	7				7
Operating leases	73	135	124	507	839
Total	80	135	124	507	846

					2011
	Less than 1 year	1 to 3 years	3 to 5 years	After 5 years	Total
	m	m	m	m	m

Contractual obligations					
Capital expenditure commitments	11				11
Operating leases	80	134	126	557	897
Total	91	134	126	557	908

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Risk management

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Risk management 1. Risk factors

Introduction

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 set out in summary form below and described in more detail in subsequent pages. This list of principal risks and uncertainties should not be considered as exhaustive and other factors, not yet identified, or not currently considered material, may adversely affect the Group.

Macro-economic and geopolitical risk

- The Group s access to funding and liquidity is adversely affected by the financial instability within the eurozone.
- Constraints on liquidity, and market reaction to factors affecting Ireland and the Irish economy have created a challenging environment for the management of the Group s liquidity.
- The Group s business may be adversely affected by 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.

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

- The Group is subject to 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 National Asset Management Agency (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.

Risks related to business operations, governance and internal control systems

The 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 elevated operational risks.

The Group s risk management strategies and techniques may be unsuccessful.

There is a risk of litigation arising from the Group s activities.

Risk management 1. Risk factors

Macro-economic and geopolitical risk

The Group s access to funding and liquidity is adversely affected by the financial instability within the eurozone

While economic, monetary and political conditions have stabilised within the eurozone in the past twelve months, there is still a risk that certain EU/Eurozone members may not be able to support their sovereign debt burdens and meet future financial obligations, which may result in a further downgrade of sovereign credit ratings. This could adversely affect the cost and availability of funding to EU Member States and European banks. The Irish sovereign rating has a direct impact on the Group s rating, which is a key factor in attracting and retaining deposits. Any downgrade of Ireland s sovereign rating or the Group s rating could threaten the Group s liquidity and funding including the Group s deposit base and could also impede access to wholesale funding markets.

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

Until recently, the Group has been operating in an exceptionally challenging environment where wholesale market conditions restricted the Group s access to wholesale funding other than short duration and mainly secured funding. However, there has been recent improvement in market sentiment towards Irish issuers and the Group has re-engaged in the wholesale funding market through the issuance of long dated secured and unsecured debt. However, any renewed stress or deterioration in credit market conditions could further restrict the Group s access to wholesale funding.

The continuing availability of customer deposits to fund the Group s loan portfolio is subject to factors outside the Group s control, such as the loss of confidence of depositors in the Irish economy, the Irish financial services industry or the Group. Any loss of confidence in the Group, or in the financial services industry generally, could lead to losses of deposits over a short period of time.

To meet its funding requirements, the Group has accessed a range of central banks liquidity facilities, including certain additional liquidity schemes introduced by central banks for market participants during periods of dislocation in the funding markets. This included a switch from short term ECB drawings into two 3-year longer-term refinancing operations in December 2011 and March 2012. In accessing central bank and other secured lending facilities, the Group has relied significantly on its qualifying liquid assets. The completion of the deleveraging programme combined with a stable customer deposits base has reduced the Group s reliance on ECB funding and central bank liquidity facilities. The Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (Statutory Instrument No. 490 of 2009), as amended (the ELG Scheme) was closed to covering further liabilities on 28 March 2013 (AIB Group (UK) p.l.c. announced its withdrawal from the ELG scheme in August 2012), and to date, these have had a negligible impact on deposit balances. However, in the unlikely event that the Group exhausts its stock of available collateral for funding and unsecured funding is unavailable, it would be necessary to seek alternative sources of funding, including continued support from the Irish Government.

The Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), published in the EU Official Journal on 27 June 2013, require banks to meet liquidity requirements including targets set for Basel III ratios, Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratio (LCR). Meeting the phased implementation

deadlines of these requirements could impose additional costs on the Group.

The Group s business may be adversely affected by deterioration in economic and market conditions

Deterioration in the performance of the Irish economy or other relevant economies has the potential to adversely affect the Group s overall financial condition and performance. Such deterioration could result in reductions in business activity, lower demand for the Group s products and services, reduced availability of credit, increased funding costs, decreased asset values and additional write downs and impairment charges.

While there are some signs of improvement and stabilisation in the Irish economy, any renewed stress or deterioration could impact the return of normalised markets for commercial and residential property. As the Group remains heavily exposed to the Irish property market, a prolonged delay in the recovery of the Irish market could have a negative impact on levels of arrears, the Group s collateral values and consequently, have a material impact on the Group s future performance and results.

General economic conditions continue to be very challenging for customers. A continued high level of unemployment together with any further reduction in borrowers disposable income (for example current and future budgetary measures and reduction in salaries) has the potential to negatively impact customers ability to repay existing loans. This could result in additional write downs and impairment charges for the Group and negatively impact its capital and earnings position. Challenging economic conditions will also influence the demand for credit in the economy. A declining or continuing muted demand for credit has the potential to impact the Group s financial position.

Contagion risks could disrupt the markets and adversely affect the Group s financial condition

The risk of contagion in the markets in which the Group operates and dislocations caused by the interdependency of financial markets participants is an on-going material risk to the Group s financial condition. Any reductions in the perceived creditworthiness of one or more corporate borrowers or financial institutions could lead to market-wide liquidity problems, losses and defaults, which could

adversely affect the Group s results, financial condition and future prospects. Another source of potential contagion risk relates to the Euro. The risk of a eurozone member withdrawing from the eurozone has significantly reduced. However, if a eurozone member exited from the eurozone, this would have a significant adverse effect on the financial stability of the eurozone, the Irish financial system and Irish banks. In turn, this could result in a loss of customers deposits, as well as creating immediate operational and business challenges for the Group.

The Group faces market risks, including non-trading interest rate risk

Market risk is defined as the risk to the Group s earnings and shareholder value resulting from adverse movements in the level or volatility of market prices of debt instruments, equities and currencies. The market risk associated with the Group s trading activities is predominantly the result of the facilitation of client business and secondarily, the discretionary positioning activities of the Group in debt instruments, foreign exchange and equity products.

Interest rate risk in the Banking Book (IRRBB) is defined as the Group s sensitivity to earnings volatility in its non-trading activity arising from movements in interest rates. It reflects a combination of interest rate risk arising from the retail, commercial and corporate operations and Banking Book positions maintained by the Group s Treasury function.

Among the most significant market risks which the Group faces are credit spread, interest rate, foreign exchange, bond and equity price risks. Changes in credit spread affect the values of Available for Sale (AFS) bonds, and also the magnitude of the Credit Value Adjustment (CVA) applied to the Group s derivative positions. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin between lending and borrowing costs, the effect of which may be heightened during periods of liquidity stress, such as those experienced in recent times.

Changes in currency rates, particularly in the euro-sterling rate, affect the value of assets and liabilities denominated in foreign currencies and the reported earnings of the Group s non-Irish subsidiaries and may affect income from foreign exchange dealing. The performance of financial markets may affect bond and equity prices causing changes to the value of the Group s investment and trading portfolios.

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

The Group is subject to Government supervision and oversight

As a result of the recapitalisation of the Group by the Irish Government, the Group is subject to a set of obligations outlined under a number of Subscription and Placing Agreements impacting on the Group s governance, remuneration, operations and lending activities. These obligations are in addition to certain commitments and restrictions to the operation of the Group s business under the Credit Institutions (Financial Support) Scheme 2008 (the CIFS Scheme) and NAMA programme, all of which may serve to limit the Group s operations and place significant demands on the reporting systems and resources of the Group.

Extensive powers continue to be conferred on the Irish Minister for Finance. The Credit Institutions (Stabilisation) Act 2010 (the Stabilisation Act) conferred extensive powers on the Irish Minister for Finance to direct the affairs of and restructure credit institutions and reorganise their assets and liabilities. Pursuant to the Act, directors are required to

act in a manner that is aligned to the interests of the State in the performance of their duties, having regard to public interest considerations specified in the Act. The Stabilisation Act will cease to have effect on 31 December 2014.

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 is substantially owned by an agency of the Irish State and accordingly, subject to EU state aid rules, controlled by the Irish State. Such ownership or control may affect the Group s operations, financial condition and future prospects.

In order to comply with contractual commitments imposed on the Group in connection with its recapitalisation by the Irish State and with the requirements of European Union (EU) state aid applicable in respect of that recapitalisation, a relationship framework was entered into between the Minister for Finance (the Minister) and the Group in March 2012. This provides the framework under which the relationship between the Minister and the Group is governed. Under this relationship framework, the authority and responsibility for strategy and commercial policies (including business plans and budgets) and conducting the Group s day-to-day operations rest with the Board of the Group and its management team, but the appointment or removal of the chairman or chief executive officer of the Group are reserved to the Minister, and in respect of which the Board may only engage with the prior consent of the Minister.

Nevertheless, for so long as ownership of the Group remains within State control, there remains a risk of intervention by the Irish Government in relation to the operations and policies of the Group. Such further interventions may have a negative impact on the operations of the Group.

The Irish State may sell or otherwise dispose of its ownership interest in the Group to any private or public entity, including any intergovernmental institution, such as the European Stability Mechanism. Any such sale or disposal, and any conditions attaching to it, could materially affect the Group s operations, financial condition and future prospects.

The Group may be subject to the risk of having insufficient capital to meet increased minimum regulatory requirements

The Group s target capital requirements as determined by the Central Bank of Ireland under the 2011 Prudential Capital Assessment Review (PCAR) are a core tier 1 ratio of 10.5% in a base scenario and 6% in a stressed scenario, (excluding a requirement for an additional protective buffer). As at December 2013, the Group core tier 1 ratio was 14.3%, which is above the required level. The Group carries out extensive forward-looking stress tests on its capital position on a regular basis and, over the course of 2013, these have confirmed that the Group does not require additional capital within the defined stress level. However, given the levels of uncertainty in the current economic environment, there is a possibility that the economic outturn over the capital planning period may be materially worse than the stress scenario envisages and/or that losses on the Group s credit portfolio may be above forecast levels. Were such losses to be significantly greater than currently forecast, there is a risk that the Group s capital position could be eroded to the extent that it would have insufficient capital to meet its regulatory requirements.

The Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), the EU s implementation of the Basel III reforms, were published in the EU Official Journal on 27 June 2013. As a result of these regulations, credit institutions may be required to increase the quantity and quality of their regulatory capital. Full details of requirements in this regard have yet to be confirmed by the competent authorities, and it is possible that the Group s target regulatory capital requirements may ultimately increase as a result.

The Central Bank of Ireland conducted a balance sheet assessment of the three Irish credit institutions covered under the Eligible Liabilities Guarantee, including AIB, during the fourth quarter of 2013. This review included an assessment of asset quality, risk weighted assets and point in time capital as at 30 June 2013. AIB has been advised of the findings of this review and has considered them in the preparation of the Group s year end December 2013 impairment provisions and financial statements.

In addition, the ECB announced during October 2013 that it will undertake a comprehensive assessment of the banking system, to be concluded in October 2014. This ECB exercise will entail a Supervisory Risk Assessment, an Asset Quality Review and a Stress Test in order to provide a forward-looking view of banks shock absorption capacity under stress. The assumptions under which these assessments take place (including use of Open Market Value or Economic Value basis for property valuations and provisons assessment) have yet to be confirmed. The outcome of these assessments may lead to a range of follow-up actions for banks, possibly including requirements for changes in the Group s capital requirements.

The Group s business activities must comply with increasing levels of regulation

In 2013, a significant number of new regulations were issued by both the Central Bank of Ireland and the EU. A particular focus, in light of the mortgage forbearance issue, has been the introduction of a revised Code of Conduct on Mortgage Arrears and new personal insolvency legislation, which had taken full effect by December 2013. A risk arises from potential changes in customer attitude to debt obligations given that the new legislation allows for the agreed settlement of unsecured debt, and the settlement and/or restructuring of secured debts up to a maximum of 3 million. The inclusion of secured debt in the non-judicial process is unprecedented, and therefore, it is difficult to gauge its impact. The legal uncertainty with regard to the availability of certain remedies for the enforcement of

mortgages over Irish land entered into prior to 1 December 2009 has been removed by the Land and Conveyancing Law Reform Act 2013 which was enacted on 24 July 2013.

The long anticipated revision to the EU Capital Requirements Directive and Regulation (CRD IV) came into force on 1 January 2014 and will be gradually implemented over 5 years. This omnibus legislation will, among other measures, increase capital buffers and introduce new liquidity and leverage ratios for greater transparency. It also provides for the introduction in November 2014 of a new banking supervisory system (a Single Supervisory Mechanism) which will see the eurozone s largest banks, including AIB, coming under the direct supervision of the European Central Bank. Other measures likely to impact on the business in 2014 include the Credit Reporting Bill, creating a new centralised credit bureau, and the revised Corporate Governance Code.

The delivery of this level of regulatory change will place strain on the organisation s resources, particularly, during a period of significant restructuring and consolidation. The challenge of meeting tight implementation deadlines while balancing competing resource priorities and demands adds to the regulatory risk to the Group. These may also impact significantly on the Group s future product range, distribution channels, funding sources, capital requirements and consequently, reported results and financing requirements.

The Group s participation in the NAMA Programme gives rise to certain residual financial risks

On 8 April 2009, the Minister announced that a National Assets Management Agency (NAMA) would be established on a statutory basis for the purpose of strengthening the Irish financial system as a whole. Legislation was enacted (the National Asset Management Agency Act 2009 (NAMA Act)) in November 2009 which established NAMA with the Group being designated in February 2010 as a participating institution under the NAMA Act.

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During 2010 and 2011, the Group transferred financial assets to NAMA with a net carrying value of 15.5 billion for which it received as consideration NAMA senior and NAMA subordinated bonds.

Section 93 of the NAMA Act (Claw back of overpayments) provides that where a participating institution receives an amount to which it was not entitled, that the participating institution will repay such amount to NAMA. Any payments to NAMA in relation to such Claw back may have an adverse effect on the Group. Section 135 of the NAMA Act and Clause 9.2 of NAMA s Acquisition Terms and Conditions directs the Group to provide a series of indemnities to NAMA relating to the transferred assets. Any payment by the Group to NAMA in respect of the indemnities may have an adverse effect on the Group.

Furthermore, Section 225 of the NAMA Act provides that, on the dissolution or restructuring of NAMA, the Irish Minister for Finance may require that a report and accounts be prepared. In the event that the NAMA report and accounts show that an aggregate loss has been incurred during the period since its establishment, the Minister may impose a surcharge on AIB, as a participating institution (under additional legislation which would be enacted). No surcharge will become payable until either (a) 10 years after the passing of the NAMA Act; or (b) NAMA is dissolved or restructured, or there is a material alteration of NAMA s functions, whichever is last to occur.

In addition, credit exposure to NAMA arises from the senior and subordinated NAMA bonds acquired by the Group in consideration for the transfer of assets to NAMA.

Any of these events may serve to limit the Group s operations and could have a material adverse effect on the Group s results, financial condition and future prospects.

The Group may be adversely affected by further austerity and budget measures introduced by the Irish Government

The current and future budgetary and taxation policy of the Irish State and other measures adopted by the Irish Government may have an adverse impact on borrowers ability to repay their loans and, as a result, the Group s business. Furthermore, some measures may directly impact the financial performance of the Group through the imposition of measures, such as the recently imposed bank levy.

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

In accordance with IFRS, the Group recognises at fair value: (i) derivative financial instruments; (ii) financial instruments at fair value through profit or loss; (iii) certain hedged financial assets and financial liabilities; and (iv) financial assets classified as available for sale (AFS). The best evidence of fair value is quoted prices in an active market. The absence of quoted prices due to the deterioration of the world s financial markets increases reliance on valuation techniques and requires the use of judgement in the estimation of fair value. This judgement includes, but is not limited to, evaluating available market information, determining the cash flows for the instruments, identifying a risk free discount rate and applying an appropriate credit spread. Valuation techniques that rely to a greater extent on

non-observable data require a higher level of management judgement to calculate fair value than those based on wholly observable credit spread.

The choice of contributors, the quality of market data used for pricing, and the valuation techniques used are all subject to internal review and approval procedures. Given the uncertainty and subjective nature of valuing financial instruments at fair value, any change in these variables could give rise to the financial instruments being carried at a different value, with a consequent impact on the Group s results, financial condition and future prospects.

The Group s deferred tax assets depend substantially on the generation of future profits over an extended number of years

The Group s business performance may not reach the level assumed in the projections supporting the carrying value of the deferred tax assets. Lower than anticipated profitability within Ireland and the UK would lengthen the anticipated period over which the Group s Irish and UK tax losses would be used. The value of the deferred tax assets relating to unused tax losses constitutes substantially all of the deferred tax assets recognised in the Group s statement of financial position. A significant reduction in anticipated profit, or changes in tax legislation, regulatory requirements, accounting standards or relevant practices, could adversely affect the basis for recognition of the value of these losses, which would adversely affect the Group s results and financial condition, including capital and future prospects.

New capital adequacy rules, consistent with Basel III principles, are within the EU Capital Requirements Regulation (part of the Capital Requirements Directive IV package). The new rules will, inter alia, require the Group to deduct from its common equity capital, the value of most of the Group s deferred tax assets, including all deferred tax assets arising from unused tax losses. The deduction from common equity capital is to be phased in evenly over 10 years.

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Risk management 1. Risk factors

Risks related to business operations, governance and internal control systems

The 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

Risks arising from changes in credit quality and the recoverability of loans and other amounts due from customers and counterparties are inherent in a wide range of the Group s businesses. In addition to the credit exposures arising from loans to individuals, SMEs and corporates, the Group also has exposure to credit risk arising from loans to financial institutions, its trading portfolio, available for sale securities portfolio, derivatives and from off-balance sheet guarantees and commitments. The Group has been exposed to increased counterparty risk as a result of financial institution failures during the global economic crisis. The Group is also exposed to credit risks relating to sovereign issuers. Concerns in respect of Ireland and other sovereign issuers, including other European Union Member States, have adversely affected and could continue to adversely affect the financial performance of the Group.

The Group faces elevated operational risks

The Group faces an elevated operational risk profile given the current economic environment and in the context of taking forward the significant organisational changes required to support the delivery of cost savings and the impact of an on-going organisational voluntary severance programme.

One of its key operational risks is people risk. The Group s efforts to restore and sustain the stability of its business on a long-term basis depend, in part, on the availability of skilled management and the continued service of key members of staff both at its head office and at each of its business units.

Under the terms of the recapitalisation of the Group by the Irish Government, the Group is required to comply with certain executive pay and compensation arrangements. As a result of these restrictions, the Group cannot guarantee that it will be able to attract, retain and remunerate highly skilled and qualified personnel in a highly competitive market. Failure by the Group to staff its day-to-day operations appropriately or failure to attract and appropriately develop, motivate and retain highly skilled and qualified personnel could have an adverse effect on the Group s results, financial condition and prospects.

Delivering the overall level of change has placed, and will continue to place, added risk on the organisation, including the challenge to meet tight delivery timelines in the face of competing priorities and resource demands. Negative public or industry opinion can result from the actual, or perceived, manner in which the Group conducts its business activities or from the restructuring of the Group. This could adversely affect the Group s ability to keep and attract customers, the loss of which would adversely affect the Group s results, financial condition and prospects. Similarly, any weakness in the Group s risk controls or loss mitigation actions in respect of operational risk could have a material adverse effect on the Group s results, financial condition and operations.

The Group s risk management strategies and techniques may be unsuccessful

The Group is exposed to a number of material risks. In order to minimise these risks, the Group has implemented a number of 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.

Some of the Group s measures for managing risk are based upon observation of historical market behaviour. Where this is so, the Group applies statistical techniques to these observations to quantify its risk exposures. If circumstances arise that the Group, in developing its models, did not identify or anticipate, the losses could be greater than expected.

Furthermore, the Group s quantifications of risk do not take all risks into account. If the Group s measures to assess and mitigate risk prove insufficient, the Group may experience material unexpected losses.

There is a risk of litigation arising from the Group s activities

The Group operates in a legal and regulatory environment that exposes it to potentially significant litigation and regulatory risks. Disputes and legal proceedings in which the Group may be involved are subject to many uncertainties, and their outcomes are often difficult to predict, particularly in the early stages of a case or investigation. Adverse regulatory action or adverse judgments in litigation could result in a monetary fine or penalty, adverse monetary judgement or settlement and/or restrictions or limitations on the Group s operations or result in a material adverse effect on the Group s reputation.

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Risk management 2. Framework

Introduction

The key risk factors to which the Group is exposed are set out in the previous section. The governance and organisation framework through which the Group manages and seeks, where possible, to mitigate these risks, are described below.

2.1 Risk management framework

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

2.2 Risk appetite

The Group s risk appetite is defined as the amount of risk that the Group is prepared to accept in order to deliver on its strategic and business objectives. The Group Risk Appetite Statement (RAS) is a blend of qualitative statements and quantitative limits and triggers linked to the Group s strategic objectives, and is supported by a number of business segment level risk appetite statements.

The Group RAS and Risk Appetite Framework are Board approved and reviewed at least annually or more often if required in alignment with the annual business and financial budgeting process. The Group RAS has recently undergone a review and update process (previously approved in March 2013) during the period November 2013 February 2014 in order to align with the Group s Business and Financial Plan 2014-2016 which was approved by the Board in December 2013. The revised Group RAS will be presented for Board approval in March 2014.

All Group licensed subsidiaries and segments are required to document and align their own risk appetite statements with the Group statement. This work was initiated and is being facilitated in tandem with the review and update process of the Group RAS and will be completed in the first quarter of 2014.

While the Board reviews and approves the Group s Risk Appetite Framework and RAS, the Leadership Team is accountable for ensuring that risks remain within appetite. The Group s risk profile is measured against its risk appetite on a monthly basis and exceptions to risk appetite are reported to the Executive Risk Committee (ERC) and Board Risk Committee (BRC). Material breaches of risk appetite, should they arise, are escalated to the Central Bank.

2.3 Risk governance and risk management organisation

The Board has ultimate responsibility for the governance of all risk taking activity in the Group. The Group has adopted a three lines of defence framework in the delineation of accountabilities for risk governance. Under the three lines of defence model, primary responsibility for risk management lies with business line management. The Risk

Management function provides the second line of defence, providing independent oversight and challenge to business line managers. During 2013, a new Head of Compliance was appointed with a direct reporting line to the Group Chief Risk Officer (CRO). The third line of defence is the Group Internal Audit function which provides independent assurance to the Audit Committee of the Board on the effectiveness of the system of internal control.

Risk governance - Committees

While the Board has ultimate responsibility for the governance of all risk taking activity within AIB, it has delegated a number of risk governance responsibilities to various committees or key officers. The diagram on the following page, summarises the current risk governance structure of the Group. The role of the Board, the Audit Committee, and the BRC is set out in the Corporate Governance statement. The Leadership Team comprises the senior executive managers of the Group who manage the strategic business risks of the Group. It establishes the business strategy and risk appetite within which the risk management function operates.

The ERC is the principal executive forum for the review and challenge of enterprise-wide risk management and control. The CRO chairs the ERC. The principal duties of the ERC are to:

- Continuously review the effectiveness of the Group s risk frameworks and policies;
- Monitor and review the Group s risk profile, risk trends, risk concentrations and policy exceptions; and
- Review all breaches of Board and Leadership Team approved risk appetite and limits.

The ERC acts as the parent body of a number of other risk and control committees, namely, the Group Credit Committee (GCC), the Strategic Credit Forum (SCF) and the Product and Conduct Committee (PCC). The GCC exercises approval authority in respect of Board approved credit policies as well as reviewing and approving other credit related matters. The SCF is charged with responsibility for governance of Group credit risk strategy, credit risk appetite, quality and impairment provision adequacy. The PCC approves the launch of new products and oversees the Group s conduct risk management. The PCC plays a key role in promoting and supporting customer centric ethos and culture across the Group.

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Risk governance - Committees (continued)

The role of the Asset and Liability Committee (ALCo) is to act as the Group s strategic balance sheet management forum that combines a business-decisioning and risk governance mandate. It is a sub-committee of the Leadership Team, chaired by the Chief Financial Officer (CFO) and tasked with decision-making in respect of the Group s balance sheet structure, including capital, liquidity, funding, interest rate risk in the Banking Book (IRRBB) from an economic value and net interest margin perspective, foreign exchange (FX) hedging risks and other market risks. Group ALCo also acts as the parent body of the Product Pricing Committee (PPC) and the Capital Committee (CC).

The PPC, as a sub-committee of ALCo, has delegated authority for the oversight and direction of balance sheet management and net interest margin; this specifically includes the approval of product pricing. The CC is responsible for fostering sound capital management and planning within AIB Group as well as ensuring that the quality and quantum of capital held by the Group is commensurate with its business objectives and risk appetite. The CC has delegated authority to the Capital Model Governance Committee to review and approve models used by the Group for calculating expected and unexpected losses and stress testing.

During 2013, both the Financial Solutions Group (FSG) Oversight Committee and the Deleveraging Committee were retired as sufficient oversight of FSG exists within the Leadership Team and the Group has successfully met its deleveraging targets.

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Individuals and functions

The role of certain key officers within the Group s risk management framework is described below.

Chief Risk Officer

The CRO has independent oversight of the Group s enterprise-wide risk management activities across all risk types. The CRO is a member of the Leadership Team and reports independently to the CEO and the Chairman of the Board Risk Committee. The CRO s responsibilities include:

- Providing second line assurance to Senior Management and the Board across all risk types;
- Developing and maintaining the Enterprise Risk Management framework;
- Providing independent reporting to the Board on all risk issues, including the risk appetite and risk profile of the Group; and
- Providing independent assurance to the CEO and Board that material risks are identified across all risk types and managed by line management and that the Group is in compliance with enterprise risk policies, processes and limits.

Head of Internal Audit

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

2.4 Risk identification and assessment process

Risk is identified and assessed across the Group through a combination of top-down and bottom-up risk assessment processes. Top-down risk assessment processes seek to identify the material risks facing the Group, both in the context of the Group s agreed risk appetite and in the identification of new and emerging threats. Top-down risk assessments are carried out on a regular basis and are reviewed by the ERC and the BRC. These assessments form critical inputs into the Group s Internal Capital Adequacy Assessment Process (ICAAP). Bottom-up risk assessment processes are more granular, focusing on risk events that have been identified through specific qualitative and quantitative measurement tools. More information on the key bottom-up risk assessment techniques across material risk types can be found in the individual risk sections below.

2.5 Stress and scenario testing

The Group s risk identification and assessment framework described above is supported by a framework of stress testing, scenario and sensitivity analysis and reverse stress testing that seeks to ensure that risk assessment is dynamic and forward looking and considers not only existing risks but also potential and emerging threats. The Group undertakes a regular programme of stress testing across all its material risks to meet internal and regulatory

requirements. In addition, ad-hoc stress tests are undertaken, as required, to inform strategic decision making.

2.6 Risk training

During 2013, a Risk Academy was established with the primary aim of providing access to all recommended learning and development for risk professionals, as well as supporting the on-going development of risk skills across the AIB organisation. The Learning Pyramid incorporates a core curriculum of three interlinked development streams for risk professionals: technical risk skills, business/product specific skills and professional and personal development skills.

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

3.1 Credit risk[1];

3.2 Liquidity risk;

3.3 Market risk;

3.4 Structural foreign exchange risk;

3.5 Operational risk;

3.6 Regulatory compliance risk; and

3.7 Pension risk.

Parent company risk information is set out in section 3.8 below.

(1) The credit risk disclosures in this section are aligned with the Central Bank of Ireland guidelines issued in December 2011 and May 2013 respectively.

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3.1 Credit risk

Credit risk is the risk that the Group will incur losses as a result of a customer or counterparty being unable or unwilling to meet a commitment that they have 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.

Credit risk management objectives are to:

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

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

Credit risk organisation and structure

The Group s credit risk management systems operate through a hierarchy of lending authorities. All customer loan requests are subject to a credit assessment process.

The role of the Credit Risk function is to provide direction, oversight and challenge of credit risk-taking. The Group Risk Appetite Statement sets out the credit risk appetite and framework. Credit Risk appetite is set at Board level and is described, reported and monitored through a suite of metrics. These metrics are supported by more detailed appetite metrics at a segment level. These are also supported by a comprehensive suite of credit risk policies, concentration limits, product and country limits to manage concentration risk and exposures within the Group s approved risk appetite. The Group s risk appetite for credit risk is reviewed and approved annually.

AIB operates credit approval criteria which:

- Includes a clear indication of the Group s target market(s), in line with Group and Segment Risk Appetite Statements;
- Require a thorough understanding and assessment of the borrower or counterparty, as well as the purpose and structure of credit, and the source of repayment; and
- Enforce compliance with minimum credit assessment and facility structuring standards.

Credit risk approval is undertaken by experienced credit risk professionals operating within a defined delegated authority framework. The AIB Board is the ultimate credit approval authority and grants authority to various Credit Committees and individuals to approve limits. Credit limits are approved in accordance with the Group s written

policies and guidelines. All exposures above certain levels require approval by the Group Credit Committee (GCC). Other exposures are approved according to a system of tiered individual authorities which reflect credit competence, proven judgement and experience. Depending on the borrower/connection, grade or weighted average facility grade and the level of exposure, limits are sanctioned by the Relevant Credit Authority. Material lending proposals are referred to credit units for independent assessment/approval or formulation of a recommendation and subsequent adjudication by the applicable approval authority.

Measurement of credit risk*

One of the objectives of credit risk management is to accurately quantify the level of credit risk to which the Group is exposed. The use of internal credit rating models is fundamental in assessing the credit quality of loan exposures, with variants of these used for the calculation of regulatory capital.

The primary model measures used are:

- Probability of default (PD) the likelihood that a borrower is unable to repay his obligations;
- Exposure at default (EAD) the exposure to a borrower who is unable to repay his obligations at the point of default; and
- Loss given default (LGD) the loss associated with a defaulted loan or borrower.

To calculate PD, the Group assesses the credit quality of borrowers and other counterparties and assigns a credit grade or score to these. This grading is fundamental to credit sanctioning and approval, and to the on-going credit risk management of loan portfolios. It is a key factor in determining whether credit exposure limits are sanctioned for new borrowers and how any existing limits are managed for current borrowers.

*Forms an integral part of the audited financial statements

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Risk management 3. Individual risk types

3.1 Credit risk

Measurement of credit risk *(continued)*

The ratings methodology and criteria used in assigning borrowers to grades vary across the models used for the portfolios, but models generally use a combination of statistical analysis (using both financial and non-financial inputs) and expert judgement.

For the purposes of calculating credit risk, each probability of default model segments counterparties into a number of rating grades, each representing a defined range of default probabilities (details of these rating scales are published in the Group s Pillar 3 disclosures). Exposures migrate between rating grades if the assessment of the counterparty probability of default changes. These individual rating models continue to be refined and recalibrated based on experience.

The calculation of internal ratings differs between portfolios. In the retail portfolio, which is characterised by a large number of customers with small individual exposures, risk assessment and decisioning is largely automated through the use of statistically-based scoring models. All counterparties are assessed using the appropriate model or scorecard prior to credit approval.

Mortgage applications are generally assessed centrally with particular reference to affordability, assisted by scoring models. However, in Business Banking, some mortgage applications are assessed by the Relevant Credit Authority. Both application scoring for new customers and behavioural scoring for existing customers are used to assess and measure risk as well as to facilitate the management of these portfolios.

In the non-retail portfolio, the grading systems utilise a combination of objective information, essentially, financial data (e.g. borrowings; earnings before interest, tax, depreciation and amortisation (EBITDA); interest cover; and balance sheet gearing) and qualitative assessments of non-financial risk factors such as management quality and competitive position within the sector/industry. The combination of expert lender judgement and statistical methodologies varies according to the size and nature of the portfolio, together with the availability of relevant default experience applicable to the portfolio.

Credit grading and scoring systems facilitate the early identification and management of any deterioration in loan quality. Changes in the objective information are reflected in the credit grade of the borrower with the resultant grade influencing the management of individual loans. Special attention is paid to lower quality performing loans or criticised loans. In AIB, criticised loans include watch , vulnerable and impaired loans which are defined as follows

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

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

Impaired:

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

The Group s criticised loans are subject to more intense assessment and review because of the increased risk associated with them. Given the on-going deterioration in credit quality throughout 2012 and 2013 in the residential, retail and commercial markets, credit management and credit risk management continued to be the key area of focus. Resourcing, structures, policy and processes are subjected to on-going review in order to ensure that the Group is best placed to manage asset quality and assist borrowers in line with agreed treatment strategies.

Use of PD, LGD, and EAD within regulatory capital and impairment provisioning

As at 31 December 2013, the Group uses a combination of Standardised and Internal Ratings Based (IRB) approaches. Under the Standardised approach, regulatory risk weightings are determined on a fixed percentage basis, depending on the portfolios, as specified in the relevant regulations. The Group has regulatory approval to use its internal credit models in the calculation of its capital requirements. 37% of credit risk weighted assets were calculated using internal credit models. This approval covers the adoption of the Foundation IRB approach for non-retail exposures and Advanced IRB for retail exposures.

For non-retail exposures, the Foundation IRB approach is used for sovereign, bank, corporate, commercial, not for profit and project finance portfolios. The Foundation IRB approach is used where banks use their own estimate of PD and regulatory estimates of LGD and EAD.

For retail exposures, the Advanced IRB approach is adopted for Republic of Ireland mortgages (excluding legacy EBS mortgages) where the Group uses its own estimates of PD, LGD and EAD. PDs and LGDs are calibrated on the basis of internal data, supplemented with benchmarking to external sources. For both non-retail and retail internal rating systems, default is defined as exposures 90 days or more past due or where the customer is unable to repay their debt.

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3.1 Credit risk

Measurement of credit risk ***(continued)***

The Group has a formalised governance framework around the internal ratings process. Each rating model is subject to an annual validation process, undertaken by an independent validation team, which includes benchmarking to externally available data, where possible.

The table below sets out the distribution for IRB portfolios of the outstanding credit exposures to customers in terms of EAD, PD, LGD and EL.

				2013
		Average	**Average**	
	EAD	**PD**	**LGD**	**EL**
	m	**%**	**%**	**m**
Residential mortgages IRB portfolio	**19,014**	**1.5**	**28.1**	**80**
Non-retail IRB portfolio	**7,434**	**3.6**	**45.1**	**120**

				2012
		Average	Average	
	EAD	PD	LGD	EL
	m	%	%	m
Residential mortgages IRB portfolio	20,334	1.9	20.5	86
Non-retail IRB portfolio	8,773	1.6	45.3	63

The average PD for the non-retail IRB portfolio has increased in 2013, mainly due to a recalibration of the PD model.

The average LGD for the residential mortgages IRB portfolio has increased in 2013, due to changes in the model to reflect current data on loss history and portfolio development as well as incorporating additional loss parameters assessed on restructuring outcomes.

The amount of incurred credit losses provided for in the financial statements differs from the amount determined from the expected loss models. For reporting purposes, impairment allowances are recognised only with respect to losses that have been incurred at the balance sheet date based on objective evidence of impairment.

Credit risk principles and policy*

The Group implements and operates policies covering the identification, assessment, approval, monitoring, and control and reporting of credit risk. The Credit Risk Framework sets out at a high level how the Group identifies, assesses, approves, monitors, reports and controls credit risk. It contains minimum standards that are applied across the Group to provide a common and consistent approach to the management of credit risk.

More detailed policies, standards and guidelines provide more explicit instructions for applying these minimum standards to specific products, business lines, market segments, processes and roles. These are reviewed at least annually. Policy exceptions must be approved and reported. Policy breaches are not permitted and must be reported to senior management and Risk. Credit Risk monitor credit performance trends, review and challenge exceptions to planned outcomes, and track portfolio performance against agreed credit risk indicators. This allows the Group to take early and proactive mitigating actions for any potential areas of concern. The more significant credit policies are approved by the Board.

Credit concentration risk*

Credit concentration risk arises where any single exposure or group of exposures, based on common risk characteristics, has the potential to produce losses large enough relative to the Group s capital, total assets, earnings or overall risk level to threaten its health or ability to maintain its core objectives. Credit policy is aligned to the Group s risk appetite and restricts exposure to certain high risk countries and more vulnerable sectors. Exposures are monitored to prevent excess concentration of risk. The Board-approved Large Exposures and Approval Policy sets the maximum limit by grade for exposures to individual counterparties or group of connected counterparties taking into account features such as security, default risk and term. Concentration risk to sectors and movements in such concentrations are monitored regularly to prevent excessive concentration of risk, guide risk appetite and limit setting, identify unwanted concentrations, and provide an early warning indicator for potential excesses. Such measures facilitate the measurement of concentrations by balance sheet size and risk profile relative to other portfolios within the Group and in turn facilitate appropriate management action and decision making. The Group s large exposures are reported in accordance with regulatory reporting requirements.

*Forms an integral part of the audited financial statements

3.1 Credit risk

Measurement of credit risk *(continued)*

Country risk*

Credit risk is also influenced by country risk, where country risk is defined as the risk that circumstances arise in which customers and other counterparties within a given country may be unable/unwilling to fulfil or are precluded from fulfilling their obligations to the Group due to economic or political circumstances. These are managed in line with the Country Policy limits which define maximum credit risk appetite for those countries through direct sovereign bond exposure, interbank exposure as well as corporate and equity exposures. Exposures against limits are monitored on an on-going basis and reported in line with processes detailed in the Country Exposure Policy.

Credit risk on derivatives*

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

Credit risk assurance and review*

The credit management process is underpinned by an independent system of review. Assessment of the effectiveness of risk management practices and adherence to risk controls is carried out by Credit Risk and Credit Review teams who facilitate a wide range of audit, assurance and review work. These include cyclical credit reviews, non-standard reviews, and bespoke assignments, including impairment adequacy reviews, as required. This provides executive and senior management with assurance and guidance on credit quality, effectiveness of credit risk controls as well as accuracy of impairments.

Stress testing and scenario analysis*

The credit portfolio is subjected to stress testing and scenario analysis. Events are modelled at a Group wide level, at a segment and business unit level and by rating model and portfolio.

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3.1 Credit risk Credit exposure

Maximum exposure to credit risk from on balance sheet and off balance sheet financial instruments is presented before taking account of any collateral held or other credit enhancements (unless such enhancements meet accounting offsetting requirements). For financial assets recognised on the statement of financial position, the maximum exposure to credit risk equals their carrying amount, and for financial guarantees and similar contracts granted, it is the maximum amount the Group would have to pay if the guarantees were called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, it is generally the full amount of the committed facilities.

The following table sets out the maximum exposure to credit risk that arises within the Group and distinguishes between those assets that are carried in the statement of financial position at amortised cost and those carried at fair value:

			2013			2012
Maximum exposure to credit risk*	**Amortised cost[1]**	**Fair value[2]**	**Total**	Amortised cost[1]	Fair value[2]	Total
	m	**m**	**m**	m	m	m
Balances at central banks[3]	**3,536**		**3,536**	3,481		3,481
Items in course of collection	**164**		**164**	192		192
Disposal groups and non-current assets held for sale[4]	**28[5]**		**28**	353[5]		353
Trading portfolio financial assets[6]		**1**	**1**		22	22
Derivative financial instruments		**1,629**	**1,629**		2,835	2,835
Loans and receivables to banks	**2,048**		**2,048**	2,914		2,914
Loans and receivables to customers	**65,713**		**65,713**	72,972		72,972
NAMA senior bonds	**15,598**		**15,598**	17,387		17,387
Financial investments available for sale[7]		**20,251**	**20,251**		16,201	16,201
Included elsewhere:						

Sale of securities awaiting settlement				5		5
Trade receivables	**57**		**57**	63		63
Accrued interest	**502**		**502**	454		454
	87,646	**21,881**	**109,527**	97,821	19,058	116,879
Financial guarantees	**1,353**		**1,353**	1,561		1,561
Loan commitments and other credit related commitments	**8,236**		**8,236**	8,974		8,974
	9,589		**9,589**	10,535		10,535
Total	**97,235**	**21,881**	**119,116**	108,356	19,058	127,414

(1)All amortised cost items are loans and receivables per IAS 39 definitions.

(2)All items measured at fair value except financial investments available for sale and cash flow hedging derivatives are classified as fair value through profit or loss .

(3)Included within cash and balances at central banks of 4,132 million (2012: 4,047 million).

(4)Certain non-financial assets and equity investments within disposal groups and non-current assets held for sale are not included above (note 21).

(5)Comprises loans and receivables to banks and customers measured at amortised cost (note 21).

(6)Excluding equity shares of 1 million (2012: 2 million).

(7)Excluding equity shares of 117 million (2012: 143 million).

*Forms an integral part of the audited financial statements

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Risk management 3. Individual risk types

3.1 Credit risk Credit exposure

Credit risk mitigants*

The perceived strength of a borrower s repayment capacity is the primary factor in granting a loan, however, AIB uses various approaches to help mitigate risks relating to individual credits including: transaction structure, collateral and guarantees. Collateral or guarantees are usually required as a secondary source of repayment in the event of the borrower s default. The main types of collateral for loans and receivables to customers are described below under the section on Collateral. Credit policy and credit management standards are controlled and set centrally via the Credit risk function.

Very occasionally, credit derivatives are purchased to hedge credit risk. Current levels are minimal and their use is subject to the normal credit approval process.

The Group enters into netting agreements for derivatives with certain counterparties, to ensure that in the event of default, all amounts outstanding with those counterparties will be settled on a net basis. Derivative transactions with wholesale counterparties are typically collateralised under a Credit Support Annex in conjunction with the ISDA Master Agreement.

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

Collateral*

Collateral or guarantees are usually required as a secondary source of repayment in the event of the borrower s default. Credit risk mitigation includes the requirement to obtain collateral as set out in the Group s policies and procedures. The Group maintains guidelines on the acceptability of specific classes of collateral.

The principal collateral types for loans and receivables are:

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

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

Collateral is not usually held against loans and receivables to financial institutions, including central banks, except where securities are held as part of reverse repurchase or securities borrowing transactions or where a collateral

agreement has been entered into under a master netting agreement. In accordance with the Group policy, collateral should always be valued by an appropriately qualified source at the time of lending.

Methodologies for valuing collateral*

As property loans represent a significant concentration within the Group s advances, some key principles have been applied in respect of property collateral held by the Group. For impaired property exposures, cash flows will generally emanate from the development and/or disposal of the assets which comprise the collateral held by the Group. The Group s preference is to work with the obligor to progress the realisation of the collateral although in some cases the Group will foreclose its security to protect its position. Banks typically hold various types of collateral as security for these loans, e.g. land, developments available for sale/rent and investment properties or a combination of these assets via cross collateralisation.

Where cash flows arising from the realisation of collateral held are included in impairment assessments, management typically rely on valuations or business appraisals from independent external professionals. However, in accordance with the Group s policy on Collateral Valuation, the Group uses a number of methods to assist in reaching appropriate valuations for collateral held, given the absence of a liquid market for non-prime property related assets in Ireland at present. These include:

- Consultations with valuers;
- Use of professional valuations;
- Use of internally developed residual value methodologies;
- The application of local knowledge in respect of the property and its location; and
- Use of internal guidelines. These are described below.

*Forms an integral part of the audited financial statements

3.1 Credit risk Credit exposure

Methodologies for valuing collateral* *(continued)*

Consultations with valuers would represent circumstances where local external valuers are asked to give verbal desk top updates on their view of the assets value. This is a tactical view only and is not relied upon for risk assessment purposes. Consultation also takes place on general market conditions to help inform the Group s view on the particular property valuation. The valuers are external to the Group and are familiar with the location and asset for which the valuation is being requested.

Use of professional valuations would represent circumstances where external firms are requested to provide formal written valuations in respect of the property. Up to date external professional valuations are sought in circumstances where it is believed that sufficient transactional evidence is available to support an expert objective view. Historic valuations are also used as benchmarks to compare against current market conditions and assess peak to trough reductions. Available market indices for relevant assets, e.g. residential and investment property are also used in valuation assessments.

The residual value methodology assesses the value in the land or property asset after meeting the incremental costs to complete the development. This approach looks at the cost of developing the asset to determine the residual value for the Group, including covering the costs to complete and additional funding costs. The key factors considered include: (i) the development potential given the location of the asset; (ii) its current or likely near term planning status; (iii) levels of current and likely future demand; (iv) the relevant costs associated with the completion of the project; and (v) expected market prices of completed units. If, following internal considerations which may include consultations with valuers, it is concluded that the optimal value for the Group will be obtained through the development/completion of the project; a residual value methodology is used. When, in the opinion of the Group, the land is not likely to be developed or it is non-commercial to do so, agricultural/green field values may be applied. Alternative use value (subject to planning permission) should also be considered.

Application of local market knowledge would represent circumstances where the local bank management familiar with the property concerned and with local market conditions, and with knowledge of recent completed transactions would provide indications of the likely realisable value and a potential timeline for realisation. In valuing investment property, yields are applied to current rentals having considered current yields and estimated likely yields for a more normal market environment for relevant asset classes.

When assessing properties that are used for operational business or trading purposes, these are generally valued by applying a multiple to stabilised EBITDA, e.g. hotels and nursing homes. For licensed premises, these are valued by applying a multiple to stabilised net turnover (average over three years).

When assessing the value of residential properties, recent transactional analysis of comparable sales in the area combined with the CSO Residential Property Price index are used.

Applying one or a combination of the above methodologies, in line with Group s Valuation Policy, has resulted in a wide range of discounts to original collateral valuations, influenced by the nature, status and year of purchase of the

asset. The frequency, and availability, of such up-to-date valuations remains a key factor within impairment provisions determination. Additionally, all relevant costs likely to be associated with the realisation of the collateral are taken into account in the cash flow forecasts. The spread of discounts is influenced by the type of collateral, e.g. land, developed land or investment property and also its location. The valuation arrived at is therefore, a function of the nature of the asset, e.g. un-serviced land in a rural area will most likely suffer a greater reduction in value if purchased at the height of a property boom than a fully let investment property with strong lessees. The discounts to original collateral value, having applied the valuation methodologies to reflect current market conditions, can be as high as 95% for land assets where values have been marked down to agricultural/green field site values.

When assessing the level of provision required for property loans, apart from the value to be realised from the collateral, other cash flows, such as recourse to other assets or sponsor support, are also considered. The other key driver is the time it takes to receive the funds from the realisation of collateral. While this depends on the type of collateral and the stage of its development, the period of time to realisation is typically one to seven years but sometimes this time period is exceeded. These estimates are frequently reassessed on a case by case basis.

In assessing the value of collateral for impaired mortgage loans in Ireland, the Group uses a peak to trough price decline of 55% as a base. In certain circumstances, realisation costs of 10% to 20% are deducted.

*Forms an integral part of the audited financial statements

3.1 Credit risk Credit exposure

Collateral for the non-mortgage portfolio*

For non-mortgage lending, collateral is taken where available, and will typically include a charge over the business assets such as stock and debtors. In some cases, a charge over property collateral or a personal guarantee supported by a lien over personal assets may also be taken. Collateral is reviewed on a regular basis in accordance with credit policy.

The value of collateral is assessed at origination of the loan or in the case of criticised loans, when testing for impairment. However, as the Group does not capture collateral values on its loan systems, it is not possible to quantify the fair value of collateral for non-impaired loans on an on-going basis at portfolio level. It should be noted that when testing a loan for impairment, the present value of future cash flows, including the value of collateral held, and the likely time taken to realise any security is estimated. A provision is raised for the difference between this present value and the carrying value of the loan. Therefore, for non-mortgage impaired loans, the net exposure after provision would be indicative of the fair value.

Collateral for the residential mortgage portfolio*

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

Summary of risk mitigants by selected portfolios

Set out below are details of risk mitigants used by the Group in relation to financial assets detailed in the maximum exposure to credit risk table on page 75.

Loans and receivables to customers residential mortgages*

The following table shows the fair value of collateral held for the Group s residential mortgage portfolio as at 31 December 2013 and 31 December 2012.

			2013				2012
Neither past due nor	**Past due**	**Impaired**	**Total**	Neither past due nor	Past due but not	Impaired	Total

	impaired	**but not impaired**			impaired	impaired		
	m	**m**	**m**	**m**	m	m	m	m
Fully collateralised[1]								
Loan-to-value ratio:								
Less than 50%	**4,630**	**241**	**395**	**5,266**	4,282	204	316	4,802
50% - 70%	**4,176**	**239**	**514**	**4,929**	4,083	218	419	4,720
71% - 80%	**2,786**	**148**	**413**	**3,347**	2,451	133	320	2,904
81% - 90%	**2,708**	**163**	**465**	**3,336**	2,771	156	369	3,296
91% - 100%	**2,752**	**173**	**606**	**3,531**	2,682	160	505	3,347
	17,052	**964**	**2,393**	**20,409**	16,269	871	1,929	19,069
Partially collateralised								
Collateral value relating to loans over 100% loan-to-value	**9,880**	**779**	**4,774**	**15,433**	12,011	866	4,254	17,131
Total collateral value	**26,932**	**1,743**	**7,167**	**35,842**	28,280	1,737	6,183	36,200
Gross residential mortgages	**29,688**	**1,993**	**9,083**	**40,764**	32,318	2,073	8,130	42,521
Statement of financial position specific provisions			**(3,333)**	**(3,333)**			(2,699)	(2,699)
Statement of financial position IBNR provisions				**(619)**				(507)
Net residential mortgages			**5,750**	**36,812**			5,431	39,315

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

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3.1 Credit risk Credit exposure

Derivatives*

Derivative financial instruments are shown on the statement of financial position at their fair value. Those with a positive fair value are reported as assets which at 31 December 2013 amounted to 1,629 million (2012: 2,835 million) and those with negative fair value are reported as liabilities which at 31 December 2013 amounted to 1,960 million (2012: 3,256 million).

The enforcement of netting agreements would potentially reduce the statement of financial position carrying amount of derivative assets and liabilities by 957 million (2012: 1,539 million). The Group also has Credit Support Annexes (CSAs) in place which provide collateral for derivative contracts. As at 31 December 2013, 820 million (2012: 1,260 million) of CSAs are included within financial assets and 188 million (2012: 361 million) of CSAs are included within financial liabilities. Additionally, the Group has agreements in place which may allow it to net the termination values of cross currency swaps upon occurrence of an event of default.

Loans and receivables to banks*

Interbank placings, including central banks, are largely carried out on an unsecured basis apart from reverse repurchase agreements. At 31 December 2013, the Group has received collateral with a fair value of 16 million under reverse repurchase agreements with a carrying value of 16 million (2012: 61 million and 61 million respectively).

NAMA senior bonds*

NAMA senior bonds, which at 31 December 2013 have a carrying value of 15,598 million (2012: 17,387 million), are guaranteed by the Irish Government as to principal and interest.

Financial investments available for sale*

At 31 December 2013, government guaranteed senior bank debt which amounted to 0.4 billion (2012: 0.8 billion) was held within the available for sale portfolio.

Credit risk management

Credit risk monitoring*

To manage credit risk effectively, the Group has developed and implemented processes and information systems to monitor and report on individual credits and credit portfolios. It is the Group s practice to ensure that adequate up to date credit management is available to support the credit management of individual account relationships and the overall loan portfolio.

Credit risk, at a portfolio level is monitored and reported regularly to senior management and the Board Risk Committee. Credit managers pro-actively manage the Group s credit risk exposures at a transaction and relationship

level. Monitoring is done via credit exposure and excess management, regular review of accounts, being up to date with any developments in customer business, obtaining updated financial information and monitoring of covenant compliance. This is reported on a monthly basis to senior management and includes information and detailed commentary on loan book growth, quality of the loan book and loan impairment provisions including individual large impaired exposures.

Changes in sectoral and single name concentrations are tracked on a quarterly basis highlighting changes to risk concentration in the Group s loan book. A report on any exceptions to credit policy is presented and reviewed on a monthly basis. The Group allocates significant resources to ensure on-going monitoring and compliance with approved risk limits. Credit risk, including compliance with key credit risk limits is reported monthly.

As a matter of policy, all facilities granted to corporate or wholesale customers are subject to a review on, at least, an annual basis, even when they are performing satisfactorily. Annual review processes are supplemented by more frequent portfolio and case review processes in addition to arrears or excess management processes. Once an account has been placed on a watch list, or early warning list, the exposure is carefully monitored and where appropriate, exposure reductions are effected.

Criticised borrowers are tested for impairment at the time of annual review, or earlier, if there is a material adverse change or event in their credit risk profile. In addition, assessment for impairment is required for all cases where borrowers are 90 days past due as a result of payment arrears or on receipt of a forbearance request.

The Group operates a number of schemes to assist borrowers who are experiencing financial stress. The material elements of these schemes through which the Group has granted a concession, whether temporarily or permanently are set out below. The Group employs a dedicated approach to loan workout and to monitoring and proactively managing impaired loans. Specialised teams within the Financial Solutions Group (FSG), focus on managing the majority of criticised loans. Specialist recovery functions deal with clients in default, collection or insolvency. Their mandate is to maximise return on impaired debt and to support customers in difficulty. Whilst the basic principles for monitoring weaknesses in corporate/commercial and retail exposures are broadly similar, they will reflect the differing nature of the assets.

*Forms an integral part of the audited financial statements

3.1 Credit risk Credit risk management

Forbearance

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

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

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

Mortgage portfolio

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

The strategy is built on three key factors:

i) Segmentation identifying customers in difficulty;

ii) Sustainability customer assessment; and

iii) Suitable Treatment identifying solutions.

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

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

Negative equity trade down This allows a customer to sell their house and subsequently purchase a new property and transfer the negative equity portion to a new loan secured on the new property. A negative equity trade down mortgage will be considered where a customer will reduce monthly loan repayments and overall indebtedness by

trading down to a property more appropriate to his/her current financial and other circumstances;

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

Non-mortgage portfolio

Business customers, following assessment of requests made, may also be provided with forbearance solutions which the Group considers on a case by case basis. Typical types of forbearance being: the placing of the facility on an interest only basis; part capital/interest basis for a period of time; extension of the facility term; split loans; and in some cases, a debt for equity swap or similar structure. See accounting policy number 15 Impairment of financial assets.

All forborne loans and those loans which have completed their period of forbearance and have returned to original terms and conditions are managed and monitored in line with the relevant credit approval and review authorities framework.

The Group has also developed treatment strategies for customers in the non-mortgage portfolio who are experiencing financial difficulties. The approach has been to develop strategies on an asset class basis, and to then apply those strategies at the customer level to deliver a holistic debt management solution. This approach is based on customer affordability.

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3.1 Credit risk Credit risk management

Non-mortgage portfolio ***(continued)***

The approach to dealing with customers in difficulty is based on core principles to ensure consistency in dealing with such customers. Core principles are:

- Customers must be treated objectively and consistently;
- Customer circumstances and debt obligations must be viewed holistically; and
- Solutions will be provided where customers are cooperative, and are willing but unable to pay.

The over-arching principle is that the customer must be cooperating and fully engaging with the Group in order to be considered for forbearance or a restructuring proposal. The approach is based on assessing the affordability level of the customer, and then applying asset based treatment strategies to determine the long term levels of sustainable and unsustainable debt. This may result in debt write-off where applicable.

Loan loss provisioning*

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

Impairment provisions are calculated on individual loans and receivables and on groups of loans assessed collectively. All exposures, individually or collectively, are regularly reviewed for objective evidence of impairment. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the balance sheet is reduced through the use of impairment provision accounts. Losses expected from future events are not recognised.

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

Macroeconomic triggers

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

Mortgage portfolio triggers

- A loan asset that is 90 days in arrears.

- A request for a forbearance measure from the borrower.
- Deterioration in the debt service capacity.
- A material decrease in rents received on a buy-to-let property.

Commercial real estate (CRE) portfolio triggers

- A loan asset that is 90 days in arrears.
- A request for a forbearance measure from the borrower.
- A material decrease in the property value.
- A material decrease in estimated future cash flows.
- The lack of an active market for the assets concerned.
- The absence of a market for refinancing options.
- A significant decline in the credit rating of the borrower.

Small Medium Enterprises (SME) portfolio triggers

- A loan asset that is 90 days in arrears.
- A request for a forbearance measure from the borrower
- Trading losses.
- Diversion of cash flows from earning assets to support non-earning assets.
- A material decrease in turnover or the loss of a major customer.
- A default or breach of contract.
- A significant decline in the credit rating of the borrower.

*Forms an integral part of the audited financial statements

3.1 Credit risk Credit risk management

Loan loss provisioning* ***(continued)***

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

- the Group s aggregate exposure to the customer;
- viability of the customer s business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- the amount and timing of expected receipts and recoveries;
- likely dividend available on liquidation or bankruptcy;
- the extent of other creditors commitments ranking ahead of, or pari passu with, the Group and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding; and
- the ability of the borrower to obtain, and make payments in, the currency of the loan if not denominated in local currency.

Specific provisions

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

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

The Individually Significant threshold is /£ 500,000 by customer connection (threshold is 750,000 for legacy EBS portfolio). The calculation of an impairment charge for loans below the significant threshold is undertaken on a collective basis.

Individually significant (IS) loans and receivables

All loans that are considered individually significant are assessed on a case-by-case basis at each balance sheet date if there is any objective evidence that a loan may be impaired. Assessment is based on ability to pay and collateral value. Collateral values are assessed based on the AIB Group Property Valuation Guidelines as described on pages 76 to 78. Individually significant provisions are calculated using discounted cash flows for each exposure. The cash flows are determined with reference to the individual characteristics of each credit including an assessment of the cash flows that may arise from foreclosure less costs to sell in respect of obtaining and selling any associated collateral. The time

period likely to be required to realise the collateral and receive the cash flows is taken in account in estimating the future cash flows and discounting these back to present value.

Individually insignificant (II) loans and receivables

Provisioning is assessed on a collective basis to estimate losses for homogeneous groups of loans that are considered individually insignificant.

Individually insignificant Non mortgage portfolio

The calculation of an impairment charge for credits below the significant threshold is undertaken on a collective basis. Loans are grouped together in homogenous pools sharing common characteristics.

Recovery rates for non-mortgages are established for each pool by assessing the Group s loss experience for these pools over the past four years and by examining the amount and timing of cash flows received from the date the loan was identified as impaired. These recovery rates are updated at a minimum on a yearly basis. Impairment provisions are then raised on new impaired loans and updated on existing impaired loans, reflecting the Group s updated recovery experience.

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3.1 Credit risk Credit risk management

Loan loss provisioning* *(continued)*

Individually insignificant Mortgage portfolio

The individually insignificant mortgage provisioning methodology applies to both owner occupier and buy-to-let exposures for customer connections less than /£ 500,000. In the legacy EBS portfolio, loans less than 750,000 and > 90 days past due are assessed on a collective basis.

The Republic of Ireland Individually insignificant mortgage specific provisions are calculated using a collective mortgage provisioning model. This methodology is based on the calculation of three possible resolution outcomes: cure; advanced forbearance with loss; and repossession (forced and voluntary), with different loss rates associated with each. This replaces the existing two outcomes, repossession and cure. The methodology has been updated to reflect current data on loss history and portfolio development as well as incorporating additional loss parameters assessed on restructuring outcomes. The UK mortgage portfolio continues to be calculated based on a repossession basis.

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

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

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

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

The model parameters are reviewed at a Group Credit Committee on a quarterly basis.

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

Incurred but not reported (IBNR) provisions

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that Group has incurred as a result of events occurring before the balance sheet date, which the Group is not able to identify on an individual loan basis, and that can be reliably estimated. These

losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

IBNR provisions can only be recognised for incurred losses i.e. losses that are present in the portfolio at the reporting date and are not permitted for losses that are expected to happen as a result of likely future events. IBNR provisions are determined by reference to loss experience in the portfolio and to the credit environment at the reporting date.

IBNR provisions are maintained at levels that are deemed appropriate by management having considered and having taken into account:

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

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Risk management 3. Individual risk types

3.1 Credit risk Credit risk management

Loan loss provisioning* *(continued)*

Republic of Ireland residential mortgage portfolio IBNR (unaudited)

The residential mortgage portfolio IBNR is calculated using the collective mortgage model as described above. The table below sets out the parameters used in the calculation of IBNR for the mortgage portfolio:

	2013			
	Owner-occupier		Buy-to-let	
	Average PD %	Average LGD %	Average PD %	Average LGD %
Good upper	**0.8**	**18.5**	**1.4**	**18.1**
Good lower	**2.5**	**20.5**	**4.1**	**22.5**
Watch	**16.0**	**20.6**	**17.6**	**24.2**
Vulnerable	**69.9**	**20.8**	**73.5**	**25.4**
The above can be further analysed as follows:				
Performing	**5.5**	**19.5**	**9.7**	**21.7**
Non-performing non-impaired	**100.0**	**18.4**	**100.0**	**28.6**
The parameters for Cured and Forborne non-impaired, are set out below.				
As a result, these sub portfolios within the Republic of Ireland residential mortgages carry a higher level of IBNR:				
Cured	**42.0**	**14.6**	**68.6**	**27.9**
Forborne non-impaired	**26.3**	**19.4**	**25.4**	**25.6**

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

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

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3.1 Credit risk   Credit risk management

Loan loss provisioning* ***(continued)***

Emergence period

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

Performing provisions assets are split into homogenous pools on the basis of similar risk characteristics. The asset pools are multiplied by the average annual loss rate for that pool, suitably adjusted where appropriate for any factors currently affecting the portfolio, which may not have been a feature in the past or vice versa. The resultant amount is then multiplied by the Emergence Period for that pool to arrive at the IBNR Collective Impairment Provision. Loss rates are updated half yearly and emergence periods for each pool of loans are reviewed annually.

The range of emergence periods adopted by AIB for the non-mortgage portfolios is three to twelve months with the majority of the portfolio having a six month emergence period applied, unchanged from 2012. For the year ended 31 December 2013, the emergence period for the Republic of Ireland mortgage portfolio has moved from 6 months to 9 months resulting in an additional provision of 168 million. The increase has been observed as more historical data has become available; particularly for the forbearance portfolio and customer behaviour has been observed over a longer period of time.

Approval process

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

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

Write-offs

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

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

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

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

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

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Risk management 3. Individual risk types

3.1 Credit risk Credit risk management

Loan loss provisioning* ***(continued)***

Impact of changes to key assumptions and estimates on the impairment provisions ***(continued)***

However, the exercise of judgement requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas.

Given the relative size of the Republic of Ireland mortgage portfolio, the key variables include peak to trough house price (which determines the collateral value supporting loans in the mortgage portfolio) and cure rates (rates by which defaulted or delinquent accounts are assumed to return to performing status).

A 1% favourable change in the cure rate used for the collective mortgage provisions would result in a reduction in provisions of 1.2% (blended rate of buy-to-let/owner-occupier) of c. 20 million.

The value of collateral is estimated by applying changes in house price indices to the original assessed value of the property. A 1% change in the peak to trough assumption used for the collective mortgage provisions for December 2013 is estimated to result in movements in provisions of c. 40 million.

An increase in the assumed repossession rate of 1% for collective mortgage provisions will result in an increase in provisions of 0.3% (blended rate of buy-to-let/owner-occupier) of c 6 million.

In the Republic of Ireland mortgage portfolio, an increase of one month in the loss emergence period in respect of the loan portfolio assessed for collective unimpaired provisions would result in an increase of 54 million. For the United Kingdom, mortgage portfolio, the impact would be £ 1 million.

In the Republic of Ireland non-mortgage portfolio, an increase of one month in the loss emergence period in respect of the loan portfolio assessed for collective unimpaired provisions would result in an increase of 45 million. For the United Kingdom the impact would be £ 10 million.

For the 12.4 billion or 43% of impaired loans for which automated cashflows are available, changes in cash-flow timing and interest rate have the following impact;

- If interest rates increased by 1%, this would result in an increase in provisions of 127 million.
- If anticipated cash receipt timelines moved out by 1 year, the impact on provisioning would be an increase of 111 million.

Credit risk can also be affected by macro-economic factors such as increased interest rates, increased unemployment, lower consumer spending, personal and corporate defaults/insolvency levels. The credit portfolio is also subjected to on-going stress testing and scenario analysis. Events are modelled at a Group wide level, at a segment and business unit level and by rating model and portfolio. Sensitivity analysis is the simple stressing of one risk driver to assess the Group s sensitivity to that risk driver. A risk driver is defined as an internal or external factor which has the potential to

cause loss or damage to the Group e.g. macroeconomic risk drivers (GDP, unemployment rate etc.) and specific credit risk drivers (shift in PDs).

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3.1 Credit risk Credit profile of the loan portfolio

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

The tables below show for the years ended 31 December 2013 and 31 December 2012 loans and receivables to customers by industry sector including loans and receivables within disposal groups and non-current assets held for sale:

(i) Total loans and receivables to customers;
(ii) Impaired loans and receivables to customers; and
(iii) Provisions for impairment on loans and receivables to customers.

				2013				2012
Loans and receivables to customers *	**Loans and receivables to customers**	**Disposal groups and non-current assets held for sale**	**Total**	**Total**	Loans and receivables to customers	Disposal groups and non-current assets held for sale	Total	Total
	m	**m**	**m**	**%**	m	m	m	%
Agriculture	**1,798**		**1,798**	**2.2**	1,781		1,781	2.0
Energy	**259**	**28**	**287**	**0.3**	375	88	463	0.5
Manufacturing	**1,503**		**1,503**	**1.8**	1,625		1,625	1.8
Property and construction	**19,710**		**19,710**	**23.8**	22,251		22,251	24.8
Distribution	**6,870**		**6,870**	**8.3**	7,790		7,790	8.7
Transport	**963**		**963**	**1.2**	801	373	1,174	1.3
Financial	**648**		**648**	**0.8**	785		785	0.9
Other services	**5,657**		**5,657**	**6.8**	6,313	14	6,327	7.0
Personal								
Residential mortgages	**40,764**		**40,764**	**49.2**	42,521		42,521	47.3
Other	**4,291**		**4,291**	**5.2**	4,698		4,698	5.2

Lease financing	**360**		**360**	**0.4**	457		457	0.5
Gross loans and receivables	**82,823**	**28**	**82,851**	**100.0**	89,397	475	89,872	100.0
Unearned income	**(101)**		**(101)**		(108)		(108)	
Deferred costs	**74**		**74**		89		89	
Provisions for impairment	**(17,083)**		**(17,083)**		(16,406)	(122)	(16,528)	
Total statement of financial position	**65,713**	**28**	**65,741**		72,972	353	73,325	
Gross loans and receivables analysed as to:								
Neither past due nor impaired	**50,326**	**28**	**50,354**		56,179	238	56,417	
Past due but not impaired	**3,586**		**3,586**		4,039		4,039	
Impaired - provisions held	**28,911**		**28,911**		29,179	237	29,416	
	82,823	**28**	**82,851**		89,397	475	89,872	

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Risk management 3. Individual risk types

3.1 Credit risk Credit profile of the loan portfolio

	2013			2012		
Impaired loans and receivables to customers*	**Loans and receivables to customers**	**Disposal groups and non-current assets held for sale**	**Total**	Loans and receivables to customers	Disposal groups and non-current assets held for sale	Total
	m	**m**	**m**	m	m	m
Agriculture	**338**		**338**	334		334
Energy	**66**		**66**	36		36
Manufacturing	**391**		**391**	472		472
Property and construction	**13,154**		**13,154**	13,804		13,804
Distribution	**3,026**		**3,026**	3,442		3,442
Transport	**156**		**156**	120	237	357
Financial	**230**		**230**	245		245
Other services	**917**		**917**	1,026		1,026
Personal						
Residential mortgages	**9,083**		**9,083**	8,130		8,130
Other	**1,423**		**1,423**	1,431		1,431
Lease financing	**127**		**127**	139		139
Total	**28,911**		**28,911**	29,179	237	29,416

	2013			2012		
Provisions for impairment on loans and receivables to customers*	**Loans and receivables to customers**	**Disposal groups and non-current assets held for sale**	**Total**	Loans and receivables to customers	Disposal groups and non-current assets held for sale	Total

	m	**m**	**m**	m	m	m
Agriculture	**250**		**250**	233		233
Energy	**35**		**35**	29		29
Manufacturing	**241**		**241**	300		300
Property and construction	**8,114**		**8,114**	7,681		7,681
Distribution	**1,831**		**1,831**	2,013		2,013
Transport	**109**		**109**	93	122	215
Financial	**134**		**134**	168		168
Other services	**634**		**634**	650		650
Personal						
Residential mortgages	**3,333**		**3,333**	2,699		2,699
Other	**1,092**		**1,092**	1,064		1,064
Lease financing	**125**		**125**	133		133
Specific	**15,898**		**15,898**	15,063	122	15,185
IBNR	**1,185**		**1,185**	1,343		1,343
Total	**17,083**		**17,083**	16,406	122	16,528

The impact of the Group s focus on working with customers to restructure the portfolio is starting to be seen, with the quantum of impaired loans falling in 2013 by 505 million (down 2%). The reduction reflects write offs, repayments and asset sales partly offset by newly impaired loans.

Statement of financial position specific provisions of 15.9 billion were held for the impaired book at 31 December 2013 and provided cover of 55% compared to 52% at 31 December 2012. The provision cover increased due to loan repayments and top ups of existing provisions.

Statement of financial position IBNR provisions of 1.2 billion were held at 31 December 2013 compared to 1.3 billion at 31 December 2012, with the decrease primarily due to improvements in credit processes and a reduction in performing loans, partly off-set by an increase in emergence period for the Republic of Ireland mortgage portfolio.

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3.1 Credit risk Credit profile of the loan portfolio

As outlined on pages 11 to 14, a new operating structure was implemented in 2013 and the Group s operations are now reported under the following segments: Domestic Core Bank (DCB); AIB UK; and Financial Solutions Group (FSG). Consequently, the full year to December 2012 has been represented in the new operating structure.

The following table analyses loans and receivables to customers by segment showing asset quality and impairment provisions for the years ended 31 December 2013 and 31 December 2012:

			2013					2012
Gross loans and receivables to customers*	**DCB m**	**AIB UK m**	**FSG m**	**Total m**	DCB m	AIB UK m	FSG m	Total m
Residential mortgages:								
Owner-occupier	**30,714**	**2,252**		**32,966**	31,584	2,482	101	34,167
Buy-to-let	**3,817**	**361**	**3,620**	**7,798**	3,331	324	4,699	8,354
	34,531	**2,613**	**3,620**	**40,764**	34,915	2,806	4,800	42,521
Other personal	**2,318**	**432**	**1,541**	**4,291**	2,322	396	1,980	4,698
Property and construction	**2,772**	**5,208**	**11,730**	**19,710**	2,973	2,477	16,801	22,251
SME/other commercial	**4,637**	**4,302**	**4,840**	**13,779**	4,974	3,198	7,073	15,245
Corporate	**3,268**	**905**	**134**	**4,307**	3,275		1,882	5,157
Total	**47,526**	**13,460**	**21,865**	**82,851**	48,459	8,877	32,536	89,872
Analysed as to asset quality								
Satisfactory[1]	**33,019**	**7,048**	**973**	**41,040**	36,871	5,780	4,550	47,201
Watch[2]	**4,587**	**1,481**	**718**	**6,786**	4,546	1,282	1,192	7,020
Vulnerable[3]	**3,034**	**1,251**	**1,829**	**6,114**	1,903	976	3,356	6,235
Impaired[4]	**6,886**	**3,680**	**18,345**	**28,911**	5,139	839	23,438	29,416
Total criticised loans	**14,507**	**6,412**	**20,892**	**41,811**	11,588	3,097	27,986	42,671
Total loans percentage	**%**	**%**	**%**	**%**	%	%	%	%
Criticised loans/total loans	**31**	**48**	**96**	**50**	24	35	86	47
Impaired loans/total loans	**14**	**27**	**84**	**35**	11	9	72	33

Impairment provisions statement of financial position	**m**	**m**	**m**	**m**	m	m	m	m
Specific	**2,401**	**2,070**	**11,427**	**15,898**	1,564	385	13,236	15,185
IBNR	**828**	**132**	**225**	**1,185**	624	151	568	1,343
Total impairment provisions	**3,229**	**2,202**	**11,652**	**17,083**	2,188	536	13,804	16,528
Provision cover percentage	**%**	**%**	**%**	**%**	%	%	%	%
Specific provisions/impaired loans	**35**	**56**	**62**	**55**	30	46	56	52
Total provisions/impaired loans	**47**	**60**	**64**	**59**	43	64	59	56
Total provisions/total loans	**7**	**16**	**53**	**21**	5	6	42	18
Income statement impairment charge	**m**	**m**	**m**	**m**	m	m	m	m
Specific	**713**	**254**	**1,091**	**2,058**	655	161	2,940	3,756
IBNR	**137**	**(88)**	**(194)**	**(145)**	(453)	(64)	(805)	(1,322)
Total impairment charge	**850**	**166**	**897**	**1,913**	202	97	2,135	2,434
	%	**%**	**%**	**%**	%	%	%	%
Impairment charge/average loans	**1.74**	**1.18**	**3.97**	**2.24**	0.39	1.06	6.30	2.57

[1]Satisfactory: credit which is not included in any of the criticised categories of Watch, Vulnerable and Impaired loans.

Criticised loans include:

[2]Watch: credit exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cashflow.

[3]Vulnerable: credit where repayment is in jeopardy from normal cashflow and may be dependent on other sources.

[4]Impaired: a loan is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact such that

the present value of future cash flows is less than the gross carrying value of the financial asset or group of financial assets i.e. requiring a provision to be raised through the income statement.

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3.1 Credit risk Credit profile of the loan portfolio

The following summarises the key points affecting the credit profile of the loan portfolio:

- The income statement specific provision charge reduced by 45% to 2.1 billion in 2013 due to continued signs of stabilisation in the economic environment
- The impact of the Group s focus on working with customers to restructure the portfolio is starting to be seen, with the quantum of impaired loans falling in 2013 by 505 million. The reduction reflects write-offs, repayments and asset sales partly offset by newly impaired loans; and
- Although there have been positive indications that the Irish and Global economies are improving, challenging conditions remain in particular the high level of existing debt within both business and households. This has resulted in both subdued demand for new credit and has maintained the risk level in the performing portfolio at higher than normal levels.

The Group is predominantly Ireland and United Kingdom focused and most sectors continue to face challenging trading conditions as a result of domestic economic performance, weak customer sentiment and public sector austerity measures. The Group has material concentrations in residential mortgages, property and construction and SME with these sectors showing the most evident stress.

Loans and receivables to customers reduced by 7.8% to 82.9 billion in 2013, due to the sale during the year of non-core assets as well as amortisations exceeding demand for new credit from customers. Within loans and receivables, criticised loans decreased by a smaller 2.0%, with downgrades into the criticised categories continuing in 2013, albeit at a slower rate than in 2012.

The property and construction portfolio amounted to 23.8% of total loans and receivables, or 17.1% of loans and receivables less provisions. The portfolio is comprised of 65.9% investment loans (13.0 billion), 29.9% land and development loans (5.9 billion) and 4.2% other property and construction loans (0.8 billion). There are signs that the investment market is recovering from very depressed activity levels, with transactional activity in all sectors up year on year. Recovery is focussed in prime sectors at present with lower levels of activity and illiquidity still observed in secondary locations. The weakness in secondary locations continues to impact on the credit quality of the portfolio. Further detailed disclosures in relation to the property and construction portfolio are provided on pages 121 to 123.

Residential mortgages amounted to 49.2% of total advances, or 56.0% of loans and receivables less provisions. The portfolio is mainly located in the Republic of Ireland (93.6%) with most of the remainder located in Northern Ireland. The portfolio consists of 80.9% owner-occupier loans and 19.1% buy-to-let. Decreases in household income over recent years and high levels of personal debt continue to create stress within the portfolio. Some stabilisation of the portfolio in the Republic of Ireland has been observed in 2013, with the rate at which customers moved into arrears slowing and the average monthly rate of impairment reduced by 40% compared to 2012. The Irish Central Statistics Office index of residential property prices provides evidence, especially in Dublin, of residential house price increases. Overall LTVs in the Irish mortgage portfolio have improved due to price increases and amortisations. Further detailed disclosures in relation to the Republic of Ireland mortgage portfolio are provided on pages 99 to 112 and the United Kingdom mortgage portfolio on pages 113 to 119.

The SME/other commercial lending portfolio amounted to 16.6% of total loans and receivables, or 16.0% of loans and receivables less provisions. The geographical split is 68.8% of advances in the Republic of Ireland and the remaining 31.2% in the United Kingdom. Key sub-sectors within the SME portfolio are dependent on the domestic economies, in particular hotels, licensed premises, retail and other services. There have been indications of stabilisation and modest improvements in this sector due to increased consumer confidence and an improving employment market. However, challenging economic conditions remain and the level of indebtedness of customers in this sector continues to impact on the financial management of these businesses. Further detailed disclosures in relation to the SME/other commercial lending portfolio are provided on pages 124 to 125.

Gross loans and receivables to customers for the remaining portfolios consisted of 4.3 billion in other personal loans and 4.3 billion to corporate borrowers. These portfolios are profiled in more detail on pages 120 and 126 respectively.

Statement of financial position specific provisions of 15.9 billion were held for the impaired book at 31 December 2013 and provided cover of 55% compared to 52% at 31 December 2012. The provision cover increased due to loan repayments and top ups of existing provisions.

3.1 Credit risk Credit profile of the loan portfolio

Statement of financial position IBNR provisions of 1.2 billion were held at 31 December 2013 compared to 1.3 billion at 31 December 2012, with the decrease primarily due to improvements in credit processes and a reduction in performing loans, partly off-set by an increase in emergence period for the Republic of Ireland mortgage portfolio. The IBNR provision level of 2.2% of performing loans is in line with the level at 31 December 2012. The outcomes of independent reviews of certain higher risk portfolios helped to inform management s view of the incurred loss remaining in the performing book. It was also influenced by the level of arrears, requests for forbearance, levels of watch and vulnerable loans and continued improvements in credit processes.

The income statement provision charge for loans and receivables was 1.9 billion or 2.24% of average customer loans compared with 2.4 billion or 2.57% in 2012. The provision charge comprised of 2.1 billion in specific provisions and a release of IBNR provisions of 0.1 billion (31 December 2012: 3.8 billion in specific provisions and a release of IBNR provisions of 1.3 billion). The specific provisions reduced by 45% in 2013 driven by significantly lower impairments during 2013.

The table on the following page profiles the asset quality of the Group s loans and receivables as at 31 December 2013 and 31 December 2012. Profiles of past due but not impaired loans are detailed on pages 93 and 94 and impaired loans are detailed on page 95.

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Risk management 3. Individual risk types

3.1 Credit risk Credit profile of the loan portfolio

The following table profiles the asset quality of the Group s loans and receivables as at 31 December 2013 and 31 December 2012.

						2013
Asset quality*	**Residential mortgages m**	**Other personal m**	**Property and construction m**	**SME/other commercial m**	**Corporate m**	**Total m**
Neither past due nor impaired	**29,688**	**2,535**	**5,898**	**8,442**	**3,791**	**50,354**
Past due but not impaired	**1,993**	**333**	**658**	**562**	**40**	**3,586**
Impaired provisions held	**9,083**	**1,423**	**13,154**	**4,775**	**476**	**28,911**
Gross loans and receivables	**40,764**	**4,291**	**19,710**	**13,779**	**4,307**	**82,851**
Specific provisions	**(3,333)**	**(1,092)**	**(8,114)**	**(3,131)**	**(228)**	**(15,898)**
IBNR provisions	**(619)**	**(55)**	**(324)**	**(108)**	**(79)**	**(1,185)**
Total provisions for impairment	**(3,952)**	**(1,147)**	**(8,438)**	**(3,239)**	**(307)**	**(17,083)**
Gross loans and receivables less provisions	**36,812**	**3,144**	**11,272**	**10,540**	**4,000**	**65,768**
Unearned income						**(101)**
Deferred costs						**74**
Net loans and receivables						**65,741**

						2012
Asset quality*	Residential mortgages m	Other personal m	Property and construction m	SME/other commercial m	Corporate m	Total m

Neither past due nor impaired	32,318	2,902	7,554	9,309	4,334	56,417
Past due but not impaired	2,073	365	893	688	20	4,039
Impaired provisions held	8,130	1,431	13,804	5,248	803	29,416
Gross loans and receivables	42,521	4,698	22,251	15,245	5,157	89,872
Specific provisions	(2,699)	(1,064)	(7,681)	(3,256)	(485)	(15,185)
IBNR provisions	(507)	(75)	(423)	(240)	(98)	(1,343)
Total provisions for impairment	(3,206)	(1,139)	(8,104)	(3,496)	(583)	(16,528)
Gross loans and receivables less provisions	39,315	3,559	14,147	11,749	4,574	73,344
Unearned income						(108)
Deferred costs						89
Net loans and receivables						73,325

Profiles of past due but not impaired loans are detailed on page 93 and 94, impaired loans are detailed on page 95 and provisions are detailed on pages 96 and 97.

Gross Loans and receivables to customers reduced by 7.8% to 82.9 billion in 2013, due to the sale during the year of non-core assets as well as amortisations exceeding demand for new credit from customers. The quantum of impaired loans and days past due but not impaired both decreased in 2013, but because of the decrease in the total for gross loans, as a % the total of neither past due nor impaired has decreased to 61%, down from 63% as at 31 December 2012.

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3.1 Credit risk Credit profile of the loan portfolio

Aged analysis of contractually past due but not impaired gross loans and receivables to customers*

							2013
Industry sector	**1 30 days m**	**31 60 days m**	**61 90 days m**	**91 180 days m**	**181 365 days m**	**> 365 days m**	**Total m**
Agriculture	**62**	**13**	**17**	**15**	**11**	**34**	**152**
Energy	**1**	**1**		**1**		**1**	**4**
Manufacturing	**21**	**4**	**1**	**5**	**4**	**20**	**55**
Property and construction	**210**	**61**	**48**	**64**	**119**	**156**	**658**
Distribution	**71**	**13**	**18**	**20**	**37**	**32**	**191**
Transport	**7**	**1**		**2**	**1**	**3**	**14**
Financial	**11**	**2**		**2**	**3**	**1**	**19**
Other services	**90**	**11**	**18**	**16**	**13**	**19**	**167**
Personal							
Residential mortgages	**857**	**391**	**280**	**245**	**144**	**76**	**1,993**
Credit cards	**33**	**9**	**6**	**4**	**1**		**53**
Other	**122**	**22**	**18**	**44**	**27**	**47**	**280**
	1,485	**528**	**406**	**418**	**360**	**389**	**3,586**
Segment							
DCB	**1,141**	**414**	**282**	**245**	**151**	**109**	**2,342**
AIB UK	**154**	**45**	**57**	**55**	**43**	**25**	**379**
FSG	**190**	**69**	**67**	**118**	**166**	**255**	**865**
	1,485	**528**	**406**	**418**	**360**	**389**	**3,586**
As a percentage of	**%**	**%**	**%**	**%**	**%**	**%**	**%**
total gross loans	**1.79**	**0.64**	**0.49**	**0.50**	**0.43**	**0.47**	**4.33**

							2012
Industry sector	1 30 days m	31 60 days m	61 90 days m	91 180 days m	181 365 days m	> 365 days m	Total m

Agriculture	55	9	16	13	16	30	139
Energy	6			1		1	8
Manufacturing	19	4	2	4	7	5	41
Property and construction	210	101	66	174	187	155	893
Distribution	80	34	28	46	45	42	275
Transport	7	5	1	15	1	3	32
Financial	4	2	8	6	2	1	23
Other services	70	25	17	21	33	24	190
Personal							
Residential mortgages	1,013	451	248	208	91	62	2,073
Credit cards	39	11	9	5	1		65
Other	75	32	40	48	47	58	300
	1,578	674	435	541	430	381	4,039
Segment							
DCB	1,171	409	255	212	162	80	2,289
AIB UK	85	64	32	72	21	19	293
FSG	322	201	148	257	247	282	1,457
	1,578	674	435	541	430	381	4,039
As a percentage of	%	%	%	%	%	%	%
total gross loans	1.8	0.7	0.5	0.6	0.5	0.4	4.5

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3.1 Credit risk Credit profile of the loan portfolio

Aged analysis of contractually past due but not impaired gross loans and receivables to customers* ***(continued)***

The figures reported are inclusive of overdrafts, bridging loans and cases with expired limits.

Loans past due but not impaired were reduced by 0.5 billion to 4.3% of total loans and receivables to customers (31 December 2012: 4.0 billion or 4.5%).

Residential mortgage loans past due but not impaired at 2.0 billion represent 56% of the total past due but not impaired loans (31 December 2012: 2.1 billion represent 51%) largely driven by decreases in household income and high debt levels. The level of residential mortgage loans in early arrears (less than 30 days) has decreased by 15% in 2013, due to active management of early arrears cases and the improving economic environment. Property and construction loans past due but not impaired represent a further 18% or 0.7 billion (31 December 2012: 22% or 0.9 billion) of total loans past due but not impaired, with other personal at 9% or 0.3 billion (31 December 2011: 9% or 0.4 billion).

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3.1 Credit risk Credit profile of the loan portfolio

Impaired loans for which provisions are held

The following table shows impaired loans which are assessed for impairment either individually or collectively with the relevant specific impairment provisions:

							2013*
		Impaired loans				Specific impairment provisions	
	Gross loans and receivables m	Individually assessed m	Collectively assessed m	Total m	% of total loans	Total m	% of impaired loans
Retail							
Residential mortgages	**40,764**	**4,104**	**4,979**	**9,083**	**22**	**3,333**	**37**
Other personal lending	**4,291**	**866**	**557**	**1,423**	**33**	**1,092**	**77**
Total retail	**45,055**	**4,970**	**5,536**	**10,506**	**23**	**4,425**	**42**
Commercial							
Property and construction	**19,710**	**12,668**	**486**	**13,154**	**67**	**8,114**	**62**
SME/commercial	**13,779**	**4,054**	**721**	**4,775**	**35**	**3,131**	**66**
Total commercial	**33,489**	**16,722**	**1,207**	**17,929**	**54**	**11,245**	**63**
Corporate	**4,307**	**476**		**476**	**11**	**228**	**48**
Total	**82,851**	**22,168**	**6,743**	**28,911**	**35**	**15,898**	**55**
Specific impairment provisions at 31 December 2013		**12,875**	**3,023**	**15,898**			
		%	%	%			
Specific provision cover percentage		**58**	**45**	**55**			

						2012*	
		Impaired loans				Specific impairment provisions	
	Gross loans and receivables m	Individually assessed m	Collectively assessed m	Total m	% of total loans	Total m	% of impaired loans
Retail							
Residential mortgages	42,521	3,888	4,242	8,130	19	2,699	33
Other personal lending	4,698	863	568	1,431	30	1,064	74
Total retail	47,219	4,751	4,810	9,561	20	3,763	39
Commercial							
Property and construction	22,251	13,306	498	13,804	62	7,681	56
SME/commercial	15,245	4,559	689	5,248	34	3,256	62
Total commercial	37,496	17,865	1,187	19,052	51	10,937	57
Corporate	5,157	803		803	16	485	60
Total	89,872	23,419	5,997	29,416	33	15,185	52
Specific impairment provisions at 31 December 2012		12,515	2,670	15,185			
		%	%	%			
Specific provision cover percentage		53	45	52			

Statement of financial position specific provisions of 15.9 billion were held for the impaired book at 31 December 2013 and provided cover of 55% compared to 52% at 31 December 2012. The provision cover increased due to top ups of existing provisions and loan repayments.

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3.1 Credit risk Credit profile of the loan portfolio

Movements on impairment provisions

The following table sets out the movements on the Group impairment provisions for the years ended 31 December 2013 and 31 December 2012:

	2013*	2012*
	Total **m**	Total m
At 1 January	**16,532**	14,945
Exchange translation adjustments	**(76)**	47
Transfers	**(14)**	34
Charge against income statement	**1,916**	2,434
Amounts written off	**(1,134)**	(673)
Disposals	**(136)**	(263)
Recoveries of amounts written off in previous years	**2**	4
Provisions on loans and receivables returned by NAMA		4
At 31 December	**17,090**	16,532
Total provisions are split as follows:		
Specific	**15,905**	15,189
IBNR	**1,185**	1,343
	17,090	16,532
Amounts include:		
Loans and receivables to banks *(note 24)*	**7**	4
Loans and receivables to customers *(note 25)*	**17,083**	16,406
Loans and receivables of disposal groups and non-current assets held for sale *(note 21)*		122
	17,090	16,532

Provisions income statement

The following table analyses the income statement impairment provision charge/(credit) split between individually significant, individually insignificant and IBNR for loans and receivables for the years ended 31 December 2013 and 31 December 2012:

	DCB m	AIB UK m	FSG m	2013* Total m
Specific provisions Individually significant loans and receivables	**279**	**206**	**973**	**1,458**
Individually insignificant loans and receivables	**434**	**48**	**118**	**600**
IBNR	**137**	**(88)**	**(194)**	**(145)**
Total provisions for impairment charge on loans and receivables to customers	**850**	**166**	**897**	**1,913**
Provisions for impairment charge on loans and receivables to banks				**3**
Provisions charge for liabilities and commitments				**17**
Provisions for impairment charge on financial investments available for sale				**(9)**
Total				**1,924**

	DCB m	AIB UK m	FSG m	2012 Total m
Specific provisions	655	161	2,940	3,756
IBNR	(453)	(64)	(805)	(1,322)
Total provisions for impairment charge on loans and receivables to customers	202	97	2,135	2,434
Provisions for impairment charge on loans and receivables to banks				
Provisions charge for liabilities and commitments				9
Provisions for impairment charge on financial investments available for sale				86
Total				2,529

Further details of movements in provisions for loans and receivables are set out in the 5 year summary table on page 139.

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3.1 Credit risk Credit profile of the loan portfolio

Provisions income statement

The following table analyses the income statement provision charge/(credit) for the years ended 31 December 2013 and 31 December 2012:

			2013*			2012*
	Residential mortgages	**Other**	**Total**	Residential mortgages	Other	Total
	m	**m**	**m**	m	m	m
DCB	**679**	**171**	**850**			202
AIB UK	**(9)**	**175**	**166**			97
FSG	**143**	**754**	**897**			2,135
Total	**813**	**1,100**	**1,913**	749	1,685	2,434

The following table analyses by segment the impairment provision charge/(credit) as a percentage of average loans expressed as basis points (bps) for the years ended 31 December 2013 and 31 December 2012:

			2013*			2012*
	Residential mortgages	**Other**	**Total**	Residential mortgages	Other	Total
	bps	**bps**	**bps**	bps	bps	bps
DCB	**195**	**122**	**174**			39
AIB UK	**(34)**	**154**	**118**			106
FSG	**384**	**400**	**397**			630
Total	**197**	**249**	**224**	170	331	257

The income statement provision charge for loans and receivables was 1.9 billion or 2.24% of average customer loans compared with 2.4 billion or 2.57% in 2012. The provision charge was comprised of 2.1 billion in specific provisions and a release of IBNR provisions of 145 million (31 December 2012: 3.8 billion in specific provisions and a release of IBNR provisions of 1.3 billion). The specific provisions reduced by 45% in 2013 driven by significantly lower impairments during 2013.

The 2013 income statement provision charge of 850 million in DCB comprises a specific charge of 713 million and an IBNR charge of 137 million. This compares to an income statement provision charge of 202 million for 2012 which included a release of IBNR provision of 453 million.

The specific provision charge increased by 58 million in 2013, with a lower level of new impairments off-set by an increase in the mortgage cover rate as a result of changes in assumptions to reflect current data on loss history and portfolio development as well as incorporating additional loss parameters assessed on restructuring outcomes.

The IBNR charge of 137 million in 2013 was mainly due to an increase in the Republic of Ireland mortgage emergence period from 6 months to 9 months. This compares to a write back of 453 million in 2012 where IBNR provisions previously held were subsequently provided for within specific provisions raised during 2012.

The provision charge in FSG reduced by 1.2 billion driven by significantly lower impairments in 2013.

The provision charge in AIB UK increased by 0.1 billion and reflects continued pressure on the property and construction sector in the UK, and while there have been signs of improvement in prime markets, the secondary markets remain relatively illiquid.

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Risk management 3. Individual risk types

3.1 Credit risk Credit profile of the loan portfolio

Loans and receivables to customers Residential mortgages*

Residential mortgages amounted to 40.8 billion at 31 December 2013. This compares to 42.5 billion at 31 December 2012. The split of the residential mortgage book was owner-occupier 33.0 billion (31 December 2012: 34.2 billion) and buy-to-let 7.8 billion (2012: 8.3 billion). The income statement impairment charge for 2013 was 0.8 billion or 2.0% of average residential mortgages, comprising 0.7 billion specific charge and a 0.1 billion IBNR charge (2012: 0.7 billion or 1.70% of average residential mortgages, comprising 1.1 billion specific charge and a release of IBNR of 0.4 billion). Statement of financial position provisions of 3.9 billion were held at 31 December 2013, split 3.3 billion specific and 0.6 billion IBNR (2012: 3.2 billion, split 2.7 billion specific and 0.5 billion IBNR).

This section provides the following information in relation to residential mortgages:

Republic of Ireland residential mortgages pages 99 to 112

Credit profile

Origination profile

Loan-to-value profile:
Actual and weighted average indexed loan-to-value ratios of residential mortgages

Loan-to-value ratios of residential mortgages *(index linked)* that were neither past due nor impaired

Loan-to-value ratios of residential mortgages *(index linked)* that were greater than 90 days past due and/or impaired

Credit quality profile

Residential mortgages which were past due but not impaired

Residential mortgages which were impaired

Residential mortgages subject to forbearance measures

Repossessions
United Kingdom (UK) residential mortgages pages 113 to 119

Credit profile

Origination profile

Loan-to-value profile:
Actual and weighted average indexed loan-to-value ratios of UK residential mortgages

Loan-to-value ratios of UK residential mortgages *(index linked)* that were neither past due nor impaired

Loan-to-value ratios of UK residential mortgages *(index linked)* that were greater than 90 days past due and/or impaired

Credit quality profile

UK residential mortgages which were past due but not impaired

UK residential mortgages which were impaired

Repossessions

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Risk management 3. Individual risk types

3.1 Credit risk - Credit profile of the loan portfolio *(continued)*

Loans and receivables to customers Republic of Ireland residential mortgages

The following table analyses the Republic of Ireland residential mortgage portfolio by segment showing impairment provisions for the years ended 31 December 2013 and 31 December 2012:

									2013*
	DCB			**FSG**			**Total**		
	Owner-occupier	**Buy-to-let**	**Total**	**Owner-occupier**	**Buy-to-let**	**Total**	**Owner-occupier**	**Buy-to-let**	**Total**
Statement of financial position	**m**	**m**	**m**	**m**	**m**	**m**	**m**	**m**	**m**
Total gross residential mortgages	**30,714**	**3,817**	**34,531**		**3,620**	**3,620**	**30,714**	**7,437**	**38,151**
In arrears (>30 days past due)[(1)]	**5,943**	**775**	**6,718**		**3,110**	**3,110**	**5,943**	**3,885**	**9,828**
In arrears (>90 days past due)[(1)]	**5,395**	**729**	**6,124**		**3,069**	**3,069**	**5,395**	**3,798**	**9,193**
Of which impaired	**5,130**	**673**	**5,803**		**2,985**	**2,985**	**5,130**	**3,658**	**8,788**
Statement of financial position specific provisions	**1,657**	**266**	**1,923**		**1,281**	**1,281**	**1,657**	**1,547**	**3,204**
Statement of financial position IBNR provisions	**443**	**103**	**546**		**46**	**46**	**443**	**149**	**592**
Provision cover percentage	*%*	*%*	*%*	*%*	*%*	*%*	*%*	*%*	*%*
Specific provisions/impaired loans	**32.3**	**39.4**	**33.1**		**42.9**	**42.9**	**32.3**	**42.3**	**36.5**
Income statement	**m**	**m**	**m**	**m**	**m**	**m**	**m**	**m**	**m**
Income statement specific provisions	**440**	**84**	**524**		**138**	**138**	**440**	**222**	**662**
Income statement IBNR provisions	**123**	**32**	**155**		**5**	**5**	**123**	**37**	**160**

Total impairment provisions	**563**	**116**	**679**		**143**	**143**	**563**	**259**	**822**

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

*Forms an integral part of the audited financial statements

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Risk management 3. Individual risk types

3.1 Credit risk - Credit profile of the loan portfolio *(continued)*

Loans and receivables to customers Republic of Ireland residential mortgages *(continued)*

									2012
	DCB			FSG			Total		
	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
Statement of financial position	m	m	m	m	m	m	m	m	m
Total gross residential mortgages	31,584	3,331	34,915		4,616	4,616	31,584	7,947	39,531
In arrears (>30 days past due)[1]	5,224	144	5,368		3,438	3,438	5,224	3,582	8,806
In arrears (>90 days past due)[1]	4,702	121	4,823		3,342	3,342	4,702	3,463	8,165
Of which impaired	4,523	92	4,615		3,241	3,241	4,523	3,333	7,856
Statement of financial position specific provisions	1,224	30	1,254		1,335	1,335	1,224	1,365	2,589
Statement of financial position IBNR provisions	322	43	365		69	69	322	112	434
Provision cover percentage	%	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	27.1	32.6	27.2		41.2	41.2	27.1	41.0	33.0
Income statement							m	m	m
Income statement specific provisions							519	551	1,070
Income statement IBNR provisions							(63)	(276)	(339)
Total impairment provisions							456	275	731

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

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3.1 Credit risk Credit profile of the loan portfolio

Loans and receivables to customers Republic of Ireland residential mortgages *(continued)*

Residential mortgages in the Republic of Ireland (managed in the DCB and FSG segments) amounted to 38.1 billion at 31 December 2013 compared to 39.5 billion at 31 December 2012, the decrease relating to loan repayments in the period which exceeded the demand for credit. The split of the residential mortgage portfolio was 81% owner-occupier and 19% buy-to-let and comprised 41% tracker rate, 51% variable rate and 8% fixed rate mortgages.

Residential mortgages continue to be impacted by the adverse economic environment which, although improved in 2013 in comparison to previous years, continues to impact household incomes and repayment capacity. Residential mortgage arrears continued to increase during the year; however, the rate of increase slowed significantly in the second half of the year and there was a notable decrease in loans in early arrears (less than 90 days past due) over the same period. Total loans in arrears greater than 90 days past due at 13.0% at 31 December 2013 have increased, but remain below the industry average of 14.0% at 31 December 2013(1). This is a continuation of the trend observed over the last number of years, with comparative levels at 10.4% at 31 December 2012 and 11.6% at 30 June 2013. For the owner-occupier book, loans in arrears greater than 90 days were also below industry average at 31 December 2013 at 11.1% compared to 12.6% for the industry at 31 December 2013, whilst for the buy-to-let book, loans greater than 90 days past due at 24.0% at 31 December 2013 exceeded the 31 December 2013 industry average of 21.1%. The total amount of repayments overdue on residential mortgages was 1.0 billion at the year end compared to 0.8 billion at 31 December 2012.

Included in the residential mortgage loan portfolio is 5.0 billion of loans which were subject to forbearance measures at 31 December 2013 (31 December 2012: 5.8 billion), of which 2.9 billion was impaired (31 December 2012: 3.0 billion). The decrease in the portfolio subject to forbearance in comparison to that at 31 December 2012 is reflective of the Group s strategy to ensure the forbearance solutions agreed with customers are sustainable in the long term. The immediate impact of this strategy has been a reduction in short-term solutions which will be replaced with more sustainable solutions over time. The stock of interest only forbearance loans has reduced by 1.7 billion or 53% during the 2013. This strategy has contributed to the increase in arrears observed during the year.

Just over half of the total residential mortgage portfolio was in negative equity at the year end (31 December 2012: 56%) caused by the decrease in house prices since their peak in 2007; however, the quantum of negative equity in the book reduced from 6.0 billion at 31 December 2012 to 4.6 billion at 31 December 2013, reflecting the increase in residential property prices in Ireland during 2013 and loan amortisation.

Total owner-occupier and buy-to-let impaired loans increased from 7.9 billion at 31 December 2012 to 8.8 billion at 31 December 2013, an increase of 0.9 billion. The pace of increase in impaired loans decreased significantly in 2013 in comparison to 2012. Similarly, the movement of loans into impairment in the second half of 2013 was lower in comparison to the first half of the year.

Statement of financial position specific provisions of 3.2 billion were held for the impaired portfolio at 31 December 2013 and provided cover of 36.5% compared to 33.0% at 31 December 2012 driven by changes in mortgage model assumptions to reflect current data on loss history and portfolio development, as well incorporating additional loss

parameters assessed on restructuring outcomes. The 55% peak-to-trough house price decline assumption used in the calculation of collective provisions remains unchanged based on the Group s assessment of property market conditions and liquidity, despite some evidence of increases in property prices in 2013 in certain areas. This assumption will be reassessed in 2014. Statement of financial position IBNR provisions of 0.6 billion were held at 31 December 2013 compared to 0.4 billion at 31 December 2012, with the increase primarily due to a change in the emergence period in use in the calculation of the IBNR provisions from 6 months to 9 months as discussed on page 85.

The income statement specific provision charge for 2013 was 0.6 billion compared to 1.1 billion for 2012, with the decrease being driven primarily by significantly lower impairments during 2013. The income statement IBNR charge for 2013 was 0.2 billion compared to a release of IBNR of 0.4 billion for 2012.

Statement of financial position specific provisions of 1.0 billion were held against the forborne impaired portfolio of 2.9 billion providing cover of 35.3%. In relation to the performing forborne portfolio of 2.1 billion, of which 0.9 billion is on an interest only arrangement or an arrangement to repay amounts greater than interest only, statement of financial position IBNR provisions of 0.2 billion were held at 31 December 2013.

Information on the provisioning policies and methodologies employed in the identification of loans for assessment as impaired is set out in accounting policy number 15 Impairment of financial assets .

[1]Source: Central Bank of Ireland (CBI) Residential Mortgage Arrears and Repossessions Statistics as at 31 December 2013, based on numbers of accounts.

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Risk management 3. Individual risk types

3.1 Credit risk Credit profile of the loan portfolio

Residential mortgages by year of origination

The following table profiles the Republic of Ireland total residential mortgage portfolio and impaired residential mortgage portfolio by year of origination at 31 December 2013 and 31 December 2012:

	2013*				2012*			
	Total		**Impaired**		Total		Impaired	
Republic of Ireland	**Number**	**Balance m**	**Number**	**Balances m**	Number	Balance m	Number	Balance m
1996 and before	**7,812**	**189**	**1,083**	**37**	9,436	237	1,074	37
1997	**3,131**	**87**	**379**	**15**	3,398	106	367	15
1998	**3,851**	**144**	**534**	**26**	4,562	170	502	25
1999	**5,547**	**236**	**729**	**52**	6,017	277	670	48
2000	**6,589**	**357**	**902**	**72**	7,081	412	801	68
2001	**7,179**	**484**	**978**	**89**	7,627	538	882	82
2002	**11,210**	**945**	**1,596**	**183**	11,847	1,053	1,426	169
2003	**15,670**	**1,575**	**2,562**	**348**	16,957	1,732	2,309	322
2004	**21,425**	**2,576**	**3,686**	**612**	22,190	2,769	3,204	556
2005	**29,435**	**4,080**	**5,821**	**1,117**	30,375	4,362	5,148	1,029
2006	**37,137**	**6,307**	**8,660**	**2,003**	38,113	6,652	7,529	1,806
2007	**35,944**	**6,334**	**8,624**	**1,965**	36,623	6,670	7,435	1,741
2008	**34,075**	**6,066**	**6,827**	**1,580**	34,983	6,312	5,824	1,388
2009	**23,045**	**3,578**	**2,632**	**512**	23,693	3,776	2,104	432
2010	**15,877**	**2,419**	**821**	**153**	16,308	2,553	610	120
2011	**4,839**	**737**	**96**	**20**	4,960	782	74	18
2012	**6,934**	**1,116**	**18**	**4**	7,024	1,130		
2013	**5,863**	**921**						
Total	**275,563**	**38,151**	**45,948**	**8,788**	281,194	39,531	39,959	7,856

The majority (22.8 billion or 60%) of the 38.1 billion residential mortgage book originated between 2005 and 2008, of which 29% (6.7 billion) was impaired at 31 December 2013 driven by reduced household income and increased unemployment in the last number of years, and reflecting the decrease in property prices since their peak in 2007. 17% of the residential mortgage portfolio originated before 2005 of which 22% was impaired at 31 December 2013, while the remaining 23% of the portfolio was originated since 2009 of which 8% was impaired at 31 December 2013.

*Forms an integral part of the audited financial statements

3.1 Credit risk Credit profile of the loan portfolio

The property values used in the completion of the following loan-to-value tables are determined with reference to the original or most recent valuation, indexed to the Central Statistics Office (CSO) Residential Property Price Index. The CSO Residential Property Price Index for November 2013 reported that national residential property prices were 46% lower than their highest level in early 2007 and reported an annual increase in residential property prices of 6% in the year to 30 November 2013.

Actual and weighted average indexed loan-to-value ratios of residential mortgages

The following table profiles the Republic of Ireland residential mortgage portfolio by the indexed loan-to-value ratios and the weighted average indexed loan-to-value ratios at 31 December 2013 and 31 December 2012:

						2013*
	Owner-occupier		**Buy-to-let**		**Total**	
Republic of Ireland	**m**	**%**	**m**	**%**	**m**	**%**
Less than 50%	**4,130**	**13.4**	**597**	**8.0**	**4,727**	**12.4**
50% to 70%	**3,834**	**12.5**	**670**	**9.0**	**4,504**	**11.8**
71% to 80%	**2,660**	**8.7**	**454**	**6.1**	**3,114**	**8.1**
81% to 90%	**2,589**	**8.4**	**503**	**6.8**	**3,092**	**8.1**
91% to 100%	**2,765**	**9.0**	**582**	**7.8**	**3,347**	**8.8**
101% to 120%	**5,319**	**17.3**	**1,229**	**16.5**	**6,548**	**17.2**
121% to 150%	**5,553**	**18.1**	**1,658**	**22.3**	**7,211**	**18.9**
Greater than 150%	**3,864**	**12.6**	**1,744**	**23.5**	**5,608**	**14.7**
Total	**30,714**	**100.0**	**7,437**	**100.0**	**38,151**	**100.0**
Weighted average indexed loan-to-value[1]:						
Stock of residential mortgages at year end		**98.9**		**119.0**		**102.8**
New residential mortgages issued during year		**72.2**		**61.6**		**71.9**
Impaired residential mortgages		**124.6**		**137.5**		**130.0**

						2012*
	Owner-occupier		Buy-to-let		Total	
Republic of Ireland	m	%	m	%	m	%

Less than 50%	3,783	12.0	523	6.6	4,306	10.9
50% to 70%	3,612	11.4	643	8.1	4,255	10.8
71% to 80%	2,189	6.9	432	5.4	2,621	6.6
81% to 90%	2,516	8.0	490	6.2	3,006	7.6
91% to 100%	2,480	7.9	593	7.5	3,073	7.8
101% to 120%	5,438	17.2	1,248	15.7	6,686	16.9
121% to 150%	6,264	19.8	1,742	21.9	8,006	20.2
Greater than 150%	5,302	16.8	2,276	28.6	7,578	19.2
Total	31,584	100.0	7,947	100.0	39,531	100.0
Weighted average indexed loan-to-value[(1)]:						
Stock of residential mortgages at year end		105.8		125.6		109.8
New residential mortgages issued during year		76.8		60.2		76.5
Impaired residential mortgages		129.7		144.9		136.1

(1)Weighted average indexed loan-to-values are the individual indexed loan-to-value calculations weighted by the mortgage balance against each property.

48% of the total owner-occupier and 62% of the total buy-to-let mortgages were in negative equity at 31 December 2013, compared to 54% and 66% respectively at 31 December 2012. The weighted average indexed loan-to-value for the total residential mortgage book was 102.8% at 31 December 2013 compared to 109.8% at 31 December 2012, with the reduction driven primarily by the increase in property prices in 2013, coupled with amortisation of the loan book.

*Forms an integral part of the audited financial statements

3.1 Credit risk Credit profile of the loan portfolio *(continued)*

Loan-to-value ratios of residential mortgages *(index linked)* that were neither past due nor impaired

The following table profiles the Republic of Ireland residential mortgage portfolio that was neither past due nor impaired by the indexed loan-to-value ratios at 31 December 2013 and 31 December 2012:

						2013*
	Owner-occupier		**Buy-to-let**		**Total**	
Republic of Ireland	**m**	**%**	**m**	**%**	**m**	**%**
Less than 50%	**3,673**	**15.3**	**451**	**13.0**	**4,124**	**15.0**
50% to 70%	**3,321**	**13.8**	**469**	**13.6**	**3,790**	**13.8**
71% to 80%	**2,295**	**9.5**	**293**	**8.5**	**2,588**	**9.4**
81% to 90%	**2,187**	**9.1**	**315**	**9.1**	**2,502**	**9.1**
91% to 100%	**2,278**	**9.5**	**322**	**9.3**	**2,600**	**9.4**
101% to 120%	**4,217**	**17.5**	**586**	**16.9**	**4,803**	**17.5**
121% to 150%	**3,956**	**16.5**	**628**	**18.2**	**4,584**	**16.7**
Greater than 150%	**2,105**	**8.8**	**394**	**11.4**	**2,499**	**9.1**
Total	**24,032**	**100.0**	**3,458**	**100.0**	**27,490**	**100.0**

						2012*
	Owner-occupier		Buy-to-let		Total	
Republic of Ireland	m	%	m	%	m	%
Less than 50%	3,401	13.3	412	9.8	3,813	12.8
50% to 70%	3,173	12.4	482	11.4	3,655	12.3
71% to 80%	1,890	7.4	310	7.3	2,200	7.4
81% to 90%	2,182	8.6	341	8.1	2,523	8.5
91% to 100%	2,091	8.2	378	8.9	2,469	8.3
101% to 120%	4,520	17.7	691	16.3	5,211	17.5
121% to 150%	4,794	18.8	828	19.6	5,622	18.9
Greater than 150%	3,464	13.6	786	18.6	4,250	14.3
Total	25,515	100.0	4,228	100.0	29,743	100.0

The proportion of residential mortgages that was neither past due nor impaired and in negative equity at 31 December 2013 decreased in comparison to 31 December 2012, reflecting the increases in residential property prices in the period, coupled with amortisation of the loan book. 43% of residential mortgages that were neither past due nor impaired were in negative equity at 31 December 2013 compared to 51% at 31 December 2012.

*Forms an integral part of the audited financial statements

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3.1 Credit risk Credit profile of the loan portfolio

Loan-to-value ratios of residential mortgages *(index linked)* that were greater than 90 days past due and/or impaired

The following table profiles the Republic of Ireland residential mortgage portfolio that was greater than 90 days past due and/or impaired by the indexed loan-to-value ratios at 31 December 2013 and 31 December 2012:

								2013*
	Owner-occupier		**Buy-to-let**		**Total**		**Total residential mortgage portfolio**	
Republic of Ireland	**m**	**%**	**m**	**%**	**m**	**%**	**m**	**%**
Less than 50%	**324**	**6.0**	**129**	**3.4**	**453**	**4.9**	**4,727**	**12.4**
50% to 70%	**386**	**7.1**	**181**	**4.8**	**567**	**6.2**	**4,504**	**11.8**
71% to 80%	**275**	**5.1**	**147**	**3.9**	**422**	**4.6**	**3,114**	**8.1**
81% to 90%	**300**	**5.6**	**177**	**4.7**	**477**	**5.2**	**3,092**	**8.1**
91% to 100%	**366**	**6.8**	**240**	**6.3**	**606**	**6.6**	**3,347**	**8.8**
101% to 120%	**859**	**15.9**	**609**	**16.0**	**1,468**	**16.0**	**6,548**	**17.2**
121% to 150%	**1,317**	**24.4**	**989**	**26.0**	**2,306**	**25.1**	**7,211**	**18.9**
Greater than 150%	**1,568**	**29.1**	**1,326**	**34.9**	**2,894**	**31.4**	**5,608**	**14.7**
Total	**5,395**	**100.0**	**3,798**	**100.0**	**9,193**	**100.0**	**38,151**	**100.0**

								2012*
	Owner-occupier		Buy-to-let		Total		Total residential mortgage portfolio	
	m	%	m	%	m	%	m	%

Republic of Ireland								
Less than 50%	252	5.4	93	2.7	345	4.2	4,306	10.9
50% to 70%	301	6.4	141	4.0	442	5.5	4,255	10.8
71% to 80%	208	4.4	105	3.0	313	3.8	2,621	6.6
81% to 90%	237	5.0	128	3.7	365	4.5	3,006	7.6
91% to 100%	299	6.4	193	5.6	492	6.0	3,073	7.8
101% to 120%	684	14.6	523	15.1	1,207	14.8	6,686	16.9
121% to 150%	1,153	24.5	851	24.6	2,004	24.5	8,006	20.2
Greater than 150%	1,567	33.3	1,430	41.3	2,997	36.7	7,578	19.2
Total	4,701	100.0	3,464	100.0	8,165	100.0	39,531	100.0

The proportion of residential mortgages that was greater than 90 days past due and/or impaired and in negative equity at 31 December 2013 (73%) decreased in comparison to 31 December 2012 (76%), reflecting the increases in residential property prices in the period.

Credit quality profile of residential mortgages

The following table profiles the asset quality of the Republic of Ireland residential mortgage portfolio as at 31 December 2013 and 31 December 2012:

			2013*			2012*
	Owner-occupier	**Buy-to-let**	**Total**	Owner-occupier	Buy-to-let	Total
Republic of Ireland	**m**	**m**	**m**	m	m	m
Neither past due nor impaired	**24,032**	**3,458**	**27,490**	25,515	4,228	29,743
Past due but not impaired	**1,552**	**321**	**1,873**	1,546	386	1,932
Impaired - provisions held	**5,130**	**3,658**	**8,788**	4,523	3,333	7,856
Gross residential mortgages	**30,714**	**7,437**	**38,151**	31,584	7,947	39,531
Provisions for impairment	**(2,100)**	**(1,696)**	**(3,796)**	(1,546)	(1,477)	(3,023)
	28,614	**5,741**	**34,355**	30,038	6,470	36,508

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3.1 Credit risk Credit profile of the loan portfolio

Residential mortgages which were past due but not impaired

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

The following table profiles the Republic of Ireland residential mortgage portfolio that was past due but not impaired at 31 December 2013 and 31 December 2012:

			2013*			2012*
	Owner-occupier	**Buy-to-let**	**Total**	Owner-occupier	Buy-to-let	Total
Republic of Ireland	**m**	**m**	**m**	m	m	m
1 - 30 days	**739**	**94**	**833**	845	137	982
31 - 60 days	**324**	**49**	**373**	334	77	411
61 - 90 days	**224**	**38**	**262**	188	42	230
91 - 180 days	**165**	**62**	**227**	120	65	185
181 - 365 days	**72**	**46**	**118**	42	38	80
Over 365 days	**28**	**32**	**60**	17	27	44
Total past due but not impaired	**1,552**	**321**	**1,873**	1,546	386	1,932
Total gross residential mortgages	**30,714**	**7,437**	**38,151**	31,584	7,947	39,531

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

Residential mortgages which were impaired

The following table profiles the Republic of Ireland residential mortgage portfolio that was impaired at 31 December 2013 and 31 December 2012:

		2013*				2012*
	Owner-occupier	**Buy-to-let**	**Total**	Owner-occupier	Buy-to-let	Total
Republic of Ireland	**m**	**m**	**m**	m	m	m
Not past due	**686**	**873**	**1,559**	782	1,025	1,807
1 - 30 days	**173**	**165**	**338**	193	170	363
31 - 60 days	**146**	**126**	**272**	158	153	311
61 - 90 days	**152**	**125**	**277**	145	102	247
91 - 180 days	**615**	**308**	**923**	558	292	850
181 - 365 days	**916**	**494**	**1,410**	815	447	1,262
Over 365 days	**2,442**	**1,567**	**4,009**	1,872	1,144	3,016
Total impaired	**5,130**	**3,658**	**8,788**	4,523	3,333	7,856
Total gross residential mortgages	**30,714**	**7,437**	**38,151**	31,584	7,947	39,531

Impaired loans increased by 0.9 billion in 2013. However, the pace of increase in impaired loans slowed significantly in 2013 in comparison to 2012, driven by an improved economic environment, including an increase in private rents and increases in residential property values. Of the residential mortgage portfolio that was impaired at 31 December 2013, 1.6 billion or 18% was not past due (31 December 2012: 1.8 billion or 23%), of which 0.8 billion (31 December 2012: 1.1 billion) was subject to forbearance measures at 31 December 2013 and were deemed to be impaired as part of their assessment for a forbearance solution.

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3.1 Credit risk Credit profile of the loan portfolio

Forbearance residential mortgages

The Group has developed a Mortgage Arrears Resolution Strategy (MARS) for dealing with mortgage customers in difficulty or likely to be in difficulty, which builds on and formalises the Group s Mortgage Arrears Resolution Process. The core objectives of MARS are to ensure that arrears solutions are sustainable in the long term and that they comply with the spirit and the letter of all regulatory requirements. MARS includes long-term forbearance solutions which have been devised to assist existing Republic of Ireland primary residential mortgage customers in difficulty. Further details on MARS are set out on page 80.

The Group has a number of forbearance strategies in operation to assist borrowers who have difficulty in meeting repayment commitments. These are described on page 80.

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

	2013*		2012*	
Republic of Ireland owner-occupier	**Number**	**Balance m**	Number	Balance m
At 1 January	**22,248**	**3,544**	22,611	3,775
Additions	**6,873**	**981**	7,810	1,224
Expired arrangements	**(8,706)**	**(1,463)**	(7,533)	(1,337)
Payments		**(107)**		(107)
Interest		**35**		50
Closed accounts[(1)]	**(521)**	**(35)**	(483)	(36)
Other movements	**(46)**	**(3)**	(157)	(25)
At 31 December	**19,848**	**2,952**	22,248	3,544

	2013*		2012*	
Republic of Ireland buy-to-let	**Number**	**Balance m**	Number	Balance m
At 1 January	**8,925**	**2,233**	9,655	2,355
Additions	**2,061**	**459**	2,845	680
Expired arrangements	**(2,577)**	**(612)**	(3,281)	(722)

Payments		**(73)**		(59)
Interest		**14**		22
Closed accounts[1]	**(146)**	**(26)**	(451)	(68)
Other movements	**46**	**3**	157	25
At 31 December	**8,309**	**1,998**	8,925	2,233

	2013*		2012*	
Republic of Ireland Total	**Number**	**Balance m**	Number	Balance m
At 1 January	**31,173**	**5,777**	32,266	6,130
Additions	**8,934**	**1,440**	10,655	1,904
Expired arrangements	**(11,283)**	**(2,075)**	(10,814)	(2,059)
Payments		**(180)**		(166)
Interest		**49**		72
Closed accounts[1]	**(667)**	**(61)**	(934)	(104)
Other movements				
At 31 December	**28,157**	**4,950**	31,173	5,777

[1]Accounts closed during year due primarily to customer repayments and redemptions.

The stock of loans subject to forbearance measures decreased by 0.8 billion in 2013 (2012: decrease of 0.4 billion) due to the expiry of short-term forbearance arrangements (mainly periods of interest only) which were not matched by new arrangements in the period. This reduction reflects the immediate impact of the Group s strategy to ensure the forbearance solutions agreed with customers are sustainable in the long term. Consequently, while the number of expired arrangements was similar for each year, fewer arrangements were granted in 2013 compared to 2012.

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Risk management 3. Individual risk types

3.1 Credit risk Credit profile of the loan portfolio

Residential mortgages subject to forbearance measures by type of forbearance

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

						2013*
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
Republic of Ireland owner-occupier	Number	Balance m	Number	Balance m	Number	Balance m
Interest only	4,189	694	1,771	320	2,418	374
Reduced payment (greater than interest only)	1,661	350	980	238	681	112
Payment moratorium	352	54	113	16	239	38
Arrears capitalisation	7,067	1,150	4,555	805	2,512	345
Term extension	6,233	657	989	108	5,244	549
Split mortgages	236	35	162	23	74	12
Other[(1)]	110	12	75	6	35	6
Total forbearance	19,848	2,952	8,645	1,516	11,203	1,436

						2013*
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
Republic of Ireland buy-to-let	Number	Balance m	Number	Balance m	Number	Balance m

Interest only	**3,276**	**844**	**2,196**	**620**	**1,080**	**224**
Reduced payment (greater than interest only)	**1,157**	**258**	**721**	**166**	**436**	**92**
Payment moratorium	**110**	**23**	**80**	**17**	**30**	**6**
Arrears capitalisation	**2,926**	**758**	**2,606**	**701**	**320**	**57**
Term extension	**810**	**112**	**143**	**23**	**667**	**89**
Split mortgages						
Other[(1)]	**30**	**3**	**22**	**3**	**8**	
Total forbearance	**8,309**	**1,998**	**5,768**	**1,530**	**2,541**	**468**

						2013*
	Total		**Loans > 90 days in arrears and/or impaired**		**Loans neither > 90 days in arrears nor impaired**	
Republic of Ireland Total	**Number**	**Balance m**	**Number**	**Balance m**	**Number**	**Balance m**
Interest only	**7,465**	**1,538**	**3,967**	**940**	**3,498**	**598**
Reduced payment (greater than interest only)	**2,818**	**608**	**1,701**	**404**	**1,117**	**204**
Payment moratorium	**462**	**77**	**193**	**33**	**269**	**44**
Arrears capitalisation	**9,993**	**1,908**	**7,161**	**1,506**	**2,832**	**402**
Term extension	**7,043**	**769**	**1,132**	**131**	**5,911**	**638**
Split mortgages	**236**	**35**	**162**	**23**	**74**	**12**
Other[(1)]	**140**	**15**	**97**	**9**	**43**	**6**
Total forbearance	**28,157**	**4,950**	**14,413**	**3,046**	**13,744**	**1,904**

[(1)]Mainly comprise voluntary sale for loss solutions.

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3.1 Credit risk Credit profile of the loan portfolio

Forbearance residential mortgages *(continued)*

						2012*
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
Republic of Ireland owner-occupier	Number	Balance m	Number	Balance m	Number	Balance m
Interest only	10,669	1,857	4,368	866	6,301	991
Reduced payment (greater than interest only)	1,852	387	877	229	975	158
Payment moratorium	838	127	350	58	488	69
Arrears capitalisation	3,139	571	2,071	408	1,068	163
Term extension	5,735	598	686	63	5,049	535
Other	15	4	8	2	7	2
Total forbearance	22,248	3,544	8,360	1,626	13,888	1,918

						2012*
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
Republic of Ireland buy-to-let	Number	Balance m	Number	Balance m	Number	Balance m
Interest only	5,371	1,396	3,176	939	2,195	457
Reduced payment (greater than interest only)	957	224	518	129	439	95
Payment moratorium	79	19	47	12	32	7
Arrears capitalisation	1,800	488	1,484	427	316	61
Term extension	718	106	91	17	627	89
Other						

Total forbearance	8,925	2,233	5,316	1,524	3,609	709

	2012*					
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
Republic of Ireland Total	Number	Balance m	Number	Balance m	Number	Balance m
Interest only	16,040	3,253	7,544	1,805	8,496	1,448
Reduced payment (greater than interest only)	2,809	611	1,395	358	1,414	253
Payment moratorium	917	146	397	70	520	76
Arrears capitalisation	4,939	1,059	3,555	835	1,384	224
Term extension	6,453	704	777	80	5,676	624
Other	15	4	8	2	7	2
Total forbearance	31,173	5,777	13,676	3,150	17,497	2,627

As noted previously, the stock of loans subject to forbearance measures decreased by 0.8 billion in 2013, driven by the Group s strategy to ensure the forbearance solutions agreed with customers are sustainable in the long term. In particular, the stock of interest only forbearance loans reduced by 53% to 1.5 billion in 2013.

The majority of the loans subject to forbearance measures at 31 December 2013 were loans on which arrears have been capitalised (39% of the total forbearance stock) and loans which have been granted term extensions (16% of the total forbearance stock). These loans remain within the stock of forbearance for a period of 5 years.

The increase in the stock of loans on arrears capitalisation in 2013 includes some customers whose interest only arrangement had expired at 31 December 2013 but who received a capitalisation of arrears at some time over the last 5 years.

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3.1 Credit risk   Credit profile of the loan portfolio

Forbearance   residential mortgages *(continued)*

Residential mortgages subject to forbearance measures   past due but not impaired

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

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

		2013*			2012*	
	Owner-occupier	**Buy-to-let**	**Total**	Owner-occupier	Buy-to-let	Total
Republic of Ireland	**m**	**m**	**m**	m	m	m
1 - 30 days	**154**	**22**	**176**	176	36	212
31 - 60 days	**70**	**13**	**83**	96	20	116
61 - 90 days	**53**	**11**	**64**	58	15	73
91 - 180 days	**55**	**22**	**77**	53	25	78
181 - 365 days	**34**	**14**	**48**	23	12	35
Over 365 days	**14**	**13**	**27**	9	13	22
Total past due but not impaired	**380**	**95**	**475**	415	121	536

Whilst the amount of loans subject to forbearance and past due decreased in 2013 in line with the decrease in the stock of loans subject to forbearance measures, there was a marginal increase in the proportion of the portfolio past due but not impaired from 9% at 31 December 2012 to 10% at 31 December 2013, driven by an increase in loans in arrears for more than 90 days.

Residential mortgages subject to forbearance measures   impaired

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

	2013*	2012*

Republic of Ireland	**Owner-occupier m**	**Buy-to-let m**	**Total m**	Owner-occupier m	Buy-to-let m	Total m
Not past due	**331**	**439**	**770**	475	575	1,050
1 - 30 days	**98**	**78**	**176**	117	97	214
31 - 60 days	**72**	**62**	**134**	88	90	178
61 - 90 days	**64**	**63**	**127**	61	57	118
91 - 180 days	**205**	**143**	**348**	209	154	363
181 - 365 days	**246**	**217**	**463**	249	217	466
Over 365 days	**397**	**479**	**876**	342	284	626
Total impaired	**1,413**	**1,481**	**2,894**	1,541	1,474	3,015

Whilst the amount of impaired loans subject to forbearance decreased in 2013 in line with the decrease in the stock of loans subject to forbearance measures, there was an increase in the proportion of the portfolio that was impaired from 52% at 31 December 2012 to 58% at 31 December 2013, driven by an increase in impaired loans in arrears for more than 90 days. The proportion of forborne impaired loans that were not past due decreased from 35% at 31 December 2012 to 27% at 31 December 2013. Statement of financial position specific provisions of 1.0 billion were held against the forborne impaired book at 31 December 2013, providing cover of 35.3%, while the income statement specific provision charge was 0.2 billion for 2013.

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3.1 Credit risk Credit profile of the loan portfolio

Forbearance residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by indexed loan-to-value ratios

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

		2013*			2012*	
	Owner-occupier	**Buy-to-let**	**Total**	Owner-occupier	Buy-to-let	Total
Republic of Ireland	**m**	**m**	**m**	m	m	m
Less than 50%	**334**	**74**	**408**	313	74	387
50% - 70%	**336**	**107**	**443**	341	111	452
71% - 80%	**230**	**91**	**321**	231	86	317
81% - 90%	**223**	**117**	**340**	245	96	341
91% - 100%	**237**	**142**	**379**	274	143	417
101% - 120%	**508**	**326**	**834**	568	353	921
121% - 150%	**614**	**523**	**1,137**	796	510	1,306
Greater than 150%	**470**	**618**	**1,088**	776	860	1,636
Total forbearance	**2,952**	**1,998**	**4,950**	3,544	2,233	5,777

The degree of negative equity in the residential mortgage portfolio in the Republic of Ireland that was subject to forbearance measures at 31 December 2013 has reduced to 54% of the owner-occupier and 73% of the buy-to-let mortgages compared to 60% and 77% respectively at 31 December 2012, due primarily to the increase in property prices in 2013.

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Risk management 3. Individual risk types

3.1 Credit risk Credit profile of the loan portfolio

Republic of Ireland residential mortgages repossessions[1]

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

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

	2013*		2012*	
	Stock of repossessions	**Balance outstanding m**	Stock of repossessions	Balance outstanding m
Owner-occupier	**104**	**28**	80	23
Buy-to-let	**56**	**15**	53	15
Total	**160**	**43**	133	38

[1]The number of repossessed residential properties presented relates to those held as security for residential mortgages only.

The increase in the stock of repossessed properties in 2013 relates to 119 properties repossessed in the Republic of Ireland in the period, partly offset by the disposal of 92 properties in the period and a transfer of 4 properties from the buy-to-let book to the owner-occupier book during the period. The majority of repossessions were by way of voluntary surrender or abandonment of the property.

Republic of Ireland residential mortgages repossessions disposed of

The following table analyses the disposals of repossessed properties for the years ended 31 December 2013 and 31 December 2012:

2013*

	Number of disposals	**Outstanding balance at repossession date m**	**Gross sales proceeds on disposal m**	**Costs to sell m**	**Loss on sale[1] m**	**Average loan-to-value at sale price %**
Owner-occupier	**67**	**19**	**6**	**1**	**14**	**277**
Buy-to-let	**25**	**8**	**3**		**5**	**279**
Total	**92**	**27**	**9**	**1**	**19**	**278**

2012*

	Number of disposals	Outstanding balance at repossession date m	Gross sales proceeds on disposal m	Costs to sell m	Loss on sale[1] m	Average loan-to-value at sale price %
Owner-occupier	44	13	5	1	9	244
Buy-to-let	17	8	3		5	324
Total	61	21	8	1	14	269

[1]Before specific impairment provisions.

During the year ended 31 December 2013, the disposal of 92 residential properties in the Republic of Ireland, resulted in a total loss on sale of 19 million compared to 2012 when 61 residential properties were disposed of, resulting in a total loss of 14 million. Losses on the sale of repossessed properties are recognised in the income statement as part of the specific provision charge.

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3.1 Credit risk Credit profile of the loan portfolio

United Kingdom (UK) residential mortgages

The following table analyses the UK residential mortgage portfolio showing impairment provisions for the years ended 31 December 2013 and 31 December 2012:

			2013*			2012*
	Owner-occupier	**Buy-to-let**	**Total**	Owner-occupier	Buy-to-let	Total
Statement of financial position	**m**	**m**	**m**	m	m	m
Total gross residential mortgages	**2,252**	**361**	**2,613**	2,583	407	2,990
In arrears (>30 days past due)[1]	**325**	**66**	**391**	319	65	384
In arrears (>90 days past due)[1]	**295**	**60**	**355**	270	56	326
Of which impaired	**243**	**52**	**295**	230	44	274
Statement of financial position specific provisions	**99**	**30**	**129**	88	22	110
Statement of financial position IBNR provisions	**24**	**3**	**27**	61	12	73
Provision cover percentage	**%**	**%**	**%**	%	%	%
Specific provisions/impaired loans	**40.6**	**58.5**	**43.8**	38.3	50.0	40.1
Income statement	**m**	**m**	**m**	m	m	m
Income statement specific provisions	**26**	**8**	**34**	36	12	48
Income statement IBNR provisions	**(8)**	**(35)**	**(43)**	(28)	(2)	(30)
Total impairment provisions	**18**	**(27)**	**(9)**	8	10	18

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

The level of loans greater than 90 days in arrears and/or impaired increased to 13.6% at 31 December 2013 from 10.9% at 31 December 2012, reflecting the continued impact of the current economic climate on borrowers repayment capacity. Statement of financial position specific provisions of 129 million were held at 31 December 2013 and provided cover of 44% (31 December 2012: 110 million providing cover of 40%). IBNR statement of financial position provisions of 27 million were held at 31 December 2013, down from 73 million at 31 December 2012,

reflecting management s view of incurred loss in the performing book.

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Risk management 3. Individual risk types

3.1 Credit risk Credit profile of the loan portfolio

United Kingdom residential mortgages by year of origination

The following table profiles the United Kingdom total residential mortgage portfolio and impaired residential mortgage portfolio by year of origination at 31 December 2013 and 31 December 2012:

	2013*				2012*			
	Total		**Impaired**		Total		Impaired	
United Kingdom	**Number**	**Balance m**	**Number**	**Balance m**	Number	Balance m	Number	Balance m
1996 and before	**244**	**13**	**1**		335	17	2	
1997	**53**	**2**			62	2		
1998	**66**	**4**	**2**		93	5	1	
1999	**195**	**9**			242	12		
2000	**202**	**12**	**1**		230	15		
2001	**2,923**	**86**	**116**	**4**	3,285	104	126	4
2002	**1,216**	**71**	**47**	**2**	1,317	84	47	3
2003	**1,753**	**122**	**117**	**12**	1,955	145	118	13
2004	**2,252**	**177**	**139**	**12**	2,421	213	135	14
2005	**3,036**	**292**	**282**	**29**	3,218	333	268	32
2006	**4,663**	**529**	**484**	**71**	4,891	600	443	73
2007	**5,194**	**714**	**656**	**123**	5,515	820	523	102
2008	**2,397**	**312**	**174**	**30**	2,627	373	135	23
2009	**1,100**	**111**	**47**	**10**	1,205	136	32	8
2010	**544**	**53**	**15**	**1**	605	65	8	1
2011	**300**	**26**	**6**	**1**	324	32	3	1
2012	**273**	**30**	**2**		288	34		
2013	**401**	**50**						
Total	**26,812**	**2,613**	**2,089**	**295**	28,613	2,990	1,841	274

The majority (1.8 billion or 71%) of the 2.6 billion residential mortgage book in the UK originated between 2005 and 2008, of which 14% (0.3 billion) was impaired at 31 December 2013 driven by reduced household income and increased unemployment in the last number of years, and reflecting the decrease in property prices since their peak in 2007. 19% of the residential mortgage portfolio originated before 2005 of which 6% was impaired at 31 December

2013, while the remaining 10% of the portfolio was originated since 2009 of which 4% was impaired at 31 December 2013.

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3.1 Credit risk Credit profile of the loan portfolio

The property values used in the completion of the following loan-to-value tables are determined with reference to the original or most recent valuation, indexed to the Nationwide House Price Index (HPI) in the UK. The index for Quarter 3 2013 reported that house prices across the UK were 7% lower than their highest level in Quarter 3 2007 and reported an increase of 5% for the year to the end of Quarter 3 2013.

In Northern Ireland (which represents 73% of the UK residential mortgage portfolio), the Nationwide HPI for Quarter 3 2013 reported that house prices were 52% lower than their highest level in Quarter 3 2007 and reported an increase of 4% for the year to the end of Quarter 3 2013.

Actual and weighted average indexed loan-to-value ratios of United Kingdom residential mortgages

The following table profiles the United Kingdom residential mortgage portfolio by the indexed loan-to-value ratios and the weighted average indexed loan-to-value ratios at 31 December 2013 and 31 December 2012:

						2013*
	Owner-occupier		**Buy-to-let**		**Total**	
UK	**m**	**%**	**m**	**%**	**m**	**%**
Less than 50%	**479**	**21.2**	**60**	**16.6**	**539**	**20.6**
50% to 70%	**378**	**16.8**	**47**	**13.1**	**425**	**16.3**
71% to 80%	**212**	**9.4**	**21**	**5.8**	**233**	**8.9**
81% to 90%	**219**	**9.7**	**25**	**6.9**	**244**	**9.4**
91% to 100%	**164**	**7.3**	**20**	**5.5**	**184**	**7.0**
101% to 120%	**238**	**10.6**	**34**	**9.3**	**272**	**10.4**
121% to 150%	**249**	**11.1**	**56**	**15.6**	**305**	**11.7**
Greater than 150%	**313**	**13.9**	**98**	**27.2**	**411**	**15.7**
Total	**2,252**	**100.0**	**361**	**100.0**	**2,613**	**100.0**
Weighted average indexed loan-to-value[1]:						
Stock of residential mortgages at year end		**89.9**		**105.4**		**92.0**
New residential mortgages issued during year		**73.1**		**60.1**		**73.0**
Impaired residential mortgages		**118.6**		**151.0**		**123.8**

2012*

UK	Owner-occupier		Buy-to-let		Total	
	m	%	m	%	m	%
Less than 50%	442	17.1	54	13.3	496	16.6
50% to 70%	406	15.7	59	14.7	465	15.6
71% to 80%	258	10.0	25	6.1	283	9.5
81% to 90%	261	10.1	29	7.1	290	9.7
91% to 100%	249	9.6	25	6.1	274	9.2
101% to 120%	293	11.4	34	8.3	327	10.9
121% to 150%	304	11.8	62	15.2	366	12.2
Greater than 150%	370	14.3	119	29.2	489	16.3
Total	2,583	100.0	407	100.0	2,990	100.0
Weighted average indexed loan-to-value[(1)]:						
Stock of residential mortgages at year end		93.5		111.0		95.8
New residential mortgages issued during year		67.1				67.1
Impaired residential mortgages		119.9		149.3		124.4

[(1)]Weighted average indexed loan-to-values are the individual indexed loan-to-value calculations weighted by the mortgage balance against each property.

36% of the total owner-occupier and 52% of the total buy-to-let mortgages were in negative equity at 31 December 2013, compared to 37% and 53% respectively at 31 December 2012, driven primarily by the increase in property prices in 2013, coupled with amortisation of the loan book. The weighted average indexed loan-to-value for the total residential mortgage book was 92.0% at 31 December 2013 compared to 95.8% at 31 December 2012, reflecting the increase in residential property prices in the period.

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3.1 Credit risk Credit profile of the loan portfolio

Loan-to-value ratios of United Kingdom residential mortgages *(index linked)* that were neither past due nor impaired

The following table profiles the UK residential mortgage portfolio that was neither past due nor impaired by the indexed loan-to-value ratios at 31 December 2013 and 31 December 2012:

						2013*
	Owner-occupier		**Buy-to-let**		**Total**	
UK	**m**	**%**	**m**	**%**	**m**	**%**
Less than 50%	**448**	**23.5**	**58**	**19.8**	**506**	**23.0**
50% to 70%	**341**	**17.9**	**45**	**15.3**	**386**	**17.5**
71% to 80%	**180**	**9.4**	**18**	**6.1**	**198**	**9.0**
81% to 90%	**188**	**9.9**	**18**	**6.3**	**206**	**9.4**
91% to 100%	**136**	**7.2**	**16**	**5.7**	**152**	**7.0**
101% to 120%	**202**	**10.6**	**30**	**10.2**	**232**	**10.5**
121% to 150%	**205**	**10.7**	**46**	**15.7**	**251**	**11.4**
Greater than 150%	**206**	**10.8**	**61**	**20.9**	**267**	**12.2**
Total	**1,906**	**100.0**	**292**	**100.0**	**2,198**	**100.0**

						2012*
	Owner-occupier		Buy-to-let		Total	
UK	m	%	m	%	m	%
Less than 50%	417	18.7	52	15.3	469	18.2
50% to 70%	373	16.7	55	16.1	428	16.6
71% to 80%	229	10.2	22	6.4	251	9.7
81% to 90%	226	10.1	21	6.4	247	9.6
91% to 100%	192	8.6	21	6.1	213	8.3
101% to 120%	258	11.5	30	8.8	288	11.2
121% to 150%	257	11.5	51	15.1	308	12.0
Greater than 150%	283	12.7	88	25.8	371	14.4

Total	2,235	100.0	340	100.0	2,575	100.0

The proportion of residential mortgages that was neither past due nor impaired and in negative equity at 31 December 2013 decreased in comparison to 31 December 2012, reflecting the increases in residential property prices in the period. 34% of residential mortgages that were neither past due nor impaired were in negative equity at 31 December 2013 compared to 38% at 31 December 2012.

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3.1 Credit risk Credit profile of the loan portfolio

Loan-to-value ratios of United Kingdom residential mortgage portfolio *(index linked)* that were greater than 90 days past due and/or impaired

The following table profiles the UK residential mortgage portfolio that was greater than 90 days past due and/or impaired by the indexed loan-to-value ratios at 31 December 2013 and 31 December 2012:

								2013*
	Owner-occupier		**Buy-to-let**		**Total**		**Total residential mortgage portfolio**	
United Kingdom	**m**	**%**	**m**	**%**	**m**	**%**	**m**	**%**
Less than 50%	**23**	**8.0**	**1**	**2.0**	**24**	**6.9**	**539**	**20.6**
50% to 70%	**29**	**9.8**	**2**	**3.1**	**31**	**8.7**	**425**	**16.3**
71% to 80%	**24**	**8.3**	**3**	**4.2**	**27**	**7.6**	**233**	**8.9**
81% to 90%	**24**	**8.2**	**6**	**9.8**	**30**	**8.5**	**244**	**9.4**
91% to 100%	**26**	**8.7**	**2**	**4.1**	**28**	**8.0**	**184**	**7.0**
101% to 120%	**32**	**10.7**	**2**	**4.0**	**34**	**9.5**	**272**	**10.4**
121% to 150%	**39**	**13.1**	**9**	**15.3**	**48**	**13.4**	**305**	**11.7**
Greater than 150%	**98**	**33.2**	**35**	**57.5**	**133**	**37.4**	**411**	**15.7**
Total	**295**	**100.0**	**60**	**100.0**	**355**	**100.0**	**2,613**	**100.0**

								2012*
	Owner-occupier		Buy-to-let		Total		Total residential mortgage portfolio	
United Kingdom	m	%	m	%	m	%	m	%
Less than 50%	15	5.4	1	1.9	16	4.9	496	16.6
50% to 70%	22	8.2	3	5.8	25	7.7	465	15.6

71% to 80%	26	9.4	3	4.6	29	8.6	283	9.5
81% to 90%	27	10.1	7	12.4	34	10.4	290	9.7
91% to 100%	40	14.9	3	6.4	43	13.5	274	9.2
101% to 120%	29	10.7	4	6.5	33	9.8	327	10.9
121% to 150%	39	14.5	8	14.5	47	14.4	366	12.2
Greater than 150%	72	26.8	27	47.9	99	30.7	489	16.3
Total	270	100.0	56	100.0	326	100.0	2,990	100.0

The proportion of residential mortgages that was greater than 90 days past due and/or impaired and in negative equity at 31 December 2013 increased in comparison to 31 December 2012, resulting from the inclusion of unsecured residual mortgage debt in the negative equity figures.

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Risk management 3. Individual risk types

3.1 Credit risk Credit profile of the loan portfolio

Credit quality profile of United Kingdom residential mortgages

The following table profiles the asset quality of the UK residential mortgage portfolio as at 31 December 2013 and 31 December 2012:

			2013*			2012*
	Owner-occupier	**Buy-to-let**	**Total**	Owner-occupier	Buy-to-let	Total
United Kingdom	**m**	**m**	**m**	m	m	m
Neither past due nor impaired	**1,906**	**292**	**2,198**	2,235	340	2,575
Past due but not impaired	**103**	**17**	**120**	118	23	141
Impaired - provisions held	**243**	**52**	**295**	230	44	274
Gross residential mortgages	**2,252**	**361**	**2,613**	2,583	407	2,990
Provisions for impairment	**(123)**	**(33)**	**(156)**	(149)	(34)	(183)
	2,129	**328**	**2,457**	2,434	373	2,807

United Kingdom residential mortgages which were past due but not impaired

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

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

	2013*	2012*

United Kingdom	**Owner-occupier**	**Buy-to-let**	**Total**	Owner-occupier	Buy-to-let	Total
	m	**m**	**m**	m	m	m
1 - 30 days	**21**	**3**	**24**	29	2	31
31 - 60 days	**15**	**3**	**18**	35	5	40
61 - 90 days	**15**	**3**	**18**	14	4	18
91 - 180 days	**16**	**2**	**18**	12	11	23
181 - 365 days	**20**	**6**	**26**	10	1	11
Over 365 days	**16**		**16**	18		18
Total	**103**	**17**	**120**	118	23	141

The amount of loans past due but not impaired at 31 December 2013 decreased in comparison to 31 December 2012, driven by a decrease in residential mortgages that were past due for less than 90 days.

United Kingdom residential mortgages which were impaired

The following table profiles the UK residential mortgage portfolio that was impaired at 31 December 2013 and 31 December 2012:

			2013*			2012*
United Kingdom	**Owner-occupier**	**Buy-to-let**	**Total**	Owner-occupier	Buy-to-let	Total
	m	**m**	**m**	m	m	m
Not in arrears	**10**	**1**	**11**	15	2	17
1 - 30 days	**2**	**1**	**3**	3	1	4
31 - 60 days	**4**		**4**	5	1	6
61 - 90 days	**10**	**1**	**11**	6	2	8
91 - 180 days	**17**	**5**	**22**	27	7	34
181 - 365 days	**51**	**15**	**66**	52	12	64
Over 365 days	**149**	**29**	**178**	122	19	141
Total impaired	**243**	**52**	**295**	230	44	274
Total gross residential mortgages	**2,252**	**361**	**2,613**	2,583	407	2,990

The pace of increase in impaired loans slowed significantly in 2013 in comparison to 2012 with an increase in impaired loans of 21 million in 2013 compared to an increase of 81 million in 2012, reflecting improved economic conditions and increases in residential property values in 2013.

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3.1 Credit risk Credit profile of the loan portfolio

United Kingdom residential mortgages repossessions

For the purpose of the following tables, a property is considered repossessed when legal title has transferred to AIB. Where the Group believes that the proceeds of sale of a repossessed property will comprise only part of the recoverable amount of the loan against which it was being held as security, the customer remains liable for the outstanding balance and the remaining loan continues to be recognised on the statement of financial position.

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

	2013*		2012*	
	Stock of repossessions	**Balance outstanding m**	Stock of repossessions	Balance outstanding m
Owner-occupier	**136**	**36**	143	33
Buy-to-let	**76**	**14**	71	15
Total	**212**	**50**	214	48

The decrease in the stock of repossessed properties in 2013 relates to the disposal of 205 properties in the period and the removal of 8 properties from the stock following the clearance of arrears on the related mortgages, partly off-set by 211 properties repossessed.

The disposal of 205 repossessed properties in 2013 resulted in a loss on disposal of 24 million (31 December 2012: disposal of 98 properties resulting in a loss on disposal of 10 million). Losses on the sale of repossessed properties are recognised in the income statement as part of the specific provision charge.

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Risk management 3. Individual risk types

3.1 Credit risk credit profile of the loan portfolio

Loans and receivables to customers Other personal lending

The following table analyses other personal lending by segment showing asset quality and impairment provisions for the years ended 31 December 2013 and 31 December 2012:

				2013*				2012
	DCB	**AIB UK**	**FSG**	**Total**	DCB	AIB UK	FSG	Total
	m	**m**	**m**	**m**	m	m	m	m
Analysed as to asset quality								
Satisfactory	**1,909**	**259**	**57**	**2,225**	2,082	284	140	2,506
Watch	**169**	**46**	**41**	**256**	191	36	96	323
Vulnerable	**132**	**50**	**205**	**387**	34	38	366	438
Impaired	**108**	**77**	**1,238**	**1,423**	15	38	1,378	1,431
Total criticised loans	**409**	**173**	**1,484**	**2,066**	240	112	1,840	2,192
Total gross loans and receivables	**2,318**	**432**	**1,541**	**4,291**	2,322	396	1,980	4,698
Total loans percentage	**%**	**%**	**%**	**%**	%	%	%	%
Criticised loans/total loans	**18**	**40**	**96**	**48**	10	28	93	47
Impaired loans/total loans	**5**	**18**	**80**	**33**	1	10	70	30
Impairment provisions statement of financial position	**m**	**m**	**m**	**m**	m	m	m	m
Specific	**75**	**54**	**963**	**1,092**	15	27	1,022	1,064
IBNR	**29**	**3**	**23**	**55**	22	11	42	75
Total impairment provisions	**104**	**57**	**986**	**1,147**	37	38	1,064	1,139
Provision cover percentage	**%**	**%**	**%**	**%**	%	%	%	%

Specific provisions/impaired loans	**69**	**70**	**78**	**77**	100	71	74	74
Total provisions/impaired loans	**96**	**74**	**80**	**81**	247	100	77	80
Total provisions/total loans	**4**	**13**	**64**	**27**	2	10	54	24
Income statement impairment charge	**m**	**m**	**m**	**m**				m
Specific	**41**	**3**	**103**	**147**				303
IBNR	**6**	**(9)**	**(19)**	**(22)**				(84)
Total impairment charge	**47**	**(6)**	**84**	**125**				219
	%	**%**	**%**	**%**				%
Impairment charge/average loans	**1.99**	**(1.29)**	**5.08**	**2.83**				4.37

The other personal lending portfolio at 4.3 billion has reduced by 0.4 billion in the period and comprises 3.4 billion in loans and overdrafts and 0.9 billion in credit card facilities. Personal lending loans have continued to reduce, reflecting accelerated repayments and subdued demand for new loans and other credit facilities.

Reductions in the portfolio are evident across all credit quality bands, however, the level of impaired loans have not reduced at the same level as the entire portfolio. At 31 December 2013, 2.1 billion or 48% of the portfolio is criticised of which impaired loans amount to 1.4 billion (31 December 2012: 2.2 billion or 47% and 1.4 billion).

The Group has statement of financial position specific provisions of 1.1 billion providing cover on impaired loans of 77% (31 December 2012: 1.1 billion or 74%) and a further 0.1 billion in IBNR provisions representing 1.9% of performing loans (31 December 2012: 0.1 billion or 2.3%). IBNR levels have reduced since 2012 reflecting the reduced level of performing loans in the portfolio and management judgement of reduced loss within the portfolio.

The income statement provision charge for the period to 31 December 2013 was 125 million or 2.83% of average customer loans, compared with 219 million or 4.37% in the full year to 31 December 2012. While the provision charge has reduced since 2012, personal borrowers continue to be impacted by reduced incomes and high levels of personal debt. The reduction in impairment charge reflects an indication of improvement in the sector however, the sector is fragile and challenges remain.

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3.1 Credit risk Credit profile of the loan portfolio

Loans and receivables to customers Property and construction

The following table analyses property and construction lending by segment showing asset quality and impairment provisions for the years ended 31 December 2013 and 31 December 2012:

				2013*				**2012**
	DCB	**AIB UK**	**FSG**	**Total**	**DCB**	**AIB UK**	**FSG**	**Total**
	m	**m**	**m**	**m**	**m**	**m**	**m**	**m**
Investment								
Commercial investment	**2,187**	**2,323**	**6,030**	**10,540**	2,320	1,290	8,449	12,059
Residential investment	**281**	**781**	**1,380**	**2,442**	349	490	2,045	2,884
	2,468	**3,104**	**7,410**	**12,982**	2,669	1,780	10,494	14,943
Land and development								
Commercial development	**133**	**184**	**1,050**	**1,367**	124	45	1,280	1,449
Residential development	**105**	**1,338**	**3,087**	**4,530**	110	422	4,461	4,993
	238	**1,522**	**4,137**	**5,897**	234	467	5,741	6,442
Contractors	**66**	**155**	**183**	**404**	70	135	241	446
Housing associations		**427**		**427**		95	325	420
Total gross loans and receivables	**2,772**	**5,208**	**11,730**	**19,710**	2,973	2,477	16,801	22,251
Analysed as to asset quality								
Satisfactory	**1,714**	**1,398**	**470**	**3,582**	2,131	1,220	1,803	5,154
Watch	**383**	**788**	**472**	**1,643**	467	529	642	1,638
Vulnerable	**255**	**534**	**542**	**1,331**	93	400	1,162	1,655
Impaired	**420**	**2,488**	**10,246**	**13,154**	282	328	13,194	13,804
Total criticised loans	**1,058**	**3,810**	**11,260**	**16,128**	842	1,257	14,998	17,097
Total loans percentage	**%**	**%**	**%**	**%**	%	%	%	%
Criticised loans/total loans	**38**	**73**	**96**	**82**	28	51	89	77
Impaired loans/total loans	**15**	**48**	**87**	**67**	9	13	79	62

Impairment provisions statement of financial position	**m**	**m**	**m**	**m**	m	m	m	m
Specific	**149**	**1,459**	**6,506**	**8,114**	121	141	7,419	7,681
IBNR	**123**	**80**	**121**	**324**	80	45	298	423
Total impairment provisions	**272**	**1,539**	**6,627**	**8,438**	201	186	7,717	8,104
Provision cover percentage	**%**	**%**	**%**	**%**	%	%	%	%
Specific provisions/impaired loans	**35**	**59**	**63**	**62**	43	43	56	56
Total provisions/impaired loans	**65**	**62**	**65**	**64**	71	57	58	59
Total provisions/total loans	**10**	**30**	**56**	**43**	7	8	46	36
Income statement impairment charge	**m**	**m**	**m**	**m**				m
Specific	**62**	**150**	**605**	**817**				1,440
IBNR	**3**	**(19)**	**(77)**	**(93)**				(659)
Total impairment charge	**65**	**131**	**528**	**724**				781
	%	**%**	**%**	**%**				%
Impairment charge/average loans	**1.93**	**2.39**	**4.39**	**3.47**				3.30

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Risk management 3. Individual risk types

3.1 Credit risk Credit profile of the loan portfolio

Loans and receivables to customers Property and construction (*continued*)

The property and construction sector amounted to 24% of total loans and receivables, or 17% of loans and receivables less provisions. The portfolio is comprised of 66% investment loans (13.0 billion), 30% land and development loans (5.9 billion) and 4% other property and construction loans (0.8 billion). It is geographically split 74% in the Republic of Ireland and 26% United Kingdom.

This sector continues to be challenging, particularly in Ireland. However, there are signs that the commercial market in Ireland is recovering from very depressed activity levels, with transactional activity in all sectors up year-on-year. The improvement in demand is observed particularly in prime locations with activity levels in secondary locations remaining low. This continues to have an impact on the credit quality of the portfolio which remains regionally focussed within Ireland with real estate asset locations that are largely secondary and tertiary in nature. Conditions in the UK have improved during 2013, however, the market has become segmented between London delivering strong returns but with the rest of UK remaining weak.

Credit quality within the portfolio is stabilising, with the level of criticised loans reducing from 17.1 billion at 31 December 2012 to 16.1 billion at 31 December 2013 due to asset sales, write-offs and repayments. This is partly off-set by continued movement of loans into the criticised grades, albeit at a reduced rate.

Impaired loans amounted to 13.2 billion or 67% of the portfolio (31 December 2012: 13.8 billion or 62%). The rate of new impairment decreased significantly during 2013 reflecting the improved market dynamics and the fact that 67% of this portfolio is already impaired. The specific provision cover increased from 56% to 62% in 2013, due to increased provisions for some cases in secondary locations and debt repayments.

The specific impairment charge on the property and construction loan portfolio reduced by 43% to 0.8 billion or 3.47% of average customer loans for the year ended 31 December 2013. There was an IBNR release of 0.1 billion in 2013 compared to 0.7 billion in 2012, reflecting the higher level of credit process catch-up completed in 2012.

Investment

Property investment loans amounted to 13.0 billion at 31 December 2013 (31 December 2012: 14.9 billion) of which 10.5 billion related to commercial investment. The reduction in the portfolio was largely as a result of asset sales in the portfolio along with amortisation and repayments of debt. 8.6 billion of the investment property portfolio related to loans for the purchase of property in the Republic of Ireland, 4.1 billion in the United Kingdom, 0.1 billion in the United States of America and 0.2 billion in other geographical locations.

There has been an improvement in investment and occupation rates in the office, retail and industrial sectors and some uplift in prime rental and capital values during 2013. The majority of investment activity remains focussed on the capital and in particular Dublin city where there has been an increase in the volume of properties becoming available

for sale. Foreign direct investment has also fuelled activity in the Dublin office sector resulting in prime headline office rents in Dublin increasing. The stabilisation of the Dublin residential market has attracted increased interest from investors, most notably overseas investors. Outside of Dublin, investment activity has been limited. The retail sector continues to struggle with rental values decreasing in the last 12 months. Retail landlords and investors across the sector have faced significant decreases in rental values in the last few years. Although rents now appear stable for prime units, further rental pressure for non-prime units is expected. These have all contributed to continued elevated impairment charges in the investment property portfolio. In assessing impairment provisions, allowance is taken for the Group s greater proportion of secondary real estate assets. Consequently a steeper fall in real estate prices, compared to the general market index expectations, is used to calculate impairment provisions.

10.2 billion or 78% of the investment property portfolio was criticised at 31 December 2013 compared with 10.6 billion or 71% at 31 December 2012. Included in criticised loans were 7.6 billion of loans which were impaired (31 December 2012: 8.0 billion) on which the Group had 3.9 billion in statement of financial position specific provisions, providing cover of 51% (31 December 2012: 3.4 billion or 42%). Total provisions as a percentage of total loans are 32%, up from 25% at December 2012 for this sector. The impairment charge on the investment property element of the property and construction portfolio was 465 million or 3.39% of average property investment customer loans compared with 420 million or 2.64% in the year to 31 December 2012, with the increase due to a reduced writeback of IBNR provisions.

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3.1 Credit risk Credit profile of the loan portfolio

Loans and receivables to customers Property and construction (*continued*)

Land and Development

At 31 December 2013, Group land and development loans amounted to 5.9 billion (31 December 2012: 6.4 billion). 4.4 billion of this portfolio related to loans in the Republic of Ireland and 1.5 billion in the United Kingdom.

There is improved demand for sites in Dublin, fuelled by the imbalance between supply and demand in the Dublin housing market and signs of growth in the Dublin office sector alongside improvements in Dublin rents. Demand for well-located sites, particularly those with planning permission has risen significantly. There continues to be little demand for development land outside Dublin. Development land values have reverted to agricultural values in some locations where the possibility of development in the medium term is remote.

5.6 billion of the land and development portfolio was criticised at 31 December 2013 (31 December 2012: 6.2 billion), including 5.3 billion of loans which were impaired (31 December 2012: 5.6 billion) on which the Group had 4.1 billion in statement of financial position specific provisions providing cover of 77% (31 December 2012: 74%). The impairment charge for the period to 31 December 2013 was 239 million or 3.84% of average land and development customer loans compared with 334 million or 4.9% for the full year to December 2012.

There was also an income statement provision charge of 18 million for other property and construction exposures, comprising a specific charge of 20 million for contractors and a release of IBNR provision of 2 million relating to contractors and housing associations.

Please note: during 2013, an internal portfolio re-allocation between FSG and UK occurred where assets were transferred which were valued at 2.4 billion as at December 2013 (December 2012: 3.0 billion).

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Risk management 3. Individual risk types

3.1 Credit risk Credit profile of the loan portfolio

Loans and receivables to customers SME/other commercial lending

The following table analyses SME/other commercial lending by segment showing asset quality and impairment provisions for the years ended 31 December 2013 and 31 December 2012:

				2013*				2012
	DCB	**AIB UK**	**FSG**	**Total**	DCB	AIB UK	FSG	Total
	m	**m**	**m**	**m**	m	m	m	m
Agriculture	**1,133**	**58**	**528**	**1,719**	1,084	43	595	1,722
Distribution:								
Hotels	**355**	**870**	**946**	**2,171**	320	647	1,657	2,624
Licensed premises	**240**	**154**	**638**	**1,032**	248	46	830	1,124
Retail/Wholesale	**914**	**226**	**1,189**	**2,329**	962	201	1,277	2,440
Other distribution	**82**	**22**	**105**	**209**	86	9	120	215
	1,591	**1,272**	**2,878**	**5,741**	1,616	903	3,884	6,403
Other services	**1,196**	**2,414**	**828**	**4,438**	1,260	1,845	1,865	4,970
Other	**717**	**558**	**606**	**1,881**	1,014	407	729	2,150
Total gross loans and receivables	**4,637**	**4,302**	**4,840**	**13,779**	4,974	3,198	7,073	15,245
Analysed as to asset quality								
Satisfactory	**3,407**	**2,792**	**230**	**6,429**	4,035	2,189	852	7,076
Watch	**748**	**472**	**133**	**1,353**	814	472	187	1,473
Vulnerable	**273**	**323**	**626**	**1,222**	83	203	1,162	1,448
Impaired	**209**	**715**	**3,851**	**4,775**	42	334	4,872	5,248
Total criticised loans	**1,230**	**1,510**	**4,610**	**7,350**	939	1,009	6,221	8,169
Total loans percentage	**%**	**%**	**%**	**%**	%	%	%	%
Criticised loans/total loans	**27**	**35**	**95**	**53**	19	32	88	54

Impaired loans/total loans	**5**	**17**	**80**	**35**	1	10	69	34
Impairment provisions statement of financial position	**m**	**m**	**m**	**m**	m	m	m	m
Specific	**101**	**375**	**2,655**	**3,131**	38	164	3,054	3,256
IBNR	**51**	**22**	**35**	**108**	72	28	140	240
Total impairment provisions	**152**	**397**	**2,690**	**3,239**	110	192	3,194	3,496
Provision cover percentage	**%**	**%**	**%**	**%**	%	%	%	%
Specific provisions/impaired loans	**48**	**52**	**69**	**66**	90	49	63	62
Total provisions/impaired loans	**73**	**56**	**70**	**68**	262	58	66	67
Total provisions/total loans	**3**	**9**	**56**	**24**	2	6	45	23
Income statement impairment charge	**m**	**m**	**m**	**m**				m
Specific	**74**	**26**	**249**	**349**				722
IBNR	**(21)**	**(17)**	**(90)**	**(128)**				(205)
Total impairment charge	**53**	**9**	**159**	**221**				517
	%	**%**	**%**	**%**				%
Impairment charge/average loans	**1.10**	**0.20**	**3.19**	**1.55**				3.26

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3.1 Credit risk credit profile of the loan portfolio

Loans and receivables to customers SME/other commercial lending (continued)

The SME / other commercial lending portfolio amounted to 17% of total loans and receivables, or 16% of loans and receivables less provisions. The geographical split is 69% of advances in the Republic of Ireland and the remaining 31% in the United Kingdom. Loans and receivables in this sector reduced by 1.5 billion from 15.2 billion as at 31 December 2012, driven by amortisation of debt, asset sales and write-offs.

The SME portfolio in both Ireland and the United Kingdom is concentrated in sub-sectors which are reliant on the domestic economies The improved economic environment has resulted in some sectors which had suffered major job losses in the recession now seeing job growth, particularly in the manufacturing, hospitality and agriculture sectors. Challenging economic conditions and the level of indebtedness in the sector has resulted in many SMEs experiencing difficulty in managing the finances of their businesses. Some of this indebtedness in Ireland is related to property investments. Consequently, AIB is engaged in restructuring existing facilities where necessary in order to sustain viable businesses.

The distribution sub-sector comprises 42% of the portfolio and is split between hotels, licensed premises and retail. The hotel and licensed premises sectors are showing some improvement due to higher tourist numbers, increased consumer confidence and an improving employment market. Many retailers continue to find trading conditions challenging, with cost pressures a key concern. The agriculture sub-sector (12% of the portfolio) has benefited from positive prices in 2013 but has experienced challenges due to increased costs and adverse weather. The other services sub-sector comprises 32% of the portfolio and includes businesses such as business administration, community, social and personal services and health care.

Credit quality within the portfolio is stabilising due to the improved economic environment, with the level of criticised loans reducing from 8.2 billion to 7.4 billion due to asset sales, write-offs and repayments. This is partly off-set by continued movement of loans into the criticised grades, albeit at a reduced rate. Within criticised loans, impaired loans amounted to 4.8 billion, a reduction of 9% from 31 December 2012. The specific provision cover increased from 62% to 66% in 2013, due to increased provisions for some loans and debt repayments.

The income statement provision charge for the year to 31 December 2013 was 221 million or 1.55% of average customer loans compared with 517 million or 3.26% to 31 December 2012.

At 31 December 2012, the Group had IBNR provisions of 240 million, informed by a number of factors including the level of arrears and the levels of stress in the portfolios. Specific provisions were raised during 2013 which together with the reduction in the performing portfolio of 1 billion, resulted in a reduction of 132 million in the required level of IBNR provisions to 108 million.

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Risk management 3. Individual risk types

3.1 Credit risk credit profile of the loan portfolio

Loans and receivables to customers Corporate lending

The following table analyses corporate lending showing asset quality and impairment provisions for the years ended 31 December 2013 and 31 December 2012:

	2013*				2012			
	DCB	**AIB UK**	**FSG**	**Total**	DCB	AIB UK	FSG	Total
	m	**m**	**m**	**m**	m	m	m	m
Satisfactory	**2,686**	**772**	**53**	**3,511**	2,885		1,185	4,070
Watch	**99**	**6**		**105**	100		35	135
Vulnerable	**137**	**23**	**55**	**215**	129		20	149
Impaired	**346**	**104**	**26**	**476**	161		642	803
Total criticised loans	**582**	**133**	**81**	**796**	390		697	1,087
Total gross loans and receivables	**3,268**	**905**	**134**	**4,307**	3,275		1,882	5,157
Total loans percentage	**%**	**%**	**%**	**%**	%	%	%	%
Criticised loans/total loans	**18**	**15**	**60**	**18**	12		37	21
Impaired loans/total loans	**11**	**11**	**19**	**11**	5		34	16
Impairment provisions statement of financial position	**m**	**m**	**m**	**m**	m	m	m	m
Specific	**153**	**53**	**22**	**228**	112		373	485
IBNR	**79**			**79**	85		13	98
Total impairment provisions	**232**	**53**	**22**	**307**	197		386	583

Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	**44**	**51**	**85**	**48**	70		58	60
Total provisions/impaired loans	**67**	**51**	**85**	**64**	122		60	73
Total provisions/total loans	**7**	**6**	**16**	**7**	6		21	11
Income statement impairment charge	**m**	**m**	**m**	**m**				m
Specific	**12**	**41**	**(4)**	**49**				172
IBNR	**(6)**		**(13)**	**(19)**				(5)
Total impairment charge	**6**	**41**	**(17)**	**30**				167
	%	%	%	%				%
Impairment charge/average loans	**0.18**	**3.67**	**(9.02)**	**0.63**				2.63

The corporate portfolio amounted to 4.3 billion at 31 December 2013 compared with 5.2 billion at 31 December 2012. The reduction largely reflects sales of assets along with accelerated scheduled repayments and amortisation.

Corporate loans and receivables continue to perform better than the remainder of the portfolio due to less reliance on the domestic market, and on the property market.

The income statement provision charge for the period to 31 December 2013 was 30 million or 0.63% of average customer loans (31 December 2012: 167 million or 2.63%). The reduced provision charge was due to a lower level of large corporate credit defaults compared with 2012, combined with higher recoveries in 2013. The provision cover for impaired loans has decreased from 60% to 48% due to the sale of assets with higher cover.

*Forms an integral part of the audited financial statements

3.1 Credit risk credit profile of the loan portfolio

Credit ratings*

Internal credit ratings

The Group uses various rating tools in managing its credit risk. The Risk management section of this report (pages 71 and 72) highlights the role of rating tools in identifying and managing loans including those of lower credit quality. These lower credit quality loans are referred to as Criticised loans and include Watch, Vulnerable and Impaired, and which are defined below.

For reporting purposes loans and receivables to customers are categorised into:

(i) Neither past due nor impaired;
(ii) Past due but not impaired; and
(iii) Impaired.

Neither past due nor impaired are those loans that are neither contractually past due and/or have not been categorised as impaired by the Group.

Past due but not impaired are those loans where a contractually due payment has not been made. Past due days is a term used to describe the cumulative number of days a missed payment is overdue. In the case of instalment type facilities, days past due arise once an approved limit has been exceeded.

This category can also include an element of facilities where negotiation with the borrower on new terms and conditions has not yet concluded to fulfilment while the original loan facility remains outside its original terms. When a facility is past due, the entire exposure is reported as past due, not just the amount of any excess or arrears.

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

Loans that are neither past due nor impaired are further classified into Good Upper, Good Lower, Watch and Vulnerable , which are described as follows:

Good Upper: Strong credit with no weakness evident. Typically includes elements of the residential mortgages portfolio combined with strong corporate and commercial lending.

Good Lower: Satisfactory credit with no weakness evident. Typically includes new business written and existing satisfactorily performing exposures across all portfolios.

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

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

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Risk management 3. Individual risk types

3.1 Credit risk credit profile of the loan portfolio

Credit ratings* ***(continued)***

Internal credit ratings of loans and receivables to customers

The internal credit ratings profile of loans and receivables to customers by asset class at 31 December 2013 and 31 December 2012 is as follows:

						2013
	Residential mortgages	**Other personal**	**Property and construction**	**SME/other commercial**	**Corporate**	**Total**
	m	**m**	**m**	**m**	**m**	**m**
Neither past due nor impaired						
Good upper	**13,070**	**190**	**153**	**83**	**696**	**14,192**
Good lower	**12,148**	**1,915**	**3,295**	**6,211**	**2,793**	**26,362**
Watch	**2,776**	**207**	**1,538**	**1,243**	**105**	**5,869**
Vulnerable	**1,694**	**223**	**912**	**905**	**197**	**3,931**
Total	**29,688**	**2,535**	**5,898**	**8,442**	**3,791**	**50,354**
Past due but not impaired						
Good upper	**10**	**2**		**1**	**2**	**15**
Good lower	**65**	**118**	**134**	**134**	**20**	**471**
Watch	**653**	**49**	**105**	**110**		**917**
Vulnerable	**1,265**	**164**	**419**	**317**	**18**	**2,183**
Total	**1,993**	**333**	**658**	**562**	**40**	**3,586**
Total impaired	**9,083**	**1,423**	**13,154**	**4,775**	**476**	**28,911**
Total gross loans and receivables	**40,764**	**4,291**	**19,710**	**13,779**	**4,307**	**82,851**
Unearned income						**(101)**
Deferred costs						**74**
Impairment provisions						**(17,083)**

Total	**65,741**

						2012
	Residential mortgages	Other personal	Property and construction	SME/other commercial	Corporate	Total
	m	m	m	m	m	m
Neither past due nor impaired						
Good upper	10,655	884	76	136	948	12,699
Good lower	17,064	1,485	4,852	6,754	3,102	33,257
Watch	2,747	241	1,413	1,335	135	5,871
Vulnerable	1,852	292	1,213	1,084	149	4,590
Total	32,318	2,902	7,554	9,309	4,334	56,417
Past due but not impaired						
Good upper	158	40		2		200
Good lower	518	97	226	164	20	1,025
Watch	704	82	225	158		1,169
Vulnerable	693	146	442	364		1,645
Total	2,073	365	893	688	20	4,039
Total impaired	8,130	1,431	13,804	5,248	803	29,416
Total gross loans and receivables	42,521	4,698	22,251	15,245	5,157	89,872
Unearned income						(108)
Deferred costs						89
Impairment provisions						(16,528)
Total						73,325

There was a recalibration of one of the key residential mortgage grading models in 2013 which introduced more recent loss history and behavioural data into its calculation. This has resulted in a shift in the grade profile, as evidenced in the table above, and which has resulted in the upgrade of certain good mortgages and the down grade of certain weaker mortgages (2012 comparatives: unaudited).

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3.1 Credit risk credit profile of the loan portfolio

Credit ratings* (continued)

External credit ratings of financial assets

The external credit ratings profile of loans and receivables to banks, NAMA senior bonds, trading portfolio financial assets (excluding equity securities) and financial investments available for sale (excluding equity shares) at 31 December 2013 and 31 December 2012 is as follows:

					2013
	Bank m	**Corporate m**	**Sovereign m**	**Other m**	**Total m**
AAA/AA	**3,408**		**5,417**	**304**	**9,129**
A	**1,564**			**133**	**1,697**
BBB+/BBB/BBB-	**718**	**14**	**26,171[1]**	**85**	**26,988**
Sub investment			**6**	**14**	**20**
Unrated	**63**	**1**			**64**
Total	**5,753**	**15**	**31,594[2]**	**536**	**37,898**

					2012
	Bank m	Corporate m	Sovereign m	Other m	Total m
AAA/AA	2,452	3	3,881	583	6,919
A	2,347	15	221	223	2,806
BBB+/BBB/BBB-	1,167	60	24,995[1]	79	26,301
Sub investment	103	99	26	79	307
Unrated	76	115			191
Total	6,145	292	29,123[2]	964	36,524

[1] Includes NAMA senior bonds which do not have an external credit rating and to which the Group has attributed a rating of BBB+ (31 December 2012: BBB+) ie the external rating of the Sovereign.

[2] Includes supranational banks and government agencies.

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Risk management 3. Individual risk types

3.1 Credit risk credit profile of the loan portfolio

Leveraged debt by geographic location and industry sector

Leveraged lending (including the financing of management buy-outs, buy-ins and private equity buy-outs) is conducted primarily through specialist lending teams. The leveraged loan book is held as part of the loans and receivables to customers portfolio. Specific impairment provisions of 0.5 million (31 December 2012: 34 million) are currently held against impaired exposures of 14 million (31 December 2012: 72 million). The unfunded element below includes off-balance sheet facilities and the undrawn element of facility commitments.

The portfolio continues to reduce, in large part due to AIB s deleveraging.

	2013		2012	
Leveraged debt by geographic location*	**Funded m**	**Unfunded m**	Funded m	Unfunded m
United Kingdom	**44**	**3**	84	24
Rest of Europe	**20**	**1**	39	4
United States of America	**271**	**21**	325	50
Rest of the World			31	
	335	**25**	479	78

	2013	2012
Funded leveraged debt by industry sector*	**m**	m
Agriculture		
Property and construction		
Distribution	**40**	91
Energy		29
Financial	**11**	5
Manufacturing	**78**	158
Transport	**83**	14
Other services	**122**	182

	334	479

Large exposures (including disposal groups and non-current assets held for sale)

AIB s Group Large Exposure Policy sets out maximum exposure limits to, or on behalf of, a customer or a group of connected customers.

At 31 December 2013, the Group s top 50 exposures amounted to 7.5 billion, and accounted for 9.1% (9.3 billion and 10.4% at 31 December 2012) of the Group s on-balance sheet total gross loans and receivables to customers. No single customer exposure exceeded regulatory guidelines. In addition, the Group holds NAMA senior bonds amounting to 15.6 billion (31 December 2012: 17.4 billion).

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Risk management 3. Individual risk types

3.1 Credit risk Analysis of credit risk 5 year summaries

This section sets out 5 year summaries as required for the Securities and Exchange Commission (SEC) reporting as follows:

Loans and receivables to customers by geography and industry sector

Percentages of loans and receivables to customers by geography and industry sector

Risk elements in lending

Impaired loans and receivables to customers

Provisions for impairment (banks and customers)

Movements in provisions for impairments on loans and receivables (including loans and receivables held for sale to NAMA and loans and receivables included within disposal groups and non-current assets held for sale)

Additional information on provisions for impairment

Loans charged off and recoveries of previously charged off loans

Analysis of loans and receivables to customers by contractual residual maturity and interest rate sensitivity

Analysis of loans and receivables held for sale to NAMA by geography and industry sector

Cross-border outstandings

Risk management 3. Individual risk types

3.1 Credit risk Analysis of credit risk 5 year summaries

Loans and receivables to customers by geography and industry sector*

The credit portfolio is diversified within each of its geographic markets (which are principally in Ireland and the United Kingdom) by spread of locations, industry classification and individual customer.

Other than property and construction in Ireland (17.6%) and residential mortgages in Ireland (46.1%), as at 31 December 2013, no one industry or loan category, in any geographic market accounts for more than 10% of AIB Group s total loan portfolio.

The following table shows the gross loan and receivables to customers portfolio by geography and industry sector at 31 December 2013, 2012, 2011, 2010 and 2009 excluding in 2010 and 2009 those held for sale to NAMA which are analysed on page 148.

	2013	2012	2011	2010	2010	2009
				Continuing operations	Discontinued operations	
	m	m	m	m	m	m
IRELAND						
Agriculture	**1,740**	1,727	1,810	1,939		2,015
Energy	**259**	326	431	686		844
Manufacturing	**1,167**	1,271	1,563	2,617		3,108
Property and construction	**14,589**	15,983	17,222	17,246		15,930
Distribution	**5,254**	5,839	6,391	7,626		8,182
Transport	**775**	538	614	809		979
Financial	**470**	592	1,048	1,368		1,403
Other services	**2,912**	3,093	3,276	4,080		4,700
Personal Residential mortgages	**38,151**	39,486	41,847[(1)]	27,290		27,818
Other	**3,858**	4,223	4,755	5,349		6,242
Lease financing	**360**	457	544	764		922
	69,535	73,535	79,501	69,774		72,143
UNITED KINGDOM						
Agriculture	**58**	54	58	67		120
Energy	**23**	118	250	304		292

Manufacturing		**336**	350	486	843	1,193
Property and construction		**5,121**	6,228	6,938	7,430	7,068
Distribution		**1,616**	1,950	2,109	2,439	2,639
Transport		**188**	614	683	749	601
Financial		**174**	190	320	525	696
Other services		**2,646**	3,050	3,474	4,523	4,936
Personal	Residential mortgages	**2,613**	3,035	3,325	3,534	3,635
	Other	**433**	475	566	672	861
Lease financing					8	48
		13,208	16,064	18,209	21,094	22,089
UNITED STATES OF AMERICA						
Agriculture						3
Energy		**5**	19	41	201	435
Manufacturing			4	12	60	161
Property and construction			40	218	732	904
Distribution			1	14	122	162
Transport			22	32	73	69
Financial		**4**	3		29	54
Other services		**99**	184	271	751	753
		108	273	588	1,968	2,541

[1]The significant increase in residential mortgages in Ireland in 2011 compared with 2010 reflects the EBS portfolio which was acquired by AIB in July 2011.

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3.1 Credit risk Analysis of credit risk 5 year summaries

Loans and receivables to customer portfolios by geography and industry sector* *(continued)*

	2013	2012	2011	2010	2010	2009
				Continuing operations	Discontinued operations	
	m	m	m	m	m	m
POLAND						
Agriculture					133	126
Energy					70	86
Manufacturing					978	1,024
Property and construction					2,542	2,852
Distribution					837	804
Transport					81	83
Financial					125	143
Other services					318	322
Personal Residential mortgages					1,821	1,538
Other					1,051	1,039
Lease financing					685	711
					8,641	8,728
REST OF WORLD			389	1,042		1,106
Total gross loans to customers	**82,851[(1)]**	89,872[(1)]	98,687[(1)]	93,878[(2)]	8,641	106,607
Unearned income	**(101)**	(108)	(125)	(167)	(67)	(279)
Deferred costs	**74**	89	103			
Provisions for impairment	**(17,083)**	(16,528)	(14,941)	(7,299)	(344)	(2,987)
Total loans and receivables	**65,741**	73,325	83,724	86,412	8,230	103,341

[(1)]Includes 28 million (2012: 475 million; 2011: 1,195 million) in loans and receivables to customers that relate to Disposal groups and non-current assets held for sale .

[(2)]Includes 74 million relating to AmCredit which was held within Disposal groups and non-current assets held for sale .

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Risk management 3. Individual risk types

3.1 Credit risk Analysis of credit risk 5 year summaries

Percentages of loans and receivables to customers by geography and industry sector

The following table shows the percentages of loans and receivables to customers by geography and industry sector at 31 December 2013, 2012, 2011, 2010 and 2009, excluding in 2010 and 2009 those held for sale to NAMA but including, in 2010, those within disposal groups and non-currents assets held for sale, that were not classified as discontinued operations (0.1%, Rest of World).

		2013	2012	2011	2010	2010	2009
					Continuing operations	Discontinued operations	
		%	%	%	%	%	%
IRELAND							
Agriculture		**2.1**	1.9	1.8	1.9		1.9
Energy		**0.3**	0.4	0.4	0.7		0.8
Manufacturing		**1.4**	1.4	1.6	2.6		2.9
Property and construction		**17.6**	17.8	17.5	16.8		14.9
Distribution		**6.3**	6.5	6.5	7.4		7.7
Transport		**0.9**	0.6	0.6	0.8		0.9
Financial		**0.6**	0.7	1.1	1.3		1.3
Other services		**3.5**	3.5	3.3	4.0		4.4
Personal	Residential mortgages	**46.1**	43.9	42.4	26.6		26.1
	Other	**4.7**	4.7	4.8	5.2		5.9
Lease financing		**0.4**	0.5	0.6	0.7		0.9
		83.9	81.9	80.6	68.0		67.7
UNITED KINGDOM							
Agriculture		**0.1**	0.1	0.1	0.1		0.1
Energy			0.1	0.3	0.3		0.3
Manufacturing		**0.4**	0.4	0.5	0.8		1.1
Property and construction		**6.2**	6.9	7.0	7.3		6.6
Distribution		**2.0**	2.2	2.1	2.4		2.5
Transport		**0.2**	0.7	0.7	0.7		0.6
Financial		**0.2**	0.2	0.3	0.5		0.7
Other services		**3.2**	3.3	3.5	4.4		4.6

Personal	Residential mortgages	**3.2**	3.4	3.4	3.4		3.4
	Other	**0.5**	0.5	0.6	0.7		0.8
		16.0	17.8	18.5	20.6		20.7
UNITED STATES OF AMERICA							
Energy					0.2		0.3
Manufacturing					0.1		0.2
Property and construction			0.1	0.2	0.7		0.8
Distribution					0.1		0.2
Transport					0.1		0.1
Financial							0.1
Other services		**0.1**	0.2	0.3	0.7		0.7
		0.1	0.3	0.5	1.9		2.4
POLAND							
Agriculture						0.1	0.1
Energy						0.1	0.1
Manufacturing						1.0	1.0
Property and construction						2.5	2.7
Distribution						0.8	0.7
Transport						0.1	0.1
Financial						0.1	0.1
Other services						0.3	0.3
Personal	Residential mortgages					1.8	1.4
	Other					1.0	1.0
Lease financing						0.7	0.7
						8.5	8.2
REST OF WORLD				0.4	1.0		1.0
Total loans		**100.0**	100.0	100.0	91.5	8.5	100.0

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3.1 Credit risk Analysis of credit risk 5 year summaries

Risk elements in lending

AIB s loan control and review procedures generally do not include the classification of loans as non-accrual, accruing past due, restructured and potential problem loans, as defined by the SEC. Management has, however, set out in the following table the amount of loans, (including, in the case of 2010 and 2009, those held for sale to NAMA and in 2010 those within discontinued operations)(2), at 31 December, without giving effect to available security and before deduction of provisions, using the SEC s classification:

	2013	2012	2011	2010	2009
	m	m	m	m	m
Loans accounted for on non-accrual basis[(1)]					
Ireland	**25,319**	24,719	21,047	10,215	14,922
United Kingdom	**3,576**	4,641	3,725	2,524	1,944
United States of America	**16**	56	49	75	42
Poland[(2)]				587	477
Rest of World			12	68	68
	28,911	29,416	24,833	13,469	17,453
Accruing loans which are contractually past due 90 days or more as to principal or interest					
Ireland	**1,046**	1,190	1,371	1,768	815
United Kingdom	**121**	162	74	59	83
United States of America				29	
Poland[(2)]				3	4
	1,167	1,352	1,445	1,859	902
Restructured loans not included above[(3)]	**99**	55	75	233	140
Other real estate and other assets owned			17	12	10

[(1)]These figures represent AIB s impaired loans before provisions. Total interest income that would have been recorded during the year ended 31 December 2013 had interest on gross impaired loans been included in income amounted to 763 million (2012: 771 million; 2011: 528 million; 2010: 462 million; 2009: 235 million) - 661 million for Ireland, 102 million for the United Kingdom and Nil for the United States. Of the total figure of 763 million above, 373 million (2012: 392 million; 2011: 236 million; 2010: 296 million; 2009: 172 million) was included in income for the year ended 31 December 2013 for interest on impaired loans (net of provisions).

[(2)]For 2010, Poland is classified as a discontinued operation.

[(3)]In certain circumstances as part of a loan restructure, AIB will convert part of the debt to equity and if the residual loan is viable will reclassify this residual debt as performing. The restructured loans figure above solely relates to the residual loan element of these restructures which is deemed to be performing (i.e. non impaired) following the restructure event. The value of equity held in the statement of financial position as at 31 December 2013 from such transactions was 6 million (2012: 19 million) and the amount of debt resulting from such transactions and held in performing grades was 27 million (2012: 9 million).

AIB generally expects that loans, where known information about possible credit problems causes management to have serious doubt as to the ability of borrowers to comply with loan repayment terms, would be included under its definition of impaired loans and would therefore have been reported in the above table.

In AIB loans are typically reported as impaired when interest thereon is 90 days or more past due or where a specific provision is raised, 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 the present value of impaired claims due to the passage of time is reported as interest income.

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Risk management 3. Individual risk types

3.1 Credit risk Analysis of credit risk 5 year summaries

Impaired loans and receivables to customers by geography and industry sector*

The following table presents an analysis of AIB Group s impaired loans and receivables to customers by geography and industry sector at 31 December 2013, 2012, 2011, 2010 and 2009. Loans and receivables held for sale to NAMA are analysed on page 148:

	2013	2012	2011	2010	2010	2009
				Continuing operations	Discontinued operations	
	m	m	m	m	m	m
IRELAND						
Agriculture	**327**	322	299	193		105
Energy	**62**	32	34	7		11
Manufacturing	**264**	319	303	293		134
Property and construction	**10,699**	10,856	9,467	5,510		2,275
Distribution	**2,618**	2,812	2,499	1,505		846
Transport	**154**	113	113	77		34
Financial	**211**	219	168	61		70
Other services	**724**	706	628	384		206
Personal Residential mortgages	**8,788**	7,856	6,138	1,013		475
Other	**1,345**	1,345	1,253	777		556
Lease financing	**127**	139	145	135		96
	25,319	24,719	21,047	9,955		4,808
UNITED KINGDOM						
Agriculture	**11**	12	11	10		4
Energy		1	1			2
Manufacturing	**127**	153	132	75		66
Property and construction	**2,455**	2,908	2,389	1,408		449
Distribution	**408**	630	557	240		229
Transport	**2**	244	14	2		2
Financial	**19**	26	23	15		85
Other services	**181**	307	323	117		168
Personal Residential mortgages	**295**	274	193	115		56

	Other	**78**	86	82	61		40
		3,576	4,641	3,725	2,043		1,101
UNITED STATES OF AMERICA							
Energy		**4**	3	3	1		
Manufacturing				1			11
Property and construction			40	43	40		8
Distribution				2	22		
Transport					12		
Other services		**12**	13				23
		16	56	49	75		042
POLAND							
Agriculture						12	10
Energy						1	2
Manufacturing						62	74
Property and construction						264	194
Distribution						57	52
Transport						15	8
Financial						2	1
Other services						23	13
Personal	Residential mortgages					19	13
	Other					97	75
Lease financing						35	35
						587	477
REST OF WORLD				12	68		68
TOTAL		**28,911**	29,416	24,833	12,141	587	6,496

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3.1 Credit risk Analysis of credit risk 5 year summaries

Impaired loans and receivables to customers by geography and industry sector* ***(continued)***

2013

Group impaired loans were 28,911 million at 31 December 2013 and now represent 35% of loans and receivables down from 29,416 million or 33% at 31 December 2012.

Ireland

Impaired loans in Ireland were 25,319 million representing 36% of group loans and receivables in Ireland, up from 24,719 million or 34% at December 2012. There were 932 million of new impairments in residential mortgages reflecting the continued weak economic environment in Ireland. Significant impaired loan movements in other sectors are as follows: property (down 157 million); distribution (hotels, licensed premises, retail) (down 194 million).

United Kingdom

In the United Kingdom, impaired loans decreased by 1,065 million to 3,576 million primarily in the following sectors: property (down 453 million); distribution (down 222 million); and other services (down 126 million).

United States of America

Impaired loans in the United States of America were 16 million, down on the 2012 level of 56 million and are primarily related to borrowers in energy and other services sectors.

2012

Group impaired loans were 29,416 million at 31 December 2012 and now represent 33% of loans and receivables up from 24,833 million or 25% at 31 December 2011.

Ireland

Impaired loans in Ireland were 24,719 million representing 34% of total group loans and receivables, up from 21,047 million or 27% at December 2011. 85% or 3,107 million of this increase relates to residential mortgages and property loans and reflects the continuing weak economic environment in Ireland with high unemployment, low level of activity in the property sector and muted consumer spending impacting impaired loans in most sectors but particularly the following: property (up 1,389 million); distribution (hotels, licensed premises, retail) (up 313 million); and residential mortgage (up 1,718 million).

United Kingdom

In the United Kingdom, impaired loans increased by 916 million to 4,641 million primarily in the following sectors: property (up 519 million); transport (up 230 million); and residential mortgages (up 81 million). The increase reflects the ongoing stress in the economic environment, particularly in the North of England and Northern Ireland.

United States of America

Impaired loans in the United States of America were 56 million, up on the 2011 level of 49 million and are primarily related to borrowers in the property sector.

Rest of World

Impaired loans in the rest of world reduced to Nil from 12 million in 2011 as a result of the sale of AmCredit during the year.

*Forms an integral part of the audited financial statements

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Risk management 3. Individual risk types

3.1 Credit risk Analysis of credit risk 5 year summaries

Provisions for impairment on loans and receivables (both to banks and customers)*

The following table presents an analysis of provisions for impairment on loans and receivables (both to banks and customers) at 31 December 2013, 2012, 2011, 2010 and 2009. Provisions for impairment on loans and receivables held for sale to NAMA are analysed separately on page 148:

		2013	2012	2011	2010	2010	2009
					Continuing operations	Discontinued operations	
		m	m	m	m	m	m
IRELAND							
Agriculture		**242**	225	192	100		44
Energy		**35**	26	25	5		4
Manufacturing		**189**	224	184	128		58
Property and construction		**6,671**	6,205	5,332	2,310		557
Distribution		**1,622**	1,723	1,442	678		286
Transport		**108**	91	78	44		20
Financial		**130**	160	137	49		53
Other services		**520**	486	387	200		90
Personal	Residential mortgages	**3,204**	2,589	1,718	212		81
	Other	**1,038**	1,006	854	479		302
Lease financing		**125**	133	121	109		67
		13,884	12,868	10,470	4,314		1,562
UNITED KINGDOM							
Agriculture		**8**	8	7	5		1
Manufacturing		**52**	76	66	30		29
Property and construction		**1,443**	1,469	1,130	525		178
Distribution		**209**	290	256	121		88
Transport		**1**	124	12	1		2
Financial		**11**	12	9	3		35
Other services		**105**	158	180	49		61
Personal	Residential mortgages	**129**	110	67	30		16
	Other	**54**	58	50	35		24

	2,012	2,305	1,777	799		434
UNITED STATES OF AMERICA						
Energy		3	3			
Manufacturing			1			
Property and construction		7	7	14		2
Other services	**9**	6				4
Distribution				2		
Transport				6		
	9	16	11	22		6
POLAND						
Agriculture					7	7
Energy					1	1
Manufacturing					29	24
Property and construction					68	45
Distribution					28	23
Transport					7	4
Financial					1	1
Other services					13	8
Personal Residential mortgages					8	6
Other					77	58
Lease financing					20	11
					259	188
REST OF WORLD			3	23		24
TOTAL SPECIFIC PROVISIONS	**15,905**	15,189	12,261	5,158	259	2,214
TOTAL IBNR PROVISIONS	**1,185**	1,343	2,684	2,145	85	777
TOTAL PROVISIONS	**17,090**	16,532	14,945	7,303	344	2,991

*Forms an integral part of the audited financial statements

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3.1 Credit risk Analysis of credit risk 5 year summaries

Movements in provisions for impairment on loans and receivables (includes loans and receivables within disposal groups and non-current assets held for sale)[1]

	Years ended 31 December				
	2013	2012	2011	2010	2009
	m	m	m	m	m
Total provisions at beginning of period	**16,532**	14,945	7,976	7,156	2,294
Transfers (out)/in	**(14)**	34		(6)	(10)
Acquisition of subsidiaries			738		
Disposal of subsidiaries			(360)		
Disposal of loans and receivables	**(136)**	(263)			
Transferred from/(to) NAMA		4	(570)	(4,569)	
Exchange translation adjustments	**(76)**	47	74	40	31
Recoveries of loans previously charged off	**2**	4	4	48	6
	16,308	14,771	7,862	2,669	2,321
Amounts charged off					
Ireland	**(794)**	(399)	(481)	(490)	(287)
United Kingdom	**(330)**	(269)	(253)	(236)	(149)
United States of America	**(10)**	(2)	(37)	(20)	(15)
Poland			(2)	(52)	(57)
Rest of World		(3)	(29)	(15)	(12)
	(1,134)	(673)	(802)	(813)	(520)
Net provision movement[2]					
Ireland	**1,730**	1,897	6,457	5,312	4,671
United Kingdom	**186**	541	1,371	705	530
United States of America	**2**		25	30	10
Poland			24	110	117
Rest of World			12	11	33
	1,918	2,438	7,889	6,168	5,361
Recoveries of loans previously charged off[2]					
Ireland	**(1)**	(2)	(2)	(3)	(1)
United Kingdom	**(1)**	(2)	(2)	(39)	(1)
United States of America				(1)	
Poland				(5)	(4)

	(2)	(4)	(4)	(48)	(6)
Total provisions at end of period	**17,090**	16,532	14,945	7,976	7,156
Provisions at end of period					
Specific	**15,905**	15,189	12,261	5,646	5,798
IBNR	**1,185**	1,343	2,684	2,330	1,358
	17,090	16,532	14,945	7,976	7,156
Amounts include:					
Loans and receivables to banks	**7**	4	4	4	4
Loans and receivables to customers	**17,083**	16,406	14,932	7,287	2,987
Loans and receivables held for sale to NAMA				329	4,165
Loans and receivables of discontinued operations				344	
Loans and receivables of disposal groups and non-current assets held for sale		122	9	12	
	17,090	16,532	14,945	7,976	7,156

[1]Provisions for loans and receivables held for sale to NAMA are included in 2009 and 2010.

[2]The aggregate of these sets of figures represents the total provisions for impairment charged to income. Commentary on the movements is detailed on page 137 (impaired loans), on pages 140 to142 (provisions for impairment) and page 144 (net loans charged off).

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Risk management 3. Individual risk types

3.1 Credit risk Analysis of credit risk 5 year summaries

Provisions for impairment on loans and receivables

The following table reconciles the total provisions for impairment charged to income for the years ended 31 December 2013, 2012, 2011, 2010 and 2009 as shown in (A), the table on page 139 relating to Movements in provisions for impairment of loans and receivables , with that shown in (B), AIB Group s Consolidated statement of income .

	2013	2012	2011	2010	2009
	m	m	m	m	m
(A)					
Net provision movement	**1,918**	2,438	7,889	6,168	5,361
Recoveries of loans previously charged off	**(2)**	(4)	(4)	(48)	(6)
Total charged to income	**1,916**	2,434	7,885	6,120	5,355
(B)					
Provisions for impairment	**1,916**	2,434	7,885	6,120	5,355

The following table sets out the provisions charged to income and net loans charged off as a percentage of average loans for the years ended 31 December 2013, 2012, 2011, 2010 and 2009. The 2010 and 2009 figures include provisions for loans and receivables held for sale to NAMA and loans and receivables included within discontinued operations. The 2011 figures include the provision charge for loans and receivables held for sale to NAMA.

	2013	2012	2011	2010	2009
	%	%	%	%	%
Total provisions charged to income	**2.24**	2.57	7.33	4.97	4.05
Net loans charged off	**1.33**	0.71	0.71	0.62	0.40

Commentary on provisions for impairment in 2013

The provision for impairment charge to income on loans and receivables to customers of 1,913 million or 2.24% of average advances for the year ended 31 December 2013 compared with 2,434 million or 2.57% of average advances at 31 December 2012. The reduction in the provision for impairment in the year of 521 million reflects the reduction in overall impaired loans in the year of 2% compared with an 18% increase in 2012. The provision for impairment in

2013 was also impacted by the release of IBNR provisions of 145 million compared with a release of 1,322 million in 2012.

The movement in IBNR provisions of 145 million was due to the level of specific provisions raised during 2013 which had largely been provided in IBNR provisions at 31 December 2012, based on management s view of the incurred loss inherent in the portfolio at that time, as evidenced by the level of arrears, requests for forbearance and vulnerable loans. The portfolios most impacted were the property and construction portfolio where the release was 93 million due in particular to the level of specific provisions raised in 2013 in the property investment sub-sector, and a charge of 117 million for the residential mortgage portfolio mainly due to an increase in the emergence period for ROI. IBNR provisions were reduced by 128 million, 22 million and 19 million in the SME/other commercial, other personal and corporate portfolios respectively.

Ireland

The impairment charge was 1,726 million and included a specific charge of 1,766 million and a release of IBNR of 40 million, compared with 1,895 million in 2012.

Included in the overall specific provision charge of 1,766 million was 662 million or 37% relating to residential mortgage loans reflecting the increased level of arrears due to pressure on borrowers caused by continued high unemployment and reduced incomes. A further 613 million (35%) of the specific charge related to loans in the property and construction sector, influenced by a continued low level of activity. 143 million or 8% of the specific charge was for consumer loans and the remaining 348 million (20%) related to SME/other commercial borrowers (307 million) and corporate borrowers (41 million), both of whom are dependent on the Irish economy which remained weak throughout 2013.

The release of IBNR provision of 40 million in 2013 was influenced mainly by the residential mortgage portfolio where there was an IBNR charge of 160 million and which was offset by releases in the other sectors. Most notably, SME/other commercial (110 million of a release) and property and construction (59 million of a release).

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3.1 Credit risk Analysis of credit risk 5 year summaries

Commentary on provisions for impairment in 2013 (continued)

United Kingdom

The impairment charge in the United Kingdom was 185 million compared with 539 million in 2012 and included a specific charge of 290 million and an IBNR release of 105 million.

204 million of the specific impairment charge of 290 million above related to borrowers in the property and construction sector reflecting the continued pressure on this sector, in both the land and development and property investment sub-sectors and while there have been signs of improvement in prime markets, such as London and the South East, the secondary markets still remain relatively illiquid. In addition, there was a specific impairment charge of 42 million related to SME/other commercial and 34 million related to residential mortgages.

There was a release of 105 million IBNR provisions in the AIB Bank UK which was primarily driven by lower than anticipated loss rates in the low start mortgage portfolio and land and development property exposures in FTB, and interest only property and business loans in AIB GB.

United States

The impairment charge was 2 million compared with nil to December 2012, and related to Corporate cases.

Commentary on provisions for impairment in 2012

The provision for impairment charge to income on loans and receivables of 2,434 million or 2.57% of average advances for the year ended 31 December 2012 compared with 7,885 million 7.33% of average advances at 31 December 2011. The significant reduction in the provision for impairment in the year of 5,451 million reflects the slowdown in the pace of cases downgraded to impaired status requiring provision during 2012 at 18% in 2012 compared with 105% in 2011. The provision for impairment in 2012 was also impacted by the release of IBNR provisions of 1,322 million compared with a charge of 179 million in 2011.

The movement in IBNR provisions of 1,322 million was due to the level of specific provisions raised during 2012 which had largely been provided in IBNR provisions at 31 December 2011, based on management s view of the incurred loss inherent in the portfolio at that time, as evidenced by the level of arrears, requests for forbearance and vulnerable loans. The portfolios most impacted were the property and construction portfolio where the release was 659 million due in particular to the level of specific provisions raised in 2012 in the property investment sub-sector, and 369 million for the residential mortgage portfolio which largely resulted from specific provisions being taken during the year, particularly for mortgages in forbearance. IBNR provisions were reduced by 205 million, 84 million and 5 million in the SME/other commercial, other personal and corporate portfolios respectively.

Since all eligible loans have now transferred to NAMA there was no provision charge in 2012 compared to 87 million in 2011.

Ireland

The impairment charge was 1,895 million and included a specific charge of 3,014 million and a release of IBNR of 1,119 million.

Included in the overall specific provision charge of 3,014 million was 1,070 million or 36% relating to residential mortgage loans reflecting the increased level of arrears due to pressure on borrowers caused by continued high unemployment and reduced incomes. A further 1,043 million (35%) of the specific charge related to loans in the property and construction sector, influenced by a continued low level of activity. 286 million or 9% of the specific charge was for consumer loans and the remaining 615 million (20%) related to SME/other commercial borrowers and corporate borrowers, both of whom are dependent on the Irish economy which remained weak throughout 2012.

The release of IBNR provision of 1,119 million in 2012 was influenced mainly by the residential mortgage and the property and construction sectors. Within residential mortgages, the release of IBNR related to specific provisions that had been raised for cases, particularly those in forbearance, and which had been allocated IBNR provisions at December 2011. IBNR provisions relating to the property sector were released at 31 December 2012. These IBNR provisions were initially raised at year end December 2011 to take account of continued pressure on rental cash flows and uncertainty over the timing of a recovery in this sector, and have now been reflected in specific provisions. The remainder of the IBNR provision release was largely spread across the consumer and distribution (includes hotels, icensed premises, retail) sectors. The IBNR stock of provisions (statement of financial position) was 1,078 million, 306 million of which has been allocated to the property portfolio, 196 million to SME/commercial portfolios which have been impacted by reduced consumer demand as a result of continued high unemployment and lower disposable incomes and 77 million for large borrower connections in the corporate portfolio with the remaining 499 million allocated to residential mortgages and consumer portfolios.

3.1 Credit risk Analysis of credit risk 5 year summaries

Commentary on provisions for impairment in 2012

United Kingdom

The impairment charge in the United Kingdom was 539 million compared with 1,318 million in 2011 (excluding 51 million relating to NAMA).

In AIB Bank UK, the majority of the provision for impairment related to borrowers in the property and construction sector (209 million) reflecting the continued pressure on this sector, in both the land and development and property investment sub-sectors and while there have been signs of improvement in prime markets, such as London and the South East, the secondary markets still remain relatively illiquid. There was a release of 193 million IBNR provisions in the AIB Bank UK which reflected lower than anticipated loss rates in the low start mortgage and land and development property exposures in FTB and interest only property and business loans in AIB GB. The statement of financial position IBNR provisions was 244 million at 31 December 2012 and was allocated to the following portfolios: 117 million to the property portfolio, 73 million in relation to the residential mortgage portfolio and 55 million to SME/other commercial and consumer portfolios.

In addition to the AIB Bank UK charge outlined above, there was an impairment charge of 208 million related primarily to large corporates in the property and transport sectors. The statement of financial position IBNR provisions was 21 million at 31 December 2012.

United States

The impairment charge was Nil compared with 25 million to December 2011. The reduction is due to a smaller book as a result of disposals under the deleveraging programme.

Additional information on provisions for impairment

The following table presents additional information with respect to the statement of financial position provisions as at 31 December 2013, 2012, 2011, 2010 and 2009. The 2010 and 2009 figures include provisions for impairment on loans and receivables held for sale to NAMA and the 2010 figure also includes provisions for impairment on loans and receivables included within discontinued operations.

	2013	2012	2011	2010	2009
	%	%	%	%	%
Provisions as a percentage of total loans, less unearned income, at end of period					
Specific provisions	**19.19**	16.90	12.42	5.40	4.46

IBNR provisions	**1.43**	1.49	2.72	2.23	1.04
	20.62	18.39	15.14	7.63	5.50

Provisions are raised as outlined on pages 81 to 86.

The increase in provisions from 18.39% to 20.62% reflects the continuing impact of the challenging economic conditions on borrowers ability to repay facilities, particularly in Ireland. Specific provisions as a percentage of loans increased from 16.90% to 19.19% and are allocated to individual impaired loans (28,911 million down from 29,416 million for 2012).

The IBNR provisions as a percentage of loans decreased from 1.49% at December 2012 to 1.43% at December 2013.

The reduction reflects a release of 145 million in the year of IBNR provisions raised in previous periods which have now been reflected in specific provisions, and which was offset by an increase in IBNR in relation to the mortgage portfolio where there was a change in the emergence period from 6 to 9 months.

The outcomes of independent reviews of certain higher risk portfolios helped inform management s view of the incurred loss remaining in the performing book and the appropriate level of IBNR provisions required.

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3.1 Credit risk Analysis of credit risk 5 year summaries

Loans charged off and recoveries of previously charged off loans

The following table presents an analysis of loans charged off and recoveries of previously charged off loans for the years ended 31 December 2013, 2012, 2011, 2010, and 2009. This table includes loans and receivables to customers of continuing operations, loans and receivables held for sale to NAMA, and loans and receivables included within disposal groups and non-current assets held for sale[(1)].

	Loans charged off					**Recoveries of loans previously charged off**				
	2013	2012	2011	2010	2009	**2013**	2012	2011	2010	2009
	m	m	m	m	m	**m**	m	m	m	m
IRELAND										
Agriculture	**2.9**	5.2	5.2	8.2	1.7			0.1	0.7	0.2
Energy	**0.3**	2.2	2.4	1.3	8.1			0.2		
Manufacturing	**40.3**	23.3	64.9	31.7	38.3	**0.1**	0.1			
Property and construction	**158.9**	112.2	152.3	202.2	135.6		0.2		0.1	
Distribution	**291.4**	44.7	67.9	58.0	15.3					
Transport	**57.0**	5.6	2.7	5.2	1.5					
Financial	**38.2**	27.2	23.1	31.0	26.7	**0.1**				
Other services	**47.3**	29.9	48.0	35.5	5.8		0.1	0.3	0.1	
Personal Residential mortgages	**66.7**	50.1	19.4	24.2	9.5				0.1	
Other	**91.3**	93.4	91.4	76.5	28.9	**0.8**	0.7	0.6	1.2	0.6
Lease financing		5.6	3.8	16.2	15.6		0.1	0.2	0.3	0.2
	794.3	399.4	481.1	490.0	287.0	**1.0**	1.2	1.4	2.5	1.0
UNITED KINGDOM										
Agriculture	**0.2**	0.1	0.2	0.1	0.1					
Energy										
Manufacturing	**18.6**	21.9	25.2	11.8	5.7			0.4		
Property and construction	**128.0**	97.9	117.0	46.7	40.9	**0.4**	0.6	0.3	37.9	
Distribution	**106.7**	53.1	34.9	43.1	63.2	**0.1**	0.2	0.2	0.3	0.2
Transport	**1.7**	11.2	0.3	29.7	0.3			0.2		
Financial	**0.4**	4.3	0.3	54.0	0.5	**0.3**		0.1		
Other services	**54.7**	65.4	63.0	42.0	33.6		0.3	0.2	0.3	0.1
Personal Residential mortgages	**10.6**	6.0	4.3	2.6	0.5					
Other	**8.9**	9.2	7.3	5.9	4.0		0.9	0.6	0.4	0.2

	329.8	269.1	252.5	235.9	148.8	**0.8**	2.0	2.0	38.9	0.5
UNITED STATES OF AMERICA										
Energy	**2.4**			0.3	8.2		0.2	0.2	0.5	
Manufacturing		0.9	0.9	2.1	1.4				0.1	
Property and construction	**6.6**		22.8	7.5	5.3					
Distribution	**0.4**		5.0	1.4						
Transport			6.8							
Other services	**0.1**	0.6	2.1	9.1						
	9.5	1.5	37.6	20.4	14.9		0.2	0.2	0.6	
POLAND[(1)]			2.2	51.8	57.0				5.5	4.1
REST OF WORLD		2.7	28.6	14.7	12.3		0.1		0.3	
TOTAL	**1,133.6**	672.7	802.0	812.8	520.0	**1.8**	3.5	3.6	47.8	5.6

[(1)]For 2010, Poland is classified as a discontinued operation, all other amounts relate to continuing operations.

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3.1 Credit risk Analysis of credit risk 5 year summaries

Loans charged off and recoveries of previously charged off loans (*continued*)

Net loans charged off 2013

Group net loans charged off at 1.3% (1,132 million) of average advances for the year to December 2013 compared with 0.71% or 669 million at December 2012.

Ireland net loans charged off were 793 million. The largest sector was distribution which accounted for 291 million or 37%. Property and construction was 159 million (20%), other personal of 91 million (11%) and residential mortgages of 67 million (8%).

United Kingdom net loans charged off were 329 million of which 128 million or 39% related to property and construction. Distribution accounted for 107 million or 32% and other services of 55 million or 17%.

United States net loans charged off were 10 million and related to borrowers in the property and construction, energy and distribution sectors.

Net loans charged off 2012

Group net loans charged off at 0.71% (669 million) of average advances for the year to December 2012 compared with 0.71% or 798 million at December 2011.

Ireland net loans charged off were 398 million. The main sectors were property and construction (which accounted for 112 million or 28%), other personal (93 million and 23%), residential mortgages (50 million and 13%) and distribution (45 million and 11%). The remaining 98 million or 25% was spread across a range of sectors.

United Kingdom net loans charged off were 267 million. The main sectors were property and construction at 97 million, other services at 65 million, and distribution at 53 million.

United States net loans charged off were 1 million and related to borrowers in the manufacturing and other services sectors.

Rest of World net loans charged off were 3 million relating to residential mortgages in AmCredit.

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3.1 Credit risk Analysis of credit risk 5 year summaries

Analysis of loans and receivables to customers by contractual residual maturity and interest rate sensitivity

The following tables analyse gross loans and receivables to customers by contractual residual maturity and interest rate sensitivity. Overdrafts, which in the aggregate represent approximately 3% of the portfolio at 31 December 2013, are classified as repayable within one year. Approximately 6% of AIB Group s loan portfolio is provided on a fixed rate basis. Fixed rate loans are defined as those loans for which the interest rate is fixed for the full term of the loan. The interest rate risk exposure is managed within agreed policy parameters.

The analysis of loans and receivables to customers for both NAMA and disposal groups and non-current assets held for sale are shown separately below.

Loans and receivables to customers

	Fixed rate	**Variable rate**	**Total**	**Within 1 year**	**After 1 year but within 5 years**	**After 5 years**	**2013 Total**
	m	**m**	**m**	**m**	**m**	**m**	**m**
Ireland	**4,375**	**65,133**	**69,508**	**30,579**	**5,452**	**33,477**	**69,508**
United Kingdom	**839**	**12,369**	**13,208**	**5,468**	**2,817**	**4,923**	**13,208**
United States of America		**108**	**108**	**86**	**20**	**2**	**108**
Total loans by maturity	**5,214**	**77,610**	**82,824**	**36,133**	**8,289**	**38,402**	**82,824**

	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	2012 Total
	m	m	m	m	m	m	m
Ireland	6,933	66,505	73,438	31,465	5,582	36,391	73,438
United Kingdom	905	14,781	15,686	7,484	2,596	5,606	15,686

United States of America	16	257	273	106	141	26	273
Total loans by maturity	7,854	81,543	89,397	39,055	8,319	42,023	89,397

	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	2011 Total
	m	m	m	m	m	m	m
Ireland	8,339	70,631	78,970	24,711	8,342	45,917	78,970
United Kingdom	1,157	17,007	18,164	7,443	3,905	6,816	18,164
United States of America	49	309	358	73	220	65	358
Total loans by maturity	9,545	87,947	97,492	32,227	12,467	52,798	97,492

	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	2010 Total
	m	m	m	m	m	m	m
Ireland	8,136	61,638	69,774	20,490	12,732	36,552	69,774
United Kingdom	2,430	18,664	21,094	7,580	5,604	7,910	21,094
United States of America	169	1,799	1,968	740	1,058	170	1,968
Rest of World	82	886	968	295	538	135	968
Total loans by maturity	10,817	82,987	93,804	29,105	19,932	44,767	93,804

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Risk management 3. Individual risk types

3.1 Credit risk Analysis of credit risk 5 year summaries

Analysis of loans and receivables to customers by contractual residual maturity and interest rate sensitivity *(continued)*

Loans and receivables to customers

							2009
	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	m	m	m	m	m	m	m
Ireland	9,463	62,680	72,143	19,143	21,516	31,484	72,143
United Kingdom	914	21,175	22,089	6,391	6,606	9,092	22,089
United States of America	147	2,394	2,541	1,125	1,204	212	2,541
Poland[1]	1,245	7,483	8,728	3,150	3,467	2,111	8,728
Rest of World	90	1,016	1,106	107	799	200	1,106
Total loans by maturity	11,859	94,748	106,607	29,916	33,592	43,099	106,607

[1] At 31 December 2011, AIB s investment in BZWBK (its Polish operation) was held for sale as a discontinued operation and was sold in April 2011 (note 18).

Loans and receivables held for sale to NAMA for the years ended 31 December 2010 and 2009

							2010
	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	m	m	m	m	m	m	m
Ireland	32	701	733	568	90	75	733
United Kingdom	16	1,499	1,515	1,038	348	129	1,515

United States of America							
Total loans by maturity	48	2,200	2,248	1,606	438	204	2,248

	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	2009 Total
	m	m	m	m	m	m	m
Ireland	444	19,000	19,444	16,528	1,812	1,104	19,444
United Kingdom		3,722	3,722	2,433	679	610	3,722
United States of America		29	29	29			29
Total loans by maturity	444	22,751	23,195	18,990	2,491	1,714	23,195

Loans and receivables held within disposal groups and non-current assets held for sale for the years ended 31 December 2013, 2012, 2011 and 2010

	Fixed rate	**Variable rate**	**Total**	**Within 1 year**	**After 1 year but within 5 years**	**After 5 years**	**2013 Total**
	m	**m**	**m**	**m**	**m**	**m**	**m**
Ireland		**28**	**28**			**28**	**28**
Total loans by maturity		**28**	**28**			**28**	**28**

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3.1 Credit risk Analysis of credit risk 5 year summaries

Analysis of loans and receivables to customers by contractual residual maturity and interest rate sensitivity *(continued)*

							2012
	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	m	m	m	m	m	m	m
Ireland	_	97	97	14	8	75	97
United Kingdom		378	378	240	18	120	378
Total loans by maturity		475	475	254	26	195	475

							2011
	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	m	m	m	m	m	m	m
Ireland		531	531	79	426	26	531
United Kingdom		45	45		11	34	45
United States of America	39	191	230	78	115	37	230
Rest of World	80	309	389	141	119	129	389
Total loans by maturity	119	1,076	1,195	298	671	226	1,195

							2010
	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	m	m	m	m	m	m	m

Poland	1,209	7,432	8,641	3,155	3,334	2,152	8,641
Rest of World		74	74			74	74
Total loans by maturity	1,209	7,506	8,715	3,155	3,334	2,226	8,715

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Risk management 3. Individual risk types

3.1 Credit risk Analysis of credit risk 5 year summaries

Analysis of loans and receivables held for sale to NAMA by geography and industry sector

The following table analyses loans and receivables held for sale to NAMA by geography and industry sector at 31 December 2010 and 31 December 2009 showing: (i) gross loans; (ii) specific provisions for impairment; and (iii) impaired loans. There were no loans held for sale to NAMA at 31 December 2013, 2012 or 2011.

	2010 Loans and receivables	2010 Specific provisions for impairment	2010 Impaired Loans	2009 Loans and receivables	2009 Specific provisions for impairment	2009 Impaired loans
	m	m	m	m	m	m
IRELAND						
Agriculture				24	5	15
Energy				64	8	23
Manufacturing				37	3	10
Property and construction	567	38	167	18,055	3,245	9,684
Distribution	43	8	36	602	79	228
Transport	1			19		
Financial				16		1
Other services	27	3	15	200	11	33
Personal Residential mortgages	86	1	37	138	6	17
Other	8	2	5	289	35	103
UNITED KINGDOM						
Agriculture				1		
Energy	3			4		
Manufacturing	15			16		
Property and construction	1,351	176	450	3,523	189	833
Distribution	92		13	85		
Financial	27			20	2	3
Other services	17	1	15	57	1	6
Personal Residential mortgages				6		
Other	11		3	10		1

UNITED STATES						
Property and construction				29		
Total	2,248[1]	229[2]	741	23,195[1]	3,584[2]	10,957

[1] 1,919 million net of provisions of 329 million (2009: 19,030 million net of provisions of 4,165 million).

[2] Total provisions of 329 million including IBNR provisions of 100 million (2009: total provisions of 4,165 million including IBNR provisions of 581 million).

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3.1 Credit risk Analysis of credit risk 5 year summaries

Cross-border outstandings

Cross-border outstandings, which exclude finance provided within AIB Group, are based on the country of domicile of the borrower and comprise placings with banks and money at call and short notice, loans to customers (including those classified as held for sale to NAMA in 2009 and 2010 and those held within discontinued operations in 2010), finance lease receivables and instalment credit, acceptances and other monetary assets, including non-local currency claims of overseas offices on local residents. AIB Group monitors geographic breakdown based on the country of the borrower and the guarantor of ultimate risk. The more significant cross border outstandings are shown in the following table:

	As % of total assets[(1)]	Total	Banks and other financial institutions	Government and official institutions	Commercial, industrial and other private sector
		m	m	m	m
31 December 2013					
France	**2.4**	**2,798**	**1,061**	**784**	**953**
United Kingdom	**1.4**	**1,602**	**511**	**519**	**572**
United States of America	**1.3**	**1,499**	**191**		**1,308**
Netherlands	**1.2**	**1,364**	**783**	**505**	**76**
Spain	**0.8**	**946**	**270**		**676**
Germany	**0.8**	**980**	**314**	**568**	**98**
Italy	**0.2**	**263**	**21**	**228**	**14**
Portugal	**0.1**	**89**		**6**	**83**
Greece					
31 December 2012					
United Kingdom	1.5	1,877	589	575	713
United States of America	1.2	1,447	93	28	1,326
France	1.6	1,950	485	715	750
Spain	1.3	1,616	474		1,142
Germany	0.6	781	294	306	181
Italy	0.2	230		221	9
Portugal	0.1	149	21	25	103
Greece					
31 December 2011					
United Kingdom	1.8	2,492	684	572	1,236

United States of America	1.6	2,199	50	307	1,842
France	1.4	1,925	447	731	747
Spain	1.3	1,824	575	30	1,219
Germany	0.8	1,118	630	277	211
Italy	0.2	287		175	112
Portugal	0.2	250	54	98	98
Greece	0.1	52		16	36
31 December 2010					
United Kingdom	5.7	8,313	730	870	6,713
United States of America	3.7	5,329	403	658	4,268
Spain	2.0	2,941	900	340	1,701
France	1.7	2,527	705	989	833
Germany	1.2	1,760	892	361	507
Italy	1.0	1,428	405	824	199
Portugal	0.4	530	206	246	78
Greece	0.1	119	67	41	11
31 December 2009					
United States of America	4.7	8,193	1,127	1,303	5,763
United Kingdom	2.9	5,093	1,186	695	3,212
Spain	2.1	3,610	1,585	117	1,908
France	1.7	3,013	1,974	480	559
Germany	1.2	2,065	1,300	294	471
Italy	0.9	1,643	665	625	353
Portugal	0.3	469	138	201	130
Greece	0.1	158		42	116

[(1)]Assets, consisting of total assets as reported in the consolidated statement of financial position, totalled 117,734 million at 31 December 2013 (2012: 122,501 million restated, 2011: 136,651 million; 2010: 145,222 million; 2009: 174,314 million).

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Risk management 3. Individual risk types

3.1 Credit risk - Financial investments available for sale

The following table analyses the carrying value (fair value) of financial investments available for sale by major classifications together with the unrealised gains and losses at 31 December 2013 and 31 December 2012:

	2013			2012		
Debt securities*	**Fair value m**	**Unrealised gross gains m**	**Unrealised gross losses m**	Fair value m	Unrealised gross gains m	Unrealised gross losses m
Irish Government securities	**10,328**	**910**		7,588	608	(1)
Euro government securities	**1,968**	**110**	**(1)**	1,754	153	(4)
Non Euro government securities	**608**	**54**		712	95	
Supranational banks and government agencies	**3,092**	**29**	**(6)**	1,682	55	
Collateralised mortgage obligations				22		(6)
Other asset backed securities	**535**	**1**	**(54)**	920	1	(140)
Euro bank securities	**3,671**	**59**	**(7)**	3,070	176	(11)
Non Euro bank securities	**34**			161	3	(5)
Euro corporate securities				87	6	(3)
Non Euro corporate securities	**3**			193	17	
Other investments	**12**			12		
Total debt securities	**20,251**	**1,163**	**(68)**	16,201	1,114	(170)
Equity securities						
Equity securities NAMA subordinated bonds	**73**	**26**		47		
Equity securities other	**44**	**12**	**(7)**	96	16	(10)
Total equity securities	**117**	**38**	**(7)**	143	16	(10)
Total financial investments available for sale	**20,368**	**1,201**	**(75)**	16,344	1,130	(180)

The following tables analyse the available for sale portfolio by geography at 31 December 2013 and 31 December 2012:

Government securities*	**2013** **Irish Government** **m**	**Euro governments** **m**	**Non Euro governments** **m**	2012 Irish Government m	Euro governments m	Non Euro governments m
Republic of Ireland	**10,328**			7,588		
United Kingdom			**519**			621
Italy		**228**			221	
Austria		**155**			160	
France		**753**			683	
Germany		**271**			281	
Portugal		**6**			25	
Netherlands		**505**			358	
Rest of World		**50**	**89**		26	91
	10,328	**1,968**	**608**	7,588	1,754	712

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3.1 Credit risk - Financial investments available for sale *(continued)*

Asset backed securities*	**2013 Total m**	2012 Total m
Republic of Ireland		37
United Kingdom	**69**	95
United States of America	**74**	84
Spain	**322**	545
Rest of World	**70**	181
	535	942

	2013		2012	
Bank securities*	**Euro m**	**Non Euro m**	Euro m	Non Euro m
Republic of Ireland	**484**		903	35
United Kingdom	**486**		425	10
United States of America			35	
Australia	**221**			
Austria			21	
France	**741**		464	
Germany	**77**		75	6
Portugal			20	
Netherlands	**486**		344	
Spain	**437**		441	
Sweden	**192**	**34**	24	110
Belgium	**53**		52	
Denmark	**75**		35	
Rest of World	**419**		231	
	3,671	**34**	3,070	161

The cumulative credit to available for sale securities reserves relating to bank securities is 52 million (2012: credit of 163 million) which is gross of hedging and taxation.

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Risk management - 3. Individual risk types

3.1 Credit risk - Financial investments available for sale *(continued)*

Debt securities

Debt securities Available for sale (AFS) debt securities have increased from a fair value of 16.2 billion at 31 December 2012 to 20.3 billion at 31 December 2013. Sales and maturities of 2.9 billion were offset by purchases of 6.6 billion and an increase in fair value of 0.2 billion.

The overall increase in the portfolio was driven by a decision to increase holdings of fixed rate instruments for the purposes of reducing volatility in earnings from interest free liabilities.

Purchases have been concentrated in assets which assist the group in achievement of the Basel III Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Increases in holdings have been mainly in Irish Sovereign Debt (up 2.7 billion), European Government Agencies (up 1.4 billion) and highly rated European Covered Bonds (up 0.6 billion).

Sales in the period included Asset Backed Securities (down 0.4 billion), and the Corporate Bond Portfolio (down 0.3 billion).

The external ratings profile of the portfolio improved in 2013 with all except 20.5 million of holdings being rated investment grade. The breakdown by rating was AAA - 23% (2012 26%), AA - 19% (2012 11%), A - 2% (2012 7%), BBB 55% (2012 54%), and sub-investment grade 0% (2012 2%). There are no credit provisions, specific or IBNR against the AFS portfolio as at 31 December 2013 (2012 60 million IBNR).

Equity securities

NAMA subordinated bonds are included within available for sale equity securities. The fair value of these bonds at 31 December 2013 increased to 73 million as the fair value price estimate was increased from 10 at 31 December 2012 to 15.5.

Asset backed securities

The Asset Backed Securities portfolio was reduced during the year with sales of Spanish residential mortgage backed securities (0.3 billion) and smaller holdings of Irish and Portuguese (0.1 billion combined). The sales included a sub portfolio of assets which were subject to close credit monitoring and against which an IBNR provision of 50 million had been held as at 31 December 2012.

Bank securities by geography and currency

At 31 December 2013, the bank bond fair value of 3.7 billion (31 Dec 2012: 3.2 billion) included 2.8 billion of covered bonds (31 December 2012: 1.7 billion); 0.4 billion of government guaranteed senior bank debt (31 December 2012: 0.8 billion); and 0.5 billion of senior unsecured bank debt (31 December 2012: 0.6 billion). All subordinated bank debt holdings (0.1 billion) were sold during 2013 and the IBNR of 10 million held as at

31 December 2012 was released.

Republic of Ireland

The fair value of Irish debt securities in the AFS category amounted to 10.8 billion at 31 December 2013 (31 December 2012: 8.6 billion) and consisted of sovereign debt 10.3 billion (31 December 2012: 7.6 billion); government guaranteed senior bank debt of 0.4 billion (31 December 2012: 0.7 billion); covered bonds of 0.1 billion (31 December 2012: 0.2 billion).

In addition to Irish Government securities outlined above, NAMA senior debt amounting to 15.8 billion nominal (31 December 2012: 17.7 billion), which is guaranteed by the Irish Government (note 28).

Spain

The fair value of Spanish debt securities at 31 December 2013 was 0.7 billion (31 December 2012 1 billion) and included asset backed securities of 0.3 billion (2012 0.5 billion) and covered bonds of 0.4 billion (2012 0.5 billion).

The Spanish asset backed securities at 31 December 2013 were all residential mortgage backed securities which had been rated AAA at origination. The weighted average market bid price for this portfolio was 88.02 (31 December 2012: 78.19). In addition, Spanish debt of 0.12 billion (31 December 2012: 0.5 billion) is included within loans and receivables to customers (note 25).

Italy

The fair value of Italian debt securities of 0.2 billion at 31 December 2013 comprised solely of sovereign debt (2012 0.2 billion sovereign, 2 million corporate).

Portugal

The fair value of Portuguese debt securities at 31 December 2013 was 59 million (31 December 2012: 131 million). It comprised sovereign debt of 6 million (31 December 2012: 25 million); asset backed securities of 53 million (31 December 2012: 83 million). In 2012, the Group also had holdings of senior bank debt of 20 million and corporate debt of 3 million.

3.2 Liquidity risk*

Liquidity Risk is the risk that the Group will not be able to fund its assets and meet its payment obligations as they come due, without incurring unacceptable costs or losses. The objective of liquidity management is to ensure that, at all times, the Group holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties at an economic price.

Risk identification and assessment

Liquidity risk is assessed by modelling cashflows of the Group over a series of maturity bands. Behavioural assumptions are applied to those assets and liabilities whose contractual repayment dates are not reflective of their inherent stability. Both contractual and behaviourally adjusted cashflows are compared against the Group s stock of unencumbered liquid assets to determine, by maturity bands, the adequacy of the Group s liquidity position. In addition, the Group monitors and manages the funding support provided by its deposit base to its loan book through a series of measures including the Basel III liquidity ratios i.e. the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) as required by the 2013 Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD).

Risk management and mitigation

AIB has a comprehensive Funding and Liquidity Framework for managing the Group s liquidity risk. The Funding and Liquidity Framework is designed to comply with evolving regulatory standards and ensure that the Group maintains sufficient financial resources of appropriate quality for the Group s funding profile. The Funding and Liquidity Framework is delivered through a combination of policy formation, review and governance, analysis, stress testing and limit setting and monitoring.

The Group s liquidity management policy seeks to ensure AIB s compliance with Principles for the Sound Liquidity Risk Management and Supervision as set out by the Basel Committee on Banking Supervision (September 2008) and the Central Bank of Ireland s Requirements for the Management of Liquidity Risk June 2009 and in doing so ensures that it has sufficient liquidity to meet its current requirements. AIB is required to comply with the liquidity requirements of the Central Bank of Ireland (CBI) and also with the requirements of local regulators overseas which include regulatory restrictions on the transfer of liquidity within the Group. In addition, it operates a funding strategy designed to anticipate additional funding requirements based upon projected balance sheet movements and to maintain a diversified funding base with an emphasis on high quality, stable customer deposit funding whilst maintaining an appropriate balance between short term and long term funding sources at an appropriate cost.

The liquidity and funding requirements of the Group are managed by the Treasury function. Euro and sterling are the most important currencies to the Group from a liquidity and funding perspective. The Group manages its liquidity in a number of ways:

Firstly, through the active management of its liability maturity profile, it aims to ensure a balanced spread of repayment obligations with a key focus on 0 8 day and 9 day 1 month time periods. Monitoring ratios also apply to longer periods for long term funding stability;

Secondly, the Group aims to maintain a stock of high quality liquid assets to meet its obligations as they fall due. Discounts are applied to these assets based upon their cash-equivalence and price sensitivity; and

Finally, net inflows and outflows are monitored on a daily basis.

Risk monitoring and reporting

In common with other areas of risk management, the Group operates a three lines of defence model. Liquidity risk management is undertaken in Treasury which reports to the Director of Products with reporting and monitoring carried out by Treasury ALM which reports to the Chief Financial Officer (CFO)). These areas comprise the first line. Second line control and assurance is provided by Financial Risk reporting to the Chief Risk Officer (CRO), and Group Internal Audit comprises the third line. The Group liquidity and funding position is reported regularly to the Group Asset and Liability Committee (ALCo), the Executive Risk Committee (ERC) and the Board Risk Committee (BRC). In addition, the Leadership Team and the Board are briefed on liquidity and funding on an on-going basis.

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Risk management - 3. Individual risk types

3.2 Liquidity risk*

At 31 December 2013, the Group held 42 billion in qualifying liquid assets/contingent funding (excluding liquid assets in AIB Group (UK) p.l.c. that are subject to transfer restrictions) of which approximately 28 billion was used in repurchase or secured loan agreements. The available Group liquidity pool comprises the remainder and is held to cover contractual and stress outflows. As at 31 December 2013, the Group liquidity pool was 14 billion (2012: 13 billion). During 2013, the month-end liquidity pool ranged from 11 billion to 14 billion and the month-end average balance was 13 billion.

Composition of the Group liquidity pool as at 31 December 2013

			2013 Liquidity pool of which Basel III LCR eligible	
	Liquidity pool	Liquidity pool available (ECB eligible)	Level 1	Level 2
	bn	bn	bn	bn
Cash and deposits with central banks	**0.3**		**2.0**	
Total Government bonds	**3.4**	**3.4**	**3.5**	
Other:				
Agencies and agency mortgage-backed securities	**0.3**	**0.3**		**0.1**
Other including NAMA senior bonds	**9.7**	**9.7**	**4.1**	
Total other	**10.0**	**10.0**	**4.1**	**0.1**
Total	**13.7**	**13.4**	**9.6**	**0.1**

Level 1 High Quality Liquidity Assets (HQLA) include amongst others: domestic currency (euro) denominated bonds issued or guaranteed by EEA sovereigns; other very highly rated sovereign bonds; certain very highly rated covered bonds; and unencumbered cash at central banks.

Level 2 HQLA include highly rated sovereign bonds, very highly rated covered bonds and certain other strongly rated securities.

The CRD rules for HQLA are not yet finalised, however, the above is based on recent European Banking Authority (EBA) recommendations.

Management of the Group liquidity pool

AIB manages the liquidity pool on a centralised basis. The composition of the liquidity pool is subject to limits set by the Board and the independent Risk functions. These assets primarily comprise government guaranteed bonds. AIB improved its liquidity buffer during the course of 2013 by 1 billion.

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3.2 Liquidity risk*

Other contingent liquidity

The Group has access to other unencumbered assets which provide a source of contingent liquidity. These are not in the Group s liquidity pool, however, these assets may be monetised in a stress scenario to generate liquidity through use as collateral for secured funding or outright sale.

Liquidity regulation

The Group is required to comply with the liquidity requirements of the CBI and also with the requirements of local regulation overseas.

The Group also monitors its current and forecast position against anticipated BaseI III liquidity metrics the LCR and the NSFR. The LCR is designed to promote short term resilience of a bank s liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. The NSFR has a time horizon of one year and has been developed to promote a sustainable maturity structure of assets and liabilities.

The minimum LCR requirement is to be introduced in January 2015 at 60%, rising to 100% by January 2018. The minimum NSFR requirement is expected to be introduced in January 2018 at 100%. Based on the current Basel standards, as at 31 December 2013, the Group had an estimated Basel III LCR of c.105% and an estimated NSFR of c.95%.

Based on revised Basel standards and their EU implementation through the Capital Requirements Directives and Regulations of June 2013, the Group is on a clear path of compliance with these ratios.

Liquidity risk stress testing

Stress testing is a key component of the liquidity risk management framework. The Group undertakes liquidity stress testing and has established the Liquidity Contingency Plan (LCP) which is designed to ensure that the Group can manage its business in stressed liquidity conditions and emerge from a temporary liquidity crisis as a creditworthy institution. The LCP is determined with reference to net contractual and contingent outflows under a variety of stress scenarios and is used to size liquidity pool requirements.

Stress tests include both firm specific and systemic risk events and a combination of both. Stressed assumptions are applied to the Group s liquidity buffer and liquidity risk drivers. These scenario events are reviewed in the context of the Group s LCP, which details corrective action options under various levels of stress events. EBA prescribed stress scenarios are also measured. A stress scenario for one month of stress is measured which assumes outflows consistent with a firm-specific stress for the first two weeks of the stress period, followed by relatively lower outflows consistent with a market-wide stress for the remainder of the stress period. Survival periods of various durations are measured as part of Liquidity Stress testing.

The purpose of these actions is to ensure the continued stability of the Group s liquidity position, within the Group s pre-defined liquidity risk tolerance levels. These results are reported to ALCo, the Leadership Team and Board, and to other committees. Once Board approved survival limits are breached, the LCP will be activated. The LCP can also be activated by management decision independently of the stress tests.

Under normal market conditions, the liquidity pool is managed to be at least 100% of anticipated net outflows under each of the stress scenarios.

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3.2 Liquidity risk*

Internal and regulatory liquidity stress tests comparison (unaudited)

The LCP stress scenarios, including the EBA prescribed stress scenarios and Basel III LCR are all broadly comparable short term stress scenarios in which the adequacy of defined liquidity resources are assessed against contractual and contingent stress outflows. The EBA stress scenarios and the Basel III ratios provide an independent assessment of the Group s liquidity risk profile.

Stress test	EBA Liquidity Stress	Basel III Liquidity Coverage Ratio (LCR)	Basel III Net Stable Funding Ratio (NSFR)
Time horizon	1 month	30 days	1 year
Calculation	Liquid assets to net cash outflows	Liquid assets to net cash outflows	Stable funding resources to stable funding requirements

As at December 2013, the Group held liquid assets in excess of minimum required levels for EBA stress measurement purposes and the Basel III LCR requirement. Internal stress testing also considers stress periods of between 1 month and 1 year, breaches of which will trigger the LCP.

Compliance with internal regulatory stress tests as at 31 December 2013

	1 month EBA liquidity stress requirement	Basel III LCR
	bn	bn
Liquidity pool as a percentage of anticipated net cash flows	137%	105%

The Basel III LCR is an estimate. Financial institutions employ a wide range of interpretations and assumptions to calculate the Basel III Liquidity ratios. These interpretations and assumptions are subject to change prior to the implementing of the January 2015 LCR minimum requirement.

Funding structure

The Group s funding strategy is to deliver a sustainable, diversified and robust customer deposit base at economic pricing and to rebuild a strong wholesale funding franchise with appropriate access to term markets to support core lending activities. The strategy aims to deliver a solid funding structure that complies with internal and regulatory policy requirements and reduces the probability of a liquidity stress, i.e. an inability to meet funding obligations as they fall due.

	31 December 2013		31 December 2012		31 December 2011	
Sources of funds	**bn**	**%**	bn	%	bn	%
Customer accounts	**65.7**	**60**	63.6	55	60.7	47
Deposits by central banks and banks - secured	**22.6**	**21**	28.1	24	35.9	28
- unsecured	**0.5**		0.3		1.0	1
Certificates of deposit and commercial paper	**0.1**				0.3	
Covered bonds	**3.3**	**3**	3.2	3	3.8	3
Securitisation	**1.0**	**1**	1.1	1	0.9	1
Senior debt	**4.3**	**4**	6.3	6	10.7	8
Capital	**11.8**	**11**	12.5	11	15.0	12
Total source of funds	**109.3**	**100**	115.1	100	128.3	100
Other	**8.1**		7.3		7.8	
	117.4		122.4		136.1	

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3.2 Liquidity risk*

The Group maintains access to a variety of sources of wholesale funds, including those available from money markets, repo markets and term investors.

Customer deposits represent the largest source of funding for the Group, and the core retail franchises and accompanying deposit base in both Ireland and the UK provide a stable and reasonably predictable source of funds. During the year, AIB completed its withdrawal from the offshore locations of Isle of Man and the Channel Islands. Although the deposit base in these locations has been wound down, the loss of liquidity for AIB has been minimal as the majority of the liquidity had been previously trapped offshore as a result of local regulations. Customer accounts have increased by 2 billion in the full year 2013, with increases in current account balances and repos with customers being partially offset by outflows of rate sensitive funds as margins were managed downwards as planned.

The Irish Government Eligible Liabilities Guarantee (ELG) scheme, which played an important role in underpinning the funding position of the Group, terminated for new liabilities as of 28 March 2013. This withdrawal of the ELG scheme has had a negligible overall effect on deposit balances. (Details of the ELG scheme are included in note 54 to the financial statements).

Wholesale funding markets saw significant improvement in sentiment towards Ireland and towards AIB in 2013. During 2013, the Group issued 2 billion of term funding, comprising:

- 0.5 billion senior unsecured debt+;
- 1 billion covered bond (ACS) issuance++; and
- 0.5 billion credit card issuance++.

+Improved market sentiment towards AIB facilitated the issuance in November 2013 of AIB s first unguaranteed unsecured issuance for almost 5 years, a 500 million Medium Term Note (MTN) with a 3 year maturity.

++The Group continues to engage with the markets in a measured and consistent manner extending the duration of funding transactions. It also continues to develop the capability to create collateral pools from its loan assets aimed at market investors with a 500 million credit card funding deal in October 2013 (the first by an Irish bank) and further ACS issuances in January and September 2013, with 500 million in each tranche.

Senior debt funding of 4 billion at 31 December 2013, decreased from 6 billion at 31 December 2012, due to maturing bonds. The performance of the economy will drive credit demand and the retention and gathering of stable customer accounts in a challenging and increasingly competitive market environment, plus continued access to unsecured wholesale term markets will be the key factors influencing the Group s capacity for asset growth and the future shape of the Group. Coupled with actions to be undertaken for the purpose of restructuring stressed assets, this is paramount to increasing the Group s pool of available liquid assets and to the Group s overall funding/liquidity strategy.

While the Group continues to have significant dependence on Central Bank/ECB support, 2013 saw a reduction of 9 billion in ECB funding. Central Bank/ECB support amounted to 13 billion at 31 December 2013, down from 22 billion at 31 December 2012. Central Bank drawings include 11 billion in the ECB s 3 year Long-Term Refinancing

Operations (LTRO) which are due to mature in Quarter 1 2015. Reducing the reliance on ECB funding will continue to be a key objective of the Group. The strong deposit growth and lower customer loan balances contributed to an improved Group loan to deposit ratio. The Group s loan to deposit ratio decreased from 115% at 31 December 2012 to 100% at 31 December 2013.

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Risk management - 3. Individual risk types

3.2 Liquidity risk*

Composition of wholesale funding

As at 31 December 2013, total wholesale funding outstanding was 33 billion (2012: 40 billion). 12 billion of wholesale funding matures in less than one year (2012: 20 billion) and 21 billion of wholesale funding had a residual maturity of over one year, including 11 billion of LTRO drawings (2012: 20 billion).

As at 31 December 2013, outstanding wholesale funding comprised 27 billion of secured funding (2012: 32 billion) and 6 billion of unsecured funding (2012: 8 billion).

							2013
	Not more than 1 month	**Over 1 month but not more than 3 months**	**Over 3 months but not more than 6 months**	**Over 6 months but not more than 1 year**	**Total less than 1 year**	**Total over 1 year**	**Total**
	bn	**bn**	**bn**	**bn**	**bn**	**bn**	**bn**
Deposits from banks	**7.9**	**3.2**		**0.1**	**11.2**	**11.9**	**23.1**
Certificate of deposits and commercial paper	**0.1**				**0.1**		**0.1**
Senior unsecured				**0.8**	**0.8**	**3.5**	**4.3**
Covered bonds/ABS						**4.3**	**4.3**
Subordinated liabilities						**1.4**	**1.4**
Total 31 December 2013	**8.0**	**3.2**		**0.9**	**12.1**	**21.1**	**33.2**
Of which:							
Secured	**7.4**	**3.2**		**0.1**	**10.7**	**16.2**	**26.9**
Unsecured	**0.6**			**0.8**	**1.4**	**4.9**	**6.3**
	8.0	**3.2**		**0.9**	**12.1**	**21.1**	**33.2**
							2012
Secured	13.5	3.1	1.0	0.1	17.7	14.6	32.3
Unsecured	0.3	2.4			2.7	5.4	8.1

Total 31 December 2012	13.8	5.5	1.0	0.1	20.4	20.0	40.4

Currency composition of wholesale debt

As at 31 December 2013, 97% of wholesale funding was in euro. A negligible balance is held in other currencies, mainly GBP and USD. AIB manages cross-currency refinancing risk to foreign-exchange cash-flow limits.

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3.2 Liquidity risk*

Encumbrance

An asset is defined as encumbered if it has been pledged as collateral against an existing liability, and as a result is no longer available to the Group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. In addition, for the purposes of liquidity management, AIB regards liquidity unavailable to the Group because of overseas regulatory restrictions as encumbered. AIB funds a portion of portfolio assets and other securities through repurchase agreements and other similar secured borrowings and pledges a portion of customer loans and receivables as collateral in securitisation, covered bond and other similar secured structures. AIB monitors the mix of secured and unsecured funding sources within the Group s funding plan and seeks to efficiently utilise available collateral to raise secured funding and meet other collateralised obligations.

Over the past 18 months, the proportion of term funding requirements satisfied through secured funding has increased, increasing the encumbrance of loans and receivables to customers. Encumbrance of loans and receivables to customers is expected to moderately increase through additional term secured funding, however, this is not expected to materially impact the overall proportion of assets that are encumbered. Economic improvements coupled with sovereign and bank credit rating upgrades will in time reduce the collateral the Group requires to raise funding.

As at 31 December 2013, 42.5 billion of the Group s assets on the statement of financial position were encumbered (excluding reverse repurchase agreements), which primarily related to Group financing of available for sale assets, NAMA senior bonds and funding secured against loans and receivables to customers.

				2013
			Unencumbered assets	
	Assets	**Encumbered assets**	**Readily available**	**Other**
	bn	**bn**	**bn**	**bn**
Cash and balances at central banks	**4.1**	**2.1**	**2.0**	
Derivative financial instruments	**1.6**			**1.6**
Loans and receivables to banks	**2.0**	**1.9**		**0.1**
Loans and receivables to customers	**65.7**	**11.0**	**14.4**	**40.3**
NAMA senior bonds	**15.6**	**11.4**	**4.2**	
Financial investments available for sale	**20.4**	**16.1**	**4.3**	
Property plant and equipment	**0.3**			**0.3**
Other assets	**8.0**			**8.0**
Total	**117.7**	**42.5**	**24.9**	**50.3**

Of the unencumbered assets, 24.9 billion are classified as readily available for use as collateral to generate liquidity. In addition to the Group liquidity pool this includes unencumbered assets which provide a source of contingent liquidity. Though the additional assets are not relied on in the event of a stress, a portion of these assets may be monetised in a stress scenario to generate liquidity through use as collateral for secured funding or through outright sale.

Loans and receivables to customers are only classified as readily available if they are already in a form such that they can be used to raise funding without further management actions. This includes excess collateral already in secured funding vehicles and collateral pre-positioned at central banks and available for use in secured financing transactions. All other loans and receivables are conservatively classified as not readily available, however, a proportion would be suitable for use in secured funding structures, this portion increasing as economic conditions improve and as the Group restructures its stressed loan assets.

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Risk management - 3. Individual risk types

3.2 Liquidity risk*

Asset encumbrance of loans and receivables to customers

The following table analyses the asset encumbrance of loans and receivables to customer as at 31 December 2013:

				2013
	Assets	Externally issued notes	Other secured funding	Retained
	bn	bn	bn	bn
Mortgages (residential mortgage backed securities)	**24.7**	**4.3**	**2.5**	**6.8**
Retail and SME (credit card issuance)	**0.7**		**0.5**	
Total	**25.4**	**4.3**	**3.0**	**6.8**

AIB issues asset backed securities (ABS), covered bonds and other similar secured instruments that are secured primarily over customer loans and receivables. Notes issued under these programmes are also used in repurchase agreements with market counterparts and in central bank facilities.

As at 31 December 2013, 25.4 billion of customer loans and receivables were transferred to these and other asset backed funding programmes or utilised to secure funding from central bank facilities. These assets were used to support 4.3 billion of externally issued notes and a further 2.5 billion of retained notes and non-securitised loan collateral were used in repurchase agreements with market counterparts and at central bank facilities.

In addition, as at 31 December 2013, the Group had excess collateral within its asset backed funding programmes that can readily be used to issue additional retained bonds of 2.1 billion. Retained notes are also available to raise secured funding.

Firm financing repurchase agreements

The following table analyses the firm financing repurchase agreements as at 31 December 2013:

				2013
	Less than 1 month	1 month to 3 months	Over 3 months	Total
	bn	bn	bn	bn

Maturity profile	**10**	**6**	**12**	**28**

Credit ratings

The Group s debt ratings as at 4 March 2014 for all debt/deposits not covered by the ELG scheme are as follows:

- S&P long-term BB and short-term B ;
- Fitch long-term BBB and short-term F2 ; and
- Moody s long-term Ba3 for deposits and B1 for senior unsecured debt and short-term Not Prime for deposits and senior unsecured debt.

Bank and sovereign rating downgrades have the potential to adversely affect the Group s liquidity position and this has been factored into the Group s stress tests.

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3.2 Liquidity risk*

Financial assets and financial liabilities by contractual residual maturity

	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	2013 Total
	m	m	m	m	m	m
Financial assets						
Financial assets of disposal groups[1][2][4]					**28**	**28**
Trading portfolio financial assets[2]					**1**	**1**
Derivative financial instruments[3]		**33**	**210**	**900**	**486**	**1,629**
Loans and receivables to banks[4]	**1,680**	**373**	**2**			**2,055**
Loans and receivables to customers[4]	**31,854**	**871**	**3,408**	**8,289**	**38,402**	**82,824**
NAMA senior bonds[5]		**15,598**				**15,598**
Financial investments available for sale[2]	**3**	**246**	**937**	**11,357**	**7,708**	**20,251**
Other financial assets		**559**				**559**
	33,537	**17,680**	**4,557**	**20,546**	**46,625**	**122,945**
Financial liabilities						
Deposits by central banks and banks	**218**	**10,860**	**143**	**11,900**		**23,121**
Customer accounts	**27,646**	**21,929**	**11,654**	**4,438**		**65,667**
Derivative financial instruments[3]		**80**	**143**	**666**	**1,071**	**1,960**
Debt securities in issue		**139**	**828**	**6,918**	**874**	**8,759**
Subordinated liabilities and other capital instruments				**1,316**	**36**	**1,352**
Other financial liabilities	**526**	**2**				**528**
	28,390	**33,010**	**12,768**	**25,238**	**1,981**	**101,387**

	Repayable	3 months or less	1 year or less but over	5 years or less but over	Over 5 years	2012 Total

	on demand	but not repayable on demand	3 months	1 year		
	m	m	m	m	m	m
Financial assets						
Financial assets of disposal groups[1][2][4]	237		17	26	195	475
Trading portfolio financial assets[2]		2		15	5	22
Derivative financial instruments[3]		248	263	1,364	960	2,835
Loans and receivables to banks[4]	2,083	748	87			2,918
Loans and receivables to customers[4]	32,619	1,675	4,761	8,319	42,023	89,397
NAMA senior bonds[5]		17,387				17,387
Financial investments available for sale[2]	4	283	956	8,610	6,348	16,201
Other financial assets	5	517				522
	34,948	20,860	6,084	18,334	49,531	129,757
Financial liabilities						
Deposits by central banks and banks	337	16,605		11,500		28,442
Customer accounts	25,896	19,009	12,522	5,194	989	63,610
Derivative financial instruments[3]		223	205	962	1,866	3,256
Debt securities in issue		2,350	984	6,413	919	10,666
Subordinated liabilities and other capital instruments				1,237	34	1,271
Other financial liabilities	534	3				537
	26,767	38,190	13,711	25,306	3,808	107,782

[1] Only disposal groups that contain financial assets and financial liabilities have been included.

[2] Excluding equity shares.

[3] Shown by maturity date of contract.

[4] Shown gross of provisions for impairment, unearned income and deferred costs.

[5] New notes will be issued at each maturity date, with the next maturity date being 1 March 2014. Upon maturity, the issuer has the option to settle in cash or issue new notes and to date has issued new notes.

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Risk management - 3. Individual risk types

3.2 Liquidity risk*

Financial liabilities by undiscounted contractual maturity

The balances in the table below include the undiscounted cash flows relating to principal and interest on financial liabilities and as such will not agree directly with the balances on the consolidated statement of financial position. All derivative financial instruments with the exception of interest rate swaps have been included in the 3 months or less but not repayable on demand category at their mark to market value. Interest rate swaps have been analysed based on their contractual maturity undiscounted cash flows.

In the daily management of liquidity risk, the Group adjusts the contractual outflows on customer deposits to reflect inherent stability of these deposits. Offsetting the liability outflows are cash inflows from the assets on the statement of financial position. Additionally, the Group holds a stock of high quality liquid assets, which are held for the purpose of covering unexpected cash outflows.

The following table analyses, on an undiscounted basis, financial liabilities by remaining contractual maturity:

	Repayable on demand	**3 months or less but not repayable on demand**	**1 year or less but over 3 months**	**5 years or less but over 1 year**	**Over 5 years**	**2013 Total**
	m	**m**	**m**	**m**	**m**	**m**
Financial liabilities						
Derivative financial instruments		**406**	**323**	**884**	**977**	**2,590**
Deposits by central banks and banks	**218**	**10,865**	**146**	**12,079**		**23,308**
Customer accounts	**27,653**	**22,138**	**11,897**	**4,846**		**66,534**
Debt securities in issue		**258**	**1,023**	**7,399**	**892**	**9,572**
Subordinated liabilities and other capital instruments			**160**	**1,920**	**121**	**2,201**
Other financial liabilities	**526**	**2**				**528**
	28,397	**33,669**	**13,549**	**27,128**	**1,990**	**104,733**

	Repayable	3 months	1 year or less	5 years	Over	2012 Total

	on demand	or less but not repayable on demand	but over 3 months	or less but over 1 year	5 years	
	m	m	m	m	m	m
Financial liabilities						
Derivative financial instruments		572	480	1,584	1,722	4,358
Deposits by central banks and banks	337	16,614	2	11,763		28,716
Customer accounts	25,921	19,299	12,918	5,674	1,048	64,860
Debt securities in issue		2,539	1,177	7,005	942	11,663
Subordinated liabilities and other capital instruments			160	2,080	123	2,363
Other financial liabilities	534	3				537
	26,792	39,027	14,737	28,106	3,835	112,497

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3.2 Liquidity risk*

Financial liabilities by undiscounted contractual maturity *(continued)*

The undiscounted cash flows potentially payable under guarantees and similar contracts, included below within contingent liabilities, are classified on the basis of the earliest date the facilities can be called. The Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The Group expects that most guarantees it provides will expire unused.

The Group has given commitments to provide funds to customers under undrawn facilities. The undiscounted cash flows have been classified on the basis of the earliest date that the facility can be drawn. The Group does not expect all facilities to be drawn, and some may lapse before drawdown.

						2013
	Payable on demand	**3 months or less but not repayable on demand**	**1 year or less but over 3 months**	**5 years or less but over 1 year**	**Over 5 years**	**Total**
	m	**m**	**m**	**m**	**m**	**m**
Contingent liabilities	**1,353**					**1,353**
Commitments	**8,236**					**8,236**
	9,589					**9,589**

						2012
	Payable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
	m	m	m	m	m	m

Contingent liabilities	1,561	1,561
Commitments	8,974	8,974
	10,535	10,535

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3.3 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.

The Group assumes market risk as a result of its banking book and trading book activities.

Interest rate risk in the banking book (IRRBB) is the current or prospective risk to both the earnings and capital of the Group as a result of adverse movements in interest rates being applied to positions held in the banking book.

Credit spread risk is the exposure of the Group s financial position to adverse movements in the credit spreads of bonds held in the trading or available for sale (AFS) securities portfolio. Credit spreads are defined as the difference between bond yields and interest rate swap rates of equivalent maturity. The AFS bond portfolio is the principal source of credit spread risk.

The Group also assumes market risk through its trading book activities which relate to all positions in financial instruments (principally derivatives) that are held with trading intent or in order to hedge positions held with trading intent. The Group s Treasury function is responsible for managing all market risk in the Group. This includes a mandate to trade on its own account in selected wholesale markets.

Risk identification and assessment

Market risk is identified and assessed using portfolio sensitivities, Value at Risk (VaR) and stress testing. Interest rate gaps and sensitivities to various risk factors are measured and reported on a daily basis. In addition, market risk is measured using the VaR technique. VaR is calculated to a 95% confidence level using a one day holding period and is based on one year of historic data. VaR is augmented using stress testing where various portfolios are revalued using a range of severe but plausible market rate scenarios.

The Group Asset and Liability Management function (ALM) reporting to the Chief Financial Officer (CFO), is responsible for identifying, measuring and reporting the Group s aggregate market risk profile and managing the Group s financial instruments valuation processes.

The Financial Risk function, reporting to the Chief Risk Officer (CRO), is responsible, for exercising independent risk oversight and control over the Group s total market risk. It provides assurance that the risk dimensions of the business activity are understood and escalates any limit excesses as they arise. It proposes and maintains the Market Risk Management Framework and Policies as the basis of the Group s control architecture for market risk activities, including the annual agreement of market risk limits (subject to the Board approved Risk Appetite Statement).

Risk management and mitigation

All market risk in the Group is transferred to and managed by Treasury, subject to Asset and Liability Committee (ALCo) oversight. Treasury proactively manages the market risk on the Group s balance sheet as well as providing risk management solutions to the core customers of the Group. Within Treasury, AFS credit spread risk, IRRBB and trading risk are managed by distinct business units.

The ALCo is the primary governance committee for market risk and is supported by the Group s Market Risk Committee (MRC). The MRC is a subcommittee of ALCo and is chaired by the Head of Products. Its membership includes representatives from Treasury, Financial Risk and ALM.

Market risk is managed against a range of limits approved at ALCo, both forward looking, such as VaR limits and stress test limits, and financial, such as stop loss limits. These limits align with the Group s business strategy through the articulation of an annual financial plan and Risk Appetite Statement.

Market risk is managed subject to the Market Risk Management Framework and its associated policies. Credit risk issues inherent in the market risk portfolios are also subject to the credit risk framework that was described in the previous section.

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3.3 Market risk* ***(continued)***

Risk monitoring and reporting

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

Market risk exposures are reported to the Executive Risk Committee (ERC) and Board Risk Committee (BRC) on a monthly basis through the CRO Report.

Market risk profile

The table below shows the sensitivity of the Group s banking book to a hypothetical immediate and sustained 100 basis point (bp) movement in interest rates on 31 December 2013 and 31 December 2012 and the impact on net interest income over a twelve month period.

	31 December	
	2013	2012
Sensitivity of projected net interest income to interest rate movements	**m**	m
+ 100 basis point parallel move in all interest rates	**(50)**	(19)
100 basis point parallel move in all interest rates	**8**	(3)

The above analysis is subject to certain simplifying assumptions such as all interest rate movements occur simultaneously and in a parallel manner, additionally is it assumed that no management action is taken in response to the rate movements.

The following table summarises Treasury s VaR profile for the years ended 31 December 2013 and 2012, measured in terms of Value at Risk. For interest rate risk positions, the table also differentiates between Treasury s banking book (arising principally from its holdings of AFS securities) and trading book positions. For VaR measurement, AIB employs a 95% confidence interval, a 1-day holding period and a 1-year sample period.

	VaR (trading book)		**VaR (banking book)**		**Total VaR**	
	2013	2012	**2013**	2012	**2013**	2012
	m	m	**m**	m	**m**	m

Interest rate risk						
1 day holding period:						
Average	**0.1**	0.2	**1.5**	4.6	**1.5**	4.6
High	**0.6**	0.4	**3.9**	7.7	**3.9**	7.7
Low		0.1	**1.0**	2.0	**0.9**	2.0
31 December	**0.2**	0.2	**2.9**	2.2	**2.7**	2.2

The lower VaR on average in 2013 is explained by smaller interest rate positions and also by a smaller rate shift being applied in the VaR measurement. The smaller rate shifts reflect the fact that interest rates were very stable throughout 2013.

The following table sets out the VaR for foreign exchange rate and equity risk for the years ended 31 December 2013 and 2012:

	Foreign exchange rate risk VaR (trading book)		**Equity risk VaR (trading book)**	
	2013	2012	**2013**	2012
	m	m	**m**	m
1 day holding period:				
Average		0.1	**0.4**	0.5
High	**0.1**	0.1	**0.7**	0.7
Low				0.4
31 December	**0.1**			0.4

In terms of foreign exchange and equity VaR, the level of overall exposure remains low with very little open position risk being run.

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3.4 Structural foreign exchange risk*

Structural foreign exchange risk is the exposure of the Group s consolidated ratios to changes in exchange rates and results from net investment in subsidiaries, associates and branches, the functional currencies of which are currencies other than euro. The Group is exposed to foreign exchange risk as it translates foreign currencies into euro at each reporting period and the currency profile of the Group s capital may not necessarily match that of its assets and risk-weighted assets.

Exchange differences on structural exposures are recognised in other income in the financial statements. The Hedging Committee monitors structural foreign exchange risk and reports to Group ALCo on the foreign exchange sensitivity of consolidated capital ratios. This impact is measured in terms of basis points sensitivities using scenario analysis. The amount of structural foreign exchange risk is not material to the Group.

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3.5 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 canvas of individual risk types which include information technology, business continuity, health and safety risks, and legal risk.

Operational risk operating model

AIB s operating model for operational risk is designed to ensure the framework outlined below is embedded and executed robustly across the Group. The key principles of the model are:

- A strong operational risk function, appropriately staffed and clearly independent of the first line of defence;
- Technology in place to support assessment and mitigation of operational risks; and
- Greater control effectiveness testing by operational risk.

Risk identification and assessment

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

Risk management and mitigation

Each business area is primarily responsible for managing its own operational risks. An overarching Operational Risk Management (ORM) framework is in place, designed to establish an effective and consistent approach to operational risk management across the enterprise. The ORM framework is also supported by a range of specific policies addressing issues such as information security and business continuity management.

An important element of the Group s operational risk management framework is the on-going monitoring through self-assessment of risks, control deficiencies and weaknesses, including the tracking of incidents and loss events. The role of Operational Risk is to review and coordinate operational risk management activities across the Group including setting policy and promoting best practice disciplines, augmented by an independent assurance process.

The Group requires all business areas to undertake risk assessments and establish appropriate internal controls in order to ensure that all components, taken together, deliver the control objectives of key risk management processes. In addition, an insurance programme is in place, including a self insured retention, to cover a number of risk events which would fall under the operational risk umbrella. These include financial lines policies (comprehensive

crime/computer crime; professional indemnity/civil liability; employment practices liability; directors and officers liability) and a suite of general insurance policies to cover such things as property and business interruption, terrorism, combined liability and personal accident.

Risk monitoring and reporting

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

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

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Risk management - 3. Individual risk types

3.6 Regulatory compliance risk*

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

Regulatory Compliance is an enterprise-wide function which operates independently of the business. The function is responsible for identifying compliance obligations arising in each of the Group s operating markets. Regulatory Compliance work closely with management in assessing compliance risks and provide advice and guidance on addressing these risks. Risk-based monitoring of compliance by the business with regulatory obligations is undertaken.

Risk identification and assessment

The Regulatory Compliance function is specifically responsible for independently identifying and assessing current and forward looking conduct of business compliance obligations, as well as Financial Crime regulation and regulation on privacy and data protection. The identification, interpretation and communication roles relating to other legal and regulatory obligations have been assigned to functions with specialist knowledge in those areas. For example, employment law is assigned to Human Resources, taxation law to Group Taxation and prudential regulation to the Finance and Risk functions, with input and advice from a prudential regulatory unit. Regulatory Compliance undertakes a periodic detailed assessment of the key conduct of business and prudential compliance risks and associated mitigants. The Regulatory Compliance function operates a risk framework approach that is used in collaboration with business units to identify, assess and manage key compliance risks at business unit level. These risks are incorporated into the SARTs for the relevant business unit.

Risk management and mitigation

The Board, operating through the Audit Committee, approves the Group s compliance policy and the mandate for the Regulatory Compliance function.

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

The primary role of the Regulatory Compliance function is to provide direction and advice to enable management to discharge its responsibility for managing the Group s compliance risks. The principal compliance risk mitigants are risk identification, assessment, measurement and the establishment of suitable controls at business level. In addition, the Group has insurance policies that cover a number of risk events which fall under the regulatory compliance umbrella.

Risk monitoring and reporting

Regulatory Compliance undertakes risk-based monitoring of compliance with relevant policies, procedures and regulatory obligations. Monitoring can be undertaken by either dedicated compliance monitoring teams, or in collaboration with other control functions such as Group Internal Audit or Operational risk.

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

Regulatory Compliance report to the Chief Risk Officer, business unit management teams and independently to the Board of Directors, through the Audit Committee, on the effectiveness of the processes established to ensure compliance with laws and regulations within its scope.

*Forms an integral part of the audited financial statements.

3.7 Pension risk*

Pension risk is the risk that the funding position of the Group s defined benefit schemes would deteriorate to such an extent that the Group would be required to make additional contributions to cover its pension obligations towards current and former employees. Furthermore, IAS pension deficits as reported are now a deduction from capital under CRD IV which came into force on 1 January 2014 (see The Group s business activities must comply with increasing levels of regulation within Risk factors on page 60).

The Group maintains a number of defined benefit pension schemes for current and former employees, further details of which are included in note 12 to the financial statements. These defined benefit schemes were closed to future accrual from the 31 December 2013. Approval was received from the Pensions Board in 2013 in relation to a funding plan up to January 2018 with regard to regulatory Minimum Funding Standard requirements of the AIB Group Irish Pension Scheme. In the UK the Group has provided an asset backed funding vehicle to provide the required regulatory funding to the UK Scheme.

While the Group has taken certain risk mitigating actions, a level of volatility associated with pension funding remains due to financial market fluctuations and changes to pension and accounting regulations. This volatility can be classified as market risk and actuarial risk. Market risk arises because the estimated market value of the pension scheme assets may decline or their investment returns may reduce due to market movements. Actuarial risk arises due to the risk that the estimated value of the pension scheme liabilities may increase due to changes in actuarial assumptions. The ability of the pension schemes to meet the projected pension payments is managed by the Trustees through the dynamic diversification of the investment portfolios across geographies and asset classes. As the schemes are closed to future accrual, each Trustee Board has commenced a process of de-risking their investment strategy to reduce market risk.

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3.8 Parent company risk information

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3.8 Parent company risk information Credit risk

The following table sets out the maximum exposure to credit risk that arises within Allied Irish Banks, p.l.c. and distinguishes between those assets that are carried in the statement of financial position at amortised cost and those carried at fair value at 31 December 2013 and 31 December 2012:

	2013			2012		
Maximum exposure to credit risk*	**Amortised cost[9]**	**Fair value[10]**	**Total**	Amortised cost[9]	Fair value[10]	Total
	m	**m**	**m**	m	m	m
Balances at central banks[1]	**659**		**659**	558		558
Items in course of collection	**79**		**79**	95		95
Disposal groups and non-current assets held for sale[2]	**28[3]**		**28**	353		353
Trading portfolio financial assets[4]		**1**	**1**		22	22
Derivative financial instruments[5]		**1,653**	**1,653**		2,768	2,768
Loans and receivables to banks[6]	**23,856**		**23,856**	31,284		31,284
Loans and receivables to customers[7]	**31,603**		**31,603**	37,234		37,234
NAMA senior bonds	**15,598**		**15,598**	17,082		17,082
Financial investments available for sale[8]		**20,049**	**20,049**		14,829	14,829
Other assets:						
Trade receivables	**23**		**23**	28		28
Accrued interest[7]	**450**		**450**	391		391
	72,296	**21,703**	**93,999**	87,025	17,619	104,644
Financial guarantees	**924**		**924**	1,095		1,095
Loan commitments and other credit related	**7,154**		**7,154**	7,690		7,690

commitments						
	8,078		**8,078**	8,785		8,785
Total	**80,374**	**21,703**	**102,077**	95,810	17,619	113,429

(1)Included within cash and balances at central banks of 1,215 million (2012: 1,076 million).

(2)Non-financial assets and equity investments within disposal groups and non-current assets held for sale are not included above (note c).

(3)Comprises loans and receivables to banks and customers measured at amortised cost (note c).

(4)Excluding equity shares of 1 million (2012: 2 million).

(5)Exposures to subsidiary undertakings of 163 million (2012: 293 million) have been included.

(6)Exposures to subsidiary undertakings of 22,848 million (2012: 29,709 million) have been included.

(7)Exposures to subsidiary undertakings of 10,175 million (2012: 11,891 million) have been included.

(8)Excluding equity shares of 80 million (2012: 101 million).

(9)Exposures to subsidiary undertakings of 8 million (2012: 12 million) have been included.

(10)All amortised cost items are loans and receivables per IAS 39 *Financial Instruments: Recognition and Measurement* definitions.

(11)All items measured at fair value except financial investments available for sale and cash flow hedging derivatives are classified as fair value through profit or loss .

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3.8 Parent company risk information Credit risk *(continued)*

Collateral

Allied Irish Banks, p.l.c. takes collateral as a secondary source of repayment in the event of a borrower s default. The nature of collateral taken is set out on page 76.

Set out below is the fair value of collateral accepted by Allied Irish Banks p.l.c. at 31 December 2013 and 31 December 2012 in relation to financial assets detailed in the maximum exposure to credit risk table on page 171:

Loans and receivables to banks

Interbank placings, including central banks, are largely carried out on an unsecured basis apart from reverse repurchase agreements. At 31 December 2013, Allied Irish Banks p.l.c. had received collateral with a fair value of 16 million on loans with a carrying value of 16 million (2012: 61 million and 61 million respectively).

Loans and receivables to customers

The following table shows the fair value of collateral held for residential mortgages at 31 December 2013 and 31 December 2012:

	2013				2012			
	Neither past due nor impaired	**Past due but not impaired**	**Impaired**	**Total**	Neither past due nor impaired	Past due but not impaired	Impaired	Total
	m	**m**	**m**	**m**	m	m	m	m
Fully collateralised(1)								
Loan-to-value ratio:								
Less than 50%	**132**	**4**	**9**	**145**	118	3	7	128
50% - 70%	**122**	**6**	**14**	**142**	134	5	10	149
71% - 80%	**85**	**3**	**13**	**101**	81	2	9	92
81% - 90%	**88**	**2**	**13**	**103**	89	4	8	101
91% - 100%	**109**	**7**	**69**	**185**	126	6	51	183
	536	**22**	**118**	**676**	548	20	85	653
Partially collateralised								
Collateral value relating to loans over 100% loan-to-value	**688**	**20**	**247**	**955**	794	23	235	1,052

Total collateral value	**1,224**	**42**	**365**	**1,631**	1,342	43	320	1,705
Gross residential mortgages	**1,455**	**50**	**447**	**1,952**	1,653	50	407	2,110
Statement of financial position specific provisions			**(194)**	**(194)**			(125)	(125)
Statement of financial position IBNR provisions				**(28)**				(22)
Net residential mortgages			**253**	**1,730**			282	1,963

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

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

Non-mortgage portfolios

Details of collateral in relation to the non mortgage portfolio are set out on pages 77 to 88.

NAMA senior bonds

Allied Irish Banks p.l.c. holds a guarantee from the Irish Government in respect of NAMA senior bonds which at 31 December 2013 have a carrying value of 15,598 million (2012: 17,082 million).

Financial investments available for sale

At 31 December 2013, government guaranteed senior bank debt amounting to 381 million (2012: 495 million) was held within the available for sale portfolio.

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3.8 Parent company risk information   Credit risk *(continued)*

The information contained in this note relates only to third party exposures arising within Allied Irish Banks, p.l.c..

Loans and receivables to customers by geographic location and industry sector at 31 December 2013 and 31 December 2012*

							2013
						Of which	
	Republic of Ireland	United Kingdom	United States of America	Rest of the World	Total	Loans and receivables to customers	Disposal groups and non-current assets held for sale
	m	m	m	m	m	m	m
Agriculture	1,739				1,739	1,739	
Energy	236	18	5		259	231	28
Manufacturing	859	61			920	920	
Property and construction	14,325	359			14,684	14,684	
Distribution	5,068	344			5,412	5,412	
Transport	645	64			709	709	
Financial	432	21	4		457	457	
Other services	2,483	222	99		2,804	2,804	
Personal							
Residential mortgages	1,952				1,952	1,952	
Other	3,858				3,858	3,858	
	31,597	1,089	108		32,794	32,766	28
Unearned income	(68)	(7)	(1)		(76)	(76)	
Deferred costs	2				2	2	
Provisions	(11,111)	(143)	(10)		(11,264)	(11,264)	
Total	20,420	939	97		21,456	21,428[1]	28

						2012	
						Of which	
	Republic of Ireland	United Kingdom	United States of America	Rest of the World	Total	Loans and receivables to customers	Disposal groups and non-current assets held for sale
	m	m	m	m	m	m	m
Agriculture	1,722				1,722	1,722	
Energy	298	113	19		430	342	88
Manufacturing	1,074	58	4		1,136	1,136	
Property and construction	15,673	599	40		16,312	16,312	
Distribution	5,633	409	1		6,043	6,043	
Transport	502	528	22		1,052	679	373
Financial	582	19	2		603	603	
Other services	2,849	247	186		3,282	3,268	14
Personal							
Residential mortgages	2,110				2,110	2,110	
Other	4,211				4,211	4,211	
	34,654	1,973	274		36,901	36,426	475
Unearned income	(74)	(5)	(1)		(80)	(80)	
Deferred costs	2				2	2	
Provisions	(10,825)	(285)	(17)		(11,127)	(11,005)	(122)
Total	23,757	1,683	256		25,696	25,343[1]	353

[1]Excludes intercompany balances of 10,175 million (2012: 11,891 million).

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Risk management - 3. Individual risk types

3.8 Parent company risk information Credit risk *(continued)*

Internal credit ratings

Internal credit ratings of loans and receivables to customers*

The internal credit ratings profile of loans and receivables to customers by asset class at 31 December 2013 and 31 December 2012 is as follows:

						2013
	Residential mortgages	Other personal	Property and construction	SME/other commercial	Corporate	Total
	m	m	m	m	m	m
Neither past due nor impaired						
Good upper	582	190	82	83	579	1,516
Good lower	582	1,667	2,072	3,127	1,954	9,402
Watch	147	165	767	749	87	1,915
Vulnerable	144	190	449	600	197	1,580
Total	1,455	2,212	3,370	4,559	2,817	14,413
Past due but not impaired						
Good upper	1	2		1	2	6
Good lower	3	106	92	116	20	337
Watch	10	45	71	87		213
Vulnerable	36	148	319	281	18	802
Total	50	301	482	485	40	1,358
Total impaired	447	1,345	10,832	3,923	476	17,023
Total gross loans and receivables	1,952	3,858	14,684	8,967	3,333	32,794
Unearned income						(76)
Deferred costs						2
Impairment provisions						(11,264)
Total						21,456

	2012 (unaudited)					
	Residential mortgages	Other personal	Property and construction	SME/other commercial	Corporate	Total
	m	m	m	m	m	m
Neither past due nor impaired						
Good upper	390	881	29	130	938	2,368
Good lower	941	1,234	3,116	3,362	2,673	11,326
Watch	161	200	750	765	131	2,007
Vulnerable	163	206	572	648	149	1,738
Total	1,655	2,521	4,467	4,905	3,891	17,439
Past due but not impaired						
Good upper	2	40		2		44
Good lower	6	91	202	177	20	496
Watch	10	78	164	140		392
Vulnerable	30	136	332	297		795
Total	48	345	698	616	20	1,727
Total impaired	407	1,345	11,147	4,044	792	17,735
Total gross loans and receivables	2,110	4,211	16,312	9,565	4,703	36,901
Unearned income						(80)
Deferred costs						2
Impairment provisions						(11,127)
Total						25,696

Details of the rating profiles and lending classifications are set out on page 127.

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3.8 Parent company risk information Credit risk *(continued)*

Impaired loans by geographic location and industry sector*

The following table presents an analysis of impaired loans and receivables to customers for Allied Irish Banks, p.l.c. at 31 December 2013 and 31 December 2012.

							2013
						Of which	
	Republic of Ireland	**United Kingdom**	**United States of America**	**Rest of the World**	**Total**	**Loans and receivables to customers**	**Disposal groups and non-current assets held for sale**
	m	**m**	**m**	**m**	**m**	**m**	**m**
Agriculture	**327**				**327**	**327**	
Energy	**62**		**4**		**66**	**66**	
Manufacturing	**261**	**2**			**263**	**263**	
Property and construction	**10,577**	**255**			**10,832**	**10,832**	
Distribution	**2,611**	**6**			**2,617**	**2,617**	
Transport	**154**				**154**	**154**	
Financial	**211**				**211**	**211**	
Other services	**722**	**27**	**12**		**761**	**761**	
Personal:							
Residential mortgages	**447**				**447**	**447**	
Other	**1,345**				**1,345**	**1,345**	
Total	**16,717**	**290**	**16**		**17,023**	**17,023**	

2012

Of which

	Republic of Ireland	United Kingdom	United States of America	Rest of the World	Total	Loans and receivables to customers	Disposal groups and non-current assets held for sale
	m	m	m	m	m	m	m
Agriculture	322				322	322	
Energy	32		3		35	35	
Manufacturing	313				313	313	
Property and construction	10,732	375	40		11,147	11,147	
Distribution	2,807	54			2,861	2,861	
Transport	104	237			341	104	237
Financial	219				219	219	
Other services	703	29	13		745	745	
Personal:							
Residential mortgages	407				407	407	
Other	1,345				1,345	1,345	
Total	16,984	695	56		17,735	17,498	237

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Risk management - 3. Individual risk types

3.8 Parent company risk information Credit risk *(continued)*

Aged analysis of contractually past due but not impaired gross loans*

The following table presents by industry sector an aged analysis of contractually past due but not impaired loans and receivables to customers for Allied Irish Banks, p.l.c. at 31 December 2013 and 31 December 2012.

							2013
						Of which	
	1 30 days	31 60 days	61 90 days	91 + days	Total	Loans and receivables to customers	Disposal groups and non-current assets held for sale
	m	m	m	m	m	m	m
Agriculture	61	13	17	58	149	149	
Energy	1	1		2	4	4	
Manufacturing	18	4	1	29	52	52	
Property and construction	133	37	21	291	482	482	
Distribution	58	11	12	87	168	168	
Transport	6	1		6	13	13	
Financial	1	1		2	4	4	
Other services	69	10	11	45	135	135	
Personal:							
Residential mortgages	19	7	6	18	50	50	
Credit cards	32	9	6	5	52	52	
Other	109	21	17	102	249	249	
Total	507	115	91	645	1,358	1,358	
As a percentage of total loans[(1)]	1.55%	0.35%	0.28%	1.97%	4.14%	4.14%	

2012

	1 30 days	31 60 days	61 90 days	91 + days	Total	Of which	
						Loans and receivables to customers	Disposal groups and non-current assets held for sale
	m	m	m	m	m	m	m
Agriculture	53	8	15	59	135	135	
Energy	6			2	8	8	
Manufacturing	17	3	2	16	38	38	
Property and construction	159	74	58	407	698	698	
Distribution	68	30	16	127	241	241	
Transport	6	5	1	19	31	31	
Financial	1	1	6	8	16	16	
Other services	61	19	13	74	167	167	
Personal:							
Residential mortgages	17	9	4	18	48	48	
Credit cards	37	11	9	6	63	63	
Other	71	28	38	145	282	282	
Total	496	188	162	881	1,727	1,727	
As a percentage of total loans[1]	1.3%	0.5%	0.4%	2.4%	4.7%	4.7%	

[1]Total loans (excluding intercompany) are gross of impairment provisions and unearned income.

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3.8 Parent company risk information Credit risk *(continued)*

Provisions for impairment by geographic location and industry sector*

The following table presents an analysis of provisions for impairment on loans and receivables to customers for Allied Irish Banks, p.l.c. at 31 December 2013 and 31 December 2012.

							2013
						Of which	
	Republic of Ireland	**United Kingdom**	**United States of America**	**Rest of the World**	**Total**	**Loans and receivables to customers**	**Disposal groups and non-current assets held for sale**
	m	**m**	**m**	**m**	**m**	**m**	**m**
Agriculture	**241**				**241**	**241**	
Energy	**35**				**35**	**35**	
Manufacturing	**189**				**189**	**189**	
Property and construction	**6,640**	**111**			**6,751**	**6,751**	
Distribution	**1,614**	**6**			**1,620**	**1,620**	
Transport	**108**				**108**	**108**	
Financial	**123**				**123**	**123**	
Other services	**518**	**5**	**9**		**532**	**532**	
Personal:							
Residential mortgages	**194**				**194**	**194**	
Other	**1,038**				**1,038**	**1,038**	
Specific	**10,700**	**122**	**9**		**10,831**	**10,831**	
IBNR	**411**	**21**	**1**		**433**	**433**	
Total	**11,111**	**143**	**10**		**11,264**	**11,264**	

2012

Of which

	Republic of Ireland	United Kingdom	United States of America	Rest of the World	Total	Loans and receivables to customers	Disposal groups and non-current assets held for sale
	m	m	m	m	m	m	m
Agriculture	225				225	225	
Energy	26		3		29	29	
Manufacturing	221				221	221	
Property and construction	6,163	99	7		6,269	6,269	
Distribution	1,717	37			1,754	1,754	
Transport	88	122			210	88	122
Financial	157				157	157	
Other services	482	6	6		494	494	
Personal:							
Residential mortgages	125				125	125	
Other	1,004				1,004	1,004	
Specific	10,208	264	16		10,488	10,366	122
IBNR	617	21	1		639	639	
Total	10,825	285	17		11,127	11,005	122

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Risk management - 3. Individual risk types

3.8 Parent company risk information Credit risk *(continued)*

External credit ratings of financial assets*

The external credit ratings profile of loans and receivables to banks, NAMA senior bonds, trading portfolio financial assets (excluding equity securities) and financial investments available for sale (excluding equity shares) for Allied Irish Banks, p.l.c. at 31 December 2013 and 31 December 2012 is as follows:

					2013
	Bank[(1)]	**Corporate**	**Sovereign**	**Other**	**Total**
	m	**m**	**m**	**m**	**m**
AAA/AA	**2,861**		**5,417**	**304**	**8,582**
A	**1,091**			**133**	**1,224**
BBB+/BBB/BBB-	**710**	**14**	**25,957[(2)]**	**85**	**26,766**
Sub investment			**6**	**14**	**20**
Unrated	**63**	**1**			**64**
Total	**4,725**	**15**	**31,380[(3)]**	**536**	**36,656**

					2012
	Bank[(1)]	Corporate	Sovereign	Other	Total
	m	m	m	m	m
AAA/AA	1,535	3	3,835	583	5,956
A	1,476	15	221	223	1,935
BBB+/BBB/BBB-	723	60	24,274[(2)]	79	25,136
Sub investment	86	99	26	79	290
Unrated	76	115			191
Total	3,896	292	28,356[(3)]	964	33,508

[(1)]Excludes loans to subsidiaries of 22,848 million (2012: 29,709 million).

[(2)]Includes NAMA senior bonds which do not have an external credit rating and to which the Group has attributed a rating of BBB+ (2012 :BBB+) i.e. the external rating of the Sovereign.

(3)Includes supranational banks and government agencies.

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3.8 Parent company risk information Credit risk *(continued)*

Leveraged debt by geographic location and industy sector*

Leveraged lending (including the financing of management buy-outs, buy-ins and private equity buy-outs) is conducted primarily through specialist lending teams. The leveraged loan book is held as part of the loans and receivables to customers portfolio. Specific impairment provisions of 0.5 million (2012: 29 million) are currently held against impaired exposures of 14 million (2012: 60 million). The unfunded element below includes off-balance sheet facilities and the undrawn element of facility commitments. The portfolio continues to reduce, in large part due to AIB s deleveraging activities.

	2013		2012	
	Funded	**Unfunded**	Funded	Unfunded
Leveraged debt by geographic location	**m**	**m**	m	m
United Kingdom	**44**	**3**	84	24
Rest of Europe	**20**	**1**	39	4
United States of America	**52**	**20**	154	50
Rest of World			31	
	116	**24**	308	78

	2013	2012
Funded leveraged debt by industry sector*	**m**	m
Agriculture		
Property and construction		
Distribution	**22**	62
Energy	_	28
Financial		5
Manufacturing	**38**	117
Transport	**26**	6
Other services	**30**	90
	116	308

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Risk management - 3. Individual risk types

3.8 Parent company risk information Liquidity risk *(continued)*

Financial assets and financial liabilities by contractual residual maturity*

						2013
	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
	m	m	m	m	m	m
Financial assets						
Financial assets of disposal groups[1][3]					28	28
Trading portfolio financial assets[1]					1	1
Derivative financial instruments[2]		63	155	945	490	1,653
Loans and receivables to banks[3]	23,841	20	2			23,863
Loans and receivables to customers[3]	29,126	531	2,590	4,818	5,876	42,941
NAMA senior bonds[4]		15,598				15,598
Financial investments available for sale[1]	3	246	937	11,357	7,506	20,049
Other financial assets		473				473
	52,970	16,931	3,684	17,120	13,901	104,606
Financial liabilities						
Deposits by central banks and banks	7,683	10,486	143	10,800		29,112
Customer accounts	25,593	18,870	6,157	2,490	2	53,112
Derivative financial instruments[2]		139	148	1,031	1,086	2,404
Debt securities in issue[5]		75	753	2,443		3,271
Subordinated liabilities and other capital instruments				1,316	36	1,352
Other financial liabilities	279					279
	33,555	29,570	7,201	18,080	1,124	89,530

						2012
	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
	m	m	m	m	m	m
Financial assets						
Financial assets of disposal groups[(1)(3)]	237		17	26	195	475
Trading portfolio financial assets[(1)]		2		15	5	22
Derivative financial instruments[(2)]		202	261	1,270	1,035	2,768
Loans and receivables to banks[(3)]	16,794	5,373	1,140	7,734	247	31,288
Loans and receivables to customers[(3)]	24,195	5,326	3,540	5,224	10,031	48,316
NAMA senior bonds[(4)]		17,082				17,082
Financial investments available for sale[(1)]	4	157	637	7,912	6,119	14,829
Other financial assets		418				418
	41,230	28,560	5,595	22,181	17,632	115,198
Financial liabilities						
Deposits by central banks and banks	7,179	17,973	2,219	11,948	70	39,389
Customer accounts	21,653	16,326	8,343	2,412	17	48,751
Derivative financial instruments[(2)]		171	223	1,266	1,881	3,541
Debt securities in issue[(5)]		2,368		2,774		5,142
Subordinated liabilities and other capital instruments				1,237	34	1,271
Other financial liabilities	330					330
	29,162	36,838	10,785	19,637	2,002	98,424

[(1)]Excluding equity shares.

[(2)]Shown by maturity date of contract.

[(3)]Shown gross of provisions for impairment and unearned income.

[(4))]New notes will be issued at each maturity date, with the next maturity date being 1 March 2014. Upon maturity, the issuer has the option to settle in cash or issue new notes and to date has issued new notes.

[(5)]Includes Nil securities issued to subsidiary companies in 2013 and 46 million issued to subsidiary companies in both 2012 and 2011.

The balances shown above for Allied Irish Banks, p.l.c. include exposures to subsidiary undertakings.

*Forms an integral part of the audited financial statements

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3.8 Parent company risk information Liquidity risk *(continued)*

Financial liabilities by undiscounted contractual maturity contingent liabilities and commitments*

The undiscounted cash flows potentially payable under guarantees and similar contracts, included below within contingent liabilities, are classified on the basis of the earliest date they can be called. The Company is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The Company expects that most guarantees it provides will expire unused.

The Company has given commitments to provide funds to customers under undrawn facilities. The undiscounted cash flows have been classified on the basis of the earliest date that the facility can be drawn. The Company does not expect all facilities to be drawn, and some may lapse before drawdown.

						2013
	Payable on demand	**3 months or less but not repayable on demand**	**1 year or less but over 3 months**	**5 years or less but over 1 year**	**Over 5 years**	**Total**
	m	**m**	**m**	**m**	**m**	**m**
Contingent liabilities[1]	**924**					**924**
Commitments	**7,154**					**7,154**
	8,078					**8,078**

						2012
	Payable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
	m	m	m	m	m	m
Contingent liabilities[1]	1,095					1,095
Commitments	7,690					7,690

8,785	8,785

[1]Included in exposure are amounts relating to Group subsidiaries of Nil (2012: 27 million).

*Forms an integral part of the audited financial statements

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Risk management - 3. Individual risk types

3.8 Parent company risk information   Market risk profile

Market risk profile*

The following table sets out the VaR for Allied Irish Banks, p.l.c. at 31 December 2013 and 31 December 2012:

	VaR (trading book)		VaR (banking book)		Total VaR	
	2013	2012	**2013**	2012	**2013**	2012
	m	m	**m**	m	**m**	m
Interest rate risk						
1 day holding period:						
Average	**0.1**	0.2	**1.4**	4.5	**1.4**	4.6
High	**0.6**	0.4	**3.8**	7.7	**3.8**	7.7
Low		0.1	**1.0**	2.0	**0.9**	2.0
31 December	**0.2**	0.2	**2.9**	2.2	**2.7**	2.2

The following table sets out the VaR for foreign exchange rate and equity risk for the years ended 31 December 2013 and 31 December 2012:

	Foreign exchange rate risk VaR (trading book)		Equity risk VaR (trading book)	
	2013	2012	**2013**	2012
	m	m	**m**	m
1 day holding period:				
Average		0.1	**0.4**	0.5
High	**0.3**	0.3	**0.7**	0.7
Low				0.4
31 December				0.4

*Forms an integral part of the audited financial statements

Governance and oversight

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Governance and oversight

1. The Board and Executive Officers

Certain information in respect of the Directors and Executive Officers is set out below.

David Hodgkinson ***Chairman*** ***Non-Executive Director***

Mr Hodgkinson was Group Chief Operating Officer for HSBC Holdings plc from May 2006 until his retirement from the company in December 2008. During his career with HSBC, he held a number of senior management positions in the Middle and Far East, and Europe, including as Managing Director of The Saudi British Bank, and CEO of HSBC Bank Middle East. Mr Hodgkinson, who joined HSBC in 1969, has also served as Chairman of HSBC Bank Middle East Limited, HSBC Bank A S Turkey, Arabian Gulf Investments (Far East) Limited and HSBC Global Resourcing (UK) Ltd. He was a Director of HSBC Bank Egypt SAE, The Saudi British Bank, Bank of Bermuda Limited, HSBC Trinkaus Burkhardt and British Arab Commercial Bank.

Mr Hodgkinson joined the Board as Executive Chairman on 27 October 2010 and became Non-Executive Chairman with effect from 12 December 2011. He has been a member of the Remuneration Committee and Nomination and Corporate Governance Committee since January 2011. (Age 63)

Simon Ball *BSc (Economics), FCA* ***Non-Executive Director and Nomination and Corporate Governance Committee Chairman***

Mr Ball is currently the Non-Executive Deputy Chairman and Senior Independent Director of Cable & Wireless Communications plc, a Non-Executive Director of Tribal Group plc, and a Non-Executive Director of Commonwealth Games England. Prior to this, Mr Ball served as Group Finance Director of 3i Group plc and the Robert Fleming Group, held a series of senior finance and operational roles at Dresdner Kleinwort Benson, and was Director General, Finance for the HMG Department for Constitutional Affairs. Mr Ball joined the Board in October 2011 and has been a member of the Board Risk Committee since November 2011 and a member of the Nomination and Corporate Governance Committee since February 2013. He was appointed Chairman of the Nomination and Corporate Governance Committee in June 2013. (Age 53)

Bernard Byrne* *FCA* ***Director Personal, Business and Corporate Banking***

Mr Byrne joined AIB in May 2010 as Group Chief Financial Officer and member of the Leadership Team. He took up the role of Director of Personal & Business Banking in May 2011. He was appointed to his current post in July 2012 when responsibility for corporate clients was added to the role. He began his career as a Chartered Accountant with PricewaterhouseCoopers (PwC) in 1988 and joined ESB International in 1994, where he was the Commercial Director for International Investments. In 1998, he took up the post of Finance Director with IWP International plc. He moved to ESB in 2004 where he held the post of Group Finance and Commercial Director until he left to join AIB. Mr Byrne joined the Board in June 2011. He was appointed Non-Executive Director of EBS Limited in July 2011. (Age 45)

David Duffy* *B.B.S., MA* ***Chief Executive Officer***

Mr Duffy joined AIB in December 2011 as Chief Executive Officer and Chair of the Leadership Team. He has held a number of senior roles in the international banking industry including, most recently, the position of Chief Executive Officer at Standard Bank International covering Asia, Latin America, the UK and Europe. He was previously Head of Global Wholesale Banking Network of ING Group and President and Chief Executive Officer of the ING franchises in the US and Latin America. He worked with Goldman Sachs International in various senior positions including Head of Human Resources Europe. Mr Duffy joined the Board in December 2011. (Age 52)

Peter Hagan *BSc, Dip BA* ***Non-Executive Director***

Mr Hagan is former Chairman and CEO of Merrill Lynch s US commercial banking subsidiaries, he was also a director of Merrill Lynch International Bank (London), Merrill Lynch Bank (Swiss), ML Business Financial Services and FDS Inc. Over a period of 35 years he has held senior positions in the international banking industry, including as Vice Chairman and Representative Director of the Aozora Bank (Tokyo, Japan). During 2011 and until Sept 2012, he was a director of each of the US subsidiaries of IBRC. He is presently a consultant in the fields of financial service litigation and regulatory change. He is currently a Director and Treasurer of 170 East 70th Corp. and a Director of the Thomas Edison State College Foundation. Mr Hagan joined the Board in July 2012 and is a member of the Board Risk Committee, Nomination and Corporate Governance Committee and the Remuneration Committee. (Age 65)

Tom Foley *BComm, FCA* ***Non-Executive Director***

Mr Foley is a former Executive Director of KBC Bank Ireland and has held a variety of senior management and board positions with KBC, including in Corporate Finance, Treasury, Business Banking, Private and Mortgage Banking as well as KBC s UK Division. He was a member of the Nyberg Commission of Investigation into the Banking Sector during 2010 and 2011 and the Department of Finance (Cooney) Expert Group on Mortgage Arrears and Personal Debt during 2010. He qualified as a Chartered Accountant with PricewaterhouseCoopers (PwC) and is a former senior executive with Ulster Investment Bank and is a Non-Executive Director of BPV Finance (International) plc, and IntesaSanPaolo Life Limited. Mr Foley joined the Board in September 2012 and is a member of the Audit Committee and Remuneration Committee. He was appointed Non-Executive Director of EBS Limited in November 2012. (Age 60)

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Governance and oversight

1. The Board and Executive Officers

Jim O Hara ***Non-Executive Director and Remuneration Committee Chairman***

Mr O Hara is a former Vice President of Intel Corporation and General Manager of Intel Ireland, where he was responsible for Intel s technology and manufacturing group in Ireland. He is a Non-Executive Director of Fyffes plc, a board member of Enterprise Ireland, and Chairman of a number of indigenous technology start up companies. He is a past President of the American Chamber of Commerce in Ireland. Mr O Hara joined the Board in October 2010 and has been a member of the Audit Committee, Remuneration Committee and Nomination and Corporate Governance Committee since January 2011, and was appointed Chairman of the Remuneration Committee in July 2012. He was appointed Non-Executive Director of EBS Limited in June 2012. (Age 62)

Dr Michael Somers *BComm, M.Econ.Sc, Ph.D* ***Non-Executive Director, Deputy Chairman and Board Risk Committee Chairman***

Dr Somers is former Chief Executive of the National Treasury Management Agency. He is Chairman of Goodbody Stockbrokers, a Non- Executive Director of Fexco Holdings Limited, Willis Group Holdings plc, Hewlett-Packard International Bank plc, the Institute of Directors, St. Vincent s Healthcare Group Ltd, and President of the Ireland Chapter of the Ireland-US Council. He has previously held the posts of Secretary, National Debt Management, in the Department of Finance, and Secretary, Department of Defence. He is a former Chairman of the Audit Committee of the European Investment Bank and Director of the European Investment Bank and former Member of the EC Monetary Committee. Dr Somers was Chairman of the group that drafted the National Development Plan 1989-1993 and of the European Community group that established the European Bank for Reconstruction and Development. He was formerly a member of the Council of the Dublin Chamber of Commerce. He joined the Board in January 2010 as a nominee of the Minister for Finance under the Government s National Pensions Reserve Fund Act 2000 (as amended) and has been Chairman of the Board Risk Committee since November 2010. (Age 71)

Dick Spring *BA, BL* ***Non-Executive Director***

Mr Spring is a former Tánaiste (Deputy Prime Minister) of the Republic of Ireland, Minister for Foreign Affairs and leader of the Labour Party. He is a Non-Executive Director of Fexco Holdings Ltd., Repak Ltd, The Realta Global Aids Foundation Ltd and Chairman of the Diversification Strategy Fund p.l.c He is Chairman of International Development Ireland Ltd., Altobridge Ltd. and Alder Capital Ltd. Mr Spring joined the Board in January 2009 as a nominee of the Minister for Finance under the CIFS Scheme. He has been a member of the Nomination and Corporate Governance Committee since April 2009 and the Board Risk Committee since November 2010. (Age 63)

Thomas Wacker *MBA (International Business and Finance)* **- *Non-Executive Director***

Mr Wacker was a Non-Executive Director of the USA Rugby Board and is the former Chief Executive Officer of the International Rugby Board. He was a Non-Executive Director and former Chief Executive Officer of Belmont Advisors (UK) Limited and was a former Chief Executive of IFG Group plc s offshore business and Non-Executive

Director of the parent company. Prior to this, Mr Wacker held senior management roles with Royal Trust Company of Canada, Bank of Montreal, Citibank, and Citigroup Investment Banking Group. Mr Wacker joined the Board in October 2011 and has been a member of the Audit Committee since November 2011. (Age 70)

Catherine Woods *BA, Mod (Econ)* ***Non-Executive Director and Audit Committee Chairman***

Ms Woods is a Non-Executive Director of AIB Mortgage Bank, and Chairman of EBS Limited (from 12 February 2013). She is the Finance Expert on the adjudication panel established by the Government to oversee the rollout of the National Broadband scheme and is a former Vice President and Head of the European Banks Equity Research Team, JP Morgan, where her mandates included the recapitalisation of Lloyds of London and the re-privatisation of Scandinavian banks. Ms Woods is a former director of An Post, and a former member of the Electronic Communications Appeals Panel. She joined the Board in October 2010, has been a member of the Audit Committee and Board Risk Committee since January 2011, and was appointed Chairman of the Audit Committee in July 2011. (Age 51)

* Executive Directors

Board Committees

Information concerning membership of the Board s Audit, Risk, Nomination and Corporate Governance, and Remuneration Committees is given in the Corporate Governance statement on pages 189 to 200.

Executive Officers (in addition to Executive Directors above)

Helen Dooley *LLB* ***Group General Counsel***

Ms Dooley was appointed to her current role and the Leadership Team in October 2012, having previously held the role of Head of Legal in EBS Limited. Prior to this, she held a number of other senior roles in EBS including Head of Regulatory Compliance and Company Secretary. Ms Dooley began her career in 1992 working principally as a banking and restructuring lawyer with Wilde Sapte solicitors in London, moving to Hong Kong in 1998 to work for Johnson Stokes & Master solicitors and returning to Ireland in 2001 to work for A&L Goodbody solicitors. (Age 45)

Governance and oversight

1. The Board and Executive Officers

Enda Johnson ***Head of Corporate Affairs and Strategy***

Mr Johnson joined AIB as Head of Strategy in May 2012 and was appointed to his current role and the Leadership Team in July 2012. He worked previously as a senior analyst with the National Treasury Management Agency, including a secondment at the Department of Finance. Before joining the National Treasury Management Agency in 2010, he worked with Merrill Lynch for seven years in New York, London and California, in their investment banking and equity capital markets divisions. Mr Johnson has a Bachelor of Arts degree in Economics and Bachelor of Science degree in Engineering from Brown University. (Age 34)

Orlagh Hunt *BA, FCIPD* ***Group HR Director***

Ms Hunt was appointed to her current role and the Leadership Team in September 2012. She joined AIB from RSA (formerly Royal & Sun Alliance) where she was Group HR and Customer Director, based in London with responsibility for driving the HR agenda in 28 countries across the UK, Asia, Middle East, Latin America and Canada. Ms Hunt began her career in HR with Tesco and moved subsequently to Walker Snack Foods. She was appointed Head of Human Resources at AXA Life Assurance in 2000 prior to joining RSA in 2003. (Age 41)

Fergus Murphy *BSc (Mgt), MA, DABS, AMCT, FIBI* ***Director of Products***

Mr Murphy was appointed to the Leadership Team in July 2011, in his former role as Managing Director of EBS Limited, following the acquisition of EBS by AIB, and was subsequently appointed Group Services and Transformation Director in December 2011. He was appointed to his current role in July 2012. Before joining EBS Building Society as Chief Executive in January 2008, he held a number of senior positions including Chief Executive of ACC Bank plc, Chief Executive of Rabobank Asia, Global Treasurer and Global Head Investment Book Rabobank International and Managing Director of Rabobank Ireland plc. He is former Chairman of Financial Services Ireland. (Age 49)

Brendan O Connor *BA, MBA* ***Head of Financial Solutions Group***

Mr O Connor was appointed to his current role and the Leadership Team in February 2013. He joined AIB in 1984. From 1988 to 2009 he worked in AIB Group Treasury in New York and Dublin before moving to AIB Corporate Banking in 2009. He has held a number of senior roles throughout the organisation including Head of AIB Global Treasury Services and Head of Corporate Banking International. Prior to his most recent appointment he was Head of AIB Business Banking. (Age 48)

Peter Rossiter *BBS, FCA* ***Chief Risk Officer***

Mr Rossiter was appointed to his current role and the Leadership Team in May 2012. He joined AIB from Irish Bank Resolution Corporation Ltd (IBRC) where he was Chief Risk Officer since November 2009. Previously, he spent 27

years with Citigroup in a range of roles, including senior risk positions in Warsaw, Moscow, Istanbul, London and Brussels. (Age 57)

Steve Reid *FCIOBS, MSFA* ***Managing Director, AIB Group (UK) plc***

Mr Reid was appointed to his current role and the Leadership Team in July 2013. Prior to this he worked with National Australia Group Europe where he held a number of senior roles including Retail Banking Director. He also held a number of senior roles in Barclays and Woolwich banks during a career spent exclusively in financial services. (Age 50)

Myles O Grady *FCCA* ***Acting Chief Financial Officer***

Mr O Grady joined AIB in June 2006 and was appointed to his current role in August 2013. Prior to his current role he held positions in AIB as Group Financial Controller and Head of Financial Strategy and Planning. Before joining AIB, he held a number of senior finance and business restructuring positions in Bord Gais Energy and Citibank. In the early part of his career, Mr O Grady worked for Dresdner Kleinwort Benson and AIB in a range of financial control roles. (Age 44)

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Governance and oversight - 2. Report of the Directors

for the year ended 31 December 2013

The Directors of Allied Irish Banks, p.l.c. (the Company) present their report and the audited financial statements for the year ended 31 December 2013. A Statement of the Directors responsibilities in relation to the financial statements is shown on page 403.

Results

The Group s loss attributable to the ordinary shareholders of the Company amounted to 1,597 million and was arrived at as shown in the consolidated income statement on page 236.

Dividend

There was no dividend paid to ordinary shareholders in 2013.

Going concern

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

In making its assessment, the Directors have considered a wide range of information relating to present and future conditions. These have included financial plans prepared in November 2013 covering the period 2014 to 2016, the restructuring plan submitted to the European Commission in September 2012, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios. In addition, the Directors have considered the commitment of support provided to AIB by the Irish Government. Furthermore, the Directors have considered the outlook for the Irish, the eurozone and UK economies.

Credit Institutions (Stabilisation) Act 2010

The Directors have a duty to have regard to the matters set out in the Credit Institutions (Stabilisation) Act 2010 (the Act). This duty is owed by the Directors to the Minister for Finance of Ireland (the Minister) on behalf of the State and, to the extent of any inconsistency, takes priority over any other duties of the Directors. Under the terms of the Act, the Minister may, in certain circumstances, direct the Company to undertake actions, which may impact on the pre-existing legal and contractual rights of shareholders. Such directions may include the dis-application of shareholder pre-emption rights, an increase in the Company s authorised share capital, the issue of shares to the Minister or to another person nominated by the Minister, or amendments to the Company s Memorandum and Articles of Association.

Capital

Information on the structure of the Company s share capital, including the rights and obligations attaching to each class of shares, is set out in note 41 and in the Schedule on pages 407 and 411 to 413.

On 13 May 2013, arising from the non-payment of a dividend amounting to 280 million on the 2009 Preference Shares, the NPRFC became entitled to bonus shares in lieu and the Company issued 4,144,055,254 new ordinary shares by way of a bonus issue to the NPRFC.

As at 31 December 2013, some 35.7 million shares (0.007% of issued ordinary shares), purchased in previous years were held as Treasury Shares; see note 42.

Accounting policies

The principal accounting policies, together with the basis of preparation of the financial statements, are set out on pages 209 to 235.

Review of activities

The Statement by the Chairman on page 4 to 5 and the review by the Chief Executive Officer on pages 6 to 8 and the Management Report on pages 23 to 46 contain a review of the development of the business of the Company during the year, of recent events, and of likely future developments.

Directors

There were no changes to the Board during 2013.

The names of the Directors, together with a short biographical note on each Director, are shown on pages 184 to 185.

The appointment and replacement of Directors, and their powers, are governed by law and the Articles of Association, and information on these is set out on pages 408 to 409.

Governance and oversight 2. Report of the Directors

for the year ended 31 December 2013

Directors and Secretary s Interests in the Share Capital

The interests of the Directors and Secretary in the share capital of the Company are shown in note 53.

Directors Remuneration

The Company s policy with respect to Directors remuneration is included in the Corporate Governance Statement on page 196. Details of the total remuneration of the Directors in office during 2013 and 2012 are shown in note 53.

Substantial Interests in the Share Capital

The following substantial interests in the Ordinary Share Capital (excluding shares held as Treasury Shares) had been notified to the Company at 13 May 2013:

National Pensions Reserve Fund Commission 99.8%

Corporate Governance

The Directors Corporate Governance Statement appears on pages 189 to 200 and forms part of this Report. Additional information is included in the Schedule to the Report of the Directors on pages 407 to 409.

Political Donations

The Directors have satisfied themselves that there were no political contributions during the year, which require disclosure under the Electoral Act 1997.

Books of Account

The measures taken by the Directors to secure compliance with the Company s obligation to keep proper books of account are the use of appropriate systems and procedures, including those set out in the Internal Control section of the Corporate Governance Statement on pages 198 and 199, and the employment of competent persons. The books of account are kept at the Company s Registered Office, Bankcentre, Ballsbridge, Dublin 4, Ireland; at the principal offices of the Company s main subsidiary companies, as shown on page 432; and at the Company s other principal offices, as shown on those pages.

Principal Risks and Uncertainties

Information concerning the principal risks and uncertainties facing the Company, as required under the terms of the European Accounts Modernisation Directive (2003/51/EEC) (implemented in Ireland by the European Communities

(International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005), is set out in the Risk Management section on pages 61 to 66.

Branches outside the State

The Company has established branches, within the meaning of EU Council Directive 89/666/EEC (implemented in Ireland by the European Communities (Branch Disclosures) Regulations 1993), in the United Kingdom and the United States of America.

Auditor

The Auditor, Deloitte & Touche, has signified willingness to continue in office in accordance with Section 160(2) of the Companies Act 1963.

Following the completion of the tender process to appoint an Auditor in 2013, the Board recommended that Deloitte & Touche be appointed as Auditor of the Group. This recommendation was approved by the Shareholders at the 2013 Annual General Meeting on 20 June 2013 and Deloitte & Touche took office effective from that date.

David Hodgkinson

Chairman

David Duffy

Chief Executive Officer

4 March 2014

Governance and oversight

3. Corporate Governance statement

Corporate Governance practices

Allied Irish Banks, p.l.c. (AIB) is subject to the provisions of the Central Bank of Ireland s Corporate Governance Code for Credit Institutions and Insurance Undertakings (the Central Bank Code)(the Central Bank Code is available on www.centralbank.ie), including compliance with requirements which specifically relate to major/high impact institutions , which imposes minimum core standards upon all credit institutions and insurance undertakings licensed or authorised by the Central Bank of Ireland.

AIB believes it has robust governance arrangements, which include a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks to which it is or might be exposed, and adequate internal controls, including sound administrative and accounting procedures, IT systems and controls. The system of governance is subject to regular internal review.

AIB s corporate governance practices also reflect Irish company law and, in relation to the UK businesses, UK company law, the Listing Rules of the Enterprise Securities Market of the Irish Stock Exchange, and certain provisions of the US Sarbanes Oxley Act of 2002.

The Board of Directors

The Board is responsible for corporate governance, encompassing leadership, direction and control of AIB and its subsidiaries (collectively referred to as AIB or the Group), and is accountable to shareholders for financial performance. There is a comprehensive range of matters specifically reserved for decision by the Board. At a high level these include:

- appointing the Chairman, Chief Executive Officer, and Senior Executives, and addressing related succession planning;
- determining the Group s strategic objectives;
- monitoring progress towards achievement of the Group s objectives, and overseeing the management of the business, including control systems and risk management; and
- approving annual operating and capital budgets, major acquisitions and disposals, and monitoring and reviewing financial performance.

The Board is responsible for approving high level policy and strategic direction in relation to the nature and scale of risk that AIB is prepared to assume in order to achieve its strategic objectives. The Board ensures that an appropriate system of internal controls is maintained and reviews its effectiveness. Specifically the Board:

- sets the Group s Risk Appetite, incorporating risk limits;
- approves Risk Frameworks, incorporating risk strategies, policies, and principles;
- approves stress testing and capital plans under the Group s Internal Capital Adequacy Assessment Process (ICAAP); and

approves other high-level risk limits as required by Credit, Capital, Liquidity and Market policies.

The Board receives regular updates on the Group s risk profile through the Chief Executive Officer s monthly report, and relevant updates from the Chairman of the Board Risk Committee. An overview of the Committee s activities is detailed on pages 194 and 195.

The Board is also responsible for endorsing the appointment of individuals who may have a material impact on the risk profile of the Group and monitoring on an ongoing basis their appropriateness for the role. The removal from office of the head of a Control Function , as defined in the Central Bank Code, is also subject to Board approval.

AIB has received significant support from the Irish State (the State) in the context of the financial crisis because of its systemic importance to the Irish financial system. As a result of the State support measures, the State holds c. 99.8% of the ordinary shares of the Company. The relationship between AIB and the State as shareholder is governed by a relationship framework (the Framework). Within the Framework, the Board retains full responsibility and authority for all of the operations and business of the Group in accordance with its legal and fiduciary duties and retains responsibility and authority for ensuring compliance with the regulatory and legal obligations of the Group.

Chairman

The Chairman s responsibilities include the leadership of the Board, ensuring its effectiveness, setting its agenda, ensuring that the Directors receive adequate, accurate and timely information, facilitating the effective contribution of the Non-Executive Directors, ensuring the proper induction of new directors, the ongoing training and development of all directors, and reviewing the performance of individual directors.

Mr David Hodgkinson was appointed Executive Chairman on 27 October 2010 and Non-Executive Chairman with effect from 12 December 2011, following the appointment of Mr David Duffy as Chief Executive Officer.

The role of the Chairman is separate from the role of the Chief Executive Officer, with clearly-defined responsibilities attaching to each; these are set out in writing and agreed by the Board.

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Governance and oversight -

3. Corporate Governance statement

Chief Executive Officer

The Chief Executive Officer is responsible for the day-to-day running of the Group, ensuring an effective organisation structure, the appointment, motivation and direction of senior executive management, and for the operational management of all the Group s businesses. Mr David Duffy was appointed Chief Executive Officer on 12 December 2011.

Company Secretary

The Directors have access to the advice and services of the Company Secretary, Mr David O Callaghan, who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Board meetings

The Chairman sets the agenda for each Board meeting. The Directors are provided with relevant papers in advance of the meetings to enable them to consider the agenda items, and are encouraged to participate fully in the Board s deliberations. Executive management attend Board meetings and make regular presentations.

The Board held eleven scheduled meetings during 2013, and four additional out-of-course meetings or briefings. Attendance at Board meetings and meetings of Committees of the Board is reported on below. During a number of Board meetings, the Non-Executive Directors met in the absence of the Executive Directors, in accordance with good governance standards. In addition to their attendance at Board and Committee meetings, Non-Executive Directors attended Board meetings of AIB Group (UK) p.l.c., AIB Mortgage Bank and EBS Limited and held consultative meetings with the Chairman.

Board membership

It is the policy of the Board that a majority of the Directors should be Non-Executive. At 31 December 2013, there were 9 Non-Executive Directors and 2 Executive Directors. The Board deems the appropriate number of Directors to meet the requirements of the business to be between 10 and 14. Non-Executive Directors are appointed so as to maintain an appropriate balance on the Board, and to ensure a sufficiently wide and relevant mix of backgrounds, skills and experience to provide strong and effective leadership and appropriate challenge to executive management.

The names of the Directors, with brief biographical notes, are shown on pages 184 and 185.

In the performance of their functions, the Directors have a duty to have regard to the matters mentioned in section 4 of the Credit Institutions (Stabilisation) Act 2010 (the Act). The duty imposed by the Act is owed by the Directors to the Minister for Finance on behalf of the Irish State, and takes priority over any other duty of the Directors to the extent of

any inconsistency. Thereafter, all Directors are required to act in the best interests of the Group, and to bring independent judgement to bear in discharging their duties as Directors.

There is a procedure in place to enable the Directors to take independent professional advice, at the Group s expense. The Group holds insurance cover to protect Directors and Officers against liability arising from legal actions brought against them in the course of their duties.

Performance evaluation

During 2013, the Board undertook an internal evaluation of its performance, which involved completion of questionnaires by Directors, one-to-one discussions between the Chairman and each Director, presentation of the overall findings to the Board for its consideration and action, and development of objectives for the Board for the following year. The evaluation covers areas such as strategy setting and oversight of execution, stewardship, Board process and performance against objectives, Board composition and professional development.

In accordance with corporate governance best practice, the Board has commissioned an external service provider to undertake an independent review of the performance of the Board during the first half of 2014.

The Chairman meets annually with each Director individually to review their performance. These reviews include discussion of, inter alia, the Directors individual contributions and performance at the Board and relevant Board Committees, the conduct of Board meetings, the performance of the Board as a whole and its committees, compliance with the Director-specific provisions of the Central Bank Code, the requirements of the Central Bank of Ireland s Fitness and Probity Regulations, and other specific matters which the Chairman and/or Directors may wish to raise. Attendance at Board and Committee meetings is one of a number of important factors considered in evaluating Directors performance, and a table showing each Board Member s attendance at such meetings is shown below and separately within the commentary on each of the Board Committees on the following pages.

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Attendance at scheduled Board and Board Committee Meetings

Name	Board		Audit Committee		Board Risk Committee		Remuneration Committee		Nomination and Corporate Governance Committee	
Directors	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
Simon Ball	11	11			11	11			6	6
Bernard Byrne	11	11								
David Duffy	11	10								
Tom Foley	11	11	11	11			8	8		
Peter Hagan	11	11			11	11	8	8	10	10
David Hodgkinson	11	11					8	8	10	10
Jim O Hara	11	11	11	11			8	8	10	10
Dr Michael Somers	11	11			11	11			6	5
Dick Spring	11	11			11	11			10	9
Tom Wacker	11	11	11	11						
Catherine Woods	11	11	11	11	11	11				

Column A indicates the number of scheduled meetings held during 2013 which the Director was eligible to attend; Column B indicates the number of meetings attended by each Director during 2013. The Board held eleven scheduled meetings during 2013, and four additional out-of-course meetings or briefings.

Terms of appointment

Non-Executive Directors are generally appointed for a three-year term, with the possibility of renewal for a further three years; the term may be further extended, in exceptional circumstances, on the recommendation of the Nomination and Corporate Governance Committee.

Mr Dick Spring was appointed Non-Executive Director in 2009 as a nominee of the Minister for Finance under the Irish Government s Credit Institutions (Financial Support) Scheme 2008 (S.I. No. 411 of 2008). Dr Michael Somers was appointed Non-Executive Director in 2010 as a nominee of the Minister for Finance under the Irish Government s National Pensions Reserve Fund Act 2000 (as amended) for a three year term to 31 December 2012. Dr Somers was reappointed a Non-Executive Director, under the same regime, for a further period of one year with effect from 1 January 2013, and for a further two years with effect from 1 January 2014.

Following appointment, in accordance with the requirements of the Articles of Association, Directors are required to retire at the next Annual General Meeting (AGM), and may go forward for reappointment, and are subsequently required to make themselves available for re-appointment at intervals of not more than three years. Since 2005, all Directors have retired from office at the AGM and have offered themselves for reappointment with the exception of Messrs Somers and Spring. Under the terms of the Government s preference share investment, Messrs Somers and Spring are not required to stand for election or regular re-election by shareholders.

Letters of appointment, as well as dealing with appointees responsibilities, stipulate that a specific time commitment is required from Directors. A copy of the standard terms of the letter of appointment of Non-Executive Directors is available on request from the Company Secretary.

The Board has determined that all Non-Executive Directors in office in December 2013, namely Mr Simon Ball, Mr Tom Foley, Mr Peter Hagan, Mr David Hodgkinson, Mr Jim O Hara, Dr Michael Somers, Mr Dick Spring, Mr Tom Wacker and Ms Catherine Woods are independent in character and judgement and free from any business or other relationship with the Company or the Group that could affect their judgement. In 2011, the Central Bank of Ireland confirmed that Messrs Somers and Spring should be considered independent for the purposes of the Central Bank Code.

Induction and professional development

There is an induction process for new directors. Its content varies between Executive and Non-Executive Directors. In respect of the latter, the induction is designed to familiarise Non-Executive Directors with the Group and its operations, and comprises the provision of relevant briefing material, including details of the Group s strategic and operational plans, and a programme of meetings with the Chief Executive Officer and the Senior Management of businesses and support and control functions. A programme of targeted and continuous professional development is in place for Non-Executive Directors.

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3. Corporate Governance statement

Board Committees

The Board is assisted in the discharge of its duties by a number of Board Committees, whose purpose it is to consider, in greater depth than would be practicable at Board meetings, matters for which the Board retains responsibility. The composition of such Committees is reviewed annually by the Board. A description of these Committees, each of which operates under Terms of Reference approved by the Board, and their membership, is given later in this section. The minutes of all meetings of Board Committees are circulated to all Directors, for information, with their Board papers, and are formally noted by the Board. This provides an opportunity for Directors who are not members of those Committees to seek additional information or to comment on issues being addressed at Committee level. The Terms of Reference of the Audit Committee, the Board Risk Committee, the Nomination and Corporate Governance Committee and the Remuneration Committee are available on AIB s website: www.aibgroup.com. In carrying out their duties, the Board Committees are entitled to take independent professional advice, at the Group s expense, where deemed necessary or desirable by the Committee Members.

Audit Committee

Current Members: Ms Catherine Woods, Chairman; Mr Tom Foley; Mr Jim O Hara; Mr Tom Wacker.

Member attendance during 2013:		**A**	**B**
Tom Foley	Current Member	11	11
Jim O Hara	Current Member	11	11
Tom Wacker	Current Member	11	11
Catherine Woods	Current Member	11	11

Column A indicates the number of Committee meetings held during 2013; Column B indicates the number of meetings attended by each Member during 2013.

The Audit Committee comprises four Non-Executive Directors whom the Board has determined have the collective skills and relevant financial experience to enable the Committee to discharge its responsibilities. The Audit Committee has oversight responsibility for:

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

These responsibilities are discharged through its meetings with and receipt of reports from management, the Auditor, the Chief Financial Officer, the Group Internal Auditor, the Chief Risk Officer and the Head of Compliance. In addition, the following attend the Committee s meetings by invitation: the Auditor, the Acting Chief Financial Officer, the Chief Risk Officer, the Group Internal Auditor, and the Head of Compliance. Other senior executives also attend by invitation where appropriate.

The Sarbanes-Oxley Act requires that the Audit Committee membership includes an audit committee finance expert , as defined in related SEC rules. The Board has determined that Ms Catherine Woods is an independent audit committee financial expert for these purposes. Ms Woods has accepted this determination on the understanding that she has not thereby agreed to undertake additional responsibilities beyond those of a member and Chairman of the Audit Committee.

During 2013, the Audit Committee met on eleven occasions. The following, whilst not intended to be exhaustive, is a summary of the activities undertaken by the Committee in the discharge of its responsibilities. The Committee:

- reviewed the Group s annual and interim financial statements prior to approval by the Board, including: the Group s accounting policies and practices; the minutes of the Group Disclosure Committee (an Executive Committee whose role is to ensure the compliance of AIB Group financial information with legal and regulatory requirements prior to external publication); reports on compliance; effectiveness of internal controls; and the findings, conclusions and recommendations of the Auditor and Group Internal Auditor;
- in the context of reviewing the financial statements, the Committee engaged with management in respect of accounting matters, the most significant of which related to:
  - the assessment that the preparation of the financial statements on a going concern basis remained appropriate;
  - the level of provisions for impairment of loans and receivables as at 31 December 2013 represented management s best estimates of the losses incurred at that date;
  - the basis of recognition of Deferred Tax Assets in Ireland and the UK; and
  - the adoption of new accounting standards during 2013, including International Accounting Standard 19 *Employee Benefits (*Revised).

A detailed analysis of the significant matters is provided in the critical accounting policies and estimates (on pages 50 to 53). In addition, the following matters were also considered: the enhancement of an accounting policy with regard to the acquisition of a subsidiary exclusively with a view to resale, the impact of new operating segments, other areas where management judgement was important to the results and financial position of the Group. Following review of reports from, and discussions with, management the Committee satisfied itself that the estimates, judgements and disclosures were appropriate and in compliance with financial reporting

standards. The Committee also:

- received reports from the Auditor on their work;
- provided advice to the Board in respect of the Annual Financial Report, confirming that the Committee is satisfied that the annual report and accounts for the year ended 31 December 2013, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company s performance, business model and strategy;
- reviewed the scope of the independent audit, and the findings, conclusions and recommendations of the Auditor;
- satisfied itself through regular reports from the Group Internal Auditor, the Acting Chief Financial Officer, the Chief Risk Officer, the Auditor and the Head of Compliance that the system of internal controls over financial reporting was effective;
- received regular updates from Group Internal Audit, including monthly reports detailing Internal Audit reports issued during the previous month, control issues identified and related remediating actions, and rolling quarterly updates on related progress;
- received rolling updates from the Chief Risk Officer and the Head of Compliance to satisfy itself that the Group was in compliance with all regulatory and compliance obligations and considered key developments and emerging issues, the operation of the Speak-Up process and key interactions with regulators in the various jurisdictions;
- reviewed the minutes of all meetings of subsidiary companies Audit Committees, requesting and receiving further clarification on issues when required, and met with, and received annual reports from, the subsidiary Audit Committee chairmen; and
- held formal confidential consultations during the year separately with the Auditor, the Acting Chief Financial Officer, the Chief Risk Officer and the Group Internal Auditor, in each case with only Non-Executive Directors present.

Internal Audit

The Committee provided assurance regarding the independence and performance of the Group Internal Audit function, and considered and approved the Internal Audit annual audit plan and the adequacy of resources allocated to the function. The Committee is responsible for making recommendations in relation to the Group Internal Auditor, including appointment, replacement, and remuneration, in conjunction with the Remuneration Committee, and confirming the Group Internal Auditor s independence. The Committee met with the Group Internal Auditor in confidential session once during 2013, in the absence of management. The Chairman of the Committee, Ms Catherine Woods, met with the Group Internal Auditor between scheduled meetings of the Committee throughout the year to discuss forthcoming agendas for Committee meetings and material issues arising. The Group Internal Auditor has unrestricted access to the Chairman of the Audit Committee.

External Audit

The Committee provided oversight in relation to the Auditor s effectiveness and relationship with the Group, including agreeing the Auditor s terms of engagement, remuneration, and considering audit plans, and monitoring the independence and objectivity of the Auditor, including approving, within pre-determined limits approved by the Board, the range and nature of non-audit services provided and related fees (see note 16 on page 263). The Committee considered and agreed the detailed audit plan in respect of the annual and interim financial statements, and the Auditor s findings, conclusions and recommendations arising from the interim review and annual audit. The

Committee, through consideration of the work undertaken, and based on feedback received from management in respect of the audit process, satisfied itself with regard to the Auditor s effectiveness. The Committee met with the Auditor in confidential session twice during 2013, in the absence of management, and the Chairman of the Committee, Ms Catherine Woods, met with the Auditor between scheduled meetings of the Committee to discuss material issues arising.

External Audit Tender

To ensure good corporate governance and at the request of the Board, the Committee undertook an external audit tender for the 2013 Audit. Notifications seeking expressions of interest from suitably qualified accounting firms were placed in the press during the second half of 2012, and the Committee established an Audit Tender Selection Committee, which comprised Ms Catherine Woods, Non-Executive Director and Chairman of the Audit Committee, Mr Tom Foley, Non-Executive Director and Member of the Audit Committee, Mr Bernard Byrne, Executive Director, the Acting Chief Financial Officer, the Chief Risk Officer, the Chief Operating Officer, the Group Internal Auditor and the Head of Finance, AIB Group (UK) p.l.c.

The Audit Tender Selection Committee, with the technical support of Finance and Procurement, received and evaluated proposals and presentations from firms which had submitted tenders. In March 2013, the Committee and Board considered the deliberations of the Audit Tender Selection Committee, including, inter alia, the tenure of the incumbent Auditor, KPMG, and concluded that a change of Auditor was appropriate. Accordingly, the approval of shareholders was received at the 2013 Annual General Meeting to appoint Deloitte & Touche as Auditor to the Company.

The reports of KPMG on the Company s financial statements for the previous two fiscal years, 2012 and 2011, did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principles.

In connection with the audits of the Company s financial statements for each of the two fiscal years ended December 31, 2012 and 2011, there were no disagreements with KPMG on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to the satisfaction of KPMG would have caused KPMG to make reference to the matter in their report. The Company has requested KPMG to furnish it a letter addressed to the Securities and Exchange Commission stating whether it agrees with the above statements, and, if not, stating the respects in which it does not agree. A copy of that letter, dated 25 April 2014 is filed as Exhibit 15.1 to this Form 20-F.

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3. Corporate Governance statement

Board Risk Committee

Current Members: Dr Michael Somers, Chairman; Mr Simon Ball; Mr Peter Hagan, Mr Dick Spring; and Ms Catherine Woods.

Member attendance during 2013:		**A**	**B**
Simon Ball	Current member	11	11
Peter Hagan	Current member	11	11
Dr Michael Somers	Current member	11	11
Dick Spring	Current member	11	11
Catherine Woods	Current member	11	11

Column A indicates the number of Committee meetings held during 2013 which the Member was eligible to attend; Column B indicates the number of meetings attended by each Member during 2013.

The Board Risk Committee assists the Board in proactively fostering sound risk governance within the Group through ensuring that risks are appropriately identified and managed, and that the Group s strategy is informed by, and aligned with, the Board approved risk appetite.

The Board Risk Committee comprises five Non-Executive Directors whom the Board has determined have the collective skills and relevant experience to enable the Committee to discharge its responsibilities. To ensure co-ordination of the work of the Board Risk Committee with the risk related considerations of the Audit Committee, the Chairman of the Audit Committee is also a member of the Board Risk Committee.

The Board Risk Committee has responsibility for:

- providing oversight and advice to the Board in relation to current and potential future risks facing the Group and risk strategy in that regard, including the Group s risk appetite and tolerance;
- the effectiveness of the Group s risk management infrastructure;
- monitoring and reviewing the Group s risk profile, risk trends, risk concentrations and risk policies;
- considering and acting upon the implications of reviews of risk management undertaken by Group Internal Audit and/or external third parties.

The responsibilities of the Committee are discharged through its meetings, receiving, commissioning and considering reports from the Chief Risk Officer, the Chief Credit Officer, the Acting Chief Financial Officer, the Group Internal Auditor and other members of management.

The following attend the Committee s meetings by invitation: the Auditor, the Chief Executive Officer, the Acting Chief Financial Officer, the Chief Risk Officer, the Chief Credit Officer, and the Group Internal Auditor. Other senior executives also attend where appropriate.

During 2013, the Board Risk Committee met on eleven occasions. The following, while not intended to be exhaustive, is a summary of the key items considered, reviewed and/or approved or recommended by the Committee during the year:

monthly reports from the Chief Risk Officer which provided an overview of key risks including liquidity and funding, capital adequacy, credit risk, market risk, regulatory risk, business risk, and related mitigants;
periodic reports and presentations from management and the Chief Credit Officer regarding the credit quality, performance, provision levels and outlook of key credit portfolios within the Group;
items of a risk related nature, including:
(a) the governance, organisational and delegated authority framework;
(b) the risk appetite framework and risk appetite statement;
(c) the funding and liquidity strategy and related stress tests;
(d) risk frameworks and policies, including those relating to (i) credit risk, (ii) operational risk, (iii) financial risk, including market and pension risk, and (iv) compliance;
(e) the code of conduct and conflict of interest policy for employees; and
(f) capital planning, including consideration of the Group ICAAP reports and related firm wide stress test scenarios;
reports from management on a number of specific areas in order to ensure that appropriate management oversight and control was evident, including:
(a) arrangements for dealing with customers in difficulty, including customer forbearance policies and debt settlement strategies;
(b) significant operational risk events, potential risks, and the Group s business continuity planning arrangements;
(c) credit risk performance and trends, including days past due and monthly overview of significant credit transactions; and
(d) regulatory developments and business preparedness for changes to regulatory codes and directives, including Consumer Protection Code, Code of Conduct on Mortgage Arrears, Single Euro Payment Area (SEPA), European Market Infrastructure Regulation, and Anti-Money Laundering/Financial Sanctions;

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- presentations from the individual businesses on their high level risks and related mitigants;
- management s plans and progress in meeting the actions required in the Central Bank of Ireland s Risk Mitigation Programme; and
- the Group s Risk Management infrastructure including actions taken to strengthen the Group s risk management governance, people skills and system capabilities, and to address the risk management related recommendations arising from the Central Bank of Ireland s Supervisory Review and Evaluation Process.

The Committee is also responsible for making recommendations in relation to the Chief Risk Officer, including appointment, replacement, and remuneration, in conjunction with the Remuneration Committee, and confirming the Chief Risk Officer s independence; the Committee meets with the Chief Risk Officer in confidential session, in the absence of management. The Chief Risk Officer has unrestricted access to the Chairman of the Board Risk Committee.

Nomination and Corporate Governance Committee

Current Members: Mr Simon Ball, Chairman, (from 13 June 2013); Mr David Hodgkinson; Mr Jim O Hara, Mr Peter Hagan; Dr Michael Somers (from 30 May 2013) and Mr Dick Spring.

Member attendance during 2013:		**A**	**B**
Simon Ball	Current member	6	6
Peter Hagan	Current member	10	10
David Hodgkinson	Current member	10	10
Jim O Hara	Current member	10	10
Dr Michael Somers	Current member	6	5
Dick Spring	Current member	10	9

Column A indicates the number of Committee meetings held during 2013 which the Member was eligible to attend; Column B indicates the number of meetings attended by each Member during 2013.

The Nomination and Corporate Governance Committee s responsibilities include: recommending candidates to the Board for appointment as Directors; reviewing the size, structure and composition of the Board and the Board Committees, reviewing succession planning, and monitoring the Group s responsibilities and activities concerning staff, the marketplace (including customers, products and suppliers), the environment and the community.

The search for suitable candidates for the Board is a continuous process, and recommendations for appointment are made, based on merit and objective criteria, following an appraisal process and interviews. The Committee is also responsible for approving corporate-giving budgets and any substantial philanthropic donations, and reviewing the Group s corporate governance policies and practices. The Committee met ten times during 2013.

Remuneration Committee

Members: Mr Jim O Hara (Chairman); Mr Tom Foley; Mr Peter Hagan; and Mr David Hodgkinson.

Member attendance during 2013:		**A**	**B**
Tom Foley	Current member	8	8
Peter Hagan	Current member	8	8
David Hodgkinson	Current member	8	8
Jim O Hara	Current member	8	8

Column A indicates the number of Committee meetings held during 2013 which the Member was eligible to attend; Column B indicates the number of meetings attended by each Member during 2013.

AIB s remuneration policies are set and governed by the Remuneration Committee whose purpose, duties and membership are set by its Terms of Reference which may be viewed on the website www.aibgroup.com. The scope of the Committee s activities is broad based, ranging from setting pay policy to determining appropriate pension arrangements.

The Remuneration Committee s responsibilities include recommending to the Board: Group remuneration policies and practices; the remuneration of the Chairman of the Board (which matter is considered in his absence); and, performance-related and share-based incentive schemes when appropriate.

The Committee also determines the remuneration of the Chief Executive Officer, and, in consultation with the Chief Executive Officer, the remuneration of other Executive Directors, when in office, and the other members of the Leadership Team, under advice to the Board. Details of the total remuneration of the Directors in office during 2013 and 2012 are shown in note 53. The Remuneration

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Committee is also required to review the remuneration components of Identified Staff who are individuals classified by AIB as material risk takers in accordance with the Remuneration Guidelines of the European Banking Authority (EBA). Remuneration matters of a significant nature are also considered by the Board.

The Committee met eight times during 2013.

Remuneration Policy and Governance

A key objective of AIB s remuneration policies and practices is to provide employees with fair and competitive remuneration which supports the long term performance and strategic objectives of the Group. The Board recognises the need to ensure that remuneration policies provide a clear link between performance and reward in attracting and retaining the right people and skills to support the Group s future success and growth.

The Board also recognises the need to ensure that remuneration policies and practices do not encourage excessive risk taking and support the capital and liquidity of the Group. AIB s Remuneration Policy is governed by the Remuneration Committee on behalf of the Board and encompasses all financial benefits available to employees across the Group. The Remuneration Policy was reviewed by the Remuneration Committee in February 2013 and updated to incorporate the roles and responsibilities of AIB s control functions in the design and implementation of the Policy. The Policy will be further updated in 2014 to incorporate the provisions of the Capital Requirements Directive (CRD IV) which came into effect on 1 January 2014.

AIB published its Remuneration Disclosure Report 2012 in June 2013 as part of its Pillar 3 Disclosures. The Disclosure Report summarised AIB s principal remuneration policies and practices and included the aggregate remuneration of Identified Staff for 2012, being those individuals whose professional activities were considered to have a material impact on AIB s risk profile. In doing so, consideration was given to 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. The Remuneration Disclosure Report 2013 will be published during 2014 and will be available on AIB s website.

Remuneration policy, in general, is strongly influenced by the Group s significant reliance on State support and the commitments provided by AIB under the Subscription and Placing Agreements. There was, therefore, no scope in practice during 2013 to implement the design requirements of incentive schemes contained in AIB s Remuneration Policy. AIB did not operate any incentive schemes during 2013.

Mercer Review

In March 2013, The Mercer Report, prepared on behalf of the Department of Finance, was published. Key findings of the report in respect of AIB included a significant reduction in total remuneration costs between 2008 and 2012, including that of the Chief Executive Officer, Senior Executives and employees in continued employment by the

Group since 2008. These reductions arose through reduced manpower numbers, the elimination of incentive based compensation and reductions applied to pay and benefits under the Pay and Benefits Review implemented on 1 September 2012. The report also noted the comparison of salaries between covered institutions and the external market.

Changes to Terms and Conditions of Employment

On 1 July 2013, the Labour Court and Labour Relations Commission issued a number of recommendations on pay, pensions and future working hours. These recommendations brought to a conclusion long standing negotiations with staff representatives on these issues. The recommendations entailed changes to the terms and conditions of employment for all AIB staff and were subsequently accepted by both AIB and the staff representatives.

Under the terms of the recommendations, previously existing fixed performance related pay and salary increments ceased to facilitate the introduction of future pay arrangements. It is intended that new pay arrangements will be aligned to the future financial performance of the Group, cost of living, market movements and individual performance.

In addition, with effect from 31 December 2013, the Group s defined benefit pension schemes closed to future accrual, all current members were transferred to a defined contribution scheme while working hours were increased on a phased basis to 36 hours per week from 1 October 2013 and will increase to 37 hours per week from 1 April 2014.

In recognition of these changes, AIB agreed to make a single payment, equal to 4% of annual salary, to all AIB Republic of Ireland employees below manager grade. In addition, legacy increments and fixed merit pay increases due in respect of the period from 2010 to 2013 were paid to UK based staff.

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Severance schemes

Following the introduction of a Voluntary Severance Programme in 2012, which included both an early retirement scheme and a voluntary severance scheme, AIB continued to manage staff exits in a structured and controlled manner to minimise exit risk to the organisation. During the year to 31 December 2013, total exits under the programme and exits associated with the closure of off-shore locations amounted to 1,370 (FTE), comprising 168 through early retirement and 1,202 through voluntary severance. This brought total exits under the programme since its introduction in quarter 3 2012 and from the closure of off-shore locations to 3,002.

Remuneration review

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. Under the terms of the Pay and Benefits Review, introduced in 2012, reductions of up to 7.5% in salaries and benefits, relative to market benchmarks, were applied to managers with effect from 1 January 2013.

The salaries of senior executives within the Group were managed by the Remuneration Committee in accordance with the obligations of the Subscription and Placing Agreements.

The prohibition on bonus and share incentive schemes continued through 2013.

Directors remuneration

Details of the total remuneration of the Directors in office during 2013 and 2012 are shown in note 53.

Relations with shareholders

The Group has a number of procedures in place to allow its shareholders and other stakeholders to stay informed about matters affecting their interests. In addition to this Annual Financial Report, which is only sent to those shareholders who request it, the following communication tools are used by the Group:

Shareholders Report

The Shareholders Report (the Report) is a summary version of AIB s Annual Financial Report. This Report, which covers AIB s performance in the previous year, is sent to shareholders who have opted to receive it instead of the full Annual Financial Report. This summary report does not form part of the Annual Financial Report or Form 20-F and is referred to for reference purposes only.

Website

The website, www.aibgroup.com, contains, for the previous five years, the Annual Financial Report, the Interim Report/Half-yearly Financial Report, and the Annual Financial Report on Form 20-F. The Group s presentation to fund managers and analysts of annual and interim financial results are available on the internet, and may be accessed on the Company s website: www.aibgroup.com. Since 2009, the Annual Financial Report and the Annual Report on Form 20-F have been combined in the form of this Annual Financial Report. None of the information on the website is incorporated in, or otherwise forms part of, this Annual Financial Report.

Annual General Meeting (AGM)

All shareholders are invited to attend the AGM and to participate in the proceedings. At the AGM, it is practice to give a brief update on the Group s performance and developments of interest for the year to date. Separate resolutions are proposed on each separate issue and voting is conducted by way of poll. The votes for, against, and withheld, on each resolution, including proxies lodged, are subsequently published on AIB s website. Proxy forms provide the option for shareholders to direct their proxies to withhold their vote. It is usual for all Directors to attend the AGM and to be available to meet shareholders before and after the meeting. The Chairmen of the Board Committees are available to answer questions about the Committees activities. A help desk facility is available to shareholders attending. The Company s 2014 AGM is scheduled to be held on 19 June 2014, at the Company s Head Office at Bankcentre, Ballsbridge, Dublin 4, and it is intended that the Notice of the Meeting will be posted to shareholders at least 21 clear days before the meeting, in line with the requirements of Irish Company law.

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Accountability and Audit

Accounts and Directors Responsibilities

The Statement concerning the responsibilities of the Directors in relation to the financial statements appears on page 403.

Going Concern

The Group s activities are subject to risk factors and uncertainties as set out on pages 61 to 66.

Notwithstanding these risk factors and uncertainties, the Directors have prepared the financial statements on a going concern basis. In making its assessment, the Directors have considered a wide range of information relating to present and future conditions. These have included financial plans prepared in November 2013 covering the period 2014 to 2016, the restructuring plan submitted to the European Commission in September 2012, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios. In addition, the Directors have considered the commitment of support provided to AIB by the Irish Government. Furthermore, the Directors have considered the outlook for the Irish, the eurozone and UK economies.

Internal Controls

The Directors acknowledge that they are responsible for the Group s system of internal control. They acknowledge that systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material mis-statement or loss.

The Group s system of internal control is based on the following:

Governance and oversight

AIB Board has ultimate responsibility for the governance of all risk taking activity across the Group. The Board is supported by a number of sub-committees including a Board Risk Committee (BRC), an Audit Committee, a Remuneration Committee and a Nomination and Corporate Governance Committee.
The BRC evaluates material risks and risk management across the Group and risk disclosures made by the Group.
At the executive level, a Leadership Team is in place with responsibility for establishing business strategy, risk appetite, enterprise risk management and control.
The Executive Risk Committee (ERC) which is a sub-committee of the Leadership Team reviews the effectiveness and application of the Group s risk frameworks and policies, risk profile, risk concentrations and all breaches of Board approved risk appetite and limits.

The Group Audit Committee of the Board reviews various aspects of internal control, including the design and operating effectiveness of the financial reporting framework in compliance with the requirements of Section 404 of the Sarbanes-Oxley Act, the Group s statutory accounts and other published financial statements and information. It also ensures that no restrictions are placed on the scope of the statutory audit or the independence of the Internal Audit and Regulatory Compliance functions.

The Chief Financial Officer, the Chief Risk Officer (CRO) and the Group Internal Auditor are involved in all meetings of the Audit Committee and BRC.

The Group operates a three lines of defence framework in the delineation of accountabilities for risk governance.

AIB s remuneration policies are set and governed by the Remuneration Committee whose purpose, duties and membership are to ensure that remuneration policies and practices are consistent with and promote effective risk management.

There is an independent Group Internal Audit (GIA) function which is responsible for independently assessing the effectiveness of the Group s corporate governance, risk management and internal controls and which reports directly to the Chair of the Audit Committee.

Risk management committees are in place with approved terms of reference (ToR) that operate under delegated authority from the Board and Executive level.

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Risk Management

A Board approved Risk Appetite Statement (RAS) sets the limits of risk appetite associated with the Group s strategic objectives. The RAS is reviewed at least annually by the Board and more frequently if required. Risk policies and procedures are updated, where appropriate, to reflect the limits of the risk appetite.
AIB s approach to managing risk and compliance matters is set out in a suite of policy documents that forms part of the AIB policy framework which are aligned with the RAS and are Board approved.
AIB has adopted an Enterprise Risk Management approach to identifying, assessing and managing risks which builds on the three lines of defence governance framework and is supported by a comprehensive risk management framework and policy architecture.
The Group s risk management framework is also supported by the underlying Group Risk committees, comprising Executive Risk Committee (ERC), Asset and Liability Committee (ALCo) (and its sub-committees Capital Committee and Product Pricing Committee), Strategic Credit Forum (SCF), Group Credit Committee (GCC) and Products and Conducts Committee (PCC).
A comprehensive annual budgeting and financial reporting system is in place, which incorporates clearly-defined and communicated common accounting policies and financial control procedures, including those relating to authorisation limits, capital expenditure and investment procedures.
Roles and responsibilities for management and staff are outlined via a clearly-defined organisational management structure, with defined lines of authority and accountability.
AIB s Internal Capital Adequacy Assessment Process (ICAAP) determines the adequacy and appropriateness of capital levels based on the Group s identification and assessment of the material risks to which it is exposed.

Risk identification

Key internal and external risks are identified and assessed throughout AIB through a combination of top-down and bottom-up risk assessment processes. The key risks to the organisation are defined within the AIB risk universe and are periodically updated reflecting the current operating and risk environment.
The Group s risk identification and assessment framework is supported by a framework of stress testing, scenario analysis and sensitivity analysis. The Group undertakes a regular program of stress testing across all of the material risks to meet internal and regulatory requirements.

Risk control and monitoring

There is a centralised risk control function which incorporates the Compliance function, headed by the CRO who is responsible for ensuring that risks are identified, measured, monitored and reported on, and for reporting on risk mitigation actions.
The Risk function is responsible for establishing and embedding risk management frameworks, ensuring that material risk policies are reviewed, and reporting on adherence to risk limits as set by the Board of Directors.
The Group s risk profile is measured against its risk appetite on a monthly basis and exceptions are reported to the ERC and BRC via the monthly CRO report. Material breaches of risk appetite are escalated to the Board and the Central Bank of Ireland (the Central Bank).
The centralised Credit function is headed by a Chief Credit Officer who reports to the CRO.
There is an independent Compliance function which provides advisory services to the Group and which monitors and reports on prudential, conduct of business and financial crime compliance and forthcoming regulations across the Group, and on management s focus on compliance matters.

AIB staff who perform Pre-Approved Controlled functions/Controlled functions meet the required standards as outlined in AIB s Fitness and Probity programme.

Taking the above into account, the Directors are satisfied that:

- there is a clear organisational structure in place with well defined, transparent and consistent lines of responsibility;
- effective processes are in place to identify, manage, monitor and report on risks;
- adequate internal control mechanisms, including sound administrative and accounting procedures, IT systems and controls are in place;
- the remuneration policies and practices are consistent with and promote sound and effective risk management both on an individual and Group level;
- the system of governance promotes and communicates an appropriate risk and compliance culture at all levels of the Group; and
- the system of governance is subject to regular internal review.

Governance and oversight -

3. Corporate Governance statement

Additional statements required for filing Form 20-F in the United States

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the US Exchange Act). Management has assessed the effectiveness of the Group s internal control over financial reporting as at 31 December 2013, based on the criteria set forth by the US Committee of Sponsoring Organisations of the Treadway Commission in their publication Internal Control - Integrated Framework (1992) . Based on this assessment, management believes that, as at 31 December 2013, the Group s internal control over financial reporting is effective. There have been no changes in the Group s internal control over financial reporting during 2013 that has materially affected or is reasonably likely to materially affect the Group s internal control over financial reporting.

Deloitte & Touche, an independent registered public accounting firm, has audited the effectiveness of AIB s internal control over financial reporting as of December 31, 2013, as stated in their report which appears on page 406.

In addition to the need for such internal controls over financial reporting, the SEC has adopted somewhat broader requirements designed to ensure that reporting companies, such as AIB, have adequate disclosure controls and procedures in place. As at 31 December 2013, the Group carried out an evaluation, under the supervision of and with the participation of the Group s management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Group s disclosure controls and procedures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon, and as at the date of the Group s evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective in all material respects to ensure that information required to be disclosed in the reports which the Group files and submits under the US Exchange Act is recorded, processed, summarised and reported within the time frame specified in the SEC s rules and forms.

Code of Conduct

In June 2012, the Group adopted a Code of Conduct that applies to all employees. This replaced the previous code of business ethics. A copy of the Code is available on the Group website at www.aibgroup.com/investorrelations. (The information on this website is not incorporated by reference into this document). The Code of Conduct sets out the key standards for behaviour and conduct that apply to all employees, and includes particular requirements regarding responsibilities of management for ensuring that business and support activities are carried out to the highest standards of behaviour. The application of the Code of Conduct is underpinned by policies, practices and training which are designed to ensure that the Code is understood and that all employees act in accordance with it.

As part of the Code implementation, AIB encourages its employees to raise any concerns of wrongdoing through a number of channels, both internal and external. One such channel includes a confidential external helpline. Employees

are assured that if they raise a concern in good faith, AIB will not tolerate any victimisation or unfair treatment of the employee as a result.

The Code of Conduct and supporting policies are subject to annual review and update to the Board.

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Governance and oversight - 4. Supervision and Regulation

4.1 Current climate of regulatory change

There has been significant change in the structure, focus and modus operandi of regulators globally in recent years. Many reforms proposed as a result of the financial crisis have now been finalised and are being implemented. In the banking sector, the focus has been on supporting the stability of the banking system and ensuring appropriate resolution and recovery mechanisms are in place. In particular, in the EU, Heads of State and Governments committed to a banking union in 2012. One of the main pillars of the banking union is the Single Supervisory Mechanism (SSM) which was agreed in 2013. Under the SSM, the ECB will become the lead supervisor of significant banks in the EU, including AIB. This is expected to take place during 2014.

4.2 Ireland

Overview of financial services legislation

The Central Bank Reform Act 2010 (as amended) was brought into operation by the Irish Minister for Finance (the Minister) on 1 October 2010. The Central Bank Reform Act 2010 (as amended) created a single, fully-integrated Central Bank of Ireland (Central Bank) with a unitary board, the Central Bank Commission, chaired by the Governor of the Central Bank. The Central Bank (Supervision and Enforcement) Act was enacted in July 2013. The main purposes of the Act are to (a) provide enhanced powers to the Central Bank for the supervision of regulated financial service providers and (b) provide enhanced powers to the Central Bank for the enforcement of financial services legislation.

The Central Bank is responsible for the:

- prudential supervision and regulation of a range of banking and financial services entities in Ireland, including credit institutions, investment firms, stockbroking firms, payment institutions, insurance companies and credit unions;
- conduct of business of such financial services entities, including the protection of consumer interests; and
- overall stability of the financial system.

The Central Bank and Financial Services Authority of Ireland Act 2004 established the Financial Services Ombudsman s Bureau to deal with certain complaints about financial institutions.

The Credit Institutions (Stabilisation) Act 2010 was signed into law on 21 December 2010.The Act provides the legislative basis for the reorganisation and restructuring of the Irish banking system as agreed in the joint EU/IMF Programme for Ireland. The Act empowers the Minister, following consultation with the Governor of the Central Bank of Ireland, to propose any of a number of Stabilisation Orders that the Minister believes is necessary to stabilise a particular relevant institution (including its group companies). A proposed Stabilisation Order must be confirmed by the Irish High Court. The Act also imposes new duties on the directors of an institution and sets out matters to which directors must have regard in the performance of their functions. These include protecting the interests of the taxpayers, restoring confidence in the banking sector and facilitating the availability of credit in the economy of the State. The provisions of the Act were to cease to have effect on 31 December 2012 unless otherwise extended. The

Act was extended and remains in effect until the end of 2014, unless further extended in due course.

The Central Bank and Credit Institutions (Resolution) Act came into force in 2011. It provides a framework for the resolution of Irish banks and other Irish credit institutions encountering financial difficulties and not covered under the Credit Institutions (Stabilisation) Act, 2010.

The Central Bank of Ireland (the Central Bank)

The Central Bank has a wide range of statutory powers to enable it to effectively regulate and supervise the activities of financial institutions in Ireland including the power to carry out inspections. Features of the regulatory regime include prudential regulation and codes of conduct, each of which is addressed in more detail below. The Central Bank also has wide-ranging powers of inspection: inspectors appointed by the Central Bank may enter the relevant premises, take documents or copies, require persons employed in the business to provide information and order the production of documents. In cases of extreme concern, the Central Bank may direct a licence-holder to suspend its business activity for a specified period and may also intervene in the management or operation of an entity.

The Central Bank Reform Act 2010 contains a number of provisions which impact the regulation of credit institutions, including powers for the Central Bank to regulate sensitive or influential appointments in financial institutions. This includes the power to prevent the appointment of a person from performing a controlled function (as defined) or to remove or suspend a person from the performance of a controlled function, where the Central Bank is satisfied that the person is not a fit and proper person to perform such a function. The Fitness and Probity Regime is currently regulated by the Fitness and Probity Standards 2011 (Code issued under Section 50 of the Central Bank Reform Act 2010) which apply to all persons occupying Controlled Functions in credit institutions and insurance undertakings from 1 December 2012, including Allied Irish Banks p.l.c. and a number of its subsidiary companies.

A revised and updated Corporate Governance Code for Credit Institutions and Insurance Undertakings was published in December 2013. This revised Code applies to relevant institutions with effect from 1 January 2015. Institutions will continue to be subject to the existing Corporate Governance Code requirements until 1 January 2015.

Governance and oversight - 4. Supervision and Regulation

The Central Bank has extensive enforcement powers including the ability to impose administrative sanctions directly on financial institutions for failure to comply with regulatory requirements (including codes of conduct and practice), subject to a right of appeal to the Irish Financial Services Appeals Tribunal by the affected institution and a further appeal to the Irish High Court. Such administrative sanctions may include a caution or reprimand, financial penalties (not exceeding 10 million in the case of a firm or 1 million in the case of an individual) and a direction disqualifying a person from being concerned in the management of a regulated financial service provider.

Banking legislation

The banking regulatory code in Ireland is comprised principally of the Central Bank Acts; regulations made under the European Communities Act 1972 (as amended); and regulatory notices and codes of conduct issued by the Central Bank. Various Statutory Instruments and regulations made by the relevant Government minister and regulatory notices made by the Central Bank implement in Ireland the substantial range of European Union directives relating to banking supervision and regulation, including the Capital Requirements Directive (CRD). To the extent that areas of banking activity in Ireland are the subject of EU regulations or directives, the provisions of Irish banking law reflect the requirements of those EU instruments.

The Central Bank Acts regulate the conduct of banking business in Ireland and provide that banking business may only be carried on by the holder of a banking licence or an EU/European Economic Area entity which exercises passport rights to carry on business in Ireland. Every Irish licensed bank is obliged to draw up and publish its annual financial statements in accordance with the European Communities (Credit Institutions: Accounts) Regulations 1992 (as amended by the European Communities (Credit Institutions) (Fair Value Accounting)) Regulations 2004). As a listed entity, Allied Irish Banks, p.l.c. is required to prepare its financial statements in accordance with IFRS endorsed by the European Union (as applied by the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005 and European Union (International Financial Reporting Standards) Regulations 2012) and with those parts of the Companies Acts 1963 to 2013 that are applicable to companies reporting under IFRS; and with article 4 of the EU Council Regulation 1606/2002 of 19 July 2002.

Allied Irish Banks, p.l.c. holds a banking licence and is authorised as a credit institution. AIB Mortgage Bank holds a banking licence and is registered as a designated mortgage credit institution. There are no conditions attached to AIB s licences or authorisations that are not market standard conditions.

EBS Limited (EBS) became a wholly owned subsidiary of Allied Irish Banks, p.l.c. on 1 July 2011. EBS holds a banking licence and is authorised as a credit institution. EBS Mortgage Finance, a wholly owned subsidiary of EBS, holds a banking licence and is registered as a designated mortgage credit institution. There are no conditions attached to EBS licences or authorisations that are not market standard conditions.

Capital requirements

The Group is subject to applicable European Union (EU) directives, including those that relate to capital adequacy. The most recent of these is the new Capital Requirements Directive (CRD IV), which implements Basel III rules in

the EU. These proposed rules focus on enhancing capital adequacy and addressing solvency and governance issues. Their initial elements came into force on 1 January 2014. Full implementation will be achieved by 1 January 2019.

CRD IV consists of two components - a Directive and a Regulation. The Directive provides the overall approach to the implementation of the capital requirements, allowing Member States, through their local competent authorities, to exercise certain discretions in the implementation of its provisions.

The Regulation contains the detailed prudential implementation requirements for credit institutions and investment firms. The principal change relates to enhancing capital adequacy through the introduction of new buffers to protect against both short and long term financial stresses. Other changes are designed to reduce, control and make more transparent the underlying risks in individual financial institutions and across the financial services sector. These address areas such as liquidity standards, leverage ratios, corporate governance, remuneration, sanctions, transparency, regulatory reporting and the role of credit rating agencies.

The introduction of a SSM in 2014, which will act with and through national competent authorities such as the Central Bank, will see the progressive migration of prudential supervision towards a single EU authority. The Central Bank has powers to enforce the CRD Regulations and to agree specific derogations and discretions in relation to its implementation on behalf of the SSM and the Irish Government.

AIB is undertaking a full implementation process to ensure the timely alignment with the new requirements.

Markets in Financial Instruments Directive (MiFID)

MiFID was transposed into Irish law by the Markets in Financial Instruments and Miscellaneous Provisions Act 2007 and the European Communities (Markets in Financial Instruments) Regulations 2007, (as amended) (together the MiFID Regulations).The MiFID Regulations regulate the provision of MiFID Services in respect of financial instruments and apply both to credit institutions and to investment firms.

MiFID Services include the provision of investment advice, portfolio management, execution of client orders and others. A number of financial services that do not come within the definition of MiFID Services (such as the administration of collective investment schemes) are subject to the requirements of the Investment Intermediaries Act 1995 (IIA). Each relevant Group company ensures that it fulfils its obligations under MiFID, the MiFID Regulations and the IIA, as appropriate, on an on-going basis and ensures that it holds the appropriate authorisation for its business at all times. AIB Corporate Finance Ltd is authorised as an investment firm under the MiFID Regulations. Allied Irish Banks, p.l.c. also complies with the MiFID Regulations where it provides MiFID Services.

A revised MiFID Directive is expected to be agreed at European level in 2014.

Other financial services companies

In addition to the companies listed above, the Group includes a number of other financial services companies regulated by the Central Bank. AIB Mortgage Bank is a designated mortgage credit institution under the Asset Covered Securities Acts, 2001 and 2007 (as amended), and is permitted to issue mortgage covered securities which are secured by a statutory preference over covered assets (principally, residential mortgage loans) comprised in a cover-assets pool. In addition to the role of the Central Bank, the activities of a credit institution that is designated for the purposes of the Asset Covered Securities Act, 2001 (as amended) are subject to close oversight by an independent cover-assets monitor appointed by the credit institution and approved by the Central Bank. The principal role of the cover-assets monitor is to ensure that the assets maintained in the covered assets pool are sufficient to provide adequate security to the holders of the asset covered securities.

AIB Leasing Ltd. is authorised as a retail credit firm under the Central Bank Act, 1997. AIB Insurance Services Ltd. is authorised as an insurance intermediary under the Investment Intermediaries Act, 1995.

On 1 July 2011, AIB acquired EBS Limited including EBS Mortgage Finance and Haven Mortgages Limited, both of which are 100% owned subsidiaries of EBS. EBS Limited is authorised as a credit institution. EBS Mortgage Finance is a designated mortgage credit institution under the Asset Covered Securities Act, 2001 (as amended). Haven Mortgages Limited is authorised as a retail credit firm under the Central Bank Act, 1997.

AIB held a 24.99% interest in Aviva Life Holdings Limited (ALH) which it disposed of in March 2013. AIB then acquired a 100% interest in Ark Life Assurance Company Limited (Ark Life) which is now held for sale. It is expected that Ark Life will be sold in 2014. In addition, Allied Irish Banks, p.l.c. indirectly owns 30% of Aviva Health Insurance Ireland Ltd., a regulated non-life insurance undertaking. These undertakings must comply with the provisions of legislation including the Insurance Acts 1909 to 2009 and the European Communities (Life Assurance) Framework Regulations 1994 (as amended) or European Communities (Non-Life Assurance) Framework Regulations

1994 (as amended), as relevant. Further, the European Communities (Insurance Mediation) Regulations 2005 (as amended) have implemented the EU Directive on Insurance Mediation and lay down rules for undertaking insurance and reinsurance mediation, as well as prescribing registration requirements for persons who wish to carry out insurance mediation business or act as an insurance intermediary or as a reinsurance intermediary.

Codes of conduct including Consumer Protection Code

The Central Bank has issued a number of codes of conduct, codes of practice and other requirements applicable to credit institutions and other regulated financial services entities (including investment firms, insurance undertakings and intermediaries). These codes address a substantial range of requirements including supervisory and reporting, corporate governance, conduct of business, advertising, disclosure and record retention requirements. The Central Bank introduced a revised Consumer Protection Code, effective 1 January 2012. This Code imposes detailed rules on regulated financial services entities operating in Ireland in relation to non-MiFID investment, insurance and banking services provided. In addition, the Central Bank has imposed statutory Codes of Conduct in relation to business lending to small and medium-sized enterprises, dealing with residential mortgage arrears and lending to related parties.

Consumer legislation

The provision of credit to consumers is regulated in Ireland by the Consumer Credit Regulations and the Consumer Credit Act 1995 (the 1995 Act).The Consumer Credit Regulations and the 1995 Act are relevant to the Group to the extent that any of its Group companies provide credit to consumers. The 1995 Act is also relevant to the Group to the extent that any of its Group companies provide credit in the form of housing loans. The Consumer Credit Regulations, which transposed into Irish law the provisions of the Consumer Credit Directive (Directive 2008/48/EC), prescribe a range of detailed requirements to be included in pre-contractual information and consumer

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Governance and oversight - 4. Supervision and Regulation

credit agreements to be provided to consumers and impose a number of obligations on the provider of such credit. Where the provision of a particular type of credit does not fall within the scope of the Consumer Credit Regulations, it may fall within the scope of the 1995 Act. The 1995 Act prescribes a range of detailed requirements to be included in consumer credit agreements to be provided to consumers and imposes a number of obligations on the provider of such credit. The 1995 Act also imposes a requirement on all credit institutions to notify the Central Bank in advance of imposing on a customer any new charge in relation to the provision of certain specified services; increasing any charge previously notified; or imposing any charge that does not comply with a direction from the Central Bank. Irish law contains a wide range of consumer protection provisions, such as the European Communities (Unfair Terms in Consumer Contracts) Regulations 1995 (as amended), the Consumer Protection Act 2007 and other measures regulating the content of face-to-face and distance marketing contracts made with a consumer.

Deposit protection and investor compensation

Under the European Communities (Deposit Guarantee Schemes) Regulations 1995 (as amended) which implement in Ireland the Deposit Guarantee Schemes Directive (Directive 94/19/EC), the Central Bank operates a deposit protection scheme under which each licensed bank must contribute to the deposit protection account held by the Central Bank. Currently, the level of contribution required is 0.2 per cent of deposits (in whatever currency) held at all branches of the licensed bank in the EEA, including deposits on current accounts but excluding certain funds and commitments such as interbank deposits, negotiable certificates of deposit, debt securities issued by the same institution and promissory notes. The maximum amount of deposit protected is 100,000 per depositor per institution. The Investor Compensation Act 1998 (the 1998 Act) (as amended) provided for the establishment of the Investor Compensation Company Limited (the ICCL) to administer and supervise an investor compensation scheme. The 1998 Act requires authorised investment firms to pay the ICCL such contribution to the fund maintained by the ICCL as the ICCL may from time to time specify. The maximum amount payable under the investor compensation scheme is 90% of the amount lost by an eligible investor subject to a maximum compensation payment of 20,000.

European Markets Infrastructure Regulation (EMIR)

EMIR is intended to increase the stability and transparency of derivative markets and is being introduced in a phased manner over 2013-2015. It imposes requirements on all undertakings which transact derivatives, including clearing and margining, reporting to trade repositories, and risk mitigation techniques.

In 2013, AIB introduced processes to comply with regulatory obligations concerning timely confirmations and portfolio reconciliation and dispute resolution, and also took appropriate steps to comply with clearing and reporting requirements due in 2014. AIB is working with affected customers to assist them in recognising, and achieving compliance with, their obligations under the regulation in 2014.

Anti-money laundering and sanctions

Anti-money laundering (AML)

The third EU Anti-Money Laundering Directive (2005/60/EC) was transposed into Irish Law by the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 (the 2010 Act). Persons designated under the 2010 Act (including credit institutions, financial institutions, investment firms, IIA firms and life assurance companies) are obliged to take the necessary measures to effectively counteract money laundering and terrorist financing in accordance with the provisions of the 2010 Act. Core guidelines were published by the Department of Finance in February 2012 and the Central Bank will have regard to these guidelines in assessing compliance by designated persons with the Act. Further amendments were made to the 2010 Act in 2013. The 2013 CJA (Money Laundering and Terrorist Financing) Bill was signed into law as the Criminal Justice Act 2013 (Act No. 19 of 2013) on 12 June 2013 (the 2013 Act). Part 2 of the 2013 Act sets out the amendments to the 2010 Act and the majority of the provisions of Part 2 took effect from 14 June 2013.

The 2010 Act introduced, inter alia, an obligation on designated persons to (i) apply customer due diligence procedures to their customers; (ii) identify and take risk based and adequate measures to verify beneficial ownership; and (iii) identify and apply enhanced customer due diligence requirements to non-resident politically exposed persons. The 2010 Act amended reporting requirements where a suspicious transaction report is necessitated. The 2010 Act also introduced a requirement for the authorisation of trust or company service providers. Analogously, Ireland, by means including the Criminal Justice (Terrorist Offences) Act 2005, applies EU and United Nations mandated restrictions on financial transfers with designated individuals and regimes and imposes criminal penalties for participating in the financing of terrorism.

The key provisions introduced by the 2013 Act which impact on financial and credit institutions cover enhanced requirements in respect of:

- Politically Exposed Persons (PEPs) and other higher risk situations;
- amendment to the record-keeping provisions under the 2010 Act to allow for records to be stored outside Ireland; and
- additional requirements in respect of matters that must be included in a designated person s policies and procedures to detect and prevent money laundering.

In addition further clarification was provided in respect of the application of Simplified Customer Due Diligence.

Sanctions

The Central Bank is the regulatory authority in respect of compliance with sanctions regulations.

Sanctions take the form of restrictive/coercive measures against targeted individuals, entities, countries, governments and industries that are imposed by bodies such as the United Nations (UN) through UN Security Council Resolutions, the European Union (EU) through EU Regulations, the US Office of Foreign Assets Control (OFAC) through orders issued by the US Treasury Department, and/or legislation passed by individual countries (together the Sanctions Regulations). Sanctions Regulations can include financial restrictions or asset freezes, arms or trade embargoes, specific or general trade restrictions (import and export bans) or travel bans which seek to change the behaviour of a targeted country or regime or deprive terrorists/ criminals from access to funds.

AIB has implemented Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) and Sanctions Frameworks which aim to ensure that AIB Group and its employees adhere to the applicable AML/CTF and Sanctions obligations.

Data protection

The main laws dealing with data protection are the Data Protection Acts 1988 and Data Protection (Amendment) Act 2003 (DPAs). These DPAs regulate the processing, disclosure and use of personal data relating to individual customers. They also require that certain categories of data controllers and data processors , including financial institutions and insurance companies which process personal data, are required to register with the Office of the Data Protection Commissioner in Ireland (ODPC). The European Communities (Electronic Communications Networks and Services) (Data Protection and Privacy) Regulations 2003 (as amended) transpose the EU Electronic Privacy Directive (2002/58/EC) into law and regulate marketing by electronic and other means. The ePrivacy Regulations 2011 (S.I. 336) deal with data protection for phone, email, SME and internet use. A Personal Data Security Breach Code of Practice issued by the ODCP sets out the requirements relating to the reporting of data security breaches and addresses situations where personal data has been put at risk of unauthorised disclosure, loss, destruction or alteration. Each relevant Group company has implemented and monitors appropriate policies and procedures to ensure compliance with its obligations under the DPAs.

4.3 United Kingdom

Regulation of AIB Group (UK) p.l.c.

AIB Group (UK) p.l.c. is a company incorporated in Northern Ireland and is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA under the Financial Services and Markets Act 2000 (FSMA) to carry on a wide range of regulated activities (including accepting deposits). It carries on business under the trading names Allied Irish Bank (GB) , Allied Irish Bank (GB) Savings Direct and First Trust Bank in Great Britain and Northern Ireland, respectively.

The FSMA is the principal piece of legislation governing the establishment, supervision and regulation of financial services and markets in the United Kingdom. The PRA is responsible for prudential regulation, including rules

relating to capital adequacy, limits on large exposures and liquidity. The FCA is responsible for conduct of business regulation, market conduct (including market abuse), financial crime and enhancing competition. On 1 April 2014, regulatory responsibility for Consumer Credit, which is currently regulated by the Office of Fair Trading (the OFT), will transfer to the FCA making it, in effect, the single UK regulator on conduct of business issues.

AIB Group (UK) p.l.c. has the statutory power to issue bank notes as local currency in Northern Ireland (it does this under the name First Trust Bank). In this connection, it is subject to the provisions of the Bank Charter Act 1844, the Bankers (Northern Ireland) Acts 1845 and 1928, the Currency and Bank Notes Act 1928, the Allied Irish Banks Act 1981, the Allied Irish Banks Act 1993 and the Allied Irish Banks Act 1996.

AIB Group (UK) p.l.c. subscribes to the Lending Code of the Lending Standards Board which is a self-regulatory code setting minimum standards of good practice in relation to lending, including loans, credit cards and current account overdrafts.

First Trust Financial Services Ltd (formerly known as First Trust Independent Financial Advisers Limited) (a company incorporated in Northern Ireland) is authorised by the FCA to advise on and arrange certain investments, including pensions, life policies, securities and non-investment insurance contracts. The FCA is responsible both for the prudential supervision and for the general supervision of First Trust Financial Services Ltd s business in the United Kingdom. First Trust Financial Services Ltd. ceased providing financial advice in December 2012. First Trust Bank has entered into an arrangement with Legal and General whereby financial advice will be provided to the bank s customers under an appointed representative arrangement.

Regulation of AIB Branches in the UK

Allied Irish Banks, p.l.c. is incorporated and has its head office in Ireland, and is licensed as a credit institution in Ireland by the Central Bank of Ireland. Pursuant to the Banking Consolidation Directive (Directive 2006/48/EC (the BCD)), Allied Irish Banks, p.l.c. has exercised its EU passport rights to provide banking, treasury and corporate treasury services in the United Kingdom on a cross-border basis and through the establishment of branches (in the name of AIB).

Governance and oversight - 4. Supervision and Regulation

In accordance with the BCD, the Home State regulator (here, the Central Bank of Ireland) has primary responsibility for the prudential supervision of credit institutions incorporated in Ireland. However, credit institutions exercising their passport rights must comply with certain requirements (in particular, conduct of business rules) set by the Host State regulator (here, the FCA). In addition, the PRA has a responsibility to co-operate with the Central Bank of Ireland in ensuring that branches of Irish credit institutions in the United Kingdom maintain adequate liquidity and take sufficient steps to cover risks arising from their open positions on financial markets in the United Kingdom.

Regulation of other AIB Group entities

Certain other AIB Group entities are authorised to carry on regulated activities by way of the right to provide cross-border services into the United Kingdom under the EU passport; however, they carry on an insignificant amount of business in the United Kingdom at present.

Market in Financial Instruments Directive (MiFID)

MiFID was implemented in the United Kingdom on 1 November 2007.The requirements of MiFID apply to all regulated AIB Group entities in the European Union that carry out a MiFID investment service or activity, for example, arranging deals in financial instruments, dealing as agent or principal in financial instruments, providing investment advice and conducting portfolio management activities. A revised MiFID Directive is expected to be agreed at European level in 2014.

Insurance mediation

Dealing as agent, arranging deals in, making arrangements with a view to transactions in, assisting in the administration and performance of, advising on non-investment insurance contracts and agreeing to carry on any of these activities (Insurance Mediation Activities) are (subject to applicable exemptions) regulated activities under the FSMA. These insurance mediation activities have been implemented in the UK pursuant to the Insurance Mediation Directive (2002/92/EC). Each of AIB Group (UK) p.l.c. and First Trust Financial Services Ltd is authorised by the FCA to carry on all insurance mediation activities. In July 2012, the European Commission published a proposal for a recast Insurance Mediation Directive which, if adopted, will enhance the regulation of insurance intermediaries in the EU.

Mortgage regulation

Entering into as lender, arranging, advising on and administering regulated mortgage contracts, and agreeing to carry on any of these activities, are (subject to applicable exemptions) regulated activities under the FSMA. AIB Group (UK) p.l.c. is authorised by the FCA to enter into as lender, arrange and administer (but not advise on) regulated mortgage contracts. In preparation for the implementation of the Mortgage Market Review in April 2014, an application for permission to advise on regulated mortgage contracts has been made.

Deposit protection and investor compensation

The Financial Services Compensation Scheme (FSCS) is the UK s compensation fund of last resort for customers of authorised financial services firms and protects claims in respect of deposits, insurance policies, insurance broking (for business on or after 14 January 2005), investment business and home finance (e.g. mortgage advising and arranging) (for business on or after 31 October 2004). FSCS may pay compensation, subject to its rules, if a firm is unable or likely to be unable to meet its financial obligations. However, there are limits to the protection available under the FSCS. The deposit compensation limit is Stg£ 85,000 per eligible claimant, per firm. Eligible investment business and home finance mediation claimants against firms declared in default on or after 1 January 2010 are entitled to receive 100 per cent. compensation for financial loss up to Stg£ 50,000 per person, per firm. Compensation under the FSCS in respect of claims against insurance mediation firms is calculated on the basis of (i) claims in respect of liabilities subject to compulsory insurance, 100 per cent. of the claim and (ii) other insurance claims, 100 per cent. of the first Stg£ 2,000 and 90 per cent. of the remainder of the claim against firms declared in default before 1 January 2010 and the maximum level of compensation for claims against firms declared in default on or after 1 January 2010 is 90 per cent. of the claim with no upper limit. Both AIB Group (UK) p.l.c. and First Trust Financial Services Ltd are covered by the FSCS. Allied Irish Banks, p.l.c., as a bank operating in the United Kingdom under its EU passport, is not covered by the FSCS but, in accordance with the Deposit Guarantee Schemes Directive (Directive 94/19/EC), is covered by its home state (Ireland) deposit protection scheme.

Consumer credit

The Consumer Credit Act 1974, as amended (CCA) regulates unsecured and certain secured consumer loan businesses, consumer hire and ancillary credit businesses such as credit brokerage and debt collecting. A credit agreement is regulated by the CCA where (a) the borrower is or includes an individual as defined in the CCA; (b) if the agreement was made before the removal of the CCA financial limit, the amount of credit provided is Stg£ 25,000 or less and (c) the credit agreement is not an exempt agreement under the CCA, for example, it is a regulated mortgage contract (as defined by the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001). At present, the OFT is responsible for the issue of licences under, and the superintendence of the working and the enforcement of, the CCA and other consumer protection legislation, although regulatory responsibility will transfer to the FCA in April

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2014. Both Allied Irish Banks, p.l.c. and AIB Group (UK) p.l.c. hold current CCA licences. The EU Consumer Credit Directive (2008/48/EC) was implemented into UK legislation via, inter alia; the Consumer Credit (EC Directive) Regulations 2010 (SI 2010/1010).The majority of the provisions came into force on 1 February 2011, with a small number having come into force on 30 April 2010.

The Unfair Terms in Consumer Contracts Regulations 1999 (the Unfair Terms Regulations) apply to certain contracts for goods and services entered into with consumers, including mortgages and related products and services. The main effect of the Unfair Terms Regulations is that a non-negotiated contractual term covered by the Unfair Terms Regulations which is unfair will not be enforceable against a consumer. The Unfair Terms Regulations will not generally affect terms which set out the subject matter of the contract, or concern the adequacy of price or remuneration for its goods and services sold, provided they are written in plain and intelligible language and are adequately drawn to the consumer s attention.

Anti-money laundering

The third EU Anti-Money Laundering Directive (2005/60/EC) adopted by the European Union in October 2005 was implemented in the UK on 15 December 2007 via the Money Laundering Regulations 2007.Practical assistance in the interpretation and application of the UK Money Laundering Regulations is provided by the guidance published by the Joint Money Laundering Steering Group (JMLSG) which comprises several major trade bodies from within the financial services industry. The Money Laundering Regulations 2007 provide detailed obligations for designated persons, which includes credit institutions, financial institutions, legal professionals and estate agents. For example, in relation to customer due diligence there is an explicit requirement for firms to undertake ongoing monitoring of business relationships and for firms to identify not just their customer but also the ultimate beneficial owner of the customer(s) on a risk sensitive basis. Enhanced due diligence is expected to be carried out where a customer poses a higher risk of money laundering or terrorist financing. In addition to the Money Laundering Regulations 2007, other acts of the UK Parliament such as the Proceeds of Crime Act 2002, Terrorism Act 2000 and the Counter-Terrorism Act 2008 are designed to combat money laundering/ counter terrorist financing in the UK. On 5 February 2013, the European Commission adopted a legislative proposal for a new Money Laundering Directive, which once passed into law will replace the current Money Laundering Directive (2005/60/EC).

Data protection

The Data Protection Act 1998 (UKDPA) is the primary legislation regarding the collection, use and disclosure of personal data relating to individuals in the United Kingdom. The UKDPA imposes a number of obligations on data controllers , including a requirement to notify the UK Information Commissioner s Office that it is a data controller processing personal information in an automated form and comply with eight data protection principles. Each relevant AIB Group company has implemented and monitored appropriate procedures to ensure compliance with its obligations under the UKDPA. Civil and criminal sanctions apply for contraventions of the UKDPA. These include the issuance of monetary penalty notices to a maximum of Stg£ 500,000 by the UK Information Commissioner for serious contraventions of the UKDPA.

The UKDPA and the Privacy and Electronic Communications (EC Directive) Regulations 2003 are the main laws which regulate the use of personal data for marketing purposes by electronic means and automated calling system in

the United Kingdom. However, on 25 January 2012, the European Commission published a proposal for a new data protection regulation, which, if adopted, would provide the basis for a new EU wide date protection regulatory framework.

4.4 United States

Nature of the AIB Group s activities

AIB is subject to federal and state banking and securities law supervision and regulation in the United States as a result of the banking activities conducted by its branch in New York and AIB s ongoing U.S. Securities and Exchange Commission (SEC) reporting obligations under the Exchange Act.

Applicable federal and state banking laws and regulations

Under the US International Banking Act of 1978, as amended (the IBA), AIB is a foreign banking organisation and is treated as a bank holding company, as such terms are defined in the statute, and, as such, is subject to regulation by the Federal Reserve Board (FRB). As a bank holding company that has not elected to be a financial holding company , AIB is generally required to limit its direct and indirect activities in the United States to banking activities and activities that the FRB has determined to be so closely related to banking as to be a proper incident thereto .

AIB continues to conduct limited corporate lending, treasury and other operations through its New York branch. AIB s New York branch is supervised by the FRB and the New York State Department of Financial Services. Under the IBA, the FRB may terminate the activities of any US branch or agency in certain specified circumstances. Also, under the New York Banking Law, the New York State Department of Financial Services may take possession of the business and property of a New York state-licensed branch under circumstances generally including violations of law, unsafe or unsound practices or insolvency.

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Governance and oversight - 4. Supervision and Regulation

Under US federal banking laws, state-licensed branches (such as AIB s New York branch) may not, as a general matter, engage as a principal in any type of activity not permissible for their federally licensed counterparts, unless the FRB determines that the additional activity is consistent with sound banking practices. US federal and state banking laws also generally subject state branches to the same single-borrower lending limits that apply to federal branches or agencies, which are substantially similar to the lending limits applicable to national banks. These single-borrower lending limits are based on the worldwide capital of the entire foreign bank.

Anti-money laundering, anti-terrorism and economic sanctions regulations have become a major focus of US government policy relating to financial institutions and are rigorously enforced. Regulations applicable to AIB and its affiliates impose obligations to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering. In particular, Title III of the USA PATRIOT Act, as amended, requires financial institutions operating in the United States to (i) give special attention to correspondent and payable-through bank accounts, (ii) implement enhanced due diligence and know your customer standards for private banking and correspondent banking relationships, (iii) scrutinise the beneficial ownership and activity of certain non-US and private banking customers (especially for so-called politically exposed persons) and (iv) develop new anti-money laundering programmes, due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programmes are intended to supplement any existing compliance programmes under the Bank Secrecy Act and Office of Foreign Assets Control (OFAC) regulations.

OFAC administers and enforces economic and trade sanctions against targeted foreign countries, terrorists and international narcotics traffickers to carry out US foreign policy and national security objectives. Generally, the regulations require blocking of accounts and other property of specified countries, entities and individuals, and the prohibition of certain types of transactions (unless OFAC issues a licence) with specified countries, entities and individuals. Banks, including US branches of foreign banks, are expected to establish and maintain appropriate OFAC compliance programmes to ensure compliance with OFAC regulations.

Failure of a financial institution to maintain and implement adequate programmes to combat money laundering and terrorist financing could have serious legal and reputational consequences for the institution.

Applicable federal and state securities laws and regulations

Although AIB delisted its ordinary shares from the New York Stock Exchange in August 2011, it continues to be subject to regulation and supervision by the SEC. Like other registrants, AIB files reports and other information required under the Exchange Act with the SEC, including Annual Reports on Form 20-F and Current Reports on Form 6-K. The Sarbanes-Oxley Act imposes significant requirements on AIB and other SEC registrants. These include requirements with respect to the composition of AIB s Audit Committee, the supervision of AIB s auditors (and the services that may be provided by such auditors) and the need for personal certification by the chief executive officer and chief (principal) financial officer of Annual Reports on Form 20-F, as well as the financial statements included in such reports and related matters.

Although subject to such requirements, the Exchange Act and related SEC rules and regulations afford foreign private issuers, including AIB, relief from a number of requirements applicable to US registrants and, in certain respects, defers to the home country requirements of the company in question. AIB s Annual Reports on Form 20-F include disclosure of executive compensation and other disclosures applicable to AIB under Irish law, but these disclosures are not fully comparable with disclosure requirements applicable to US registrants. In addition, the SEC s rules under the Sarbanes-Oxley Act are, in some respects, less burdensome on AIB and other foreign private issuers than they are on similarly situated US registrants. AIB s Annual Reports on Form 20-F also reflect compliance with the internal control and auditor attestation requirements applicable to AIB by virtue of Section 404 of the Sarbanes-Oxley Act.

Other more recent federal laws and regulations, including the Dodd-Frank Act of 2010, include provisions that place potentially significant limitations on non-US banks operating in the United States, and also impact on activity conducted outside the US. AIB monitors its ongoing business activities to ensure continued compliance with the applicable requirements under Title VII of the Dodd-Frank Act 2010 (Dodd-Frank) with respect to OTC Derivatives. AIB s swap trading activity as at 31 December 2013 with US persons was below the thresholds required for AIB to register as a Swap Dealer or Major Swap Participant. In addition, the New York branch has submitted its initial Resolution Plan under Section 165(d) of Dodd-Frank. Final Rules for implementing Section 619 of Dodd-Frank (the Volcker Rule) which implements restrictions on both (i) proprietary trading and (ii) investments in covered funds such as private equity and hedge funds by financial institutions were issued in December 2013 by regulatory authorities. AIB is considering the implications of the Volcker Rule for the bank and its subsidiaries. Banking organisations covered by the Volcker Rule will be required to fully conform their activities and investments by 21 July 2015.

4.5 Other locations

Smaller operations are undertaken in other locations that are also subject to the regulatory environment in those jurisdictions. In addition, discontinued operations are subject to the regulatory environment in which they operate.

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*Forms an integral part of the audited financial statements.

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Accounting policies *(continued)*

The significant accounting policies that the Group applied in the preparation of the financial statements are set out in this section.

1 Reporting entity

Allied Irish Banks, p.l.c. (the parent company or the Company) is a company domiciled in Ireland. The address of the Company s registered office is Bankcentre, Ballsbridge, Dublin 4, Ireland. The consolidated financial statements include the financial statements of Allied Irish Banks, p.l.c. (the parent company) and its subsidiary undertakings, collectively referred to as the Group , where appropriate, including certain special purpose entities and are prepared to the end of the financial year. The Group is and has been primarily involved in retail and corporate banking.

2 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (collectively IFRSs) as issued by the International Accounting Standards Board (IASB) and International Financial Reporting Standards as adopted by the European Union (EU) and applicable for the year ended 31 December 2013. The accounting policies have been consistently applied by Group entities and are consistent with the previous year, unless otherwise described. The financial statements also comply with the Companies Acts 1963 to 2013 and the European Communities (Credit Institutions: Accounts) Regulations, 1992 (as amended) and the Asset Covered Securities Acts 2001 and 2007. The parent company financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the IASB and International Financial Reporting Standards as adopted by the EU as applicable for the year ended 31 December 2013 and with Irish Statute. In publishing the parent company financial statements together with the Group financial statements, AIB has taken advantage of the exemption in paragraph 2 of Regulation 5 of the European Communities (Credit Institutions: Accounts) Regulations, 1992 not to present its parent company income statement, statement of comprehensive income and related notes that form part of these approved financial statements.

3 Basis of preparation

Functional and presentation currency

The financial statements are presented in euro, which is the functional currency of the parent company and a significant number of its subsidiaries, rounded to the nearest million.

Basis of measurement

The financial statements have been prepared under the historical cost basis, with the exception of the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit or loss, certain hedged financial assets and financial liabilities and financial assets classified as available-for-sale.

The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and parent company statements of financial position, the consolidated and parent company statements of cash flows, and the consolidated and parent company statements of changes in equity together with the related notes. These notes also include financial instrument related disclosures which are required by IFRS 7 and revised IAS 1, contained in the Financial review and the Risk management sections of this Annual Financial Report. The relevant information on those pages is identified as forming an integral part of the audited financial statements.

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management s judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. The estimates that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in the areas of loan impairment and impairment of other financial instruments; the recoverability of deferred tax; determination of the fair value of certain financial assets and financial liabilities; and retirement benefit obligations. In addition, the designation of financial assets and financial liabilities has a significant impact on their income statement treatment and could have a significant impact on reported income.

A description of these estimates and judgements is set out within Financial review - Critical accounting policies and estimates. This section is identified as forming an integral part of the audited financial statements.

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3 Basis of preparation *(continued)*

Going concern

The financial statements for the year ended 31 December 2013 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting the Group, that it has the ability to continue in business for the period of assessment. The period of assessment used by the Directors is twelve months from the date of approval of these annual financial statements.

In making its assessment, the Directors have considered a wide range of information relating to present and future conditions. These have included financial plans covering the period 2014 to 2016 approved by the Board in December 2013, the restructuring plan submitted to the European Commission in September 2012, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios. In addition, the Directors have considered the commitment of support provided to AIB by the Irish Government. The Directors have also considered the risk factors which could materially affect the Group s future business performance and profitability and which are outlined on pages 61 to 66.

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

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

The Irish Government, as AIB s principal shareholder, has confirmed its recognition of AIB as a Pillar Bank , given its key role in supporting the Irish economy. In support of this role, it has ensured that AIB has been sufficiently capitalised to meet the capital targets set by the Central Bank through its 2011 PCAR and PLAR assessment. The Directors have reviewed the capital and financial plans for the period of assessment, and believe that the capital resources are sufficient to ensure that the Group is adequately capitalised both in a base and stress scenario. The Group s regulatory capital resources are detailed on pages 47 to 49.

In relation to liquidity and funding, the Directors are satisfied, based on AIB s position as one of the two Pillar Banks that in all reasonable circumstances, the required liquidity and funding from the Central Bank/ECB will be available to the Group during the period of assessment.The Group s funding and liquidity profile are outlined on pages 153 to 163.

Conclusion

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

Adoption of new accounting standards

The following standards/amendments to standards have been adopted by the Group and the Company during the year ended 31 December 2013. The impact of these amendments on the financial statements are set out in note 60.

Amendments to IAS 1 *Presentation of Items in Other Comprehensive Income*

These amendments are effective from 1 July 2012. The amendments require companies preparing financial statements in accordance with IFRSs to group together items within other comprehensive income that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in other comprehensive income and profit or loss should be presented as either a single statement or two consecutive statements. The adoption of these amendments has resulted in a change in the presentation of other comprehensive income.

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Accounting policies *(continued)*

3 Basis of preparation *(continued)*
IAS 19 *Employee Benefits*

This revised standard is effective from 1 January 2013. The amendments result in significant changes to accounting for defined benefit pension plans. The revised standard eliminates the option to defer recognition of gains and losses (this option had not been adopted by AIB in the past). Actuarial gains and losses are now required to be recognised in other comprehensive income and are excluded permanently from profit or loss. The expected returns on plan assets will no longer be recognised in profit or loss. The expected return and the interest cost are replaced by recording net interest in profit or loss. Net interest is calculated using the discount rate used to measure the pension obligation. Unvested past service costs can no longer be deferred and recognised over the future vesting period. Instead, all past service costs will be recognised at the earlier of when the amendment/curtailment occurs and when the entity recognises related restructuring or termination costs.

Consolidation standards

IFRS 10 *Consolidated Financial Statements*

This standard which is effective from 1 January 2013 replaces the consolidation guidance in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation Special Purpose Entities.* It introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee. IFRS 10 builds on the existing principles by identifying the concept of control as the determining factor in which an entity should be included within the consolidated financial statements of the parent company. The adoption of this standard did not have a significant impact on the financial position or performance of the Group.

IFRS 11 *Joint Arrangements*

This standard is effective from 1 January 2013. IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 *Interests in Joint Ventures,* by focusing on the rights and obligations of the arrangement, rather than its legal form. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. The adoption of this standard did not have any impact on the financial position or performance of the Group.

IFRS 12 *Disclosure of Interests in Other Entities*

This standard which is effective from 1 January 2013 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements;* it also replaces the disclosure requirements in IAS 28 *Investments in Associates and Joint Ventures.* The required disclosures aim to provide information to enable users to evaluate the nature of, and risks associated with, an entity s interests in other entities and the effects of those interests on the entity s financial position, financial performance and cash flows. This basic principle is further supported by more detailed disclosure objectives and requirements. This new standard impacts the disclosures required for the Group s subsidiaries and associates as well as unconsolidated structured entities.

IAS 27 *Separate Financial Statements* (revised 2011)

The revised standard is effective from 1 January 2013. The requirements relating to separate financial statements are unchanged and are included in the revised IAS 27. The other sections of IAS 27 are replaced by IFRS 10 *Consolidated Financial Statements.* IAS 27 is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. The existing guidance and disclosure requirements for separate financial statements are unchanged. The adoption of this standard has not had an impact on Group reporting.

IAS 28 *Investments in Associates and Joint Ventures* (revised 2011)

This standard which is effective from 1 January 2013 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 (revised 2011) does not include any disclosure requirements; these are now included in IFRS 12 *Disclosure of Interests in Other Entities.* The adoption of this standard did not have any impact on the financial position or performance of the Group.

IFRS 13 Fair Value Measurement

This standard which is effective from 1 January 2013 establishes a single source of guidance for fair value measurements under IFRSs. IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements. The standard requires entities to disclose information about the valuation techniques and inputs used to measure fair value, as well as information about the uncertainty inherent in fair value measurements. This information is required for both financial and non-financial assets and liabilities. The adoption of this standard has resulted in additional disclosures.

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3 Basis of preparation ***(continued)***

IFRS 7 ***Financial Instruments: Disclosures on Offsetting Financial Assets and Financial Liabilities***

These amendments to IFRS 7 are effective from 1 January 2013. The amendments introduce new disclosure requirements for offsetting financial instruments that aim to improve the comparability of financial statements prepared in accordance with IFRS and US GAAP. The amendments require more extensive disclosures at the year end which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements, irrespective of whether they are offset. The adoption of this standard has resulted in additional disclosures.

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

Changes to accounting policies

Arising from the adoption of the IFRSs set out above, the following accounting policies were revised effective from 1 January 2013:

- Basis of consolidation
- Employee benefits
- Determination of fair value of financial instruments
- Non-current assets held for sale and discontinued operations

4 Basis of consolidation

Subsidiary undertakings

A subsidiary undertaking is an investee controlled by the Group. The Group controls an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated in the Group s financial statements from the date on which control commences until the date that control ceases.

The Group reassesses whether it controls a subsidiary when facts and circumstances indicate that there are changes to one or more elements of control.

Loss of control

If the Group loses control of a subsidiary, the Group:

(i) derecognises the assets (including any goodwill) and liabilities of the former subsidiary at their carrying amounts at the date control is lost;

(ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date control is lost (including any attributable amounts in other comprehensive income);

(iii) recognises the fair value of any consideration received and any distribution of shares of the subsidiary;

(iv) recognises any investment retained in the former subsidiary at its fair value at the date when control is lost; and

(v) recognises any resulting difference of the above items as a gain or loss in the income statement.

The Group subsequently accounts for any investment retained in the former subsidiary in accordance with IAS 39 *Financial Instruments: Recognition and Measurement,* or when appropriate, IAS 28 *Investments in Associates and Joint Ventures.*

Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. The Group assesses whether it has control over such an entity by considering factors such as the purpose and design of the entity; the nature of its relationship with the entity; and the size of its exposure to the variability of returns of the entity.

Business combinations

The Group accounts for the acquisition of businesses using the acquisition method except for those businesses under common control. Under the acquisition method, the consideration transferred in a business combination is measured at fair value, which is calculated as the sum of:

- the acquisition date fair value of assets transferred by the Group;
- liabilities incurred by the Group to the former owners of the acquiree; and
- the equity interests issued by the Group in exchange for control of the acquiree.

Acquisition related costs are recognised in the income statement as incurred.

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Accounting policies *(continued)*

4 Basis of consolidation *(continued)*

Business combinations

Goodwill is measured as the excess of the sum of:

- the fair value of the consideration transferred;
- the amount of any non-controlling interests in the acquiree; and
- the fair value of the acquirer s previously held equity interest in the acquiree, if any; less
- the net of the acquisition date fair value of the identifiable assets acquired and liabilities assumed.

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets, and income arising thereon, are excluded from the financial statements, as they are not assets of the Group.

Non-controlling interests

For each business combination, the Group recognises any non-controlling interest in the acquiree either:

- at fair value; or
- at their proportionate share of the acquiree s identifiable net assets.

For changes in the Group s interest in a subsidiary that do not result in a loss of control, the Group adjusts the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The difference between the change in value of the non-controlling interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the parent.

Common control transactions

The Group accounts for the acquisition of businesses or investments in subsidiary undertakings between members of the Group at carrying value at the date of the transaction unless prohibited by company law or IFRS. This policy also applies to the acquisition of businesses by the Group of other entities under the common control of the Irish Government. Where the carrying value of the acquired net assets exceeds the fair value of the consideration paid, the excess is accounted for as a capital contribution (accounting policy number 28 Shareholders equity - capital contributions in the Annual Financial Report 2013). On impairment of the subsidiary in the parent company s separate financial statements, an amount equal to the impairment charge net of tax in the income statement is transferred from capital contribution reserves to revenue reserves. The entire capital contribution is transferred to revenue reserves on final sale of the subsidiary.

For acquisitions under common control, comparative data is not restated. The consolidation of the acquired entity is effective from the acquisition date with intercompany balances eliminated at a Group level on this date.

Associated undertakings

An associated undertaking is an entity over which the Group has significant influence, but not control, over the entity s operating and financial policy decisions. If the Group holds 20% or more of the voting power of an entity, it is presumed that the Group has significant influence, unless it is clearly demonstratable that this is not the case.

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 other comprehensive income of the associated undertaking.

Goodwill arising on the acquisition of an associated undertaking is included in the carrying amount of the investment. When the Group s share of losses in an associate has reduced the carrying amount to zero, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations to make payments on behalf of the associate.

Where the Group continues to hold more than 20% of the voting power in an investment but ceases to have significant influence, the investment is no longer accounted for as an associate. On the loss of significant influence, the Group measures the investment at fair value and recognises any difference between the carrying value and fair value in profit or loss and accounts for the investment in accordance with IAS 39 *Financial Instruments: Recognition and Measurement.*

The Group s share of the results of associated undertakings after tax reflects the Group s proportionate interest in the associated undertaking and is based on financial statements made up to a date not earlier than three months before the period end reporting date, adjusted to conform with the accounting policies of the Group.

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4 Basis of consolidation ***(continued)***

Associated undertakings

Since goodwill that forms part of the carrying amount of the investment in an associate is not recognised separately, it is, therefore, not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

Transactions eliminated on consolidation

Intra-group balances and any unrealised income and expenses, arising from intra-group transactions are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Unrealised gains and losses on transactions with associated undertakings are eliminated to the extent of the Group s interest in the investees.

Consistent accounting policies are applied throughout the Group for the purposes of consolidation.

5 Foreign currency translation

Items included in the financial statements of each of the Group s entities are measured using their functional currency, being the currency of the primary economic environment in which the entity operates.

Transactions and balances

Foreign currency transactions are translated into the respective entity s functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-translation at period end exchange rates of the amortised cost of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Exchange differences on equities and similar non-monetary items held at fair value through profit or loss are reported as part of the fair value gain or loss. Exchange differences on equities classified as available for sale financial assets, together with exchange differences on a financial liability designated as a hedge of the net investment in a foreign operation are reported in other comprehensive income.

Foreign operations

The results and financial position of all Group entities that have a functional currency different from the euro are translated into euro as follows:

- assets and liabilities including goodwill and fair value adjustments arising on consolidation of foreign operations are translated at the closing rate;
- income and expenses are translated into euro at the average rates of exchange during the period where these rates approximate to the foreign exchange rates ruling at the dates of the transactions;

foreign currency translation differences are recognised in other comprehensive income; and
since 1 January 2004, the Group s date of transition to IFRS, all such exchange differences are included in the foreign currency translation reserve within shareholders equity. When a foreign operation is disposed of in full, the relevant amount of the foreign currency translation reserve is transferred to the income statement. When a subsidiary is partly disposed of, the foreign currency translation reserve is re-attributed to the non-controlling interest.

6 Interest income and expense recognition

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

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The application of the method has the effect of recognising income receivable and expense payable on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating the effective interest rate, the Group estimates cash flows (using projections based on its experience of customers behaviour) considering all contractual terms of the financial instrument but excluding future credit losses. The calculation takes into account all fees, including those for any expected early redemption, and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

All costs associated with mortgage incentive schemes are included in the effective interest rate calculation. Fees and commissions payable to third parties in connection with lending arrangements, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the effective interest rate.

Accounting policies *(continued)*

6 Interest income and expense recognition *(continued)*

Interest income and expense presented in the consolidated income statement includes:-

- Interest on financial assets and financial liabilities at amortised cost on an effective interest method;
- Interest on financial investments available for sale on an effective interest method;
- Net interest income and expense on qualifying hedge derivatives designated as cash flow hedges or fair value hedges which are recognised in interest income or interest expense; and
- Interest income and funding costs of trading portfolio financial assets, excluding dividends on equity shares.

7 Fee and commission income

Fees and commissions are generally recognised on an accruals basis when the service has been provided, unless they have been included in the effective interest rate calculation. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or retained a part at the same effective interest rate as applicable to the other participants.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees relating to investment funds are recognised over the period the service is provided. The same principle is applied to the recognition of income from wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Commitment fees, together with related direct costs, for loan facilities where drawdown is probable are deferred and recognised as an adjustment to the effective interest rate on the loan once drawn. Commitment fees in relation to facilities where drawdown is not probable are recognised over the term of the commitment on a straight line basis. Other credit related fees are recognised as the service is provided except for arrangement fees where it is likely that the facility will be drawn down and which are included in the effective interest rate calculation.

8 Net trading income

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

9 Dividend income

Dividend income is recognised when the right to receive dividend income is established. Usually this is the ex-dividend date for equity securities.

10 Operating leases

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received and premiums paid at inception of the lease are recognised as an integral part of the total lease expense over the term of the lease.

11 Employee benefits

Retirement benefit obligations

The Group provides employees with post retirement benefits mainly in the form of pensions.

The Group provides a number of retirement benefit schemes including defined benefit and defined contribution as well as a hybrid scheme that has both defined benefit and defined contribution elements. In addition, the Group contributes, according to local law in the various countries in which it operates, to governmental and other schemes which have the characteristics of defined contribution schemes. The majority of the defined benefit schemes are funded.

Full actuarial valuations of defined benefit schemes are undertaken every three years and are updated to reflect current conditions at each year-end reporting date. Scheme assets are measured at fair value determined by using current bid prices. Scheme liabilities are measured on an actuarial basis by estimating the amount of future benefit that employees have earned for their service in current and prior periods and discounting that benefit at the market yield on a high quality corporate bond of equivalent term and currency to the liability. The calculation is performed by a qualified actuary using the projected unit credit method. The difference between the fair value of the scheme assets and the present value of the defined benefit obligation at the year-end reporting date is recognised in the statement of financial position. Schemes in surplus are shown as assets and schemes in deficit, together with unfunded schemes, are shown as liabilities. Actuarial gains and losses are recognised immediately in other comprehensive income.

Changes with regard to benefits payable to retirees which represent a constructive obligation under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* are accounted for as a negative past service cost. These are recognised in the income statement.

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11 Employee benefits *(continued)*

The cost of providing defined benefit pension schemes to employees, comprising the service cost and net interest on the net defined benefit liability (asset), calculated by applying the discount rate to the net defined benefit liability (asset), is charged to the income statement within personnel expenses. Remeasurements of the net defined benefit liability (asset), comprising actuarial gains and losses and the return on scheme assets are recognised in other comprehensive income. Amounts recognised in other comprehensive income in relation to remeasurements of the net defined benefit liability (asset) will not be reclassified to profit or loss in a subsequent period.

The Group recognises the effect of an amendment to a defined benefit scheme when the plan amendment occurs, which is when the Group introduces or withdraws a defined benefit scheme, or changes the benefits payable under existing defined benefit schemes. A curtailment is recognised when a significant reduction in the number of employees covered by a defined benefit scheme occurs. Gains or losses on plan amendments and curtailments are recognised in the income statement as a past service cost.

The costs of managing the defined benefit scheme assets are deducted from the return on scheme assets. All costs of running the defined benefit schemes are recognised in profit or loss when they are incurred.

The cost of the Group s defined contribution schemes is charged to the income statement in the accounting period in which it is incurred. Any contributions unpaid at the year-end reporting date are included as a liability. The Group has no further obligation under these schemes once these contributions have been paid.

Short-term employee benefits

Short-term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period during which employees have provided services. Bonuses are recognised to the extent that the Group has a legal or constructive obligation to its employees that can be measured reliably. The cost of providing subsidised staff loans is charged within personnel expenses.

Termination benefits

Termination benefits are recognised as an expense at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets,* which includes the payment of termination benefits.

For termination benefits payable as a result of an employee s decision to accept an offer of voluntary redundancy, which is not within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets,* the Group recognises the expense at the earlier of when the employee accepts the offer and when a restriction on the Group s ability to withdraw the offer takes effect.

12 Non-credit risk provisions

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

When the effect is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Payments are deducted from the present value of the provision, and interest at the relevant discount rate, is charged annually to interest expense using the effective interest method. Changes in the present value of the liability as a result of movements in interest rates are included in other financial income. The present value of provisions is included in other liabilities.

When a leasehold property ceases to be used in the business, provision is made, where the unavoidable costs of future obligations relating to the lease are expected to exceed anticipated income. The provision is calculated using market rates of interest to reflect the long-term nature of the cash flows. Before the provision is established, the Group recognises any impairment loss on the assets associated with the lease contract.

Restructuring costs

Where the Group has a formal plan for restructuring a business and has raised valid expectations in the areas affected by the restructuring by starting to implement the plan or announcing its main features, provision is made for the anticipated cost of restructuring, including retirement benefits and redundancy costs, when an obligation exists. The provision raised is normally utilised within twelve months. Future operating costs are not provided for.

Legal claims and other contingencies

Provisions are made for legal claims where the Group has present legal or constructive obligations as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

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Accounting policies *(continued)*

12 Non-credit risk provisions *(continued)*

Contingent liabilities are possible obligations whose existence will be confirmed only by the occurrence of uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably estimated. Contingent liabilities are not recognised but are disclosed in the notes to the financial statements unless the possibility of the transfer of economic benefit is remote.

A provision is recognised for a constructive obligation where a past event has led to an obligating event. This obligating event has left the Group with little realistic alternative but to settle the obligation and the Group has created a valid expectation in other parties that it will discharge the obligation.

13 Income tax, including deferred income tax

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

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

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

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

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

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and financial liabilities including derivative contracts, provisions for pensions and other post retirement benefits, and in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future. In addition, the following temporary differences are not

provided for: goodwill, the amortisation of which is not deductible for tax purposes, and assets and liabilities the initial recognition of which, in a transaction that is not a business combination, affects neither accounting nor taxable profit. Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which the profits arise.

14 Impairment of property, plant and equipment, goodwill and intangible assets

Annually, or more frequently where events or changes in circumstances dictate, property, plant and equipment and intangible assets are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. Goodwill and intangible assets not yet available for use are subject to an annual impairment review.

The impairment review comprises a comparison of the carrying amount of the asset or cash generating unit with its recoverable amount. Cash-generating units are the lowest level at which management monitors the return on investment in assets. The recoverable amount is determined as the higher of fair value less costs to sell of the asset or cash generating unit and its value in use. Fair value less costs to sell is calculated by reference to the amount at which the asset could be disposed of in an arm s length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset s continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis. For intangible assets not yet available for use, the impairment review takes into account the cash flows required to bring the asset into use.

The carrying values of property, plant and equipment and intangible assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss may be reversed in part or in full when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the asset s recoverable amount. The carrying amount of the asset will only be increased up to the amount that it would have been had the original impairment not been recognised. Impairment losses on goodwill are not reversed.

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15 Impairment of financial assets

It is Group policy to make provisions for impairment of financial assets to reflect the losses inherent in those assets at the reporting date.

Impairment

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

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

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) the granting to the borrower of a concession, for economic or legal reasons relating to the borrower s financial difficulty that the Group would not otherwise consider;
d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
   i adverse changes in the payment status of borrowers in the portfolio; and
   ii national or local economic conditions that correlate with defaults on the assets in the portfolio.

Incurred but not reported

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

Collective evaluation of impairment

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

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

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

Impairment loss

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

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

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

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Accounting policies *(continued)*

15 Impairment of financial assets *(continued)*

beyond the prospect of recovery is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

Collateralised financial assets Repossessions

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, costs for obtaining and settling the collateral, and whether or not foreclosure is probable.

For loans which are impaired, the Group may repossess collateral previously pledged as security in order to achieve an orderly realisation of the loan. AIB will then offer this repossessed collateral for sale. However, if the Group believes the proceeds of the sale will comprise only part of the recoverable amount of the loan with the customer remaining liable for any outstanding balance, the loan continues to be recognised and the repossessed asset is not recognised. However, if the Group believes that the sale proceeds of the asset will comprise all or substantially all of the recoverable amount of the loan, the loan is derecognised and the acquired asset is accounted for in accordance with the applicable accounting standard. Any further impairment of the repossessed asset is treated as an impairment of the relevant asset and not as an impairment of the original loan.

Past due loans

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

- has breached an advised limit;
- has been advised of a limit lower than the then current outstandings; or
- has drawn credit without authorisation.

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

Financial investments available for sale

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

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

Loans renegotiated and forbearance

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

Forbearance

A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable to repay both the principal and interest on their loan in accordance with their original contract. Following an assessment of the customer s repayment capacity, a potential solution will be determined from the options available. There are a number of different types of forbearance options including interest and/or arrears capitalisation, interest rate adjustments, payment holidays, term extensions and equity swaps. These are detailed in the Credit Risk section 3.1. A request for a forbearance solution acts as a trigger for an impairment test.

All loans that are assessed for a forbearance solution are tested for impairment under IAS 39 and where a loan is deemed impaired, an appropriate provision is raised to cover the difference between the loan s carrying value and the present value of estimated future cashflows discounted at the loan s original effective interest rate. Where, having assessed the loan for impairment and the loan is not deemed to be impaired, it is included within the collective assessment as part of the IBNR provision calculation.

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15 Impairment of financial assets *(continued)*

Forbearance mortgage loans, classified as impaired, may be upgraded from impaired status, subject to a satisfactory assessment by the appropriate credit authority as to the borrower s continuing ability and willingness to repay and confirmation that the relevant security held by the Group continues to be enforceable. In this regard, the borrower is required to display a satisfactory performance following the restructuring of the loan in accordance with new agreed terms, comprising typically, a period of twelve months of consecutive payments of full principal and interest and, the upgrade would initially be to Watch/Vulnerable grades. In some non-mortgage cases, based on assessment by the relevant credit authority, the upgrade out of impaired to performing status may be earlier than twelve months, as the debt may have been reduced to a sustainable level. Where upgraded out of impaired, loans are included in the Group s collective assessment for IBNR provisions.

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

Where a loan has been subject to an impairment provision and the renegotiation leads to a customer granting equity to the Group in exchange for any loan balance outstanding, the new instrument is recognised at fair value with any difference to the loan carrying amount recognised in the income statement.

Non-forbearance renegotiation

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

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

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

16 Determination of fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the

most advantageous market to which the Group has access at that date. The Group considers the impact of non-performance risk when valuing its financial liabilities.

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

Subsequent to initial recognition, the methods used to determine the fair value of financial instruments include quoted prices in active markets where those prices are considered to represent actual and regularly occurring market transactions. Where quoted prices are not available or are unreliable because of market inactivity, fair values are determined using valuation techniques. These valuation techniques maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The valuation techniques used incorporate the factors that market participants would take into account in pricing a transaction. Valuation techniques include the use of recent orderly transactions between market participants, reference to other similar instruments, option pricing models, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Accounting policies *(continued)*

16 Determination of fair value of financial instruments *(continued)*

Quoted prices in active markets

Quoted market prices are used where those prices are considered to represent actual and regularly occurring market transactions for financial instruments in active markets.

Valuations for negotiable instruments such as debt and equity securities are determined using bid prices for asset positions and offer prices for liability positions.

Where securities are traded on an exchange, the fair value is based on prices from the exchange. The market for debt securities largely operates on an over the counter basis which means that there is not an official clearing or exchange price for these security instruments. Therefore, market makers and/or investment banks (contributors) publish bid and offer levels which reflect an indicative price that they are prepared to buy and sell a particular security. The Group s valuation policy requires that the prices used in determining the fair value of securities quoted in active markets must be sourced from established market makers and/or investment banks.

Valuation techniques

In the absence of quoted market prices, and in the case of over-the-counter derivatives, fair value is calculated using valuation techniques. Fair value may be estimated using quoted market prices for similar instruments, adjusted for differences between the quoted instrument and the instrument being valued. Where the fair value is calculated using discounted cash flow analysis, the methodology is to use, to the extent possible, market data that is either directly observable or is implied from instrument prices, such as interest rate yield curves, equities and commodities prices, credit spreads, option volatilities and currency rates. In addition, the Group considers the impact of own credit risk and counterparty risk when valuing its derivative liabilities.

The valuation methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. The assumptions involved in these valuation techniques include:

- The likelihood and expected timing of future cash flows of the instrument. These cash flows are generally governed by the terms of the instrument, although management judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. In addition, future cash flows may also be sensitive to the occurrence of future events, including changes in market rates; and
- Selecting an appropriate discount rate for the instrument, based on the interest rate yield curves including the determination of an appropriate spread for the instrument over the risk-free rate. The spread is adjusted to take into account the specific credit risk profile of the exposure.

All adjustments in the calculation of the present value of future cash flows are based on factors market participants would take into account in pricing the financial instrument.

Certain financial instruments (both assets and liabilities) may be valued on the basis of valuation techniques that feature one or more significant market inputs that are not observable. When applying a valuation technique with unobservable data, estimates are made to reflect uncertainties in fair values resulting from a lack of market data, for

example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on non-observable data are inherently uncertain because there is little or no current market data available from which to determine the price at which an orderly transaction between market participants would occur under current market conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments will be based on some market observable inputs even where the non-observable inputs are significant. All unobservable inputs used in valuation techniques reflect the assumptions market participants would use when fair valuing the financial instrument.

The Group tests the outputs of the valuation model to ensure that it reflects current market conditions. The calculation of fair value for any financial instrument may require adjustment of the quoted price or the valuation technique output to reflect the cost of credit risk and the liquidity of the market, if market participants would include one, where these are not embedded in underlying valuation techniques or prices used.

The choice of contributors, the quality of market data used for pricing, and the valuation techniques used are all subject to internal review and approval procedures.

Transfers between levels of the fair value hierarchy

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

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17 Valuation of NAMA senior bonds

NAMA senior bonds were received as consideration for financial assets transferred to NAMA and also as part of the Anglo and EBS transactions. These bonds are designated as loans and receivables and are separately disclosed in the statement of financial position as NAMA senior bonds .

The bases for measurement, interest recognition and impairment are the same as those for loans and receivables (see accounting policy numbers 6, 15 and 18).

At initial recognition, the bonds were measured at fair value. The bonds carry a guarantee of the Irish Government, however, they are not marketable instruments. The only secondary market activity in the instruments is their sale and repurchase (repo) to the European Central Bank (ECB) within the regular Eurosystem open market operations. The bonds are not traded in the market and there are no comparable bonds trading in the market.

The fair value on initial recognition was determined using a valuation technique. The absence of quoted prices in an active market required increased use of management judgement in the estimation of fair value. This judgement included but was not limited to: evaluating available market information; evaluating relevant features of the instruments which market participants would factor into an appropriate valuation technique; determining the cash flows generated by the instruments including cash flows from assumed repo transactions; identifying a risk free discount rate; and applying an appropriate credit spread.

18 Financial assets

The Group classifies its financial assets into the following categories: - financial assets at fair value through profit or loss; loans and receivables; and available for sale financial assets.

Purchases and sales of financial assets are recognised on trade date, being the date on which the Group commits to purchase or sell the assets. Loans are recognised when cash is advanced to the borrowers.

Interest is calculated using the effective interest method and credited to the income statement. Dividends on available for sale equity securities are recognised in the income statement when the entity s right to receive payment is established.

Impairment losses and translation differences on the amortised cost of monetary items are recognised in the income statement.

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

Financial assets at fair value through profit or loss

This category can have two sub categories: - Financial assets held for trading; and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it is acquired principally for the

purpose of selling in the near term; part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or if it is so designated at initial recognition by management, subject to certain criteria.

The assets are recognised initially at fair value and transaction costs are taken directly to the income statement. Interest and dividends on assets within this category are reported in interest income, and dividend income, respectively. Gains and losses arising from changes in fair value are included directly in the income statement within net trading income.

Derivatives are also classified in this category unless they have been designated as hedges or qualify as financial guarantee contracts.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. They arise when the Group provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognised at fair value adjusted for direct and incremental transaction costs and are subsequently carried on an amortised cost basis.

Available for sale

Available for sale financial assets are non-derivative financial investments that are designated as available for sale and are not categorised into any of the other categories described above. Available for sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available for sale financial assets are initially recognised at fair value adjusted for direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income until sale or impairment when the cumulative gain or loss is transferred to the income statement as a recycling adjustment. Assets reclassified from the held for trading category are recognised at fair value.

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Accounting policies *(continued)*

Parent Company financial statements: Investment in subsidiary and associated undertakings

The Company accounts for investments in subsidiary and associated undertakings that are not classified as held for sale at cost less provisions for impairment. If the investment is classified as held for sale, the Company accounts for it at the lower of its carrying value and fair value less costs to sell.

Dividends from a subsidiary or an associated undertaking are recognised in the income statement, when the Company s right to receive the dividend is established.

19 Fina ncial liabilities

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

Financial liabilities are initially recognised at fair value, being their issue proceeds (fair value of consideration received), net of transaction costs incurred. Financial liabilities are subsequently measured at amortised cost, with any difference between the proceeds net of transaction costs and the redemption value recognised in the income statement using the effective interest method.

Where financial liabilities are classified as trading they are also initially recognised at fair value with the related transaction costs taken directly to the income statement. Gains and losses arising from changes in fair value are recognised directly in the income statement within net trading income.

Preference shares which carry a mandatory coupon, are classified as financial liabilities. The dividends on these preference shares are recognised in the income statement as interest expense using the effective interest method.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. Any gain or loss on the extinguishment or remeasurement of a financial liability is recognised in profit or loss.

20 Prop erty, plant and equipment

Property, plant and equipment are stated at cost, or deemed cost, less accumulated depreciation and provisions for impairment, if any. Additions and subsequent expenditures are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the asset. No depreciation is provided on freehold land. Property, plant and equipment are depreciated on a straight line basis over their estimated useful economic lives. Depreciation is calculated based on the gross carrying amount, less the estimated residual value at the end of the assets economic lives.

The Group uses the following useful lives when calculating depreciation:

Freehold buildings and long-leasehold property	50 years
Short leasehold property	life of lease, up to 50 years
Costs of adaptation of freehold and leasehold property	
Branch properties	up to 10 years[1]
Office properties	up to 15 years[1]
Computers and similar equipment	3 7 years
Fixtures and fittings and other equipment	5 10 years

The Group reviews its depreciation rates regularly, at least annually, to take account of any change in circumstances. When deciding on useful lives and methods, the principal factors that the Group takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of, the assets. When reviewing residual values, the Group estimates the amount that it would currently obtain for the disposal of the asset, after deducting the estimated cost of disposal if the asset was already of the age and condition expected at the end of its useful life.

Gains and losses on disposal of property, plant and equipment are included in the income statement. It is Group policy not to revalue its property, plant and equipment.

[1]Subject to the maximum remaining life of the lease.

21 Intangible assets

Goodwill

Goodwill may arise on the acquisition of subsidiary and associated undertakings. The excess arising on the fair value of the consideration paid in a business combination over the acquired interests in the fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition is capitalised as goodwill. For the purpose of calculating goodwill, fair values of acquired assets, liabilities and contingent liabilities are determined by reference to market values or by discounting expected future cash flows to present value. This discounting is performed either using market rates or by using risk-free rates and risk adjusted expected future cash flows.

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21 Intangible assets *(continued)*

Goodwill is capitalised and reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Goodwill arising on the acquisition of an associated undertaking is included in the carrying amount of the investment in the consolidated financial statements. Gains or losses on the disposal of an entity include the carrying amount of the goodwill relating to the entity sold.

Goodwill previously written off to reserves under Irish GAAP has not been reinstated and will not be included in calculating any subsequent profit or loss on disposal.

Computer software and other intangible assets

Computer software and other intangible assets are stated at cost, less amortisation on a straight line basis and provisions for impairment, if any. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred. Capitalised computer software is amortised over 3 to 7 years. Other intangible assets are amortised over the life of the asset. Computer software and other intangible assets are reviewed for impairment when there is an indication that the asset may be impaired. Intangible assets not yet available for use are reviewed for impairment on an annual basis.

22 Derivatives and hedge accounting

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

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

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

Derivatives

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

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

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

Embedded derivatives

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract, and the hybrid contract itself is not carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative, and reported at fair value with gains and losses being recognised in the income statement.

Hedging

All derivatives are carried at fair value and the accounting treatment of the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Where derivatives are held for risk management purposes, and where transactions meet the criteria specified in IAS 39 *Financial Instruments: Recognition and Measurement,* the Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or
- hedges of the exposure to variability of cash flows attributable to a recognised asset or liability, or a highly probable forecasted transaction (cash flow hedge); or
- hedges of a net investment in a foreign operation.

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

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Accounting policies *(continued)*

22 Derivatives and hedge accounting ***(continued)***

The Group discontinues hedge accounting when:

a) it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
b) the derivative expires, or is sold, terminated, or exercised;
c) the hedged item matures or is sold or repaid; or
d) a forecast transaction is no longer deemed highly probable.

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

In certain circumstances, the Group may decide to cease hedge accounting even though the hedge relationship continues to be highly effective by no longer designating the financial instrument as a hedge.

Fair value hedge accounting

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

Cash flow hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is initially recognised directly in other comprehensive income and included in the cash flow hedging reserve in the statement of changes in equity. The amount recognised in other comprehensive income is reclassed to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in other comprehensive income from the time when the hedge was effective remains in equity and is reclassified to the income statement as a reclassification adjustment as the forecast transaction affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was

recognised in other comprehensive income from the period when the hedge was effective is reclassified to the income statement.

Net investment hedge

Hedges of net investments in foreign operations, including monetary items that are accounted for as part of the net investment, are accounted for similarly to cash flow hedges. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and the ineffective portion is recognised immediately in the income statement. The cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement on the disposal or partial disposal of the foreign operation. Hedges of net investments may include non-derivative liabilities as well as derivative financial instruments.

Derivatives that do not qualify for hedge accounting

Certain derivative contracts entered into as economic hedges do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the income statement.

23 Non-current assets held for sale and discontinued operations

Discontinued operations

A discontinued operation is a component of the Group s business that represents a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Discontinued operations are presented in the income statement (including comparatives) as a separate amount, comprising the total of the post tax profit or loss of the discontinued operations for the period together with any post-tax gain or loss recognised on the measurement of relevant assets to fair value less costs to sell, or on disposal of the assets/disposal groups constituting discontinued operations. In presenting interest income and interest expense and various expenses relating to discontinued operations, account is taken of the continuance or otherwise of these income statement items post disposal of the discontinued operation. Corporate

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23 Non-current assets held for sale and discontinued operations *(continued)*

overhead, which was previously allocated to the business being disposed of, is considered to be part of continuing operations. In the statement of financial position, the assets and liabilities of discontinued operations are shown within the caption Disposal groups and non-current assets/(liabilities) held for sale separate from other assets and liabilities. On reclassification as discontinued operations, there is no restatement in the statement of financial position of prior periods for assets and liabilities held for sale.

Disposal groups and non-current assets held for sale

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

On initial classification as held for sale, generally, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to the income statement. The same applies to gains and losses on subsequent remeasurement. However, financial assets within the scope of IAS 39 continue to be measured in accordance with that standard.

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

Gains and losses on remeasurement and impairment losses subsequent to classification as disposal groups and non-current assets held for sale are shown within continuing operations in the income statement, unless they qualify as discontinued operations.

Disposal groups and non-current assets held for sale which are not classified as discontinued operations are presented separately from other assets and liabilities on the statement of financial position. Prior periods are not reclassified.

Acquisition of a subsidiary acquired exclusively with a view to its resale

A subsidiary that is acquired and held exclusively for disposal and meets the definition of an asset held for sale is not excluded from consolidation. However, it is measured and accounted for under IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations,* initially at fair value less costs to sell. It is consolidated but the results of the subsidiary are treated as a discontinued operation.

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 at the acquisition date and at subsequent reporting dates. This requires the entity being disposed of to be valued at the lower of its carrying value and its fair value less costs to sell at each reporting date. Individual assets and liabilities of the

entity acquired with a view to resale are not fair valued. 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 the assets to be disclosed. Separate analysis of individual assets and liabilities is not required in the notes to the financial statements.

Inter-company assets and liabilities are eliminated against the carrying amount of the disposal group where applicable. Inter-company interest income/expense of the continuing group is recorded in the consolidated income statement. Hedge accounting for deposits accepted by AIB from Ark Life was discontinued with effect from the acquisition date of Ark Life.

24 Collateral and netting

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

Collateral

The Group obtains collateral in respect of customer receivables where this is considered appropriate. The collateral normally takes the form of a lien over the customer s assets and gives the Group a claim on these assets for both existing and future customer liabilities. The collateral is, in general, not recorded on the statement of financial position.

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts and derivative contracts in order to reduce credit risk. Collateral received in the form of securities is not recorded on the statement of financial position. Collateral received in the form of cash is recorded on the statement of financial position with a corresponding liability. Therefore, in the case of cash collateral, these amounts are assigned to deposits received from banks or other counterparties . Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

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Accounting policies *(continued)*

24 Collateral and netting ***(continued)***

In certain circumstances, the Group will pledge collateral in respect of its own liabilities or borrowings. Collateral pledged in the form of securities or loans and receivables continues to be recorded on the statement of financial position. Collateral paid away in the form of cash is recorded in loans and receivables to banks or customers. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

Netting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross on the statement of financial position.

25 Financial guarantees

Financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities (facility guarantees) and to other parties in connection with the performance of customers under obligations relating to contracts, advance payments made by other parties, tenders, retentions and the payment of import duties. In its normal course of business, Allied Irish Banks, p.l.c. (the parent company) issues financial guarantees to other Group entities. Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee is given. Subsequent to initial recognition, the Group s liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the year-end reporting date. Any increase in the liability relating to guarantees is taken to the income statement in provisions for undrawn contractually committed facilities and guarantees.

26 Sale and repurchase agreements (including stock borrowing and lending)

Financial assets may be lent or sold subject to a commitment to repurchase them (repos). Such securities are retained on the statement of financial position when substantially all the risks and rewards of ownership remain with the Group. The liability to the counterparty is included separately on the statement of financial position. Similarly, when securities are purchased subject to a commitment to resell (reverse repos), or where the Group borrows securities, but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not usually included in the statement of financial position. The difference between the sale and repurchase price is accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements. The exception to this is where these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss included in trading income.

27 Leases

Lessor

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownership, with or without ultimate legal title. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods under the pre-tax net investment method to reflect a constant periodic rate of return.

Assets leased to customers are classified as operating leases if the lease agreements do not transfer substantially all the risks and rewards of ownership. The leased assets are included within property, plant and equipment on the statement of financial position and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives. Lease income is recognised on a straight line basis over the period of the lease unless another systematic basis is more appropriate.

Lessee

Operating lease rentals payable are recognised as an expense in the income statement on a straight line basis over the lease term unless another systematic basis is more appropriate.

28 Shareholders equity

Issued financial instruments, or their components, are classified as equity where they meet the definition of equity and confer on the holder a residual interest in the assets of the Group.

On extinguishment of equity instruments, gains or losses arising are recognised net of tax directly in the statement of changes in equity.

28 Shareholders equity *(continued)*

Share capital

Share capital represents funds raised by issuing shares in return for cash or other consideration. Share capital comprises ordinary shares, deferred shares and preference shares of the entity.

Share premium

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.

Share issue costs

Incremental costs directly attributable to the issue of new shares or options are charged, net of tax, to the share premium account.

Dividends and distributions

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company s shareholders, or in the case of the interim dividend when it has been approved for payment by the Board of Directors. Dividends declared after the year-end reporting date are disclosed in note 62.

Dividends on preference shares accounted for as equity are recognised in equity when approved for payment by the Board of Directors.

Capital reserves

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

Revaluation reserves

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

Capital redemption reserves

These reserves arose from the renominalisation of the ordinary shares of the company. Each ordinary share was subdivided into one ordinary share of 0.01 each and thirty one deferred shares of 0.01 each. The deferred shares were acquired by AIB and immediately cancelled. Following cancellation, the amount standing to the credit of the deferred shares account was transferred to a capital redemption reserves account.

Available for sale securities reserves

Available for sale securities reserves represent the net unrealised gain or loss, net of tax, arising from the recognition in the statement of financial position of available for sale financial investments at fair value.

Cash flow hedging reserves

Cash flow hedging reserves represent the net gains or losses, net of tax, on effective cash flow hedging instruments that will be reclassified to the income statement when the hedged transaction affects profit or loss.

Capital contributions

Capital contributions represent the receipt of non-refundable considerations arising from transactions with the Irish Government (note 54). These contributions comprise both financial and non-financial net assets. The contributions are classified as equity and may be either distributable or non-distributable. Capital contributions are distributable if the assets received are in the form of cash or another asset that is readily convertible to cash, otherwise, they are treated as non-distributable. Capital contributions arose during 2011 from (a) EBS transaction; (b) Anglo transaction; (c) issue of contingent capital notes; and (d) non-refundable receipts from the Irish Government and the NPRFC.

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

AIB issued contingent convertible capital notes to the Irish Government (note 40) where the proceeds of issue amounting to 1.6 billion exceeded the fair value of the instruments issued. This excess has been accounted for as a capital contribution and will be treated as distributable according as the fair value adjustment on the notes amortises to the income statement.

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Accounting policies *(continued)*

28 Shareholders equity *(continued)*

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

Revenue reserves

Revenue reserves represent retained earnings of the parent company, subsidiaries and associated undertakings. It is shown net of the cumulative deficit within the defined benefit pension schemes and other appropriate adjustments.

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 year-end reporting date net of the cumulative gain or loss on instruments designated as net investment hedges.

Treasury shares

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

Share based payments reserves

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 grant of shares and exercise and lapsing of options, the amount in respect of the award credited to the share based payment reserves is transferred to revenue reserves.

Non-controlling interests

Non-controlling interests comprise both equity and other equity interests. Equity interests relate to the interests of outside shareholders in consolidated subsidiaries. Other equity interests relate to non-cumulative perpetual preferred securities issued by a subsidiary.

29 Insurance and investment contracts

The Group accounted for its Long Term business in Aviva Life Holdings Ireland Limited (ALH) in accordance with IFRS 4 *Insurance Contracts* up to the date on which it was classified as held for sale (accounting policy 23). Insurance contracts are those contracts containing significant insurance risk. In the case of life contracts, insurance risk exists if the amount payable on the occurrence of an insured event exceeds the assets backing the contract, or could do so in certain circumstances, and the product of the probability of the insured event occurring and the excess

amount payable has commercial substance. In particular, guaranteed equity bonds which guarantee a return of the original premium irrespective of the current value of the backing assets are deemed to be insurance contracts notwithstanding that at the year-end reporting date there may be no excess of the original premium over the backing assets. Investment contracts are contracts that do not have significant insurance risk.

Insurance contracts

The Group accounts for its insurance contracts using the Market Consistent Embedded Value Principles (MCEV), published by the CFO Forum. The embedded value comprises two components: the net assets attributable to the Group and the present value of the in-force business (VIF). The change in the VIF before tax is accounted for as revenue. The value is estimated as the net present value of future cash flows attributable to the Group before tax, based on the market value of the assets at the year-end reporting date, using assumptions that reflect experience and a long-term outlook for the economy and then discounting at an appropriate risk free yield curve rate.

Insurance contract liabilities are calculated on a statutory basis. Premiums are recognised as revenue when due from the policyholder. Claims, which together with the increase in insurance contract liabilities are recognised in the income statement as they arise, are the cost of all claims arising during the period.

Investment contracts

Investment contracts are primarily unit-linked. Unit linked liabilities are deemed equal to the value of units attaching to contracts at the year-end reporting date. The liability is measured at fair value, which is the bid value of the assets held to match the liability. Increases in investment contract liabilities are recognised in the income statement as they arise. Revenue in relation to investment management services is recognised as the services are provided. Certain upfront fees and charges have been deferred and are recognised as income over the life of the contract. Premiums and claims are accounted for directly in the statement of financial position as adjustments to the investment contract liability.

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30 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses. The Group has identified reportable segments on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker (CODM) in order to allocate resources to the segment and assess its performance. Based on this identification, the reportable segments are the operating segments within the Group, the head of each being a member of the Leadership Team. The Leadership Team is the CODM and it relies primarily on the management accounts to assess performance of the reportable segments and when making resource allocation decisions.

Transactions between operating segments are on normal commercial terms and conditions, with internal charges and transfer pricing adjustments reflected in the performance of each operating segment. Revenue sharing agreements are used to allocate external customer revenues to an operating segment on a reasonable basis.

Geographical segments provide products and services within a particular economic environment that is subject to risks and rewards that are different to those components operating in other economic environments. The geographical distribution of profit before taxation is based primarily on the location of the office recording the transaction. In addition, geographic distribution of loans and related impairment is also based on the location of the office recording the transaction.

31 Cash and cash equivalents

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

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Accounting policies *(continued)*

32 Prospective accounting changes

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

Pronouncement	**Nature of change**	**IASB effective date**
Amendments to IAS 32 *Financial instruments: Presentation* on Offsetting Financial Assets and Financial Liabilities	The amendments to *IAS 32 Financial Instruments: Presentation* clarify that the right of set-off must be currently available and legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy.	IAS 32: Annual periods beginning on or after 1 January 2014
Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements* on Investment Entities	In October 2012, the IASB issued Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). The amendments provide an exception for investment entities to consolidate particular subsidiaries. These subsidiaries should be measured at fair value through profit and loss. The amendments also set out the disclosure requirements for investment entities.	Annual periods beginning on or after 1 January 2014
Amendments to IAS 36 *Impairment of Assets* on Recoverable Amount Disclosures for Non-Financial Assets	As part of the development of IFRS 13 *Fair Value Measurement,* the IASB amended IAS 36 to require disclosures about the recoverable amount of impaired assets. The amendments published in May 2013 clarify that the scope of these disclosures is limited	Annual periods beginning on or after 1 January 2014

	to the recoverable amount of impaired assets that is based on fair value less costs of disposal. The amendments require an entity to disclose: the level of the fair value hierarchy within which the fair value of the asset is categorised; a description of the valuation technique(s) used to measure the fair value less costs of disposal, where the fair value measurement is categorised within Level 2 or Level 3 of the fair value hierarchy; the key assumptions which management has based its determination of fair value less costs of disposal, where the fair value measurement is categorised within Level 2 or Level 3 of the fair value hierarchy; and the discount rates used to determine current and previous impairments where the recoverable amount of impaired assets, based on fair value less costs of disposal, was measured using a present value technique.	
Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* on Novation of Derivatives and Continuation of Hedge Accounting	The amendment to IAS 39 *Financial Instruments: Recognition and Measurement* provides an exception to the requirement to discontinue hedge accounting where a hedging derivative is novated, provided certain criteria are met. The amendment applies to novations: which arise due to laws or regulations, or the introduction of laws or regulations; where the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and that did not result in changes to the terms of the original derivative except the changes directly attributable to the change in counterparty to achieve clearing.	Annual periods beginning on or after 1 January 2014

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

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32 Prospective accounting changes *(continued)*

Pronouncement	Nature of change	IASB effective date
Amendments to IAS 19 *Employee Benefits*	In November 2013, the IASB issued amendments to IAS 19 dealing with Defined Benefit Plans Employee Contributions . These amendments will not impact AIB Group as all the defined benefit schemes were closed to future accrual with effect from 31 December 2013. The amendments are still subject to EU endorsement.	Annual periods beginning on or after 1 July 2014
Annual improvements to IFRSs 2010 2012 cycle	In December 2013, the IASB issued *Annual Improvements to IFRSs 2010 2012 Cycle*. The amendments to standards under the annual improvements process are primarily to remove inconsistencies and clarify wording. The amendments are to seven International Financial Reporting Standards. The more relevant amendments are: IFRS 2 *Share-based payments* The amendment clarifies the definition of vesting conditions by defining a performance condition and a service condition .	Annual periods beginning on or after 1 July 2014

IFRS 3 *Business Combinations*

The amendments clarify that:

a contingent consideration is assessed as either a liability or an equity instrument only on the basis of IAS 32 *Financial Instruments: Presentation;*

contingent consideration that is within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* is measured at fair value at each reporting date and changes in fair value are recognised in profit or loss in accordance with IAS 39; and

contingent consideration that is not within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* is measured at fair value at each reporting date and changes in fair value are recognised in profit or loss.

IFRS 8 *Operating Segments*

The amendment requires an entity to disclose the judgements made by management to identify the entity s reportable segments when operating segments are aggregated.

The amendment clarifies that a reconciliation of the total of the reportable segments assets to the entity s assets should be disclosed, if that amount is regularly provided to the chief operating decision maker.

IFRS 13 *Fair Value Measurement*

The amendment clarifies that amendments to IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement* by IFRS 13 did not remove the ability to measure short-term receivables and payables with no stated interest rate at invoice

amounts without discounting, when the effect of not discounting is immaterial.

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

The amendments are still subject to EU endorsement.

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Accounting policies *(continued)*

32 Prospective accounting changes *(continued)*

Pronouncement	**Nature of change**	**IASB effective date**
Annual improvements to IFRSs 2011 - 2013 Cycle	In December 2013, the IASB issued *Annual Improvements to IFRSs 2011 2013 Cycle*. The amendments to standards under the annual improvements process are primarily to remove inconsistencies and clarify wording. The more relevant amendments to AIB Group are: IFRS 3 *Business Combinations* The amendment clarifies that the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself is not within the scope of IFRS 3. IFRS 13 *Fair Value Measurement* The amendment clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*, irrespective of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 *Financial Instruments: Presentation*.	Annual periods beginning on or after 1 July 2014

	None of the above amendments is expected to have a significant impact on reported results or disclosures. The amendments are still subject to EU endorsement.	
IFRS 9 *Financial Instruments*	IFRS 9 will ultimately replace IAS 39 *Financial Instruments: Recognition and Measurement*. This project consists of three main phases: Phase 1: Classification and measurement In November 2009, the IASB issued IFRS 9 *Financial Instruments* covering classification and measurement of financial assets. The new standard aims to enhance the ability of investors and other users of financial information to understand the accounting for financial assets and to reduce complexity. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value. The basis of classification depends on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The IASB reissued IFRS 9 in October 2010. The revised standard incorporated new requirements on accounting for financial liabilities, and carried over the requirements for derecognition of financial assets and liabilities from IAS 39. Phase 2: Impairment methodology The IASB published the Exposure Draft *Financial Instruments: Expected Credit Losses* in March 2013. The comment period	Annual periods beginning 1 January 2018

closed on 5 July 2013 and redeliberations are on-going.

Phase 3: Hedge accounting

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

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32 Prospective accounting changes *(continued)*

Pronouncement	**Nature of change**	**IASB effective date**
IFRS 9 *Financial Instruments (continued)*	This phase replaces the rule-based hedge accounting requirements in IAS 39 Financial Instruments: Recognition and Measurement to more closely align the accounting with risk management activities. The objective of this phase is to improve the ability of investors to understand risk management activities and to assess the amounts, timing and uncertainty of future cash flows. This update to IFRS 9 does not deal with macro hedging which is scheduled for a Discussion Paper in 2014.	
	The main areas of change to hedge accounting are as follows: Risk component this may be designated as the hedged item, for both financial and non-financial items, if the risk component is separately identifiable and reliably measurable; Hedge effectiveness testing the 80-125% range is replaced by an objectives-based test which focuses on the economic relationship between the hedged item and the hedging instrument and the effect of credit risk on the economic relationship; Costs of hedging the time value of an option, the forward element of a forward contract and any foreign currency basis spread may be excluded from the designation of a financial instrument as the hedging	

instrument and accounted for as costs of hedging;

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

Disclosures more extensive disclosures are required.

IFRS 9 (2013) also includes a change resulting from other phases of the IASB s financial instruments project:

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

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

The new standard is subject to EU endorsement.

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Consolidated income statement

for the year ended 31 December 2013

	Notes	**2013** **m**	Restated* 2012 m	Restated* 2011 m
Continuing operations				
Interest and similar income	2	**3,321**	3,916	4,429
Interest expense and similar charges	3	**(1,973)**	(2,810)	(3,079)
Net interest income		**1,348**	1,106	1,350
Dividend income	4	**4**	1	4
Fee and commission income	5	**414**	396	470
Fee and commission expense	5	**(36)**	(29)	(29)
Net trading income/(loss)	6	**102**	(100)	(113)
Gain on redemption/remeasurement of subordinated liabilities and other capital instruments	7			3,277
Loss on disposal/transfer of loans and receivables	8	**(226)**	(803)	(686)
Other operating income	9	**104**	50	67
Other income/(loss)		**362**	(485)	2,990
Total operating income		**1,710**	621	4,340
Administrative expenses	10	**(1,359)**	(1,716)	(1,636)
Impairment and amortisation of intangible assets	32	**(73)**	(60)	(66)
Impairment and depreciation of property, plant and equipment	33	**(51)**	(60)	(49)
Total operating expenses		**(1,483)**	(1,836)	(1,751)
Operating profit/(loss) before provisions		**227**	(1,215)	2,589
(Provisions) for impairment on loans and receivables	27	**(1,916)**	(2,434)	(7,861)
(Provisions)/writeback of provisions for liabilities and commitments	39	**(17)**	(9)	416
Writeback/(provisions) for impairment on financial investments available for sale	13	**9**	(86)	(283)
Operating loss		**(1,697)**	(3,744)	(5,139)
Associated undertakings	30	**7**	10	(37)
Profit/(loss) on disposal of property	14	**2**	2	(1)
Profit on disposal of businesses	15	**1**	3	38
Loss before taxation from continuing operations		**(1,687)**	(3,729)	(5,139)
Income tax credit from continuing operations	17	**90**	172	1,193

Loss after taxation from continuing operations		**(1,597)**	(3,557)	(3,946)
Discontinued operations				
Profit after taxation from discontinued operations	18			1,628
Loss for the year		**(1,597)**	(3,557)	(2,318)
Attributable to:				
Owners of the parent:				
Loss from continuing operations		**(1,597)**	(3,557)	(3,946)
Profit from discontinued operations				1,608
Loss for the year attributable to owners of the parent		**(1,597)**	(3,557)	(2,338)
Non-controlling interests:				
Profit from discontinued operations				20
Profit for the year attributable to non-controlling interests				20
		(1,597)	(3,557)	(2,318)
Basic (loss)/earnings per share				
Continuing operations	19(a)	**(0.3c)**	(0.7c)	(1.6c)
Discontinued operations	19(a)			0.7c
		(0.3c)	(0.7c)	(0.9c)
Diluted (loss)/earnings per share				
Continuing operations	19(b)	**(0.3c)**	(0.7c)	(1.6c)
Discontinued operations	19(b)			0.7c
		(0.3c)	(0.7c)	(0.9c)

*Restated due to change in accounting policy for employee benefits (note 60).

David Hodgkinson, Chairman; David Duffy, Chief Executive Officer; Catherine Woods, Director; David O Callaghan, Company Secretary.

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Consolidated statement of comprehensive income

for the year ended 31 December 2013

	Notes	**2013** m	Restated* 2012 m	Restated* 2011 m
Loss for the year		**(1,597)**	(3,557)	(2,318)
Other comprehensive income continuing operations				
Items that will not be reclassified to profit or loss:				
Net change in property revaluation reserves		**(1)**	(2)	
Net actuarial losses in retirement benefit schemes, net of tax		**251**	(716)	(438)
Total items that will not be reclassified to profit or loss		**250**	(718)	(438)
Items that may be reclassified subsequently to profit or loss:				
Net change in foreign currency translation reserves	17	**(9)**	34	(11)
Net change in cash flow hedges, net of tax	17	**(18)**	(162)	(209)
Net change in fair value of available for sale securities, net of tax	17	**513**	1,295	112
Share of other comprehensive income of associates, net of tax				4
Total items that may be reclassified subsequently to profit or loss		**486**	1,167	(104)
Other comprehensive income for the year, net of tax from continuing operations		**736**	449	(542)
Other comprehensive income discontinued operations				
Items that may be reclassified subsequently to profit or loss:				
Net change in foreign currency translation reserves				(134)
Net change in cash flow hedges, net of tax				1
Net change in fair value of available for sale securities, net of tax				(74)
Total items that may be reclassified subsequently to profit or loss				(207)
Other comprehensive income for the year, net of tax, from discontinued operations				(207)

Total other comprehensive income for the year, net of tax	**736**	449	(749)
Total comprehensive income for the year	**(861)**	(3,108)	(3,067)
Attributable to:			
Owners of the parent:			
Continuing operations	**(861)**	(3,108)	(4,488)
Discontinued operations			1,409
	(861)	(3,108)	(3,079)
Non-controlling interests:			
Discontinued operations			12
Total comprehensive income for the year	**(861)**	(3,108)	(3,067)

*Restated due to change in accounting policy for employee benefits (note 60).

David Hodgkinson, Chairman; David Duffy, Chief Executive Officer; Catherine Woods, Director; David O Callaghan, Company Secretary.

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Consolidated statement of financial position

as at 31 December 2013

	Notes	**2013**	Restated* 2012
		m	m
Assets			
Cash and balances at central banks	52	**4,132**	4,047
Items in course of collection		**164**	192
Disposal groups and non-current assets held for sale	21	**2,782**	562
Trading portfolio financial assets	22	**2**	24
Derivative financial instruments	23	**1,629**	2,835
Loans and receivables to banks	24	**2,048**	2,914
Loans and receivables to customers	25	**65,713**	72,972
NAMA senior bonds	28	**15,598**	17,387
Financial investments available for sale	29	**20,368**	16,344
Interests in associated undertakings	30	**58**	52
Intangible assets	32	**176**	187
Property, plant and equipment	33	**301**	333
Other assets		**242**	239
Current taxation		**1**	9
Deferred taxation	34	**3,828**	3,845
Prepayments and accrued income		**609**	559
Retirement benefit assets	12	**83**	
Total assets		**117,734**	122,501
Liabilities			
Deposits by central banks and banks	35	**23,121**	28,442
Customer accounts	36	**65,667**	63,610
Disposal groups held for sale	21	**3,593**	
Derivative financial instruments	23	**1,960**	3,256
Debt securities in issue	37	**8,759**	10,666
Current taxation		**48**	2
Other liabilities	38	**1,321**	1,627
Accruals and deferred income		**943**	1,260
Retirement benefit liabilities	12	**177**	762
Provisions for liabilities and commitments	39	**299**	250
Subordinated liabilities and other capital instruments	40	**1,352**	1,271
Total liabilities		**107,240**	111,146

Shareholders equity			
Share capital	41	**5,248**	5,206
Share premium	41	**2,848**	2,890
Reserves		**2,398**	3,259
Total shareholders equity		**10,494**	11,355
Total liabilities and shareholders equity		**117,734**	122,501

*Restated due to change in accounting policy for employee benefits (note 60).

David Hodgkinson, Chairman; David Duffy, Chief Executive Officer; Catherine Woods, Director; David O Callaghan, Company Secretary.

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Consolidated statement of cash flows

for the year ended 31 December 2013

	Notes	**2013**	Restated* 2012	Restated* 2011
		m	m	m
Reconciliation of loss before taxation to net cash inflow/(outflow) from operating activities				
Loss for the year from continuing operations before taxation		**(1,687)**	(3,729)	(5,139)
Adjustments for:				
Gain on redemption/remeasurement of subordinated liabilities and other capital instruments				(3,277)
Profit on disposal of businesses	15	**(1)**	(3)	(38)
(Profit)/loss on disposal of property, plant and equipment	14	**(2)**	(2)	1
Loss on disposal/transfer of loans and receivables	8	**226**	803	686
Dividend income		**(3)**	(14)	(5)
Associated undertakings	30	**(16)**	(15)	1
Impairment of associated undertakings	30	**8**	5	36
Loss on disposal of associated undertaking	30	**1**		
Provisions for impairment on loans and receivables	27	**1,916**	2,434	7,861
Provisions/(writeback of provisions) for liabilities and commitments	39	**17**	9	(416)
(Writeback)/provisions for impairment on financial investments available for sale	13	**(9)**	86	283
Change in other provisions		**84**	175	80
Retirement benefits defined benefit (credit)/expense	12	**(131)**	(123)	60
Termination benefits		**(3)**	132	
Contributions to defined benefit pension schemes	12	**(234)**	(236)	(216)
Depreciation, amortisation and impairment	32 & 33	**124**	120	115
Interest on subordinated liabilities and other capital instruments	3	**241**	223	168
(Profit)/loss on disposal of financial investments available for sale	9	**(41)**	(31)	28
Remeasurement of NAMA senior bonds	28	**(62)**		
Amortisation of premiums and discounts		**(57)**	(128)	(60)
Change in prepayments and accrued income		**(51)**	114	(11)
Change in accruals and deferred income		**(316)**	153	71
Net cash inflow/(outflow) from operating activities before changes in operating assets and liabilities		**4**	(27)	228
Change in deposits by central banks and banks		**(5,309)**	(8,456)	(17,696)

Change in customer accounts[1]	**3,397**	2,654	(9,796)
Change in loans and receivables to customers[2]	**5,078**	6,798	11,617
Change in NAMA senior bonds	**1,916**	2,438	891
Change in loans and receivables to banks	**567**	265	1,869
Change in trading portfolio financial assets/liabilities	**21**	33	(63)
Change in derivative financial instruments	**259**	(769)	385
Change in items in course of collection	**26**	13	76
Change in debt securities in issue	**(1,875)**	(4,996)	(3,174)
Change in notes in circulation	**(50)**	9	1
Change in other assets	**(5)**	254	(212)
Change in other liabilities	**(264)**	(102)	(87)
Effect of exchange translation and other adjustments	**78**	(31)	(405)
Net cash inflow/(outflow) from operating assets and liabilities	**3,839**	(1,890)	(16,594)
Net cash inflow/(outflow) from operating activities before taxation	**3,843**	(1,917)	(16,366)
Taxation refund	**40**	42	15
Net cash inflow/(outflow) from operating activities	**3,883**	(1,875)	(16,351)
Investing activities *(note a)*	**(3,827)**	546	6,684
Financing activities *(note b)*	**(160)**	(160)	11,302
Change in cash and cash equivalents	**(104)**	(1,489)	1,635
Opening cash and cash equivalents	**5,926**	7,373	5,712
Effect of exchange translation adjustments	**(92)**	42	26
Closing cash and cash equivalents	**5,730**	5,926	7,373

*Restated due to change in accounting policy for employee benefits (note 60).

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Consolidated statement of cash flows *(continued)*

for the year ended 31 December 2013

	Notes	**2013**	Restated* 2012	Restated* 2011
		m	m	m
(a) Investing activities				
Net cash outflow on acquisition of business combinations	18 & 31	**(325)**[3]		(3,420)
Purchase of financial investments available for sale	29	**(6,666)**	(5,059)	(1,760)
Proceeds from sales and maturity of financial investments available for sale	9 &29	**3,040**	5,685	8,738
Additions to property, plant and equipment	33	**(32)**	(37)	(17)
Disposal of property, plant and equipment	14 & 33	**15**	3	2
Additions to intangible assets	32	**(62)**	(71)	(33)
Proceeds of disposal of investment in associated undertaking	30	**10**		
Proceeds of disposal of investment in businesses and subsidiaries		**190**[4]	11	3,169[5]
Dividends received from associated undertakings		**3**	14	5
Cash flows from investing activities		**(3,827)**	546	6,684
(b) Financing activities				
Proceeds of issue of CCNs	40			1,600
Proceeds of issue of share capital to NPRFC				5,000
Capital contributions from the Minister for Finance and the NPRFC	44			6,054
Redemption of subordinated liabilities and other capital instruments				(1,120)
Cost of redemption of capital instruments	7			(9)
Interest paid on subordinated liabilities and other capital instruments		**(160)**	(160)	(223)
Cash flows from financing activities		**(160)**	(160)	11,302

[1]Includes deposits placed by the NTMA 6,683 million (2012: 1,127 million; 2011: 27 million).

[2]Also includes loans and receivables to customers within disposal groups and non-current assets held for sale.

[3]Acquisition of Ark Life Assurance Company Limited.

(4) Disposal of Aviva Life Holdings Ireland Limited.

(5) Includes net proceeds on the disposal of BZWBK (note 18) and proceeds on the disposal of businesses (note 15).

*Restated due to change in accounting policy for employee benefits (note 60).

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Consolidated statement of changes in equity

for the year ended 31 December 2013

	Attributable to equity holders of parent										
	Share capital	**Share premium**	**Capital reserves**	**Revaluation reserves**	**Available for sale securities reserves**	**Cash flow hedging reserves**	**Revenue reserves**	**Foreign currency translation reserves**	**Treasury shares**	**Share based payments reserves**	**Total**
	m	**m**	**m**	**m**	**m**	**m**	**m**	**m**	**m**	**m**	**m**
At 1 January 2013 as reported	**5,206**	**2,890**	**2,638**	**24**	**292**	**67**	**996**	**(433)**	**(462)**	**23**	**11,241**
Change in accounting policy							**114**				**114**
As restated	**5,206**	**2,890**	**2,638**	**24**	**292**	**67**	**1,110**	**(433)**	**(462)**	**23**	**11,355**
Total comprehensive income for the year											
Loss for the year							**(1,597)**				**(1,597)**
Other comprehensive income				**(1)**	**513**	**(18)**	**251**	**(9)**			**736**
Total comprehensive income for the year				**(1)**	**513**	**(18)**	**(1,346)**	**(9)**			**(861)**
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners of the Group											
Capital contributions *(note 43)*			**(219)**				**219**				

Ordinary shares issued in lieu of dividend *(note 41)*	**42**	**(42)**									
Share based payments							**10**			**(10)**	
Other movements			**178**	**(5)**	**(164)**	**(14)**	**5**				
Total contributions by and distributions to owners of the Group	**42**	**(42)**	**(41)**	**(5)**	**(164)**	**(14)**	**234**			**(10)**	
At 31 December 2013	**5,248**	**2,848**	**2,597**	**18**	**641**	**35**	**(2)**	**(442)**	**(462)**	**13**	**10,494**

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Consolidated statement of changes in equity

for the year ended 31 December 2012

	Attributable to equity holders of parent											Restated*
	Share capital	Share premium	Capital reserves	Capital redemption reserves	Revaluation reserves	Available for sale securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Treasury shares	Share based payments reserves	Total
	m	m	m	m	m	m	m	m	m	m	m	m
At 1 January 2012	5,170	4,926	2,885	3,958	26	(1,003)	229	(822)	(467)	(462)	23	14,463
Total comprehensive income for the year												
Loss for the year								(3,557)				(3,557)
Other comprehensive income*					(2)	1,295	(162)	(716)	34			449
Total comprehensive income for the year					(2)	1,295	(162)	(4,273)	34			(3,108)
Transactions with owners, recorded directly in equity												
Contributions by and distributions to owners of the Group												