Annual Financial Report 2014

For the year ended 31 December 2014

Allied Irish Banks, p.l.c.

AIB Description

AIB is a financial services group operating predominantly in the Republic of Ireland and the UK. We provide a comprehensive range of services to personal, business and corporate customers in our target markets and have leading market shares in banking products in the Republic of Ireland. AIB's business has been restructured in recent years with the aim of becoming a customer focused, profitable and lower risk institution, well positioned to support economic recovery in Ireland while seeking to generate sustainable shareholder returns.

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Important Information and Forward Looking Statement

Important Information – Valuation

AIB has 523,438,445,437 (excluding 35,680,114 treasury shares) ordinary shares in issue, c. 99.8% of which are held by the Ireland Strategic Investment Fund (ISIF), mainly following the issue of 500 billion ordinary shares to the National Pension Reserve Fund Commission (the predecessor to the ISIF) at €0.01 per share in July 2011. Based on the number of ordinary shares currently in issue and the closing share price of 3 March 2015, AIB trades on a valuation multiple of c. 6x (excluding the 2009 Preference Shares) the net asset value (NAV) of the Group as at 31 December 2014. The Group continues to note that the median for comparable European banks is c.1x NAV.

Forward-looking statement

This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of AIB Group and certain of the plans and objectives of the Group. 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', 'seek', 'continue', 'should', 'assume', or other words of similar meaning. Examples of forward-looking statements include, among others, statements regarding the Group's future financial position, capital structure, Government shareholding in the Group, 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 the Principal Risk and Uncertainties on pages 51 to 56 in the 2014 Annual Financial Report. In addition to matters relating to the Group's business, future performance will be impacted by Irish, UK and wider European and global economic and financial market considerations. Any forward-looking statements made by or on behalf of the Group speak only as of the date they are made. The Group cautions that the list of important factors on pages 51 to 56 of the 2014 Annual Financial Report 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.

2014 Financial Summary

Operating performance

Profit before tax
€1,111m €2,798m ▲

Return to profitability from higher income, lower costs and reduced provisions. In addition to a strong underlying profitable performance, the impact of €437 million of income from balance sheet actions and realisations, together with the net charge of exceptional items of €233 million is included in the reported profit before tax.

Net interest margin(1)
1.69% 32bps ▲

Continuing positive momentum in NIM mainly driven by lower interest earning assets and lower costs of funding those assets.

Total income(2)
€2,530m €606m ▲

Significant increase in net interest income of €342 million (lower funding costs and ELG charge) and other income of €264 million (gains on disposal of AFS securities and loans along with re-estimating cashflows on NAMA bonds).

Pre-provision operating profit(2)
€1,127m €673m ▲

Positive contribution from business segments through 2014 with €956 million from Irish operations and €171 million from the UK.

Operating expenses(2)
€1,403m 5% ▼

Cost reductions in line with expectation. €67 million reduction on 2013 and €345 million (20%) lower than 2012.

Credit provision writeback
€185m €2,101m ▼

2014 net writeback of €185 million compared to a net charge of €1,916 million in 2013 reflecting level of debt restructuring and economic improvement with a reduction in new impairments.

Balance Sheet / Capital

Common equity tier 1 ratio(3)
16.4% 1.4% ▲

Capital position remains robust with the improvement mainly due to retained profits in the year and lower risk weighted assets.

Monetary authority funding
€3.4bn €9.3bn ▼

Significant reduction in ECB funding which now accounts for 3% of AIB's total funding requirement, down from 12% in 2013.

Loan to deposit ratio(4)
99% 1% ▼

Loan to deposit ratio in line with 2013 as net loans reduced €2.3 billion, while customer accounts reduced €1.7 billion.

Provision coverage ratio(5)
51% 55% Dec 2013

Reduction driven by write-off of provisions within portfolios with higher provision cover and writebacks from restructuring.

Impaired loans
€22.2bn €6.7bn ▼

Reduction reflecting debt restructuring activity during the year which included structuring sustainable solutions for customers, write-offs and repayments partly offset by new impaired loans.

Liquidity coverage ratio
116% 105% Dec 2013

Improvement of 11% since 2013 mainly driven by increased high quality liquid assets and retail deposits.

(1)Net interest margin excluding eligible liabilities guarantee ("ELG") charge.
(2)Before exceptional items. Exceptional items are detailed on page 29.
(3)Common equity tier 1 ("CET 1") transitional capital ratio.
(4)Customer accounts includes repos of €2.2 billion.
(5)Specific provisions as a percentage of impaired loans.

"The 2014 results demonstrate the significant progress made in the recovery of AIB. Rebuilding public confidence and trust in the bank is paramount. Our focused leadership team, dedicated workforce, clear strategy and improved risk governance will continue to progress us to that goal."

Chairman's Statement

Richard Pym
Chairman

The 2014 results demonstrate the significant progress made in the recovery of AIB. They show a €1.1 billion profit before tax, a major improvement from a loss of €1.7 billion in 2013. In addition, during the year, the bank received approval for its Restructuring Plan from the EU Commission and also passed the Comprehensive Assessment of capital adequacy conducted by the ECB and the EBA.

As a newcomer to AIB, I have been very impressed by what I have seen since I arrived in October 2014. In my introductory visits around the bank, I have met dedicated and enthusiastic colleagues who prioritise the needs of our customers. I have also seen how our leading digital products provide customers with easy access to banking facilities.

Our customers have been very loyal to us during these last difficult years and we appreciate it. It is very encouraging to see how our measures of brand strength have improved during the year and there has also been a remarkable turnaround within the bank in colleague engagement.

2014 was a landmark year for AIB, testimony to the transformative work of our outgoing Chief Executive, David Duffy, and his team. It is to his credit that in three years he led the bank's turnaround and leaves behind a stable, profitable lender headed by a strong leadership team with a clear focus on customer experience, growth, and prudent risk management.

David's successor will be announced shortly and we look forward to continuing to drive ahead with AIB's strategy under new leadership.

I took over as Chairman when David Hodgkinson retired. David joined AIB in 2010 when the bank was in a very challenged position and he set about the task of rebuilding it. He was joined by David Duffy in 2011. Together they have made a huge contribution to AIB and we thank them both for their accomplishment.

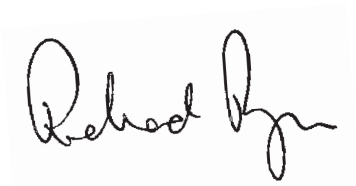
We also said goodbye to Tom Wacker and Dick Spring as non-Executive Directors of the Board of AIB. Tom left before I joined AIB and I enjoyed my brief time working with Dick Spring. He is a hugely experienced Irish public representative who brought the national interest into focus in Board discussions. We thank both Tom and Dick for their service on the Board over a number of years.

AIB is 99.8% owned by the State, and the Department of Finance has commissioned preparatory work on the capital structure which, when completed, will enable the Government to determine if and when it disposes of any of its capital instruments or equity shareholding. It is entirely a matter for the Government to decide and the role of AIB is to ensure that the business is delivering its strategic objectives and medium term targets in order to achieve value for shareholders.

The Irish nation has been badly damaged by the past failings of its financial system. After a period of significant restructuring, AIB's continued progress is supportive of economic recovery, and similarly the Group is benefiting from the improvement in Ireland's growth. Continued constructive collaboration between the Government and the bank will serve to strengthen the national economy and benefit society as a whole.

AIB remains deeply conscious of its debt to the Irish people and I want to reiterate our thanks for that immense support. Irish taxpayers have invested approximately €21 billion in AIB and we believe that investment will be returned over a period of time.

Rebuilding public confidence and trust in the bank is paramount. Our focused leadership team, dedicated workforce, clear strategy and improved governance will continue to progress us to that goal.



Richard Pym

Chairman

4 March 2015

"2014 saw AIB successfully execute its three year plan to deliver a bank that is sustainably profitable, adequately capitalised and appropriately funded. We have a strong momentum in our business and are committed to supporting our customers by understanding their needs, providing suitable solutions and serving them through our omni channel distribution model. We are focused on growing our lending to support the Irish economy and delivering sustainable returns for our shareholders."

Chief Executive's Review

David Duffy
Chief Executive

Delivering our Strategic Objectives

Introduction

Three years ago we embarked on a challenging journey to transform AIB into a stable, customer focused, profitable organisation. Having established a track record of delivery over that period, 2014 was a milestone year for the bank. We achieved significantly improved financial results, and a material de-risking of the balance sheet, all while constantly maintaining focus on rebuilding our customers' trust, improving customer service levels and strengthening our internal governance. Over a three year period we have delivered a c. €4.8 billion turnaround in the Group's profit before tax.

Returning to sustainable profitability in 2014 was a result of broad based improvements in all key areas and geographies of the business: growth in income, including improving Net Interest Margin (NIM); continued organisational efficiency; reducing loan impairments; and increased levels of new customer lending. The Group is now profitable again and, for the first time in a number of years, is generating capital which supports our ability to further increase our lending volumes.

Approval of the Group's Restructuring Plan by the EU Commission, and the successful completion of the ECB/EBA's Comprehensive Assessment during 2014, were important external validations of the Group's long term strategy and the progress made to date in implementing an extensive change and restructuring programme.

Although much has been achieved over the past three years, we recognise that we have more to do. Overall, the Group is now in a much stronger position to support our customers and the Irish economy as we move on to the next phase of our journey. We will measure our future success not just on what we do for customers, but how we conduct ourselves through our business decisions. Our strategic direction over the next number of years will be driven by that customer focus while managing regulatory and financial priorities and starting the process of returning capital to the State.

Focused on Supporting our Customers

We continue to align our customer strategy and propositions across the Irish and UK businesses and to seek appropriate lending opportunities. Following significant restructuring, and as a profitable organisation, we are focused on sustainable and prudent growth and are well positioned in the personal, business and corporate banking market segments in which we operate. The operating environment in Ireland and the UK improved steadily during 2014 and this has translated into tangible progress in growing our new lending volumes, particularly in the SME and Corporate sectors. Improved growth levels are also evident in the mortgage and personal lending markets.

We approved over €13 billion in lending during 2014, c.37% higher than 2013, and customer drawdowns were c.50% higher year on year.

We maintained our strong mortgage market share with c.33% of mortgage drawdowns in the Republic of Ireland in 2014. Transaction volumes in the market continued to increase, albeit from historically low levels. We have introduced a number of improvements to our customer proposition, including online mortgage application, dedicated mortgage advisors and competitive lending rates for new and existing customers. In support of the increased demand for housing in Ireland, we launched a €350 million New Homes Development fund in 2014. This fund was one of a number of sector specific funds launched by the group in support of our business customers.

Overall lending drawdowns to SME and Corporate customers in Ireland and the UK were higher than 2013. Lending activity was higher across all the major sectors, in particular Agriculture, Wholesale/Retail Trade, Manufacturing and Tourism. This growth reflects the increased demand for credit as the economic environment improved, coupled with the successful implementation of our differentiated, sector specialist, customer engagement strategy.

We have continued to invest in our omni channel customer strategy, namely the branch network, online, mobile and direct offerings to provide more convenient and accessible banking services for our customers. This differentiated service model includes increased innovation, technology and digitisation across our multiple distribution channels. Large numbers of our customers are migrating to mobile, internet and tablet banking and we offer an expanding range of online deposit and lending products. We remain focused on simplifying our structure to achieve cost and income benefits in the future, but importantly also to improve our customers' experience.

Adopting a fair and equitable approach to customers in difficulty is fundamental to maintaining good working relationships over time. We have developed and implemented a comprehensive range of sustainable solutions for our customers in mortgage arrears. The total number of accounts in arrears in the Irish residential mortgage portfolio declined by 18% in 2014 and significant numbers of AIB customers have been offered and accepted affordable and sustainable solutions. We have gained traction with our customer treatment strategies for SMEs as we seek to protect employment and viable businesses. We remain focused on reducing the substantial number of impaired loans that remain on the balance sheet.

"Adopting a fair and equitable approach to customers in difficulty is fundamental to maintaining good working relationships over time."

Financial Performance

Return to Sustainable Profitability

Our financial performance in 2014 is the outcome of a significant number of measures undertaken since 2012, including improving our NIM and non interest income, reducing our cost base and resolving legacy asset quality issues. A number of these strategic objectives have been achieved ahead of plan.

For the full year 2014, we reported a profit before tax of € 1.1 billion, a c.€ 2.8 billion improvement on the loss before tax in 2013. Excluding Eligible Liabilities Guarantee (ELG) costs, NIM increased to 1.69% for 2014 as funding costs reduced and asset yields held broadly stable. There were a number of specific transactions during the year, including disposals in the Available for Sale portfolio and asset disposals, which have had a positive impact on our performance. However, even when these items are excluded, the bank has returned to sustainable profitability. Overall operating income increased 31% year on year.

Excluding exceptional items, we achieved our c.€0.35 billion operating cost reduction target in 2014, relative to 2012 levels. Cost discipline will remain an ongoing component of our strategy in 2015 and beyond as we implement the next phase of our transformation programme, and as we work towards achieving our medium term target of a cost income ratio of less than 50%.

2014 saw increasing stabilisation in the asset quality of our loan portfolios. Total impaired loans reduced by €6.7 billion or 23% during 2014 to €22.2 billion. This reduction reflects improving economic conditions, coupled with the significant restructuring activity completed for customers in difficulty. This has the dual benefit of reducing the legacy risk in the balance sheet and increasing the levels of performing loans.

The underlying credit impairment charge is trending towards more normalised levels driven by a reduction in new impaired loans. This, together with the amount of customer loan restructuring achieved by our Financial Solutions Group (FSG) in an improving economic environment, has resulted in a net writeback of provisions for 2014. The solutions and customer engagement processes developed in FSG have gathered momentum and we expect the level of impaired loans to continue to reduce in 2015, subject to market conditions. However we will continue to adopt an approach in concluding these case by case restructuring solutions that is mutually beneficial for the Group and our customers.

Our overall funding position continued to stabilise. Underlying customer accounts, excluding repos[1], increased during 2014. A decline in the volume of repos was offset, in part, by an increase in customer current account volumes. The loan to deposit ratio was 99% at 31 December 2014 from 100% a year earlier. This change was due, in part, to a reduction in net loans, as redemptions continue to outstrip new lending despite the significant improvement in new lending volumes. Continued growth in new lending across our loan portfolio is a key priority for 2015, in line with a prudent and conservative risk appetite. The Group also benefited from the continuing repayment of NAMA Senior Bonds, the volume of which reduced during the year by 40% to €9.4 billion.

1 For further detail please see Glossary of terms on page 385 of this report.

Our successful and balanced return to the funding markets continued in 2014 with €1.0 billion in issuances and we have also broadened our funding base with €3 billion in additional sources of funds. We will continue to monitor market conditions and will access the funding markets when appropriate. We reduced our monetary authority funding to €3.4 billion at end 31 December 2014, from €12.7 billion a year earlier.

Capital

Our capital position strengthened over the year due to retained earnings and a 3% decline in risk weighted assets. Our transitional Common Equity Tier 1 (CET1) ratio increased to 16.4% and our fully loaded CET1 ratio, including the €3.5 billion 2009 Preference Shares, was 11.8%. The Group's increasing capital levels are supportive of our aims to grow lending volumes to support our customers and Irish economic recovery.

The Group expects to continue its discussions with the Department of Finance regarding the appropriate capital structure of the Group in the context of regulatory and market requirements. These discussions are currently focused on:

- Options in relation to the €3.5 billion 2009 Preference Shares, including the possible conversion into ordinary shares of part or all of the Preference Shares.
- Options in relation to the €1.6 billion Contingent Capital Notes which mature in July 2016.
- A possible significant consolidation in the number of ordinary shares in issue given AIB currently has in excess of 523 billion ordinary shares in issue.
    - Based on the closing share price on 3 March 2015, the bank trades on a valuation multiple of c. 6x (exluding the 2009 Preference Shares) the net asset value of the Group as at 31 December 2014. The Group continues to note that the median for comparable European banks is c. 1x NAV.

Any future actions in respect of the Group's capital structure will be subject to relevant regulatory and shareholder approvals where necessary. There is no definitive set of outcomes or completion date for these discussions.

Relationship with the State

The Group has received significant support from the State over the last number of years and is deeply cognisant of its responsibilities to generate value for the shareholder over time. The Group is now profitable and generating capital. AIB has paid c. €2.4 billion in fees and coupons since 2008 to the State. We remain focused on generating sustainable returns for our shareholders over time, subject to the financial performance of the Group and evolving regulatory and market capital requirements.

Following the injections of capital into the group since 2009, the State holds 99.8% of the ordinary shares in the Group and therefore the significant majority of the value of the Group rests with the State.

The day to day relationship between the Group and the State is governed by the March 2012 Relationship Framework document specified by the Minister for Finance.

Following the approval of the EU Restructuring Plan in May 2014, the Group is now in a monitoring phase until December 2017 in relation to its performance against the commitments outlined in the plan. These commitments are in line with the Group's existing operational plans and medium term targets. Further information on the EU Restructuring Plan is contained on page 317 of this report.

Outlook

Economic conditions in AIB's main markets of Ireland and the UK have continued to improve and this has positively impacted the performance of the Group. Having returned to profitability we are well placed to benefit from the expected increase in economic activity in the main markets in which we operate. However, we continue to face a number of challenges, including the requirement to reduce the size of our significant impaired loan portfolios, ensuring the Group's capital structure is appropriate in the context of evolving regulatory and market requirements, the continued decline in net loan volumes, and pension scheme volatility.

Additionally we have a challenging agenda which includes risk in execution of our strategy, including managing risks related to the recruitment and retention of key staff and expertise, while managing an industry wide challenge in ensuring robust IT systems. Global growth forecasts reflect a number of ongoing uncertainties, including the historically low interest rate environment, the uneven pace of economic output in the Eurozone and the outcome of geo-political events in Eastern Europe and the Middle East, which could impact on economic activity in AIB's main operating markets.

The Group will continue to focus on making steady progress towards reaching our medium term performance targets, while importantly improving service levels for our customers. We are seeking to prudently grow our business lending volumes while maintaining simplification of our operations and enhancing our customer proposition, both in the Irish and UK businesses. We believe we are well positioned from a capital and funding perspective to support our customers and the continued recovery in the Irish economy.

Staff

Over the past few years AIB has focused on building a culture that prioritises our customers in everything we do. Our progress to date and the implementation of the next phase of our strategy relies on the dedication of our staff. I would like to take this opportunity to thank them again for their continued commitment and service to our customers. Our ambition of becoming a leading consumer brand in Ireland will not be possible without their dedication and hard work. AIB's staff have been central to our recovery and are key to our future.

Acknowledgement

Finally, I announced in January that I will be stepping down from my positions as CEO and Executive Director at the Group. My time at AIB has been immensely rewarding both professionally and personally. Having returned to profitability, received approval of the Group's EU Restructuring Plan and passed the recent ECB/EBA Comprehensive Assessment, I believe now is the right time for a new CEO to lead the Group through the next phase of its recovery and growth and a multi-year process of returning capital to the State. The Board, leadership team and all members of staff have worked tirelessly to bring the Group back to a position of stability and growth and I am thankful for the support I have received. While a number of challenges lie ahead, I am confident that the Board and management are well placed to continue delivering on the Group's strategic objectives.

David Duffy
Chief Executive Officer
4 March 2015

Our Strategy

Performance Momentum and Delivery to Date

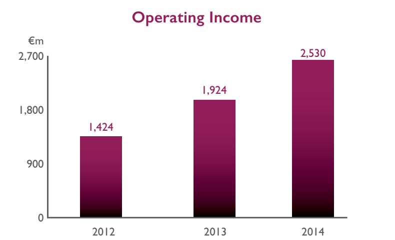
2014 represented the final year of a 3 year strategic plan to return the bank to sustainable profitability.

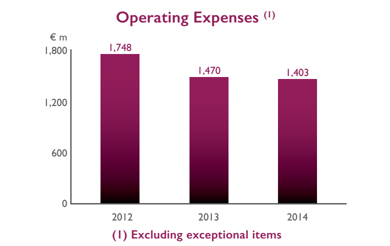
Customers and our People

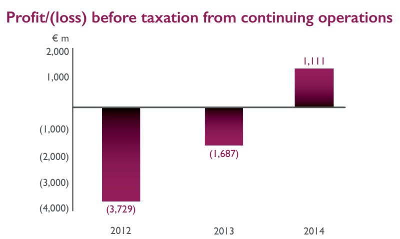
- We are lending more and our customer satisfaction rates are increasing
- We have made significant improvements to our customer proposition
- Our staff engagement levels have increased dramatically

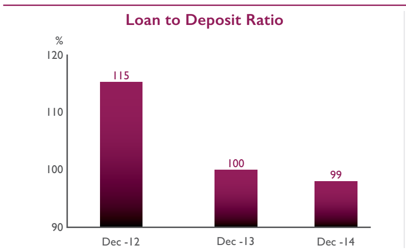
Our Business

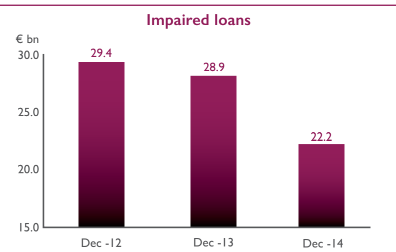
- We have returned to profitability and are generating capital
- We have materially reduced provision charges and our total impaired loans have fallen significantly
- We received approval of our Restructuring Plan from the EU in May 2014
- We successfully passed the ECB/EBA Comprehensive Assessment in October 2014
- We have made continued progress towards delivering our medium term targets

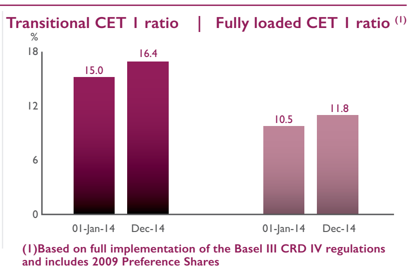












Current performance against our medium term targets

Description	Original Target	2013	2014	Status Update
Fully loaded CET1 Ratio	>10%	10.5%[1]	11.8%	On track
Net Interest Margin	>2.00%	1.37%	1.69%	On track
Cost Income Ratio	<50%	76%	55%	On track
Credit Impairment Charge	<65bps	224bps	(22bps)	On track
Loan to Deposit Ratio	100-120%	100%	99%	On track

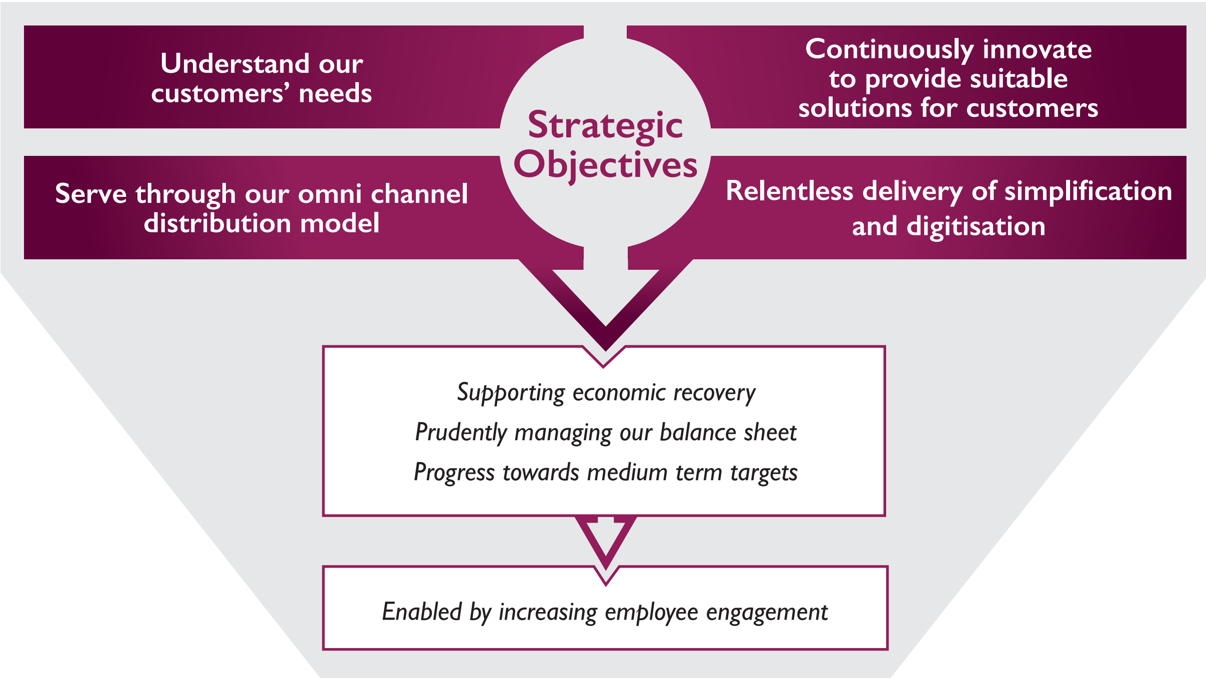
[1] As of 1 Jan 2014

Our Vision

To be a customer driven bank, recognised as a leading consumer brand.

Our Strategic Objectives

Our three year strategy has delivered significant benefits to the bank and our customers. The next phase of our journey builds on the momentum we have achieved in our performance during those three years.



Understanding our customers' needs

Strategic ambitions:

- **The right customer experience, first time and every time**
- **Industry leading Net Promoter Scores®[1]**

Our customers are central to our strategy. Using analytics we seek to identify their needs. We are listening to the feedback from 50,000 individuals who took part in our Customer Experience Programme. We are using these insights and analytics to deliver personalised and tailored offerings and we are measuring our progress through our Net Promoter Scores.

We are investing in our people and propositions, including a sector specialist approach to lending to our SME and Corporate customers and the availability of dedicated mortgage advisors. We are recognising and adapting to new consumer behaviours in mobile and online, social media and channel blending preferences. This is an ongoing journey we are taking with our customers.

[1] *The Net Promoter Score, or NPS® is a measurement programme that tracks AIB customers' loyalty and advocacy.*

Continuously innovate to provide suitable solutions for customers

Key strategic ambitions:

- **To be the leading Retail, SME and Corporate Bank in Ireland**
- **To become the No.1 challenger bank in Northern Ireland**
- **To be the best bank for owner-managed businesses in Great Britain**

By listening to our customers, we answer their needs by providing appropriate products and services, while seeking returns appropriate to the level of risk undertaken, on a sustainable basis. We aim to maintain our leading market shares in Ireland through propositions that differentiate in each of our personal, business and corporate banking customer segments. Our refreshed structure resulting in a simpler, lower risk bank, is intended to improve our customers' experience of us. We have also reshaped our Corporate & Institutional Banking segment in our Irish business to better serve the needs of these customers.

We believe we have a fair and equitable approach to resolving the issues experienced by our customers who are in financial difficulty, and offer them the most comprehensive set of resolution solutions in the market. Restructuring our impaired loan portfolio will focus on returning these customers to stability and integration into our core banking relationships portfolios.

Serve through our omni channel distribution model

Key strategic ambitions:

- **Increase usage and integration of digital distribution channels**
- **Continue to build on our market leading mobile and online adoption rates**
- **Provide tailored advisory services in our branch network**

We want our customers to have seamless access to our banking services in whatever way they want. Our omni channel approach combines our physical branch network with online, mobile and direct offerings. It gives customers the latest technology, supported by improving service levels. Our innovative digital banking location, the "LAB", allows us to test the latest digital technology in a live environment, learn lessons and implement them. In parallel, we are continuing to invest in our branch network, which remains central to our long term strategy. We are introducing new branch layouts, better designed to enhance our customers' experience through people, processes and technology.

"Complete

Consistent

Connected"

Relentless delivery of simplification and digitisation

Key strategic ambitions:

- **Continuously improve our customer experience**
- **Deliver our medium term cost income ratio target of less than 50%**

A simplified and more efficient AIB is better for our customers, our staff and ultimately our cost base. Our simplification and change agenda is broad based and continues to deliver an improved customer experience at a sustainable cost. Through our existing channels we offer a differentiated approach and are building on our market leading adoption rates as more customers engage with us online or through our mobile channel. The recent introduction of our innovative eMortgage application is one example of how we are enhancing and expanding our offerings.

Our change programme is being managed under the guidance and control of our Group Chief Operating Officer. Key initiatives will see us consolidate processing and servicing activities, promote greater resilience in our IT systems, and continued strategic sourcing. We want to constantly improve our customer experience, and these initiatives are designed to increase our speed to market on innovative customer propositions.

Summary

Today AIB is a profitable bank, generating capital to meet our customers' lending needs as they, in turn, help drive economic recovery. Looking ahead, we are well placed to support a growing economy, within the framework of a reformed governance structure and a prudent risk appetite.

We have worked hard to reduce the risk profile of the Group, and to find solutions for our customers in difficulty. This remains a key focus for 2015 and beyond.

Our staff are pivotal to our customer engagement strategy and are the foundation upon which the Group's recovery is based. We want to achieve employee engagement scores at world class levels, building on the tangible progress made in 2014. We will continue to invest in our people and focus on their professional development to motivate and retain the talent required to deliver our vision and strategic priorities.

While recognising that we have made significant progress in recent years, we have more to do. In 2015 and beyond, we will maintain a clear focus on those core priorities which underpin our ambition to be a leading consumer brand: innovating to meet our customers' needs; driving integration across all of our channels; and relentlessly simplifying our processes.

Our Customers

We are working hard to hold our customers at the heart of everything we do. An in-depth knowledge of the needs of our customers is a good starting place. It brings efficiency to how we drive and shape products and services that customers want. Acknowledging what our customers want focuses our activities and helps them experience a better bank. We are making good progress with this customer focus but recognise that we have more to do.

Customer centric brand values

In AIB, our principal Brand Value is **'we put our customers first.'** This has been developed by our people and our customers. We want our customers to have a superior experience in each and every interaction with us. This means that we are understanding our customers because we listen to them, recognise their financial needs and offer them solutions that meet those needs. We are embedding this in the culture of our organisation and making it visible in everything we do.

The Voice of the Customer

feedback from over 50,000 customers

We sought feedback from over 50,000 of our customers in Ireland and the UK through our Customer Experience Programme. We have listened to our customers and as a result we are enhancing our interaction with them, creating and improving initiatives for them and giving them more choice and greater accessibility.

This is a journey, and the good news is that we are making progress. The primary tool we use to measure the success of this programme is our Net Promoter Score®[1]. We want to improve these scores and we have seen real progress in what our customers have experienced in 2014.

Tailored offerings for distinct customer segments and sectors

We have enhanced our offerings for our different markets. Throughout 2014, we have undertaken distinct segment and sector initiatives which we believe are innovative and which improve our customers' experience of us.

Personal customers

AIB's goal is to be at the heart of our personal customers' financial lives while delivering exceptional customer experience. We have strong market shares in products for our personal customers in Ireland and we provided 60,000 personal loans in 2014. These propositions combine suitable products with informed relationship management that reach them consistently through all our channels.

We increased our lending significantly to our personal customers in the second half of 2014 as consumer sentiment and general economic conditions improved. In the Republic of Ireland, we lent €0.4 billion to personal customers, an increase of 29% year on year. We focused on new initiatives to make the process seamless for customers, which included online fulfilment for personal loans with a decision within three hours.

Youth market

We are focused on having a leading presence in the student market. We updated and improved our proposition, including a larger presence on campus in 15 universities and colleges in Ireland and a new student loan facility to help with education expenses. 2014 was the 13th year of the AIB Build a Bank Challenge, a national competition for second level students to run their own school bank. The AIB Student Plus Account was awarded the best value student account by bonkers.ie, the price comparison website.

Mortgages

For most people, buying their home is the biggest financial transaction of their lives. AIB is proud to have a leading market share of mortgage drawdowns in the Republic of Ireland, which demonstrates our support to customers during this important time for them. We supported c. 16,000 customers in gaining mortgage approval in Ireland in 2014. We also reduced our standard variable interest rate and our fixed interest rate products for new and existing mortgage customers in Ireland in 2014.

We want our customers to have access to specialist advice when making this important decision. We introduced mortgage advisors to our Irish branch network, who support customers throughout the mortgage application and approval process. The EBS brand re-emerged in 2014 with increased locations for mortgage consultations, including flexible meeting times to suit customers' needs.

AIB eMortgage is the first online mortgage application-to-approval proposition on the Irish market and it is gaining traction with our customers.

1 The Net Promoter Score, or NPS® is a measurement program that tracks AIB customers' loyalty and advocacy.

AIB had a 33% market share of mortgage drawdowns in 2014 in Ireland with €1.3 billion in total drawdowns, a 34% increase on 2013.

Mortgage drawdowns in First Trust Bank in Northern Ireland increased by 42% year on year following an expansion of our suite of mortgage products.

Business customers

No.1 Bank
for Start-ups

c. 15,500 SME customer start-ups supported in 2014

Joint No.1 Bank
for main current account

No.1 Bank
for main loans

No.1 Bank
for main leasing agreement

No.1 Bank
for credit cards

AIB is committed to actively supporting economic recovery and job creation. We are doing this by backing entrepreneurs, early start-ups and established SMEs.

AIB has embedded its sectoral led approach, providing customers with leading sector specialists who understand the challenges and opportunities of their industry and business. In partnership with industry bodies we have continued to commission in-depth research reports. To support our customers, we have also hosted nationwide sector specific seminars.

We have launched sector specific funds, including a €200 million Export Fund, €300 million Long Term Care Fund and a €350 million New Homes Development Fund. In addition, we launched a €500 million Agriculture Fund, underpinning our commitment to this sector.

In response to feedback from our business customers, AIB has rolled out a series of other initiatives to support this customer segment, including our 'Backing Brave' programme. This programme includes credit decisions for SME loans up to €30,000 within 48 hours. We have also introduced a dedicated SME phone desk which operates extended business hours and to support new entrepreneurs we launched a Start-up Academy.

In 2014 AIB approved €6.4 billion in business credit to the SME sector in Ireland, a 50% increase year on year.

In the UK, AIB GB was awarded "Best Service from a Business Bank 2014" by Moneyfacts Awards. This is in recognition of its relationship management proposition together with a focus on its customer service. New and additional lending in AIB GB increased 63% year on year to circa £1.3 billion. This underlines our focus on lending to the business market and our target market of owner managed businesses. In direct response to listening to the 'voice of our SME customers' in Northern Ireland we introduced two business funds, the Business Support Fund and the Owner Managed Fund.

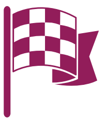
Corporate customers

We continue to develop and strengthen our relationships with corporate and institutional customers by providing sectoral expertise, tailored financial solutions and a premium customer service.

Our sector specialist corporate banking teams work closely with our Customer Treasury Service and specialist product teams to ensure that we continue to strongly support our customers as well as the Irish economy. We provide a range of financing solutions to our customers from senior debt and working capital solutions through to mezzanine and equity finance.

In 2014, including the UK, lending to Corporate customers increased by 57% year on year.

The reshaping of our Corporate & Institutional Banking segment at the beginning of 2015 will enhance our mid-market and corporate offering and allow the UK and Irish businesses to collaborate more closely on opportunities.



Leading position
in Irish banking market

No. 1 bank to the Foreign Direct Investment (FDI) market.

Awarded 'Deal of the Year'
for the second consecutive year in the Loans & Financing Category of the Finance Dublin Magazine awards.

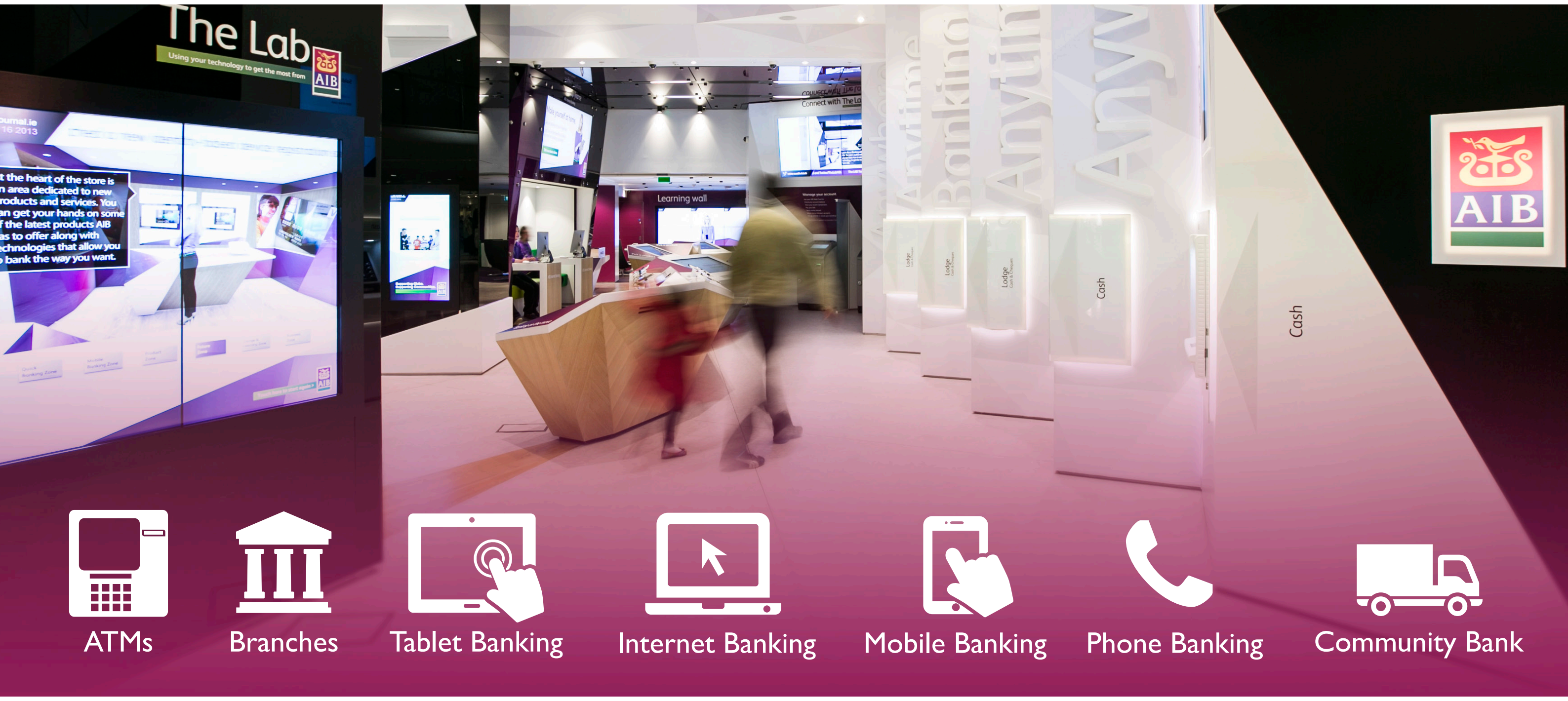
Customers in financial difficulties

We work with our customers who are in financial difficulty and help them bring stability and certainty to their situation. This has been a key area of focus during 2014. The Financial Solutions Group (FSG) has approximately 1,600 skilled staff dedicated to resolving the issues of customers in difficulty, who are further supported by their colleagues in the wider AIB branch network

AIB seeks to consensually resolve mortgage and SME arrears cases with customers who engage with the bank, based on an assessment of affordability. In support of our strategy the Group has developed what we believe is the most comprehensive suite of sustainable mortgage arrears solutions in the Irish market. We have further supported this agenda by establishing and funding a customer engagement channel in partnership with a consumer debt advocacy organisation that provides independent third party representation. This service is available free to customers in Ireland in mortgage difficulty. While we have much more to do to help our customers, this approach is working, with arrears in AIB's Republic of Ireland mortgage portfolio down 18% in 2014.

Significant progress is also evident in SME restructuring and we have developed and deployed a comprehensive customer treatment strategy for SME customers in difficulty with business and non-core connected debt. We have met or exceeded all of our restructuring targets in 2014.

The approach being taken in FSG to restructuring the debt of our customers in difficulty is fundamental to the AIB strategy of maintaining our relationship with our customers as they recover. Importantly the success of this strategy can be measured by the number of customers who have been offered and accepted affordable and sustainable solutions. Continuing to work with our customers in difficulty remains a key priority for the Group.



Omni channel delivery

AIB has an omni channel customer strategy which focuses on customer convenience and consistency. We are the leading Irish bank in driving mobile banking uptake and transaction automation. We are developing our capabilities across channels, putting technology to work for customers to interact with our banking services at a time and through a channel that works for them.

In 2014, customers continued to adopt our digital channels. Significant numbers of our customers in Ireland are active on AIB's online services, including c.520 000 active mobile users and c.100,000 active tablet users. Our customers completed 33 million transactions online in 2014 across internet, tablet, mobile and IBB. In our branch network, through ongoing adoption of technology, we have given customers a new way to bank with us through our 'quick banking' facilities.

The 'LAB' is an innovative digital banking location which allows us to test our digital concepts in a live environment with our customers. These have included concepts such as the eMortgage, SME online lending application, and more recently the Smartwatch, where feedback from customers helps shape product and services.

Adoption is not limited to transactional banking as customers embrace the omni channel sales experience. Currently, c.49% of key products[1] sold to personal and SME customers in the Republic of Ireland are conducted through AIB Direct Channels.

As a result of continuous investment in digital platforms, AIB received external recognition, winning the "Best Adoption of Social Media" at the CCMA awards, and the AIB Tablet banking app won the best financial services app at The Appys Awards and "Best Innovation in Financial Services" at the Digital Media Awards.

Our omni channel approach is also being adopted in the Northern Ireland and GB businesses as we move to a more consistent model across our markets.

In conjunction with our market leading digital channels, AIB continues to maintain the largest physical distribution network in Ireland with c.200 AIB branches, c. 70 EBS outlets and a joint venture with An Post with over 1,000 locations nationwide. In the UK, AIB has 16 business centres in Great Britain to service our SME and mid-corporate customers. We provide banking services through 30 branches and outlets under the trading name of First Trust Bank in Northern Ireland. The physical network coupled with AIB's robust offer of products and services in digital channels allow the bank to better serve our customers in a meaningful and effective way.

1 Excludes current accounts

Governance at a glance

Our Governance Framework

AIB's Governance Framework reflects best practice standards, guidelines and statutory obligations and ensures our organisation and control arrangements provide appropriate governance of the Group's strategy, operations and mitigation of related material risks.

The Framework underpins effective decision making and accountability and is the basis on which we conduct our business and engage with our customers and stakeholders.

The Board and its Committees

Supported by the Governance Framework, the Board oversees:

- Strategic and operational planning;
- Risk management and compliance;
- Financial management and external reporting; and
- Succession planning and culture.

The Board is supported in its endeavours by a number of Board Committees which consider, in greater depth than would be practicable at Board meetings, matters within the Board's responsibilities.

The Chief Executive Officer

The Board delegates to the Chief Executive Officer (CEO) responsibility for strategy formulation and execution, and the day to day running of the business ensuring an effective organisation structure, the appointment, motivation and direction of senior executive management and the operational management of the Group's businesses.

The Executive Leadership Team

The Leadership Team is the most senior executive committee of the Bank. The Leadership Team, under the stewardship of the CEO, has responsibility for the day-to-day management of the Group's operations. It assists and advises the CEO in reaching decisions on and delivery of the Group's strategy, governance, internal controls, performance and risk management.

Board of Directors

Non-executive directors

Richard Pym

Chairman since December 2014, Non-Executive Director since October 2014, Chairman of the Nomination & Corporate Governance Committee, Member of the Remuneration Committee.

Dr. Michael Somers

Deputy Chairman, Non-Executive Director since January 2010, Chairman of the Board Risk Committee, and Member of the Nomination & Corporate Governance Committee.

Catherine Woods

Non-Executive Director since October 2011, Senior Independent Director, Chairman of the Audit Committee and Member of the Board Risk Committee, Chairman of EBS Limited and Director of AIB Mortgage Bank.

Simon Ball

Non-Executive Director since October 2011, Member of the Board Risk Committee and Nomination & Corporate Governance Committee.

Tom Foley

Non-Executive Director since September 2012, Member of the Audit Committee and Remuneration Committee, Director of AIB Group (UK) p.l.c., and EBS Limited.

Peter Hagan

Non-Executive Director since July 2012, Member of the Audit Committee, Board Risk Committee, Nomination & Corporate Governance Committee and Remuneration Committee.

Jim O'Hara

Non-Executive Director since October 2011, Chairman of the Remuneration Committee, Member of the Audit Committee, and Nomination & Corporate Governance Committee. Director of EBS Limited.

Executive Directors

David Duffy

Chief Executive Officer and Executive Director since December 2011; has advised the Board of his decision to step down as CEO on a date to be agreed.

Mark Bourke

Chief Financial Officer and Executive Director since May 2014.

Bernard Byrne

Executive Director since June 2011, formerly Finance Director, currently Director of Retail and Business Banking.

The Executive Leadership Team

David Duffy
Chief Executive Officer

Mark Bourke
Chief Financial Officer

Bernard Byrne
Director of Retail and Business Banking

Dominic Clarke
Chief Risk Officer

Helen Dooley
Group General Counsel

Orlagh Hunt
Group HR Director

Enda Johnson
Head of Corporate Affairs and Strategy

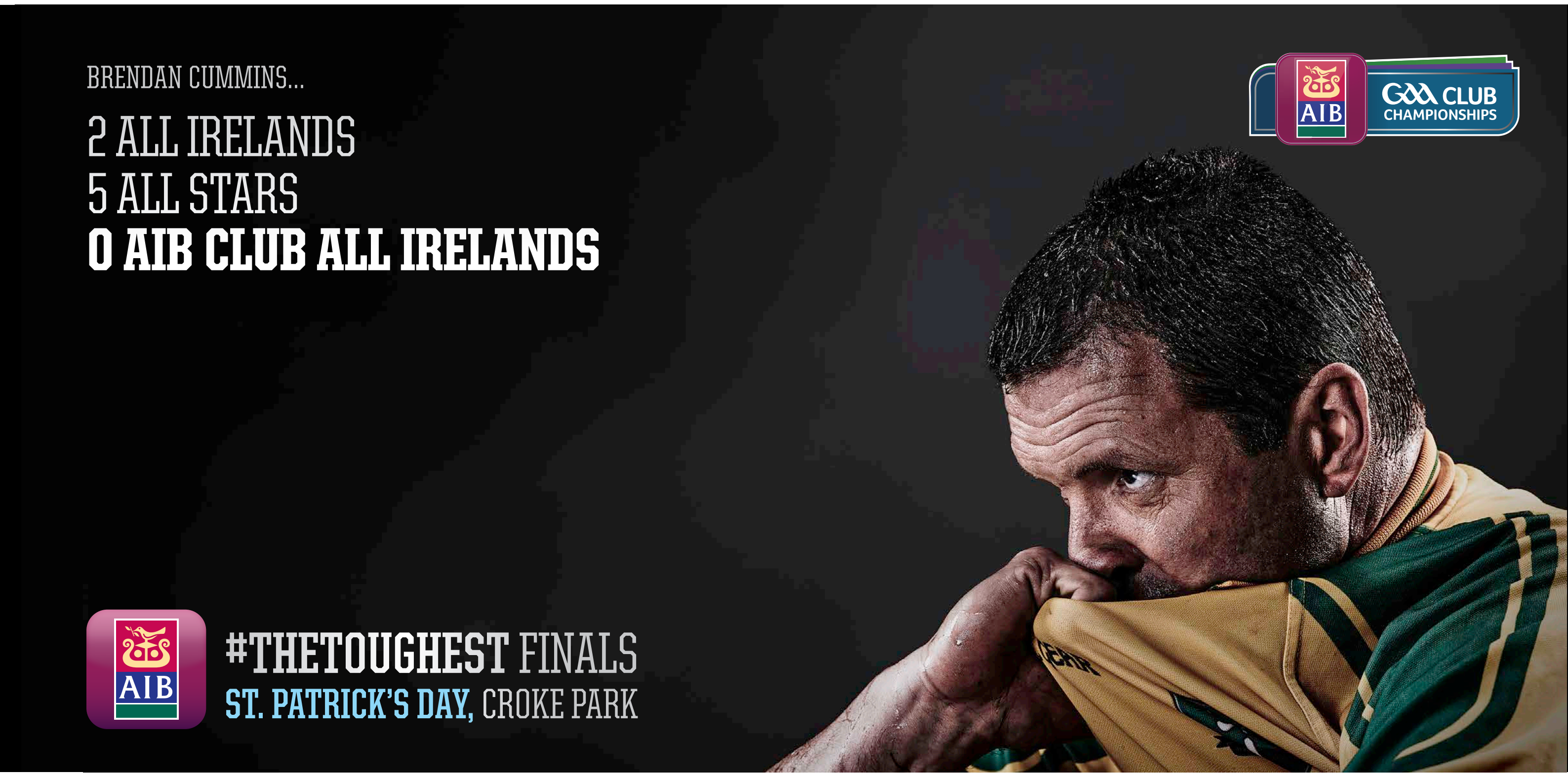
Fergus Murphy
Director of Corporate and Institutional Banking

Brendan O'Connor
Head of Financial Solutions Group

Steve Reid
Managing Director, AIB Group (UK) p.l.c.,

Stephen White
Group Chief Operating Officer

Full details of AIB's corporate governance arrangements, including constituent roles and responsibilities and biographical details for Directors and Executive Leadership Team Members, are included in the Governance and Oversight Section of the Annual Financial Report from page 157 to 187.



Corporate Social Responsibility

At AIB we aim to make a positive contribution to the communities in which we operate. This is part of our strategy to contribute to economic recovery in Ireland over time.

In this section we outline some of our activity to support these goals under three pillars of Corporate Social Responsibility.

AIB in the Community

Beyond our immediate commercial activity, we see a responsibility to involve ourselves in our local communities.

We have had a fruitful association with the Gaelic Athletic Association (GAA) for over 30 years. We consolidated this association 24 years ago when we became official sponsor of the GAA Football and Hurling All-Ireland Club Championships. Today that sponsorship covers Junior, Intermediate and Senior levels. In 2014 we added Camogie to the list. During 2014 our marketing campaign for the GAA sponsorship - 'The Toughest' - celebrated the commitment of players in the AIB GAA Club Championships. In addition we won "Best Sports Sponsorship Award" at the 2014 Irish Sponsorship Awards as well as "Best Use of Social Media" in a sponsorship.

In the Agricultural sector, we run agri seminars around the country each being well attended by large numbers of farmers. We sponsor the National Ploughing Championships, the Tullamore Show and AIB National Livestock Show, the Irish Grassland Association Dairy Summer Tour and the AIB Macra na Feirme Club of the Year.

Our programme of financial education initiatives in communities and schools continues through organisations such as the National Consumer Agency and Junior Achievement.

The Group has taken a leading role in promoting the Women in Business agenda in partnership with Network Ireland.

In the technology sector we were once again one of the main sponsors of the annual Web Summit, attended by over 10,000 international delegates.

For the past four years AIB has partnered with GIY (Grow It Yourself), which helps people and communities to grow their own food, through our Get Ireland Growing Fund. GIY added 110 grants to community food projects in 2014 including 46 school gardens and 20 community gardens.

In 2014, we continued our support of the Press Photographers Association of Ireland. This was our twelfth year sponsoring the Photojournalism Awards which celebrate the best of Irish photojournalism. The exhibition which followed the awards, featuring 118 prints, went on tour to selected AIB branches as well as forming master classes for schools, camera clubs and photography students around the country.

Our staff are involved in driving initiatives to raise money for local and national causes in the Republic of Ireland, Northern Ireland and the UK. At a corporate level we invited charities into AIB Bankcentre to take part in a Christmas market. Also during 2014 we started to support Change for Charity in the majority of our branches, where we collect from members of the public for the benefit of major charities.

In 2014, EBS also continued its charity support with an ongoing partnership with Temple Street Children's Hospital in Dublin.

AIB and the Environment

AIB made good progress on energy and environmental initiatives in 2014.

We published a new Group Energy Policy and we were awarded ISO 50001 accreditation for the management of gas and electrical energy usage in our Bankcentre head office. Here we reduced energy consumption by 27%. We plan to extend this energy management system to other office locations in the Republic of Ireland and the UK in 2015.

Under a revised Group Environmental Policy we were awarded the ISO 14001 accreditation for the management of our environment in late 2014. In our submission to the Carbon Disclosure Project we disclosed a score of 75% and a Grade C performance for reducing Carbon emissions.

In partnership with GoCar.ie we give our people the choice of a more sustainable approach to transport. Three GoCars are on site at Bankcentre and our people can book and hire them as an alternative to using their own cars for work and to hiring taxis.

Working in tandem with one of our business customers, we have started a unique biodiversity project with four beehives housing 60,000 honey bees on the roof of Bankcentre. The project, which is believed to be the first rooftop apiary in Dublin, has had higher than expected honey yields.

We redeveloped the AIB branch in University College Dublin (Belfield Branch), installing a renewable power system of 50 square meters of solar panels to generate a significant amount of the branch's energy needs.

An Energy Efficiency Awareness day was held in Bankcentre introducing employees to AIB business customers active in energy efficiency.

A sustainability working group was set up in 2014 to increase awareness inside and outside the bank about AIB's sustainability. Our main achievement has been a sponsorship agreement with Sustainable Energy Authority of Ireland called the One Good Idea programme. It aims to increase students' understanding of climate change and energy efficiency, encouraging them to take individual responsibility for tackling these important issues. In 2014, 204 projects were submitted from 68 schools representing approximately 2,000 students, with the One Good Idea now an annual feature in many teachers' calendars.

AIB and our people

Employee engagement is a critical aspect of any company's performance. Our metrics show that, following a period of radical restructuring and rebuilding the Group, the measure of our employee enagement has tripled on this time last year. The increase is equivalent to five years' worth of significant progress in just over a year, according to our engagement partners, Gallup. We made dramatic increases in all business areas.

Our efforts here are far from over. We will continue to invest in our people, focus on their professional development and wellbeing and encourage maximum collaboration, partnership and teamwork to build the pride and confidence of AIB.

In early 2014 we developed a new set of brand values, which our people and our customers helped to develop. We launched the brand values in early 2014 at our second Leadership Summit to 1,200 of our people leaders. The values act as our guiding compass in all we do – the 'how' of what we do. Following the launch of the brand values, we then held Brand Value Activation sessions across the bank, before bringing them alive in our work to make a difference to customers' experience of AIB.

We made enhancements to our learning and development platform to offer classroom and web-based learning on a range of topics under the banner iLearn. Over 6,000 employees have attended classroom training and completed over 180,000 web-based training modules since iLearn launched in February 2014.

Recognising the level of change we experience as an organisation, we have also run workshops to support people through transition. These workshops encourage those running change programmes to consider the people aspect of change. We also support our people leaders with training through the AIB Leadership Framework and a new Leadership Curriculum.

Development is not just about learning, it is about people having the energy and mindset to grow. This year we launched The Well, an online resource with information and resources designed to help everyone to be at their best. It includes tips and activities to maximise energy, increase wellbeing, build resilience and promote physical, mental, emotional and spiritual health.

Business review

Summary income statement	2014 € m	2013 € m	% change
Net interest income	1,687	1,345	25
Net fee and commission income	390	378	3
Trading and other operating income	453	201	125
Other income[(1)]	843	579	46
Total operating income	2,530	1,924	31
Personnel expenses	(767)	(851)	-10
General and administrative expenses	(551)	(519)	6
Depreciation, impairment and amortisation	(85)	(100)	-15
Total operating expenses	(1,403)	(1,470)	-5
Operating profit before provisions	1,127	454	148
Writeback/(provisions) for impairment on loans and receivables	185	(1,916)	-
Writeback of provisions for liabilities and commitments	4	3	33
(Provisions)/writeback of provisions for impairment on financial investments available for sale	(1)	9	-
Total writeback/(provisions)	188	(1,904)	-
Operating profit/(loss)	1,315	(1,450)	-
Associated undertakings	23	7	229
Profit on disposal of property	6	1	500
Profit on disposal of business	-	1	-
Profit/(loss) from continuing operations before exceptional items	1,344	(1,441)	-
Profit/(loss) on disposal of loans and transfer of financial instruments to NAMA	2	(226)	-
Gain arising on disposal of Aviva Life Holdings (“ALH”)	-	10	-
Termination benefits	(24)	(86)	-
Bank levy	(60)	-	-
Retirement benefit curtailment	-	240	-
Restructuring and restitution expenses	(151)	(184)	-
Total exceptional items	(233)	(246)	-
Profit/(loss) before taxation from continuing operations	1,111	(1,687)	-
Income tax (charge)/credit from continuing operations	(230)	90	-
Profit/(loss) after taxation from continuing operations	881	(1,597)	-
Profit after taxation from discontinued operations[(2)]	34	-	-
Profit/(loss) for the year	915	(1,597)	-

Operating contribution before provisions by segment	€ m	€ m	% change
Domestic Core Bank (“DCB”)	1,176	692	70
AIB UK	171	74	131
Financial Solutions Group (“FSG”)	146	54	170
Group	(366)	(366)	-
Operating profit before provisions	1,127	454	148

[(1)]Other income includes interest rate hedge volatility with 2013 re-presented (€ 5 million negative in 2014, € 9 million positive in 2013).
[(2)]Profit on the disposal of Ark Life Assurance Company Limited.

Business review - 1. Operating and financial review

Basis of presentation

The following operating and financial review is prepared in line with how the Group's performance is reported to management and Board. The information presented excludes exceptional items that management believes obscures the underlying performance trends in the business. A list of the items classified as exceptional are included below. 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.

Exceptional items

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

Total exceptional items	2014 € m	2013 € m
Profit/(loss) on disposal of loans and transfer of financial instruments to NAMA	2	(226)
Gain arising on disposal of Aviva Life Holdings ("ALH")	-	10
Termination benefits	(24)	(86)
Bank levy	(60)	-
Retirement benefit curtailment	-	240
Restructuring and restitution expenses	(151)	(184)
Total exceptional items	(233)	(246)

– Loss on disposal of loans: € 201 million loss in 2013 on non-core deleveraging which completed in 2013. Gains/losses in 2014 on disposal of loans are included in other income as part of business performance.
– Profit/(loss) on transfer of financial instruments to NAMA: Valuation adjustments on previous transfers of financial assets to NAMA amounted to € 2 million credit in 2014, (€ 25 million charge in 2013).
– A € 10 million gain was realised on the disposal of Aviva Life Holdings ("ALH") in 2013.
– Termination benefits: The cost of the voluntary severance programme was € 24 million in 2014 (€ 86 million in 2013).
– Bank levy of € 60 million in 2014.
– Retirement benefit curtailment of € 240 million recognised in 2013 following the closure of the defined benefit pension schemes to future accrual and removal of discretionary pension increases.
– Restructuring and restitution expenses of € 151 million in 2014 (€ 184 million in 2013). These include costs associated with restitution, transformation, re-organisation and writedown of intangible assets.
– Interest rate hedge volatility is no longer classified as an exceptional item for the purpose of the operating and financial review and accordingly 2013 has been re-presented. Interest rate hedge volatility is included in other income and was € 5 million negative in 2014 compared to € 9 million positive in 2013.

Overview of results

2014 marked a return to post provision profitability and saw the successful culmination of the Group's three year plan to return to sustainable profitability. The Group has benefited from the economic recovery and the results of strong management actions over this period. This is reflected in higher levels of income, lower operating expenses and in particular a credit provision writeback in 2014.

Profit before taxation from continuing operations (after exceptional items) amounted to € 1,111 million in 2014 compared to a loss of € 1,687 million in 2013. This includes income amounting to € 437 million (€ 93 million in 2013) as a result of balance sheet actions and realisations. The net charge for exceptional items in 2014 is € 233 million (€ 246 million in 2013).

Profit before taxation from continuing operations and before exceptional items was € 1,344 million in 2014 compared to a loss of € 1,441 million in 2013, with improvement across net interest income, other income, operating expenses and provisions.

Net interest income increased by € 342 million compared to 2013, reflecting a lower ELG charge (€ 114 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 € 264 million higher than 2013. This performance benefited from income amounting to € 437 million (€ 93 million in 2013) as a result of balance sheet actions and realisations.

Balance sheet actions and realisations	2014 € m	2013 € m
Net profit on disposal of AFS securities	181	31
Re-estimating the timing of cash flows on NAMA senior bonds	132	62
Settlements and other gains	124	-
Balance sheet actions and realisations	437	93

In addition negative valuation adjustments on derivatives with customers were partly offset by an increase in banking fee and commission income of 3% to € 390 million, € 25 million coupon on NAMA subordinated bonds and higher foreign exchange income.

Total operating expenses were € 67 million (5%) lower compared to 2013. This reduction in costs mainly related to the impact of staff exits as part of the early retirement/ voluntary severance schemes.

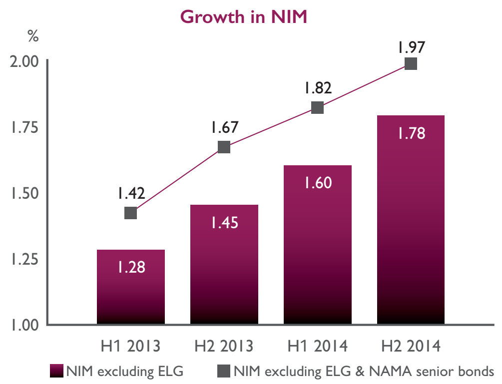
Provisions for impairment on loans and receivables reduced by € 2,101 million from a provision charge of € 1,916 million in 2013 to a provision writeback of € 185 million in 2014. See the Risk management section on page 94 for more detail on provisions.

Net interest income

- NIM excluding ELG up 32 bps to 1.69%.
- Substantially reduced funding costs and higher margins on new lending partly offset by lower net loans and redemptions of NAMA senior bonds.
- Negative impact of 20 bps on NIM in 2014 due to low yielding NAMA bonds.

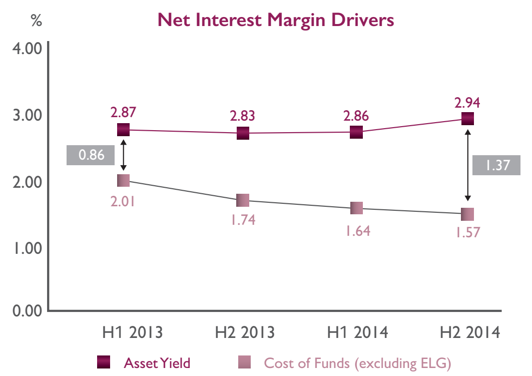
	2014 € m	2013 € m	% *change*
Net interest income	**1,687**	1,345	25
Average interest earning assets	**103,370**	111,004	-7
	%	%	change
Group net interest margin	**1.63**	1.21	0.42
Group net interest margin excluding ELG	**1.69**	1.37	0.32
Group net interest margin excluding ELG and NAMA senior bonds	**1.89**	1.54	0.35

The Group net interest margin excluding ELG increased 32 basis points ("bps") to 1.69%. NIM increased to 1.78% in the second half-year compared with 1.60% in the half-year to June 2014. Excluding the impact of the Group's low yielding NAMA senior bonds, NIM increased to 1.97% in the second half-year compared with 1.82% in the half-year to June 2014.



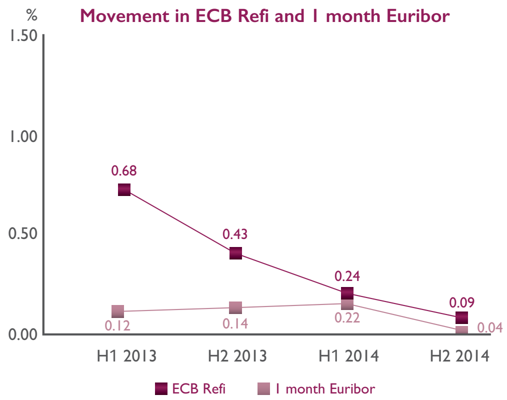
Net interest income increased by € 342 million (25%) to € 1,687 million in 2014 from € 1,345 million in 2013. The increase was mainly due to lower funding costs and a reduction in the cost of the ELG scheme of € 114 million which was partly offset by lower loan income on reduced loan balances.

Asset yields improved from 285 bps to 290 bps as higher yields on loans to customers and net interest on swaps were partly offset by lower yields on financial investments available for sale. The cost of funds excluding ELG reduced from 187 bps to 161 bps. These trends are set out in the following graph on a half-yearly basis.



Continued deposit pricing actions in 2014 managed down the cost of customer accounts without negatively impacting retail customer balances. This factor combined with stable yields on customer loans as a result of higher margins on new lending resulted in the gap between asset yields and the cost of funds increasing from 86 bps in H1 2013 to 137 bps in H2 2014.

Overall wholesale rates were lower driven by reductions in both long term interest rates and credit spreads.



Eligible liabilities guarantee ("ELG")

The ELG charge was € 59 million in 2014 compared with € 173 million in 2013. The reduction in the charge was due to 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 continue to reduce.

ELG charge	**€ m**
Half-year to June 2013	123
Half-year to December 2013[1]	50
Half-year to June 2014	**32**
Half-year to December 2014[1]	**27**

[1]The total liabilities guaranteed under the ELG Scheme at 31 December 2014 amounted to € 5 billion (€ 8 billion at 31 December 2013).

Business review - 1. Operating and financial review

Average balance sheet[1]

Assets	Year ended 31 December 2014 Average balance €m	Interest €m	Average rate %	Year ended 31 December 2013 Average balance €m	Interest €m	Average rate %
Loans and receivables to customers	65,391	2,237	3.42	69,902	2,326	3.33
NAMA senior bonds	12,569	80	0.64	16,743	130	0.78
Financial investments available for sale	19,444	567	2.92	18,621	652	3.50
Other interest earning assets	5,966	22	0.36	5,738	19	0.33
Net interest on swaps		91			36	
Average interest earning assets	103,370	2,997	2.90	111,004	3,163	2.85
Non interest earning assets	8,237			9,635		
Total assets	111,607	2,997		120,639	3,163	
Liabilities & shareholders' equity						
Deposits by banks	18,515	46	0.25	26,242	123	0.47
Customer accounts	48,944	637	1.30	51,669	968	1.87
Subordinated liabilities	1,401	256	18.30	1,311	241	18.38
Other debt issued	8,921	312	3.49	8,622	313	3.63
Average interest earning liabilities	77,781	1,251	1.61	87,844	1,645	1.87
Non interest earning liabilities	22,426			21,975		
Shareholders' equity	11,400			10,820		
Total liabilities & shareholders' equity	111,607	1,251		120,639	1,645	
Net interest income excluding ELG		1,746	1.69		1,518	1.37
Eligible liabilities guarantee ("ELG")[1]		(59)	(0.06)		(173)	(0.16)
Net interest income including ELG		1,687	1.63		1,345	1.21

The net interest margin excluding ELG increased 32 bps from 1.37% in 2013 to 1.69% in 2014. The net interest margin has continued an upward trajectory since its trough in Q3 2012. The factors contributing to the increase of 32 bps were an increase in yields on interest earning assets (5 bps) and a decrease in the cost of funding those assets (27 bps).

Interest income from loans was lower in 2014 as a result of a € 4.5 billion reduction in average loans as loan amortisation exceeded new lending. Lower loan balances and their impact on income along with movements in wholesale market rates were partly offset by loan pricing actions during 2013/2014 and higher margins on new lending.

Interest income from financial investments available for sale reduced € 85 million as higher yielding securities were sold and replaced with lower yielding securities to improve diversification. NAMA senior bond interest income reduced € 50 million as a result of reduced volumes following redemptions of € 6.3 billion in 2014 and lower interest rates.

Average interest earning assets reduced from € 111 billion to € 103 billion as lower customer loans of € 4.5 billion and lower NAMA senior bonds of € 4.2 billion were partly offset by increases in financial investments available for sale of € 0.8 billion. Net interest on swaps increased € 55 million mainly due to increased investment in swaps to manage income volatility combined with the continued low short term interest rate environment.

The cost of interest earning liabilities reduced from € 1,645 million in 2013 to € 1,251 million in 2014 due to a reduced funding requirement which resulted in lower volumes of deposits by banks. This along with the impact of pricing actions on customer accounts and lower wholesale market rates resulted in lower funding costs.

Excluding the impact of the Group's low yielding NAMA senior bonds, the net interest margin excluding ELG was 1.89% in 2014 compared to 1.54% in 2013.

[1]The Average Balance Sheet (note 55 to the financial statements) is presented differently and includes the cost of ELG in interest within liabilities and shareholders' equity.

Business review - 1. Operating and financial review

Other income

- 4% increase in banking fees and commissions.
- Dividend of € 25 million received on the NAMA subordinated bond.
- Improved other operating income due to accelerated NAMA senior bond repayments and disposals of both government bonds (AFS) and loans.

Other income	2014 € m	2013 € m	% change
Dividend income	25	4	525
Fee and commission income	430	414	4
Less: Fee and commission expense	(40)	(36)	11
Net trading (loss)/income	(24)	93	-
Foreign exchange gains	11	1	-
Miscellaneous operating income	4	10	-60
Balance sheet actions and realisations	437	93	370
Other income before exceptional items	843	579	46

Other income before exceptional items was € 843 million in 2014 compared with € 579 million in 2013, an increase of € 264 million (46%). Other income consisted of net fee and commission income of € 390 million compared to € 378 million, trading/other income of € 428 million compared to income of € 197 million and dividend income of € 25 million compared to € 4 million.

Dividend income

Dividend income was € 25 million in 2014 relating to NAMA subordinated bonds compared to dividend income of € 4 million in 2013 from equity shares held as financial investments available for sale.

Net fee and commission income

Net fee and commission income was € 12 million (3%) higher than 2013 as current account fees and other retail banking customer fees increased. This was partly offset by lower insurance commission income and higher credit card commission expense.

Net trading (loss)/income	2014 € m	2013 € m	% change
Foreign exchange contracts	45	37	22
Interest rate contracts and debt securities	(68)	53	-
Credit derivative contracts	(2)	-	-
Equity securities and index contracts	1	3	-67
Net trading (loss)/income	(24)	93	-

Net trading (loss)/income

Trading income was € 24 million negative in 2014 compared to income of € 93 million in 2013. Foreign exchange contracts improved € 8 million to € 45 million in 2014 due to increased activity levels.

Debt securities and interest rate contracts reduced by € 121 million to € 68 million negative due to € 75 million increase in negative valuation adjustments mainly on sterling customer derivative positions which result in funding and counterparty risk which can create volatility. Reductions in medium to long term sterling swap rates have increased this volatility. There was a € 30 million increase in negative mark to market on interest rate swaps and € 14 million increase in negative interest rate hedge volatility.

Balance sheet actions and realisations	2014 € m	2013 € m
Net profit on disposal of AFS securities	181	31
Re-estimating the timing of cash flows on NAMA senior bonds	132	62
Settlements and other gains	124	-
Balance sheet actions and realisations	437	93

Balance sheet actions and realisations

There was € 437 million of income arising from balance sheet actions and realisations in 2014 compared to income of € 93 million in 2013. Income in 2014 included a net profit of € 181 million from the disposal of available for sale debt and equity securities compared to a net profit of € 31 million in 2013.

Having considered NAMA's current performance against achieving its strategic objectives, AIB has recognised a gain of € 132 million reflecting a revised expected timing of repayments including those received in the year. A similar gain of € 62 million was recognised in 2013.

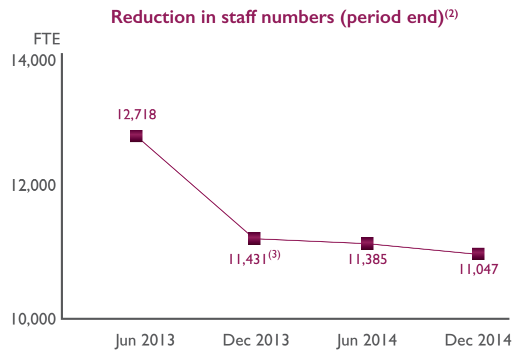
Settlements and other gains of € 124 million in 2014 include € 50 million profit on the disposal of loans to customers, € 27 million income on settlement of a claim, a € 24 million fair value gain on re-estimation of cashflows on loans previously restructured and € 23 million due to a fair value gain on equity warrants received as part of previous customer debt restructuring.

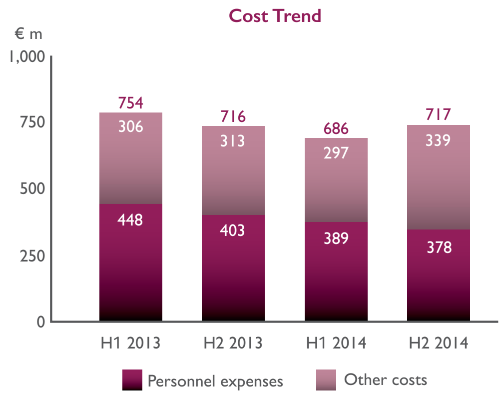
Total operating expenses[1]

- Costs down € 67 million (5%).
- Average staff numbers down 1,264 (10%).
- Costs down € 345 million (20%) compared to 2012.

Operating expenses	2014 € m	2013 € m	% change
Personnel expenses	**767**	851	*-10*
General and administrative expenses	**551**	519	*6*
Depreciation, impairment and amortisation	**85**	100	*-15*
Total operating expenses before exceptional items	**1,403**	1,470	*-5*
Staff numbers at year end (FTE)[2]	**11,047**	11,431	*-3*
Average staff numbers (FTE)[2]	**11,384**	12,648	*-10*

Total operating expenses before exceptional items were € 1,403 million in 2014 compared to € 1,470 million in 2013, a reduction of € 67 million (5%).





Personnel expenses
Personnel expenses reduced € 84 million (10%) with a reduction in costs reflecting lower staff numbers. Average staff numbers reduced by 1,264 (10%) which reflected the early retirement/ voluntary severance scheme in 2013 and 2014 and selective outsourcing of some back office and support functions. As part of the early retirement/voluntary severance scheme approximately 3,200 staff have left the Group to date under the scheme.

General and administrative expenses
General and administrative expenses increased € 32 million (6%) with savings across most classifications as part of ongoing cost management and control more than offset by an increase in costs as a result of outsourcing initiatives and additional technology costs. General and administrative expenses of € 296 million in the half-year to December 2014 increased € 41 million compared to € 255 million in the half-year to June 2014 due to the timing of external provider fees and technology costs and increased outsourcing initiatives.

Depreciation, impairment and amortisation
The charge for depreciation, impairment and amortisation of € 85 million was € 15 million (15%) lower than 2013. The acceleration of depreciation in prior years resulted in a lower depreciation charge in 2014, relative to 2013.

Cost income ratio
Cost income ratio of 55% equates to costs of € 1,403 million and income of € 2,530 million. Costs exclude exceptional items of € 233 million and income includes € 437 million of balance sheet actions and realisations.

[1]Excluding exceptional items.
[2]Staff numbers quoted in the commentary above are on a full time equivalent ("FTE") basis.
[3]Excluding Ark Life staff numbers of 146. Ark Life was held for sale at 31 December 2013.

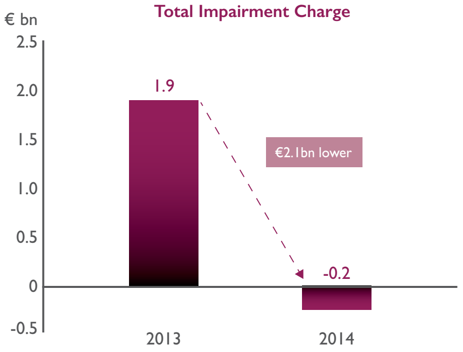
Business review - 1. Operating and financial review

Asset quality[1]

- Improved demand for credit resulted in new lending of € 5.9 billion in 2014.
- Significant restructuring progress, with impaired loans reduced by € 6.7 billion (23%).
- Credit provisions reduced from a charge of € 1,916 million in 2013, to a net writeback of € 185 million in 2014.

Provisions

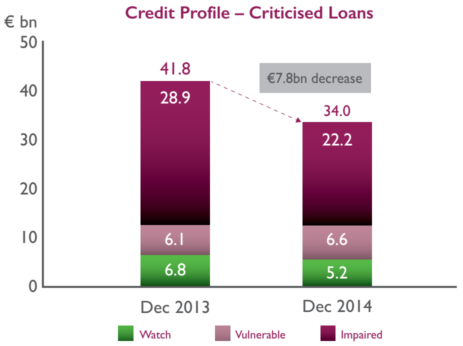
The income statement impairment provision charge for 2014 was a net recovery of € 0.2 billion (2013: € 1.9 billion charge) including a writeback of IBNR of € 0.1 billion. Excluding FSG, the charge as a % of average loans for 2014 was 0.46%, compared to 1.61% in 2013. Both DCB and AIB UK are showing a reduced bad debt charge with the DCB charge decreasing by 76% and AIB UK decreasing by 58%.



The provision recovery was driven by restructuring activity and a reduction in new impairments due to the improved economic environment. Significant progress was made during 2014 in working with customers to restructure facilities. Each case requires an in-depth review of cash flows and security, updated for current valuations and performance. This work resulted in writebacks of provisions in some cases, offset by provisions from new impairments of € 0.5 billion.

Credit quality

Criticised loans decreased by € 7.8 billion in the year, primarily driven by a reduction in impaired loans of € 6.7 billion due to restructures, write-offs and repayments, partly offset by new impaired loans.



Asset quality income statement	2014 € m	2013 € m	% change
Credit writeback/(provisions)	**185**	(1,916)	-
Other provisions	**3**	12	*-75*
Total writeback/(provisions)	**188**	(1,904)	-
Provision charge %	**(0.22)**	2.24	
Provision charge % DCB	**0.43**	1.74	
Provision charge % AIB UK	**0.54**	1.18	
Provision charge % FSG	**(2.29)**	3.97	

Asset quality balance sheet	31 Dec 2014 € bn	31 Dec 2013 € bn	% change
Impaired loans	**22.2**	28.9	*-23*
Balance sheet provisions	**12.4**	17.1	*-27*
Amounts written off	**4.7**	1.1	*310*
	%	%	
Specific provisions/Impaired loans	**51**	55	
Total provisions/Total loans	**16**	21	

Credit quality in the portfolio has begun to improve, with a reduction in downward migration to criticised grades. New lending increased to € 5.9 billion in 2014 (€ 3.9 billion in 2013). SMEs in Republic of Ireland and corporate loans accounted for € 2.6 billion of this figure with Mortgages in Republic of Ireland accounting for a further € 1.3 billion. The credit quality of new loans drawn since 2013 is satisfactory and in line with expectation.

Republic of Ireland mortgages

Residential mortgages in the Republic of Ireland amounted to € 36.3 billion, split 82% owner-occupier and 18% buy-to-let. Total loans in arrears in the portfolio decreased by 18% in the year consisting of a decrease of 22% in the owner occupier portfolio and a decrease of 7% in the buy to let portfolio. Weighted average loan-to values in the residential mortgage portfolio improved from 103% at 31 December 2013 to 87% at 31 December 2014 due to price increases and loan amortisation.

SME / other commercial

The SME / other commercial portfolio of € 12.9 billion is geographically split 65% in the Republic of Ireland and 35% in the United Kingdom. The portfolio is concentrated in sub-sectors that are dependent on the domestic economies. Credit quality within the portfolio improved due to restructuring and the stronger economic environment, with a significant reduction in new impairments. Within the Republic of Ireland, the improved performance was mainly observed in urban areas, with rural locations remaining weak.

[1]The commentary on asset quality summarises the key messages and trends. More extensive disclosures are in the Risk management section from pages 60 to 126.

Asset quality *(continued)*

Balance sheet provisions

Specific provisions as a percentage of impaired loans decreased from 55% at 31 December 2013 to 51% at 31 December 2014. This was driven by write-offs of provisions within portfolios with higher provision cover and writebacks from restructuring. Provision write-offs are generated through both restructuring agreements with customers and also write-offs of provisions where further recovery is considered unlikely.

The stock of IBNR impairment provisions has been maintained at € 1.1 billion as of 31 December 2014. It includes the impact of an increase in Emergence Period for mortgages from 9 to 12 months and for non-mortgages from 6 to 8 months for the Republic of Ireland. The level of IBNR reflects the need to maintain a conservative estimate of unidentified incurred loss within the portfolio.

Associated undertakings

Income from associated undertakings in 2014 was € 23 million compared with € 7 million in 2013. This increase is mainly due to higher profits from AIB's share in the joint venture with First Data International trading as AIB Merchant Services.

Income tax

The total taxation charge for 2014 was € 230 million compared with a total taxation credit of € 90 million in 2013 reflecting a return to profitability in 2014 as compared with the losses in 2013. Subject to specific exceptions, deferred tax assets in respect of accumulated tax losses continue to be recognised in full on the basis that it is expected that tax losses will be utilised in full against future profit. These exceptions are set out in note 32 to the financial statements.

Discontinued operations

Profit on the disposal of Ark Life Assurance Company Limited of € 34 million, following completion of the sale on 8 May 2014 has been reported under discontinued operations. See note 17 to the financial statements.

Balance sheet commentary

- New lending of € 5.9 billion was 50% higher than 2013.
- Reduction in NAMA senior bonds of € 6.2 billion (40%) to € 9.4 billion mainly due to redemptions of € 6.3 billion in 2014.
- Customer deposits remained stable and ECB funding reduced by € 9.3 billion.

Balance sheet	31 Dec 2014 € bn	31 Dec 2013 € bn	% change
Gross loans to customers	**75.8**	82.8	*-8*
Provisions	**(12.4)**	(17.1)	*-27*
Net loans to customers	**63.4**	65.7	*-4*
Financial investments available for sale	**20.2**	20.4	*-1*
NAMA senior bonds	**9.4**	15.6	*-40*
Other assets	**14.5**	16.0	*-9*
Total assets	**107.5**	117.7	*-9*
Customer accounts	**64.0**	65.7	*-3*
Deposits by banks - ECB	**3.4**	12.7	*-73*
Other market funding	**13.4**	10.4	*29*
Debt securities in issue	**7.9**	8.8	*-10*
Other liabilities	**7.2**	9.6	*-25*
Total liabilities	**95.9**	107.2	*-11*
Shareholders' equity	**11.6**	10.5	*10*
Total liabilities & shareholders' equity	**107.5**	117.7	*-9*
	%	%	*change*
Loan to deposit ratio	**99**	100	*-1*

Loans to customers

Gross loans to customers

Gross loans at € 75.8 billion were down € 7.0 billion (8%) since 31 December 2013 or € 8.1 billion (10%) excluding the impact of currency movements. The reduction was due to restructuring activity of € 5.5 billion and loan redemptions of € 8.5 billion partly offset by new lending of € 5.9 billion. New lending at higher margins of € 5.9 billion in 2014 was 50% higher than 2013. New lending in Republic of Ireland of € 4.2 billion, up 43% and new lending in UK of € 1.7 billion, up 63%.

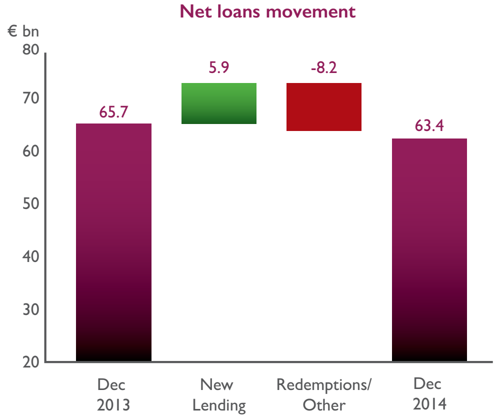
Provisions

Balance sheet provisions have decreased from € 17.1 billion to € 12.4 billion mainly due to the utilisation of provisions as part of structuring sustainable solutions for customers and write-offs. See the Risk management section on page 93 for more detail on the movement in provisions during 2014.

Net loans to customers

Net loans reduced € 2.3 billion (4%) or € 3.3 billion (5%) excluding the impact of currency movements and reflect the gross loan movements as set out above along with the impact of provisions. Net loans in DCB were broadly stable at € 44.1 billion (70% of total net loans). There was a reduction of 14% in AIB UK to € 10.4 billion and FSG net loans reduced 13% to € 8.9 billion.

The table below sets out the movement in loans to customers from 1 January 2014 to 31 December 2014.



Loans to customers	Earning Loans € bn	Impaired Loans € bn	Gross Loans € bn	Specific Provisions € bn	IBNR Provisions € bn	Net Loans € bn
Opening balance (1 January 2014)	**53.9**	**28.9**	**82.8**	**(15.9)**	**(1.2)**	**65.7**
New lending volumes	**5.9**	**-**	**5.9**	**-**	**-**	**5.9**
New impaired loans	**(1.6)**	**1.6**	**-**	**(0.5)**	**-**	**(0.5)**
Restructures and write-offs[(1)]	**1.1**	**(6.6)**	**(5.5)**	**5.3**	**-**	**(0.2)**
Redemptions of existing loans	**(6.6)**	**(1.9)**	**(8.5)**	**-**	**-**	**(8.5)**
Foreign exchange movements	**0.8**	**0.3**	**1.1**	**(0.1)**	**-**	**1.0**
Other movements	**0.1**	**(0.1)**	**-**	**(0.1)**	**0.1**	**-**
Closing balance (31 December 2014)	**53.6**	**22.2**	**75.8**	**(11.3)**	**(1.1)**	**63.4**

[(1)]Includes non-contractual write-offs.

Financial investments available for sale ("AFS")

AFS assets decreased from € 20.4 billion to € 20.2 billion during 2014. Sales of € 8.0 billion and maturities of € 0.7 billion were offset by purchases of € 7.3 billion and an increase in fair value of € 1.3 billion. To improve diversification, overall Irish Sovereign and Sovereign Guaranteed Bank Debt were reduced by € 1.2 billion and Spanish and Italian Sovereign holdings were increased by € 2.2 billion. This portfolio rebalancing saw an increase in Supranational and Government Agency securities which improved the proportion of High Quality Liquid Assets ("HQLA") within the portfolio. Due to the improvement in the Irish Sovereign market, the sales of securities and equities generated net income of € 181 million net of hedge termination costs. The increase in fair value of € 1.3 billion was driven by a tightening of Irish Sovereign credit spreads and also a fall in fixed interest rates and an uplift in the NAMA subordinated debt holding of € 0.3 billion as the fair value estimate increased to 79.4% from 15.5%. Further detail in respect of AFS is covered on pages 127 to 129.

NAMA senior bonds

In 2014 € 6.3 billion of NAMA bonds were redeemed. This followed the success of NAMA in executing its strategy enabling it to continue its accelerated redemptions during the year. Redemptions of low yielding NAMA senior bonds improved the Group's overall net interest margin.

Other assets

Other assets of € 14.5 billion comprised:

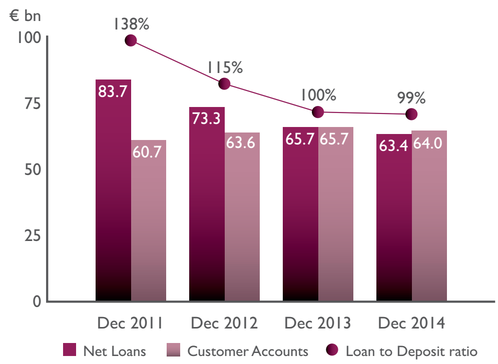
- cash and loans to banks of € 7.3 billion up 18% from € 6.2 billion.
- deferred taxation of € 3.6 billion broadly in line with 2013.
- derivative financial instruments of € 2.0 billion up 25% from € 1.6 billion.
- the remaining assets of € 1.6 billion reduced 6% from € 1.7 billion.

At 31 December 2013 Ark Life assets of € 2.7 billion were classified as held for sale. Ark Life was disposed of in May 2014. See note 17 to the financial statements for further detail.

Customer accounts

Customer accounts reduced € 1.7 billion (3%) to € 64.0 billion or € 2.6 billion (4%) excluding the impact of currency movements.

Stabilising Funding Profile



The reduction included a decrease in repos of € 3.6 billion and recognition of deposits from Ark Life € 0.9 billion as customer accounts following deconsolidation / sale of Ark Life in May 2014. There was strong growth in current accounts offset by a reduction in deposits. The average cost of customer accounts dropped from 187 bps in 2013 to 130 bps in 2014.

Deposits by banks - ECB

There was a reduction of € 9.3 billion (73%) in monetary authority funding during the year as the overall funding requirement reduced and the Group was able to access other sources of funding as set out below.

Other market funding

Other market funding increased € 3.0 billion in 2014 as more normalised market conditions emerged and AIB was able to broaden its funding base. This increase offset the reductions in both repos within customer accounts and debt securities in issue.

Debt securities in issue

Debt securities in issue reduced € 0.9 billion from € 8.8 billion to € 7.9 billion during 2014. The reductions were predominantly due to € 0.9 billion of unsecured debt maturities and € 1.0 billion related to liability management in the form of debt buyback. The reductions were partly offset by a 5 year € 500 million fixed rate senior unsecured debt issue and a 7 year AIB Mortgage Bank ACS issuance of € 500 million in 2014. The two issuances have been part of a balanced and measured re-engagement in the wholesale markets.

Other liabilities

Other liabilities of € 7.2 billion comprised:

- derivative financial instruments of € 2.3 billion up € 0.3 billion (15%) from € 2.0 billion.
- contingent capital notes maturing in 2016 with a carrying value of € 1.5 billion (nominal value of € 1.6 billion).
- retirement benefit liabilities € 1.2 billion compared to € 0.2 billion in 2013 following changes in actuarial assumptions used to value the Irish scheme's liabilities.
- the remaining liabilities of € 2.2 billion reduced 8% from € 2.4 billion.

At 31 December 2013 Ark Life liabilities of € 3.6 billion were classified as held for sale. Ark Life was sold in May 2014. See note 17 to the financial statements for further detail.

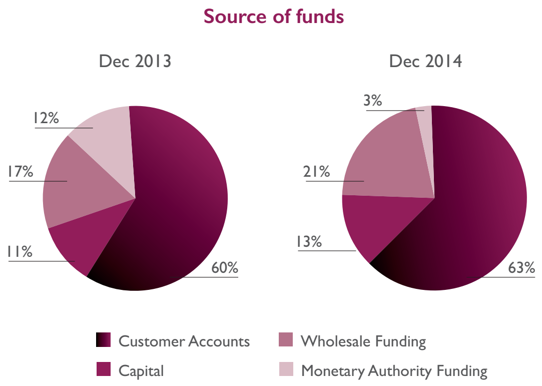
Shareholders' equity

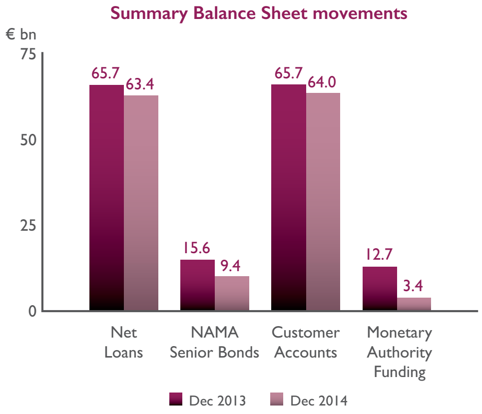
Shareholders' equity increased € 1.1 billion from € 10.5 billion in 2013 to € 11.6 billion in 2014. This increase was mainly due to profit for 2014 of € 0.9 billion and positive fair value gains on available for sale securities and cash flow hedges of € 1.1 billion. The net pension deficit reserve has increased from a deficit of € 0.1 billion at 31 December 2013 to a deficit of € 0.9 billion at 31 December 2014 mainly due to a reduction in the discount rate used to calculate the pension scheme's liabilities.

Business review - 1. Operating and financial review

Funding

Customer accounts contributed 63% of the total funding requirement at 31 December 2014, up from 60% at 31 December 2013. At 31 December 2014, the Group held € 40 billion in qualifying liquid assets/contingent funding (including liquid assets in AIB Group (UK) p.l.c. which are unavailable for use at an overall Group level) of which approximately € 20 billion was not available due to repurchase, secured loan and other agreements. For further detail on funding see pages 142 to 144.





Capital

See Capital section on pages 45 to 49.

Business review - 1. Operating and financial review

Segment reporting

AIB reports the following key segments: Domestic Core Bank ("DCB"), AIB UK, Financial Solutions Group ("FSG") and Group. Reporting on this segment basis commenced in 2013.

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 Group'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") 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 central control and support functions costs which 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 each segment's funding requirements and the Group's funding cost profile, which is informed by wholesale and retail funding costs. Income on capital is allocated to segments based on each segment's capital requirement. The cost of services between segments 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 consolidated 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.

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.

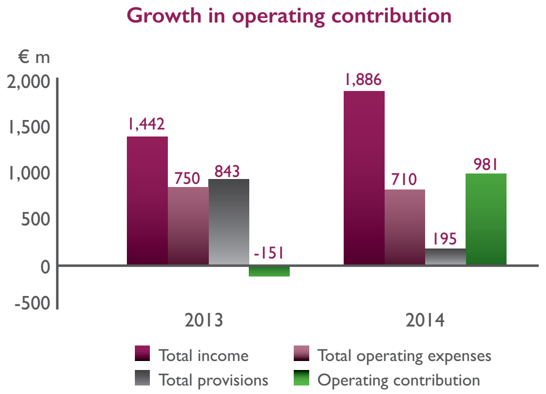
The transfers were effective from 1 July 2013. If the transfers had been effective from 1 January 2013, the estimated contribution statement impact for the first half of 2013 is set out in the table below.

H1 2013 **Contribution statement impact**	DCB € m	AIB UK € m	FSG € m	Total € m
Net interest income	14	15	(29)	-
Other income	(1)	(1)	2	-
Total operating expenses	1	(6)	5	-
Total provisions	(14)	(46)	60	-
Operating contribution	-	(38)	38	-

Business review - 1. Operating and financial review

Domestic Core Bank ("DCB")

- Operating contribution of € 981 million in 2014 compared to a negative of € 151 million in 2013.
- Net loans of € 44.1 billion in line with 2013.
- New lending of € 4.2 billion in 2014.



DCB contribution statement[1]	2014 € m	2013 € m	% change
Net interest income before ELG	1,231	1,120	10
ELG	(41)	(147)	-72
Net interest income	1,190	973	22
Other income[2]	696	469	48
Total operating income	1,886	1,442	31
Total operating expenses	(710)	(750)	-5
Operating contribution before provisions	1,176	692	70
Total provisions	(195)	(843)	-77
Operating contribution	981	(151)	-
Associated undertakings	18	8	125
Contribution before disposal of property	999	(143)	-
Profit on disposal of property	3	1	200
Contribution before exceptional items	1,002	(142)	-
	%	%	change
Cost income ratio	38	52	-14

DCB balance sheet metrics[1]	31 Dec 2014 € bn	31 Dec 2013 € bn	% change
Gross loans	47.2	47.6	-1
Net loans	44.1	44.3	-
Customer accounts	51.2	53.6	-4
	%	%	change
Loan to deposit ratio	86	83	3

Net interest income
Net interest income of € 1,190 million for 2014 was € 217 million (22%) higher than 2013. Taking account of the transfers[1], net interest income was € 203 million higher than 2013 due to reductions in the ELG charge following cessation of the ELG scheme for new liabilities on 28 March 2013, lower customer deposit costs and lower wholesale funding costs. These positive impacts were partly offset by lower loan volumes, lower income on NAMA bonds, and the impact of both lower interest rates and yields on treasury operations.

Other income
Other income improved € 227 million (48%) to € 696 million due to the disposal of available for sale debt and equity securities which were € 150 million higher than 2013 as a result of the restructuring of the portfolio, income on settlement of a claim of € 27 million and a profit on disposal of corporate loans of € 50 million. Gains on the re-estimation of the timing of cash flows on NAMA senior bonds increased by € 70 million. These positive items were partly offset by negative valuation adjustments on customer derivative positions.

Operating expenses
Total operating expenses reduced € 40 million (5%) to € 710 million for 2014 as reduced staff numbers resulted in lower salary and associated costs compared with 2013. Personnel expenses of € 406 million were € 46 million (10%) lower than 2013 mainly as a result of reductions in staff numbers. General and administrative expenses of € 260 million were € 16 million (7%) higher than 2013 primarily as a result of outsourcing initiatives in selected operational and support functions. The charge for depreciation, impairment and amortisation of € 44 million was € 10 million (19%) lower than 2013 mainly due to the acceleration of depreciation in prior years.

Provisions
Total provisions of € 195 million for 2014 were € 648 million lower than 2013. Taking account of the transfers[1], total provisions were € 662 million lower than 2013. The decrease was mainly due to improving economic conditions and a lower level of loans recognised as impaired.

Balance sheet
Gross loans reduced € 0.4 billion since 31 December 2013 as loan amortisation exceeded new lending on the mortgage portfolio was partly offset by growth in SME and corporate loans. Customer accounts reduced € 2.4 billion (4%) since 31 December 2013. Excluding the reduction in repos of € 3.6 billion and the recognition of deposits from Ark Life of € 0.9 billion as customer accounts following deconsolidation/ sale of Ark Life, customer accounts increased € 0.3 billion since 31 December 2013 with strong growth in current accounts partly offset by a reduction in deposits as a result of liability pricing management.

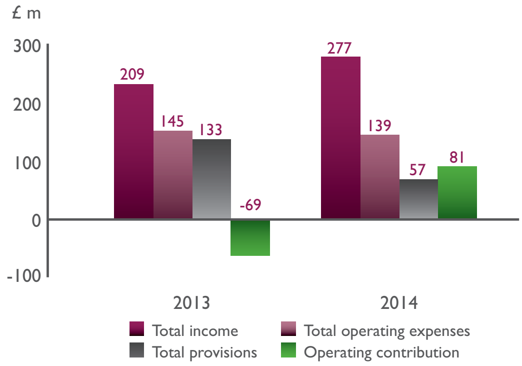
[1]The balance sheet transfers were effective on 1 July 2013. If the transfers had been effective from 1 January 2013, the estimated contribution statement impact for the first half of 2013 is set out on page 39.
[2]Other income includes interest rate hedge volatility with 2013 re-presented.

Business review - 1. Operating and financial review

AIB UK

- Operating contribution of £ 81 million in 2014 compared to a negative of £ 69 million in 2013.
- Cost income ratio improvement, 50% for 2014 compared to 69% in 2013.
- New lending of £ 1.3 billion in 2014.

Growth in operating contribution



AIB UK contribution statement[1]	2014 £ m	2013 £ m	% change
Net interest income before ELG	228	161	42
ELG	(7)	(10)	-30
Net interest income	221	151	46
Other income	56	58	-3
Total operating income	277	209	33
Total operating expenses	(139)	(145)	-4
Operating contribution before provisions	138	64	116
Total provisions	(57)	(133)	-57
Operating contribution	81	(69)	-
Associated undertakings	4	1	300
Contribution before disposal of property	85	(68)	-
Profit on disposal of property	2	-	-
Contribution before exceptional items	87	(68)	-
Contribution before exceptional items € m	109	(80)	-
	%	%	change
Cost income ratio	50	69	-19

AIB UK balance sheet metrics[1]	31 Dec 2014 £ bn	31 Dec 2013 £ bn	% change
Gross loans	9.5	11.2	-15
Net loans	8.1	9.4	-14
Customer accounts	9.0	9.1	-1
	%	%	change
Loan to deposit ratio	90	103	-13

Net interest income

Net interest income of £ 221 million was £ 70 million (46%) higher than 2013. Taking account of the transfers[1], net interest income was £ 57 million higher than 2013 due to lower funding costs as a result of deposit pricing actions and the impact of loan repricing.

Other income

Other income of £ 56 million for 2014 was £ 2 million (3%) lower than 2013. Fee and commission income was £ 5 million higher than 2013 but trading and other operating income was £ 7 million lower than 2013 principally due to a £ 10 million negative valuation adjustments on customer derivative positions.

Total operating expenses

Total operating expenses of £ 139 million for 2014 were £ 6 million (4%) lower than 2013. Taking account of the transfers[1], total operating expenses were £ 11 million lower than 2013 as reduced staff numbers resulted in lower salary and associated costs partly offset by higher general and administrative expenses.

The increase in total income and the decrease in total operating expenses resulted in an improvement of 19% in the cost income ratio from 69% for 2013 to 50% for 2014.

Provisions

Total provisions of £ 57 million were £ 76 million lower than 2013. Taking account of the transfers[1], provisions were £ 115 million lower than 2013 with the net specific charge lower than 2013. During the year, credit quality improved with non-performing loans reducing by £ 0.8 billion mainly through asset sales. The lower net specific charge in 2014 was driven by a combination of lower new specific provisions and higher recoveries.

Balance sheet

AIB UK gross loans to customers decreased £ 1.7 billion (15%) to £ 9.5 billion since 31 December 2013 following loan amortisation during the year of £ 3.0 billion of which £ 1.3 billion was in criticised loans (a 25% reduction on 2013) partly offset by new lending of £ 1.3 billion, an increase of £ 0.5 billion (63%) on 2013. Customer accounts of £ 9.0 billion are broadly in line with 31 December 2013. The loan to deposit ratio has decreased to 90% in 2014 compared to 103% in 2013. The decrease was driven by reductions in net loans.

[1]The balance sheet transfers were effective on 1 July 2013. If the transfers had been effective from 1 January 2013, the estimated contribution statement impact for the first half of 2013 is set out on page 39.

Financial Solutions Group ("FSG")

- Reduction in gross loans of € 5.4 billion (25%) mainly due to restructuring activity during the year.
- Operating contribution of € 600 million in 2014 compared to a negative of € 852 million in 2013.
- Total provisions writeback of € 454 million compared to a charge of € 906 million in 2013 due to lower impaired loans and improving economic conditions.

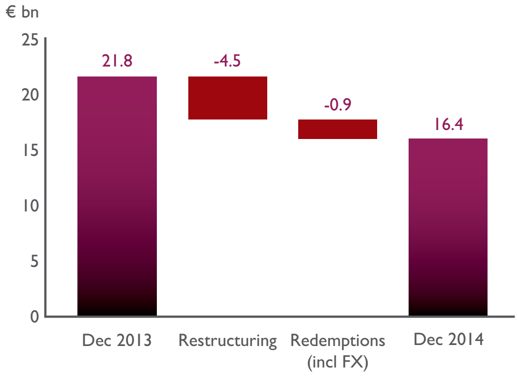
FSG balance sheet metrics[1]	**31 Dec 2014 € bn**	31 Dec 2013 € bn	*% change*
Gross loans	**16.4**	21.8	*-25*
Net loans	**8.9**	10.2	*-13*
Customer accounts	**1.3**	1.1	*18*

FSG contribution statement[1]	**2014 € m**	2013 € m	*% change*
Net interest income before ELG	**230**	204	*13*
ELG	**(9)**	(14)	*-36*
Net interest income	**221**	190	*16*
Other income	**72**	25	*188*
Total operating income	**293**	215	*36*
Total operating expenses	**(147)**	(161)	*-9*
Operating contribution before provisions	**146**	54	*170*
Total writeback/(provisions)	**454**	(906)	-
Operating contribution	**600**	(852)	-
Associated undertakings	**-**	(3)	-
Contribution before exceptional items	**600**	(855)	-

	%	%	*change*
Cost income ratio	**50**	75	*-25*

Balance sheet
Gross loans reduced € 5.4 billion (25%) since 31 December 2013 mainly due to debt restructuring and write-offs during the year. Provisions have reduced € 4.1 billion (35%) since 31 December 2013 mainly due to write-offs and restructuring activity.

Gross loans movement



Net interest income
Net interest income of € 221 million in 2014 was € 31 million (16%) higher than 2013. Taking account of the transfers[1], net interest income was € 60 million higher than 2013 mainly due to lower funding costs partly offset by reduced income from lower loan balances.

Other income
Other income of € 72 million in 2014 was € 47 million (188%) higher than 2013 mainly due to fair value gains on equity warrants and the re-estimation of cashflows on loans previously restructured.

Operating expenses
Total operating expenses reduced € 14 million (9%) to € 147 million in 2014 compared with 2013. Taking account of the transfers[1], total operating expenses were € 9 million lower than 2013, with lower salary and associated costs due to lower average staff numbers. General and administrative expenses were higher than 2013 mainly due to increased outsourcing costs.

Provisions
Total writeback of € 454 million in 2014 compared with a provision charge of € 906 million in 2013. Taking account of the transfers[1], total provisions were € 1,300 million lower than 2013 and reflected the level of debt restructuring completed in the year, reduction in the amount of additional provisions required and improving economic conditions.

[1]The balance sheet transfers were effective on 1 July 2013. If the transfers had been effective from 1 January 2013, the estimated contribution statement impact for the first half of 2013 is set out on page 39.

Group

- Total operating expenses have reduced by € 15 million (4%).

Group contribution statement	2014 € m	2013 € m	% change
Net interest income	**1**	5	*-80*
Other income	**6**	17	*-65*
Total operating income	**7**	22	*-68*
Total operating expenses	**(373)**	(388)	*-4*
Operating contribution before provisions	**(366)**	(366)	-
Total (provisions)/writeback	**(1)**	1	-
Contribution before disposal of business	**(367)**	(365)	*-1*
Profit on disposal of business	**-**	1	-
Contribution before exceptional items	**(367)**	(364)	*-1*

Total operating income

Total operating income decreased € 15 million (68%) primarily due to the negative impact of interest rate hedge volatility.

Operating expenses

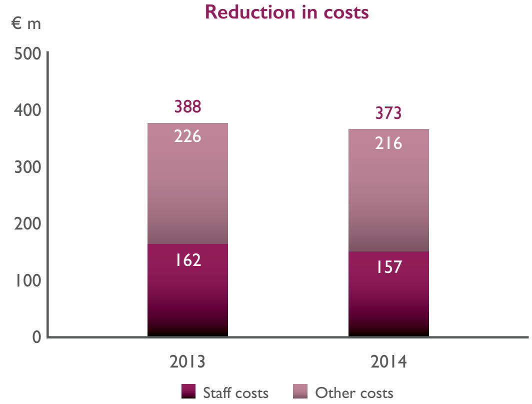
Operating expenses in Group include unallocated overheads relating to operations & technology, risk, audit, finance, general counsel, human resources and corporate affairs & strategy. Total operating expenses decreased € 15 million (4%) to € 373 million for 2014 due to lower salary and associated costs resulting from reduced staff numbers and lower depreciation and amortisation.

Personnel expenses of € 157 million for 2014 were € 5 million (3%) lower than 2013 as a result of the reduction in average staff numbers and associated staff costs.

General and administrative expenses of € 187 million for 2014 were in line with 2013 due to additional outsourcing costs offset by reductions in other cost lines as a result of ongoing cost management.

Depreciation, impairment and amortisation of € 29 million for 2014 was € 10 million (26%) lower than 2013 due to the acceleration of depreciation in prior years.

Reduction in costs



Comprehensive Assessment ("CA")

The CA European wide stress testing exercise was conducted by the European Banking Authority ("EBA") and the European Central Bank ("ECB") in conjunction with AIB's National Competent Authority, the Central Bank of Ireland ("CBI"). The capital adequacy threshold used for the baseline stress test scenario was set at 8.0% Common Equity Tier 1 ("CET 1") and set at 5.5% CET 1 in the adverse stress test scenario. Both scenarios were assessed for capital under the transitional arrangements as set out in Capital Requirements Directive IV ("CRD IV"), over a 3 year period from 2014 - 2016.

The stress tests were conducted on a Static Balance Sheet basis where the stress tests were based on how the balance sheet as at end December 2013 would perform over three years and on a Dynamic Balance Sheet basis where some assumptions from the Restructuring Plan on loan restructuring, cost reductions and new lending were allowed.

The results of the CA confirmed that AIB has capital buffers comfortably above minimum requirements under all stress test assessment scenarios. AIB therefore did not require any additional capital as a result of the CA process.

The published results confirm that in all scenarios, AIB's capital ratios exceed the CA baseline and adverse stress test thresholds over the period as outlined below:

AIB results of Comprehensive assessment	Static Balance Sheet	Dynamic Balance Sheet
CET 1 ratio at 1 January 2014	15.0%	15.0%
AQR[1] adjusted CET 1 ratio	14.6%	14.6%
Buffer[2]	6.6%	6.6%
Adjusted CET 1 ratio after Baseline Scenario	12.4%	14.3%
Buffer[2][4]	4.4%	6.3%
Adjusted CET 1 ratio after Adverse Scenario	6.9%	10.3%
Buffer[3][4]	1.4%	4.8%

The aggregate adjustment due to the outcome of the AQR process would have equated to a reduction of 35 bps to the CET 1 ratio of 15.0% as at 1 January 2014. A provision requirement of € 0.2 billion, 1.3% of balance sheet provisions as of 1 January 2014 was indicated. The Group determines impairment provisions on an ongoing basis in accordance with IFRS accounting standards, which takes into account collateral valuations, current trading conditions, and the timing of cash flow realisation. In arriving at the 2014 impairment provision recovery of € 0.2 billion, the Group considered the results of the AQR and the Central Bank of Ireland's impairment guidelines. The Group is satisfied that balance sheet provisions as at 31 December 2014 take into consideration the findings of the AQR.

[1]Asset Quality Review ("AQR").
[2]Minimum threshold of 8.0%.
[3]Minimum threshold of 5.5%.
[4]Lowest capital level versus threshold over 3 year period.

Business review - 3. Capital management

The objectives of the Group's capital management policy are to at all times comply with the regulatory capital requirements and to ensure that the Group has sufficient capital to cover the current and future risk inherent in its business and to support its future development.

The Group does this through a semi-annual Internal Capital Adequacy Assessment Process ("ICAAP"), which is subject to supervisory review and evaluation. This is AIB's main capital management tool and gives a clear picture of the Group's capital and material risks. The key stages in the ICAAP process are as follows:

– a Risk Appetite Statement is prepared consistent with the Group's business strategy. The risk appetite is set annually at the outset of the annual financial planning process and is monitored on a quarterly basis by measuring the current risk profile against the risk appetite;
– material risk assessment identifies all relevant (current and anticipated) risks and identifies those that require capital adequacy assessment;
– financial planning drives the levels of required capital to support growth plans and meet regulatory requirements. Base and stress capital plans are produced as part of the integrated financial planning process;
– stress testing is applied to capital plans and to all material risks in order to test the resilience of the Group and inform capital needs as they arise; and
– the final stage of the ICAAP is the production of base and stressed capital plans over a three year timeframe, comparing the capital requirements to available capital. The objective is to demonstrate that the Group has adequate capital resources in excess of minimum regulatory capital requirements and internal capital requirements.

Capital regulation

The European Union ("EU") adopted legislative package, known as CRD IV, came into force on 1 January 2014, with some of its provisions being phased-in from 2014. CRD IV consists of the Capital Requirements Regulation ("CRR") which is directly applicable across firms in the EU, and the new Capital Requirements Directive ("CRD"), which has been implemented by member states of the European Economic Area through national law.

CRD IV is designed to strengthen the regulation of the banking sector and to implement the Basel III agreement in the EU legal framework. On 31 March 2014, the Minister for Finance signed into Irish law two regulations to give effect to CRD IV. The European Union (Capital Requirements) Regulations 2014 gave effect to CRD IV and the European Union (Capital Requirements) (No.2) Regulations 2014 gave effect to a number of technical requirements in order that the CRR can operate effectively in Irish law. CRD IV measures include:

– enhanced requirements for quality and quantity of capital. CRD IV also harmonises the deductions from own funds in order to determine the amount of regulatory capital that is prudent to recognise for regulatory purposes. Some of the new provisions of CRD IV are being introduced on a phased basis from 2014, these typically follow 20% in 2014, 40% in 2015 etc. until 2018. The main exception(1) to this relates to the deduction for the deferred tax asset which will be deducted at 10% per annum commencing in 2015. AIB commenced reporting to its regulator under the transitional CRD IV rules during 2014. The transitional capital ratios presented on page 47 take account of these phasing arrangements. The fully loaded capital ratios represent the full implementation of CRD IV;
– a liquidity coverage ratio ("LCR") which will require banks to have sufficient high quality liquid assets to withstand a 30-day stressed funding scenario that is specified by supervisors. An additional measure is the net stable funding ratio ("NSFR") which is a longer term structural ratio designed to address liquidity mismatches. The NSFR provides incentives for banks to use stable funding;
– a leverage ratio which is designed to act as a non-risk sensitive back-stop measure to reduce the risk of build-up of excessive leverage in an individual bank and the financial system as a whole. The implications of the leverage ratio will be closely monitored prior to its possible move to a binding requirement on 1 January 2018;
– a single set of harmonised prudential rules which banks throughout the EU must respect. The new rules remove a large number of national options and discretions that were previously available; and
– other measures including enhanced governance, sanctions, capital buffers, remuneration controls and improved transparency.

A new system of financial supervision, the Single Supervisory Mechanism (''SSM''), comprising the European Central Bank (''ECB'') and the national competent authorities of EU countries has been established. The SSM places the ECB as the central prudential supervisor of financial institutions in the Eurozone, including AIB, and in those non-eurozone EU countries that choose to join the SSM. On 4 November 2014, the ECB commenced its supervisory role under the SSM. The aims of the SSM are to ensure the safety and soundness of the EU banking system and to increase financial integration and stability in the EU. Although the ECB has been conferred with the task of ensuring financial stability, some functions such as consumer protection, supervision of payment services and the combat of money laundering remain at national level.

(1)The CBI published their 'Implementation of Competent Authority Discretions and Options in CRD IV and CRR' on 24 December 2013, updated on 21 May 2014 to reflect national transposition of CRD IV, which clarifies the application of transitional rules in Ireland under CRD IV.

Business review - 3. Capital management

The Bank Recovery and Resolution Directive ("BRRD") and the Single Resolution Mechanism ("SRM") marks another step by European authorities in improving the stability of the financial system, adding a common recovery and resolution framework to the already established SSM. The overarching goal of the new bank recovery and resolution framework established by the BRRD/SRM package is to break the linkages between national banking systems and sovereigns. The new framework is intended to enable resolution authorities to resolve failing banks with a lower risk of triggering contagion to the broader financial system, while sharing the costs of resolution with bank shareholders and creditors. To achieve this objective, the BRRD includes explicit provisions for the 'bail-in' of senior creditors where necessary. This specific 'bail-in' of certain senior creditors is not required to be brought into force until the beginning of 2016. Relevant capital metrics in this regard include:

- the Minimum Requirement Eligible Liabilities ("MREL") which is being introduced as part of the BRRD. It is designed to ensure that banks have sufficient loss-absorbing capacity through capital and liabilities eligible to be bailed in.
- the Total Loss Absorption Capacity ("TLAC") which is a proposed minimum requirement for total capital. It is proposed to be imposed from 2019 on banks that are deemed by the Financial Stability Board ("FSB") to be globally systemically important banks ("G–SIBs") (currently a list of 29 banks not including AIB).

The Group's transitional Common Equity Tier 1 ("CET1") ratio was 16.4% as at 31 December 2014, an increase of 140 bps in the year. The fully loaded CET1 ratio was 11.8% including the 2009 Preference Shares which continue to be considered as CET1 until 31 December 2017. Excluding the 2009 Preference Shares, the fully loaded CET1 reduces to 5.9%. These levels of capital will enable the Group to progress on-going discussions with the Department of Finance on determining the appropriate level and mix of capital for the Group.

Capital structure

Resolutions to reorganise the share capital of the Group were passed at an extraordinary general meeting held on 19 June 2014. These included the renominalisation of the ordinary shares and a resolution to allow for the increase of distributable reserves by € 5.0 billion. An application was made to the High Court in July 2014 for approval of that increase in distributable reserves. On 15 October 2014, the High Court granted an order permitting a share capital reduction which gave rise to additional distributable reserves totalling € 5.0 billion. This reduction was effected on 16 October 2014.

Regulatory capital and capital ratios

Basel II as reported 31 December 2013 € m		CRD IV transitional basis 31 December 2014 € m	CRD IV transitional basis Pro-forma 1 January 2014 € m	CRD IV fully loaded basis[1] 31 December 2014 € m	CRD IV fully loaded basis[1] Pro-forma 1 January 2014 € m
	Core/common equity tier 1 capital				
10,494	Gross common equity tier 1	**11,572**	10,494	**11,572**	10,494
–	Less preference dividend	**(280)**	–	**(280)**	–
10,494	Common equity tier 1 after preference dividend	**11,292**	10,494	**11,292**	10,494
	Regulatory adjustments				
(179)	– Goodwill and intangibles	**(174)**	(179)	**(174)**	(179)
(34)	– Cash flow hedge reserves	**(383)**	(34)	**(383)**	(34)
(284)	– Reversal of fair value of contingent capital instrument	**(189)**	(284)	**–**	–
(642)	– Available for sale securities	**(1,369)**	(649)	**–**	–
(151)	– Pension	**557**	(132)	**(121)**	(54)
–	– Deferred tax	**–**	–	**(3,640)**	(3,838)
(158)	– Unconsolidated financial investments	**–**	–	**–**	–
(120)	– Other	**(17)**	(93)	**–**	–
(1,568)		**(1,575)**	(1,371)	**(4,318)**	(4,105)
8,926	**Core/common equity tier 1 capital**	**9,717**	9,123	**6,974**	6,389
	Tier 2 capital				
833	Subordinated debt	**538**	828	**538**	828
595	Credit provisions	**453**	453	**136**	132
140	Other	**17**	93	**–**	–
	Regulatory adjustments				
(158)	– Unconsolidated financial investments	**–**	–	**–**	–
1,410	**Total tier 2 capital**	**1,008**	1,374	**674**	960
10,336	**Total capital**	**10,725**	10,497	**7,648**	7,349
	Risk weighted assets				
59,038	Credit risk	**54,348**	56,489	**54,348**	56,489
177	Market risk	**471**	177	**471**	177
3,174	Operational risk	**2,822**	3,174	**2,822**	3,174
–	Credit valuation adjustment	**1,468**	1,037	**1,468**	1,037
6	Other	**5**	6	**5**	6
62,395	**Total risk weighted assets**	**59,114**	60,883	**59,114**	60,883
14.3%	**Core tier 1/common equity tier 1 ratio**	**16.4%**	15.0%	**11.8%**	10.5%
16.6%	**Total capital ratio**	**18.1%**	17.2%	**12.9%**	12.1%

[1]Fully loaded ratios are calculated including the 2009 Preference Shares (which will continue to be considered CET1 until 31 December 2017).

Business review - 3. Capital management

Capital ratios at 1 January 2014

Transitional ratio

On implementation of CRD IV, the pro-forma CET1 ratio on a transitional basis at 1 January 2014 was 15.0%. This compared to a Basel II core tier 1 ratio of 14.3% at 31 December 2013.

Under CRD IV, the supervisory deductions in relation to Ark Life (unconsolidated financial investments), which were deducted 50:50 from tier 1 and tier 2 capital under Basel II, was no longer applicable.

Under CRD IV, the main changes to risk weighted assets ("RWAs") were a) a substantial element of deferred tax assets was removed from the credit RWAs; b) the life assurance business, Ark Life, generates additional credit RWAs; c) a credit valuation adjustment was included, where AIB is required to hold additional capital for entering into over-the-counter ("OTC") derivative contracts.

Fully loaded ratio

On implementation of CRD IV, the pro-forma CET1 ratio on a fully loaded basis at 1 January 2014 was 10.5%. This compared to a Basel II core tier 1 ratio of 14.3% at 31 December 2013. Under CRD IV, deferred tax assets relating to unutilised tax losses are deducted in arriving at a fully loaded CET1 ratio. In addition, the available for sale ("AFS") reserve and pension reserve form part of the fully loaded CET1 ratio. The movements in RWA from Basel II to CRD IV are explained above.

Capital ratios at 31 December 2014

Transitional ratio

The CET1 transitional ratio has increased from 15.0% at 1 January 2014 to 16.4% at 31 December 2014. This is driven primarily by profit of € 915 million generated during 2014 and a release of € 75 million in Tier 2 capital to CET1 following the disposal of Ark Life, partly offset by the impact of the higher pension deficit at 31 December 2014 which arose as a result of a decrease in the discount rate applied in the valuation of pension liabilities. A deduction, being a foreseeable charge, has been made in respect of the full dividend of € 280 million due on 13 May 2015 on the 2009 Preference Shares. This has reduced CET1 and total capital ratios by 0.5%.

The decrease in credit risk RWAs of € 2.1 billion reflects a reduction in net loans in addition to the impact of the disposal of Ark Life. The RWAs attaching to operational risk reduced by € 352 million, reflecting the reduced levels of income in the annual calculation.

The CET1 transitional ratio, at 16.4%, is significantly in excess of the minimum CET1 regulatory requirements. The total capital ratio has increased from 17.2% at 1 January 2014 to 18.1% at 31 December 2014. This reflects the increase in CET1 capital described above, offset by a € 366 million reduction in tier 2 capital, primarily relating to a) the continuing reduction in the Tier 2 qualifying amount of the contingent capital instrument that is due to mature in July 2016 and b) the transfer of Tier 2 capital to CET1 following the disposal of Ark Life.

The capital figures reflect the audited 2014 year end profit for the Group. The quarterly SSM regulatory capital reporting process will include these profits in due course.

Fully loaded ratio

The transitional CET1 ratio of 16.4% compares to 11.8% on a fully loaded basis at 31 December 2014. This reflects a reduction in CET1 of € 2,743 million. The main drivers of this reduction are:

– the full deduction of the deferred tax asset (''DTA'') of € 3,640 million under fully loaded 1 January 2014: €3,838 million. Under transitional rules, the phasing in deduction of the DTA will commence in 2015 at 10% per annum.
– the AFS reserve of € 1,369 million, driven by unrealised gains in sovereign debt securities and the revaluation of the Group's NAMA subordinated bonds, is included in the fully loaded position while it is excluded on a transitional basis at 31 December 2014.
– the fully loaded CET1 position takes full account of the pension deficit within revenue reserves whereas under transitional rules the impact of this deficit has been restricted. The difference in treatment amounted to € 678 million at 31 December 2014.

The total capital ratio for AIB on a fully loaded basis has increased from 12.1% to 12.9%, reflecting the factors outlined above, partly offset by the continuing reduction in the Tier 2 qualifying amount of the contingent capital instrument.

The fully loaded capital ratios include the 2009 Preference Shares which continue to be considered as CET1 until 31 December 2017. Excluding the 2009 Preference Shares, the reported fully loaded CET1 of 11.8% at 31 December 2014 would reduce to 5.9%.

Leverage ratio

CRD IV also introduces a leverage ratio which is defined as tier 1 capital divided by a non-risk adjusted measure of assets. Based on full implementation of CRD IV, the leverage ratio, including the 2009 Preference Shares, was 6% at 31 December 2014 (31 December 2013: 5%). This primarily reflects an increase in tier 1 capital as outlined above and a reduction in asset balances. Excluding the 2009 Preference Shares, the reported leverage ratio of 6% at 31 December 2014 would reduce to 3%.

Minimum Requirement Eligible Liabilities (“MREL”)

Based on current guidance, AIB’s MREL ratio at 31 December 2014 was 11.1% on a fully loaded basis (13.7% under transitional rules).

Total Loss Absorption Capacity (“TLAC”)

Based on current guidance, AIB’s TLAC ratio at 31 December 2014 was 12.9% on a fully loaded basis (18.1% under transitional rules).

Risk management

[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.

Risk management – 1. Principal risks and uncertainties

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
– Regulatory and legal risks
– Risks relating to business operations, governance and internal control systems

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 business may be adversely affected by the economic and market conditions it operates in

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 and, decreased asset values.

While there are some signs of improvement and stabilisation in the Irish economy, any renewed stress on or deterioration of the economy 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 challenging for customers. A continued high level of unemployment together with any further reduction in borrowers' disposable income 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.

Deterioration in the economic and market conditions in which the Group operates could negatively impact on the Group's income, and may put additional pressure on the Group to more aggressively manage its cost base. This may have negative consequences for the Group to the extent that strategic investments are de-scoped or de-prioritised, and may serve to increase operational risk in the near-term. Market conditions are also impacted by the competitive environment in which the Group operates. The entry of bank and non-bank competitors into the Group's markets may put additional pressure on the Group's income streams and consequently have an adverse impact on its financial performance.

The Group's financial planning process evaluates the impact of economic and market conditions on the Group's capital, funding and profitability under both forecast and stress scenarios. Additionally, sensitivity analysis is used to evaluate the impact of individual risk drivers. Performance against the Group's financial plan is monitored by management and the Board on a monthly basis.

Constraints on the Group's access to funding may adversely affect liquidity risk management

Conditions could arise which would constrain funding or liquidity opportunities for the Group. Currently, the Group funds its activities primarily from customer deposits. However, a loss of confidence by depositors in the Group, the Irish banking industry or the Irish economy could lead to losses of funding or liquidity resources over a short period of time. Concerns around debt sustainability and sovereign downgrades in the Eurozone could impact the Group's deposit base and could impede access to wholesale funding markets, impacting the ability of the Group to issue debt securities to the market.

A stable customer deposit base and asset deleveraging has allowed the Group to materially reduce its funding from the European Central Bank ("ECB"). This, in turn, has allowed an increase in unencumbered high quality liquid assets. The Group has also identified certain management and mitigating actions which could be considered on the occurrence of a liquidity stress event. However, in the unlikely event that the Group exhausted these sources of liquidity it would be necessary to seek alternative sources of funding from the monetary authorities.

Risk management – 1. Principal risks and uncertainties

The Capital Requirements Regulation (No. 575/2013) ("CRR") and the Capital Requirements Directive (2013/36/EU) ("CRD" and together with the CRR, "CRD IV") require banks such as AIB to meet targets set for the new Basel III liquidity related ratios: the Net Stable Funding Ratio and Liquidity Coverage Ratio. Meeting the phased implementation deadlines of these requirements could impose additional costs on the Group while failure to demonstrate appropriate progress may lead to regulatory sanction.

The Group's liquidity management framework sets out the manner in which the Group's funding and liquidity risk profile is managed. See pages 139 to 149 for further detail.

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

The following market risks arise in the normal course of the Group's banking business; interest rate risk, credit spread risk (including Sovereign risk), basis risk and FX risk.

Changes in the shape and level of interest rate curves impact the economic value of the Group's underlying assets and liabilities. The level of the Group's earnings is exposed to basis risk i.e. an imperfect correlation in the adjustment of the rates earned and paid on different products with otherwise similar repricing characteristics. The persistence of exceptionally low interest rates for an extended period could adversely impact the Group's earnings through the compression of net interest margin.

Widening credit spreads could adversely impact the value of the Group's available for sale ("AFS") bond positions.

Trading book risks predominantly result from supporting client businesses with small residual discretionary positions remaining. Credit Value Adjustments ("CVA") and Funding Value Adjustments ("FVA") to derivative valuations arising from customer activity have potentially the largest trading book derived impact on earnings.

Changes in foreign exchange rates, particularly the euro-sterling rate, affect the value of assets and liabilities denominated in foreign currency and the reported earnings of the Group's non-Irish subsidiaries.

The Group manages this risk through a number of financial risk management frameworks as described in pages 139 to 153 and page 156. Risk positions are monitored on a regular basis at the Asset and Liability Committee ("ALCo").

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 and of members of currency and supranational economic associations is an on-going risk to the Group's financial condition. Any change in membership of such associations or reductions in the perceived creditworthiness of one or more significant borrower or financial institution, could lead to market-wide liquidity problems, losses and defaults, which could adversely affect the Group's results, financial condition and future prospects. The Group's stress testing framework evaluates its risk profile under a range of scenarios, including systemic threats which are caused by or give rise to contagion risk. The most severe systemic risks, together with their associated risk mitigants (where available) are evaluated as part of the Group's Recovery Planning framework.

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

The current and future budgetary and taxation policy of Ireland 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 bank levy introduced in Budget 2014. This bank levy imposes an additional taxation liability on the Group and applies during 2014, 2015 and 2016. The annual levy paid by the Group in 2014 amounted to € 60 million.

The Terms of Reference proposed by the Joint Committee for the Inquiry into the Banking Crisis were agreed by Dáil Éireann and Seanad Éireann in November 2014. The purpose of the Inquiry is to inquire into the reasons why Ireland experienced a systemic banking crisis, including the political, economic, social, cultural, financial and behavioural factors and policies which impacted on or contributed to the crisis and the preventative reforms implemented in the wake of the crisis. The costs and potential implications for the Group of this inquiry are uncertain at this time.

The Group assesses this risk by undertaking sensitivity analysis in its financial planning process, and monitoring financial performance against the Group's financial plan on a monthly basis.

Regulatory and legal risks

Increased regulation and supervision

A significant number of new regulations have been issued by the various regulatory authorities in the recent past.
The Eurozone's largest banks, including the Group, came under the direct supervision of, and are deemed to be authorised by the ECB since the introduction on 4 November 2014 of the Single Supervisory Mechanism ("SSM").

The main aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe. A Single Resolution

Mechanism ("SRM") is being introduced including a single resolution board and a single fund for the resolution of banks. The requirements of the SRM are set out in the Banking Recovery and Resolution Directive ("BRRD") which is to come into effect in 2015 and the Group is making preparations for the Single Resolution Authority ("SRA") which comes into effect in 2016. The establishment of the SRM is designed to ensure that supervision and resolution is exercised at the same level for countries that share the supervision of banks within the SSM. The single resolution fund will be financed by bank levies raised at national level and the SRM will come into force on 1 January 2016.

Further information on regulatory change is set out in the "Governance and Oversight - 6 Supervision and Regulation" section of this Report.

The challenge of meeting this degree of regulatory change will place a strain on the Group's resources, particularly during a period of significant organisational transformation. The challenge of meeting tight implementation deadlines while balancing competing resource priorities and demands adds to the regulatory risk of 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 potential impact of new regulatory requirements is regularly evaluated by the Group's management and cross-functional programmes are put in place to ensure that the Group is able to meet new regulatory requirements.

The Group is subject to substantial and changing conduct regulations

The Group is exposed to many forms of Conduct Risk, which may arise in a number of ways. In particular, the Group may be subject to allegations of mis-selling of financial products, including, as a result of having sales practices and/or reward structures in place that are determined to have been inappropriate, which may result in adverse regulatory action (including significant fines) or requirements to amend sales processes, withdraw products or provide restitution to affected customers, any or all of which could result in the incurrence of significant costs, may require provisions to be recorded in the financial statements and could adversely impact future revenues from affected products.

The Group has implemented a Conduct Framework detailing its approach to the management of Conduct Risk and oversight of Conduct Risk is the responsibility of the Products and Conduct Committee.

The future of the Group's business activities are subject to possible interventions by the Government or the disposal of the State's ownership and other interests 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 Government. 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 EU state aid applicable in respect of that recapitalisation, a Relationship Framework was agreed between the Irish 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 the 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 AIB and its management team, but the appointment or removal of the chairman or chief executive officer of AIB are reserved for 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 interventions may have a negative impact on the operations of the Group.

The Irish Government may sell or otherwise dispose of its ownership and other economic interests in the Group to any private or public entity, including any intergovernmental institution. Any such sale or disposal, and any conditions attaching to it, may materially affect the Group's operations, financial condition and future prospects.

The Group actively engages and co-operates with all relevant external stakeholders including governmental authorities.

The Group is subject to Government/European Commission supervision and oversight

As a result of the recapitalisations of AIB by the Irish Government, the Group is subject to various obligations under the Relationship Framework as agreed between the Minister and the Group in March 2012, and 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 on the operation of the Group's business under the Credit Institutions (Financial Support) Scheme 2008 (the "CIFS Scheme") and the National Asset Management Agency ("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.

Risk management – 1. Principal risks and uncertainties

As a result of the above mentioned supports by the Government, the Group is also subject to obligations in respect of the European Commission's approval in May 2014 of AIB's Restructuring Plan. In that respect, the Group has committed to a range of measures relating to customers in difficulty, costs caps and reductions, acquisitions and exposures, coupon payments, promoting competition and the repayment of aid to the State.

The Group actively engages and co-operates with all relevant external stakeholders including governmental authorities.

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

As a participating institution under the NAMA Act, during 2010 and 2011, AIB transferred financial assets to NAMA with a net carrying value of € 15.5 billion for which it received as consideration NAMA senior bonds and NAMA subordinated bonds.

Provisions of the NAMA Act provide for certain circumstances in which the Group could face additional liabilities in relation to assets transferred.

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

The Group monitors this risk by periodically reviewing the carrying value of its NAMA senior and subordinated bonds, including external benchmarking.

Risks relating 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 ("AFS") portfolio, derivatives and from off-balance sheet guarantees and commitments. The Group has been exposed to increased counterparty risk as a result of the risk 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 has extensive credit policies, limits and controls in place which are described in detail on pages 60 to 79.

The Group faces elevated operational risks

Operational risk is defined as risks arising from inadequate or failed internal processes, people and systems, or from external events. The Group faces an elevated operational risk profile given the current economic environment and the ongoing significant organisational changes.

One of the Group's 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.

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.

The Group's business is dependent on processing and reporting accurately and efficiently a high volume of complex transactions across numerous and diverse products and services. Any weakness in these systems or processes could have an adverse effect on the Group's results and on its ability to deliver appropriate customer outcomes during the affected period. In addition, any breach in security of the Group's systems (for example from increasingly sophisticated cybercrime attacks), could disrupt its business, result in the disclosure of confidential information or create significant financial and/or legal exposure and the possibility of damage to the Group's reputation and/or brand.

The Group mitigates its operational risks by having detailed risk assessment and internal control requirements in relation to the management of its key people, process and systems risk, and through comprehensive and robust business continuity management arrangements. These are set out in the Group's Operational Risk Framework which is described on page 154.

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 the outcomes of such disputes 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.

The Group has a centralised legal team under the Group General Counsel and relevant internal and external legal expertise is retained to mitigate associated risks as appropriate.

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

The Group is subject to minimum capital requirements as set out in CRD IV and implemented under the Single Supervisory Mechanism. As a result of these requirements banks in the EU have been, and will continue to be required to increase the quantity and the quality of their regulatory capital. Given this regulatory context, and the levels of uncertainty in the current economic environment, there is a possibility that the economic outturn over the Group's capital planning period may be materially worse than expected 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, or capital requirements for other material risks to increase significantly, 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. In addition, capital levels may be negatively affected by volatility arising from the pension schemes and the available for sale portfolio values.

This risk is mitigated by evaluating the adequacy of the Group's capital under both forecast and stress conditions as part of the Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP process includes the identification and evaluation of potential capital mitigants.

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.

The new capital adequacy rules under CRD IV require the Group inter alia, to deduct from its CET1, the value of most of the Group's deferred tax assets, including all deferred tax assets arising from unused tax losses. This deduction from CET1 is to be phased in evenly over 10 years commencing in 2015. The Group monitors this risk by regularly reviewing the basis for recognition of its deferred tax assets.

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 turn out to be inaccurate, and the value realised by the Group for these assets may be materially different from their current, or estimated, fair value

In accordance with International Financial Reporting Standards ("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 AFS.
The best evidence of fair value is quoted prices in an active market. Disruption to quoted prices increases reliance on valuation techniques which 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 mitigates this risk by having comprehensive valuation and accounting policies and methodologies in place for the valuation of certain financial assets, and in undertaking control activities which provide assurance that these are being adhered to.

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

The Group is exposed to a number of material risks. Although the Group invests substantially in its risk management strategies and techniques, there is a risk that these fail to fully mitigate the risks in some circumstances.

The Group mitigates this risk by regularly reviewing the design and operating effectiveness of its risk management policies and methodologies. These reviews are supplemented in some instances by external review and validation.

Risk management – 1. Principal risks and uncertainties

The Group is subject to model risk

The Group develops and uses models across a range of risks and activities including, but not limited to, capital management, credit grading, valuations, liquidity, pricing and stress testing. Where the Group uses risk measurement techniques based on historical observations, there is a risk that these under or over estimate exposure to the extent that future market conditions deviate from historic norms. As a result, the Group may experience material unexpected losses.

The Group may incur losses as a result of inaccuracies in these models, the data used to build them or decisions made based on incomplete understanding of these models.

The Group mitigates this risk by having comprehensive policies in place in relation to models, appropriate segregation of duties between model build and validation, senior executive approval and oversight of models and on-going testing of the performance of models.

Negative impacts on the Group's reputation may impact its financial performance

Damage to the Group's reputation may adversely affect relationships with the Group's stakeholders including customers, staff and supervisors. Such damage may lead to impacts on the Group's capability to attract and retain customers, attract, motivate and retain staff and engage positively with supervisors. This may lead to impacts on the Group's ability to conduct its affairs and in turn on the financial performance of the Group.

The Group manages its reputational risk through its management of other material risk types. For any risk, the potential reputational impact is considered alongside the direct and indirect financial consequence. The Nominations and Corporate Governance Committee is responsible for overseeing the Group's management of reputational risk.

Risk management – 2. Framework

Introduction

The principal risks and uncertainties 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, is 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. To support this approach, a number of Board approved frameworks and policies are in place which set out the key principles, roles and responsibilities and governance arrangements through which the Group's material risks are managed. 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 maximum amount of risk that the Group is willing to accept or tolerate 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.

The Group RAS is reviewed and approved by the Board at least annually or more often if required, in alignment with the annual business and financial planning process. A Group RAS was in place during the year under review, and was last updated in January 2015. AIB authorised bank subsidiaries and business segments are required to document and align their own risk appetite statements with the Group statement.

While the Board reviews the Group RAS, the Leadership Team is accountable for ensuring that risks remain within appetite. The Group's risk profile is measured against its risk appetite and adherence to both the Group RAS and business segment risk appetite statements are reported on a monthly basis to the Executive Risk Committee ("ERC") and Board Risk Committee ("BRC"). Should any breaches of Group RAS limits arise, these, together with associated management action plans, are escalated to the Board for review, and also reported to the Central Bank of Ireland ("CBI")/Single Supervisory Mechanism ("SSM"), in line with the provisions of its Corporate Governance Code.

2.3 Risk governance

2.3.1 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, headed by the Group Chief Risk Officer ("CRO") provides the second line of defence, providing independent oversight and challenge to business line managers. The third line of defence is the Group Internal Audit function, under the Head of Group Internal Audit ("GIA"), which provides independent assurance to the Audit Committee of the Board on the effectiveness of the system of internal control.

Changes to the composition of the Leadership Team and Board, both during 2014 and subsequently, which includes the appointment of a new CRO from 1 November 2014 are described on pages 158 to 161.

2.3.2 Committees with risk management responsibilities

The Board has delegated a number of risk governance responsibilities to various committees and key officers. The diagram below summarises the current risk committee structure of the Group.

The role of the Board, the Audit Committee, and the Board Risk Committee ("BRC") is set out in the Governance and oversight - 4. Corporate Governance statement of this report. 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 role of the Executive Risk Committee ("ERC") is to foster risk governance within the Group, to ensure that risks within the Group are appropriately managed and controlled, and to evaluate the Group's risk appetite against the Group's strategy. It is a sub-committee of the Leadership Team chaired by the Chief Financial Officer ("CFO") and its membership includes the CEO, CRO, Chief Operating Officer ("COO"), and the Head of Internal Audit.

The ERC's principal duties and responsibilities include reviewing the effectiveness of the Group's risk frameworks and policies, monitoring and reviewing the Group's risk profile, risk trends, risk concentrations and policy exceptions, and monitoring adherence to approved risk appetite and other limits. The ERC acts as the parent body of two other risk and control committees, namely the Group Credit Committee ("GCC") and the Products and Conduct Committee ("PCC"). Principal responsibilities of the GCC include: the exercising of approval authority for exposure limits to customers of the Group; exercising approval authority for credit policies; considering quarterly provision levels, assurance reviews and credit review reports; the approval of credit inputs to credit decisioning models, as well as the review and approval of other credit related matters as they occur. The PCC approves the launch and ongoing performance of products and oversees the

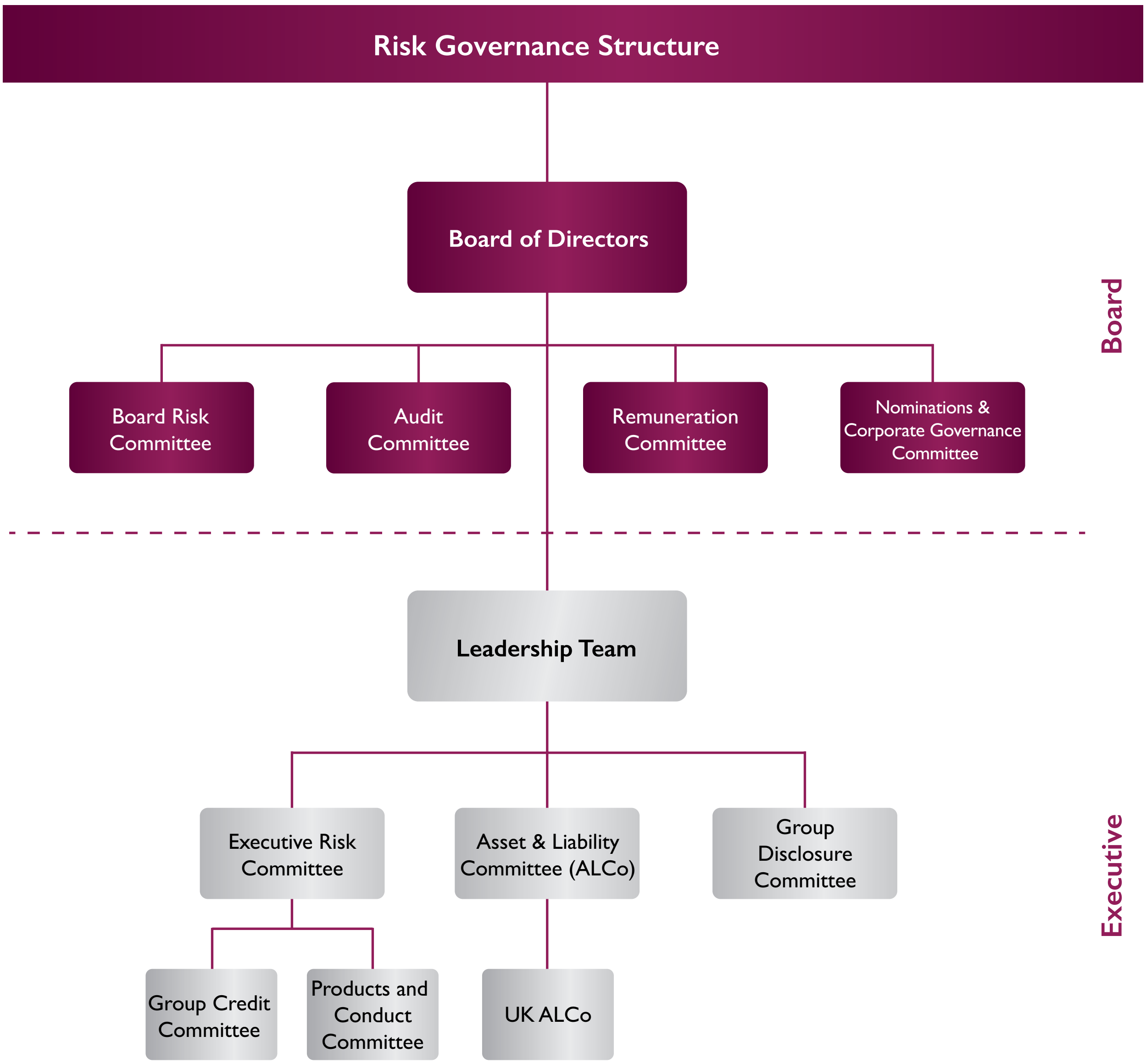
Risk management – 2. Framework

Group's conduct risk management. The PCC plays a key role in promoting and supporting a customer centric ethos and culture across the Group.

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 Director of Finance and its membership includes the CFO, the CRO and the heads of significant business areas. ALCo is 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.

In ensuring sound capital and liquidity management and planning, ALCo reviews and approves models for the valuation of financial instruments, for the measurement of market and liquidity risk, for regulatory capital ('IRB models'), and for the calculation of expected and unexpected credit losses and stress testing. In addition, ALCo directs the shape of the balance sheet through funds transfer pricing, direction on product pricing and review and analysis of risk adjusted returns on capital.

The Group Disclosure Committee is responsible for reviewing compliance of Group financial information with legal and regulatory requirements prior to external publication, and for exercising oversight of the Accounting Policies Forum, which ensures that the accounting policies adopted by the Group conform to the highest standards in financial reporting.



2.3.3 Changes to committee structures in 2014

Towards the end of 2014, a review of the Group's governance arrangements was undertaken. As a result, the Strategic Credit Forum ("SCF") was retired and ERC assumed direct responsibility for its activities. The SCF was charged with responsibility for governance of Group credit risk strategy, credit risk appetite, credit quality and impairment provision adequacy. The Capital Committee ("CC") and Product Pricing Committee ("PPC") were also retired and their responsibilities subsumed within ALCo. The CC was responsible for fostering sound capital management and planning within the Group, ensuring that the quality and quantum of capital held by the Group was commensurate with its business objectives and risk appetite, and approving regulatory capital models. The PPC had delegated authority for the oversight and direction of balance sheet management and net interest margin including the approval of product pricing.

2.4 Risk identification and assessment process

The Group uses a variety of approaches and methodologies to identify and assess its principal risks and uncertainties. A Material Risk Assessment ("MRA") is undertaken on at least an annual basis. The MRA identifies and assesses the most material risks facing the Group in terms of their likelihood and impact, and separately evaluates whether an explicit amount of capital is required to be held against them as part of the Group's Internal Capital Adequacy Assessment Process ("ICAAP"). Other assessments of risk are undertaken, as required, by business areas, focussing on the nature of the risk, the adequacy of the internal control environment and whether additional management action is required. Ad hoc risk assessments are also undertaken in response to specific internal or external events. A monthly CRO Report is presented to the ERC and BRC which sets out the risk profile of the Group and seeks to identify emerging threats.

More information on the risk assessment techniques specific to the management of individual risk types is provided on pages 60 to 156.

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. The Group undertakes a regular programme of stress testing across all its material risks to ensure that risk assessment is dynamic and forward looking and considers not only existing risks but also potential and emerging threats.

A key deliverable in 2014 was the stress testing component of the European Central Bank's Comprehensive Assessment of the resilience of euro-zone banks.

Reverse stress testing is undertaken as part of the Group's Recovery Planning i.e. the means by which the Group assesses the key threats to its viability and the available mitigants to address them.

2.6 Risk culture

The Group seeks to promote a strong risk culture throughout the organisation which encourages the prompt identification and escalation of issues and fosters an environment of continuous improvement and 'learning from mistakes'. Risk training is an important part of fostering a sound risk culture. A Risk Academy is in place which provides access to recommended training and education for risk professionals as well as supporting the on-going development of risk skills across the AIB organisation.

Risk management – 3. Individual risk types

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 had 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 government 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 and 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;
– Requires 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
– Enforces 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;
– Loss given default ("LGD") – the loss associated with a defaulted loan or borrower; and
– Expected loss ("EL") – the loss that can be incurred as a result of lending to a borrower that may default. It is the average expected loss in value over a specified period.

3.1 Credit risk

Measurement of credit risk *(continued)*

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, at which authority level they can be approved, and how any existing limits are managed for current borrowers.

The ratings methodology and criteria used in assigning borrowers to grades varies 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, for larger cases with connected exposures, 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. borrowers' 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.
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.

Credit management and credit risk management continues to be a 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 2014, the Group used a combination of Standardised and Internal Ratings Based ("IRB") approaches for the calculation of regulatory capital. 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 certain of its internal credit models in the calculation of its capital requirements. 42% (31 December 2013: 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.

The Group divides its internal rating systems into non-retail and retail approaches. Both approaches differentiate PD estimates into between 9 and 16 grades in addition to the category of default. In all cases, impaired exposures and exposures 90 days or more past due are considered to be in default.

3.1 Credit risk

Measurement of credit risk *(continued)*

Non-retail

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. To calculate PD, the Group assesses the quality of borrowers and other counterparties using criteria particular to the type of borrower under consideration.

Retail

For retail exposures, the Advanced IRB approach is adopted for Republic of Ireland residential mortgages (excluding 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.

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.

The table below shows the distribution of outstanding non-impaired credit exposures to customers in terms of EAD, PD, LGD and EL by IRB portfolios.

				2014
	EAD € m	Average PD %	Average LGD %	EL[1] € m
Residential mortgages				
Owner-occupier	15,282	1.23	27.48	71
Buy-to-let	2,961	2.12	30.45	41
	18,243	1.37	27.96	112
Corporate	5,330	1.82	45.22	50
SME	2,503	5.26	45.00	59
Total	26,076	1.84	33.13	221

				2013
	EAD € m	Average PD %	Average LGD %	EL[1] € m
Residential mortgages				
Owner-occupier	15,803	1.32	27.56	79
Buy-to-let	3,211	2.13	30.75	45
	19,014	1.46	28.10	124
Corporate	4,924	2.59	45.17	67
SME	2,522	5.49	45.00	62
Total	26,460	2.05	32.89	253

[1]EL has been adjusted following the outcome of the 2013 Balance Sheet Assessment by the CBI.

The average PD and LGD have decreased mainly due to the improving grade profile of the non-impaired book, the improving economic environment and the migration to impaired of some higher PD accounts during 2014.

For financial 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, accordingly, these will differ from amounts calculated from expected loss models.

*Forms an integral part of the audited financial statements

3.1 Credit risk

Measurement of credit risk *(continued)*

Control mechanisms for rating systems

The Group ALCo approves all risk rating models, model development, model implementation and, all associated polices. The Group mitigates model risk for IRB portfolios as follows:

– The Group has specific policies on documentation, data quality and management, and validation; and

– All models are subject to in-depth analysis and review, at least annually. This is carried out by a dedicated unit and is independent of credit origination and management functions.

Credit risk principles and policy*

The Group implements and operates policies covering the identification, assessment, approval, monitoring, 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 the Credit Risk function. 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 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 Authorities 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.

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's counterparty in the contract defaults prior to maturity at a time when AIB has a claim on the counterparty under the contract. AIB would then have to replace the contract at the current market rate, which may result in a loss. Derivatives are used by AIB to meet customer needs, to reduce interest rate risk, currency risk, and in some cases credit risk and also for proprietary trading purposes. Risks associated with derivatives are managed from a credit, market and operational perspective. The 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.

*Forms an integral part of the audited financial statements

3.1 Credit risk

Measurement of credit risk *(continued)*

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 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 the robustness of impairment provisions.

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.

*Forms an integral part of the audited financial statements

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:

			2014*			2013*
Maximum exposure to credit risk	**Amortised cost[1] € m**	**Fair value[2] € m**	**Total € m**	Amortised cost[1] € m	Fair value[2] € m	Total € m
Balances at central banks[3]	**4,879**	**–**	**4,879**	3,536	–	3,536
Items in course of collection	**146**	**–**	**146**	164	–	164
Disposal groups and non-current assets held for sale	**–**	**–**	**–**	28[4]	–	28
Trading portfolio financial assets[5]	**–**	**–**	**–**	–	1	1
Derivative financial instruments	**–**	**2,038**	**2,038**	–	1,629	1,629
Loans and receivables to banks	**1,865**	**–**	**1,865**	2,048	–	2,048
Loans and receivables to customers	**63,362**	**–**	**63,362**	65,713	–	65,713
NAMA senior bonds	**9,423**	**–**	**9,423**	15,598	–	15,598
Financial investments available for sale[6]	**–**	**19,772**	**19,772**	–	20,251	20,251
Included elsewhere:						
Trade receivables	**73**	**–**	**73**	57	–	57
Accrued interest	**426**	**–**	**426**	502	–	502
	80,174	**21,810**	**101,984**	87,646	21,881	109,527
Financial guarantees	**1,246**		**1,246**	1,353		1,353
Loan commitments and other credit related commitments	**9,082**	**–**	**9,082**	8,236	–	8,236
	10,328	**–**	**10,328**	9,589	–	9,589
Total	**90,502**	**21,810**	**112,312**	97,235	21,881	119,116

[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 € 5,393 million (2013: € 4,132 million).

[4]Comprises loans and receivables to banks and customers measured at amortised cost.

[5]Excluding equity shares of € 1 million (2013: € 1 million).

[6]Excluding equity shares of € 413 million (2013: € 117 million).

*Forms an integral part of the audited financial statements

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 by 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 International Swaps and Derivatives Association ("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 loans and receivables portfolio, 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. The Group typically holds various types of collateral as security for these loans, e.g. land, developments available for sale/rent and investment properties or a combination of these assets through 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. 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 as follows:

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit exposure

Credit risk mitigants* *(continued)*

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 house price reductions from peak. 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) would 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. Current yields and estimated likely yields are applied to current rentals in valuing investment property.

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 Central Statistics Office ("CSO") Residential Property Price index in the Republic of Ireland are used.

Applying one or a combination of the above methodologies, in line with the 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 impairment 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, where available. 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 periodically reassessed on a case by case basis.

In assessing the value of collateral for impaired mortgage loans in the Republic of Ireland, the Group has used a house price fall from peak of 50% (49% Dublin and 51% non-Dublin) as a base. The CSO index at 31 December 2014 shows a 38% fall from peak.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit exposure

Credit risk mitigants* *(continued)*

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 a 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 2014 is based on property values at origination or date of latest valuation and applying the CSO Residential Property Price index (Republic of Ireland) and Nationwide (United Kingdom) 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 65.

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 2014 and 31 December 2013:

				2014				2013
	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%	**5,972**	**254**	**542**	**6,768**	4,630	241	395	5,266
50% - 70%	**5,837**	**236**	**824**	**6,897**	4,176	239	514	4,929
71% - 80%	**3,347**	**132**	**577**	**4,056**	2,786	148	413	3,347
81% - 90%	**3,381**	**129**	**690**	**4,200**	2,708	163	465	3,336
91% - 100%	**2,742**	**126**	**769**	**3,637**	2,752	173	606	3,531
	21,279	**877**	**3,402**	**25,558**	17,052	964	2,393	20,409
Partially collateralised								
Collateral value relating to loans over 100% loan-to-value	**6,380**	**355**	**3,634**	**10,369**	9,880	779	4,774	15,433
Total collateral value	**27,659**	**1,232**	**7,036**	**35,927**	26,932	1,743	7,167	35,842
Gross residential mortgages	**29,014**	**1,323**	**8,509**	**38,846**	29,688	1,993	9,083	40,764
Statement of financial position specific provisions			**(2,877)**	**(2,877)**			(3,333)	(3,333)
Statement of financial position IBNR provisions				**(550)**				(619)
Net residential mortgages			**5,632**	**35,419**			5,750	36,812

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

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit exposure

Credit risk mitigants* *(continued)*

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 2014 amounted to € 2,038 million (2013: € 1,629 million) and those with negative fair value are reported as liabilities which at 31 December 2014 amounted to € 2,334 million (2013: € 1,960 million).

The enforcement of netting agreements would potentially reduce the statement of financial position carrying amount of derivative assets and liabilities by € 1,221 million (2013: € 957 million). The Group also has Credit Support Annexes ("CSAs") in place which provide collateral for derivative contracts. As at 31 December 2014, € 843 million (2013: € 820 million) of CSAs are included within financial assets as collateral for derivative liabilities and € 279 million (2013: € 188 million) of CSAs are included within financial liabilities as collateral for derivative assets (note 43 to the consolidated financial statements). 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 2014, repurchase agreements amounted to Nil (2013: € 16 million).

NAMA senior bonds*

NAMA senior bonds, which at 31 December 2014 had a carrying value of € 9,423 million (2013: € 15,598 million), are guaranteed by the Irish Government as to principal and interest.

Financial investments available for sale*

At 31 December 2014, government guaranteed senior bank debt which amounted to € 120 million (2013: € 381 million) was held within the available for sale portfolio.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – 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 through 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 quarterly 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 and 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 customers 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 managing weaknesses in corporate, commercial and retail exposures are broadly similar, the solutions reflect the differing nature of the assets.

Forbearance*

Forbearance occurs when a borrower is granted a temporary or permanent concession or an agreed change to the terms of a loan ('forbearance measure') for reasons relating to the actual or apparent financial stress or distress of that borrower. A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable currently 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.

The Group uses a range of initiatives to support customers. The Group considers requests from customers who are experiencing cash flow difficulties on a case by case basis and will assess these requests against their current and likely future financial circumstances and their willingness to resolve such difficulties, taking into account legal and regulatory obligations. Key principles include supporting viable Small Medium Enterprises ("SMEs"), and providing support to enable customers remain in the family home, whenever possible. 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.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Forbearance* *(continued)*

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 ("MARP").

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 that 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:

Positive equity sustainable solution – This solution involves a reduced payment to support customers who do not qualify for other forbearance solutions such as split loans due to positive equity;

Low fixed interest rate sustainable solution – This solution aims to support customers who have an income (and can afford a mortgage), but the income is not currently sufficient to cover full capital and interest repayments on their mortgage based on the current interest rate(s) and/or personal circumstances. Their current income is, however, sufficient to cover full capital and interest at a lower rate. It involves the customer being provided with a low fixed interest rate for an agreed period after which the customer will convert to a prevailing market rate for the remainder of the term of the mortgage on the basis that there is currently a reasonable expectation that the customer's income and/or circumstances will improve over the period of the reduced rate. The customer must pay full capital and interest throughout;

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 solution may also include an element of debt write-off;

Negative equity trade down – This solution allows a customer to sell his/her house and subsequently purchase a new property and transfer the negative equity portion of the original property 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; and

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 selling the property and putting an appropriate agreement in place to repay any residual debt. This solution may also include an element of debt-write off.

Credit policies are in place which outline the principles and processes underpinning the Group's approach to mortgage forbearance.

Non-mortgage portfolio

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 and applying the following core principles:.

– 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.

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3.1 Credit risk – Credit risk management

Forbearance* *(continued)*

Non-mortgage portfolio *(continued)*

The restructuring process is one of structured engagement to assess the long term levels of sustainable and unsustainable debt. The process broadly moves from an initial customer disclosure stage, through to engagement and analysis, through to an initial proposal from the Group, followed by credit approval, documentation and drawdown. The commercial aspects of this process require that customer affordability is viewed holistically, to include all available sources of finance for debt repayment, including unencumbered assets.

The debt solutions provided allow the customer to enter into a performance based arrangement, typically over a five year period, which will be characterised by the disposal of non-core assets, contribution of unencumbered assets, and contribution toward residual debt from available cash flow. This process may result in debt write-off, where applicable.

A request for forbearance will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances prior to any decision to grant a forbearance treatment. This may result in the downgrading of the credit grade assigned and if a loss is deemed to be incurred, this will result in a specific impairment provision. Loans to which forbearance have been applied continue to be classified as forborne until the forbearance measures expire or until an appropriate probation period has passed.

Types of forbearance include temporary arrangements such as placing the facility on interest only and permanent sustainable solutions including fundamental restructures which include an element of potential debt write down, 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 within the Accounting policies section of this report.

The effectiveness of the forbearance measures over the lifetime of those arrangements will be measured and reviewed. A forbearance measure is deemed to be effective if the borrower meets the modified or original terms of the contract over a sustained period of time resulting in an improved outcome for the Group and the borrower.

Further details on forbearance are set out in 'Risk management – 3.2 Additional credit information – Forbearance'

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3.1 Credit risk – Credit risk management

Loan loss provisioning*

The Group's provisioning policy requires that impairment 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.

It is Group's policy to provide for impairment promptly and consistently across the loan book. All business areas formally review and confirm the appropriateness of their provisioning methodologies and the adequacy of their impairment provisions on a quarterly basis. Loans are tested for impairment on receipt of a forbearance request and when accounts reach 90 days past due.

The following are triggers to prompt/guide Case Managers regarding the requirement to assess for impairment:

Mortgage portfolio triggers

– Deterioration in the debt service capacity.
– A material decrease in rents received on a buy-to-let property.

Commercial property triggers

– 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.

Small Medium Enterprises ("SME") portfolio triggers

– Trading losses or a material weakening in trade which leads to concerns over the ability of the business to meet scheduled debt service.
– 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.

In addition, the following factors are taken into consideration when assessing whether a loss event has occurred:

– Loss of a significant tenant/material reduction in rental income.
– Significant financial difficulty.
– Decrease in cash flow.
– Lack of objective evidence to prove the viability of the business.
– Material damage and loss to a firm's assets and/or production capacity.
– Loss of critical staff.
– Material increase in costs.
– Market/customer forced reduction in prices with no commensurate increase in volumes.
– Planned sale of property asset did not take place.
– Loss of employment.
– Disappearance of an active market for refinancing or sale of assets.
– Net worth.
– Country risk.

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3.1 Credit risk – Credit risk management

Loan loss provisioning* *(continued)*

Specific provisions

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

When raising specific impairment provisions, AIB divides its impaired portfolio into two categories, namely 'Individually significant' and 'Individually insignificant'.

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

Individually significant loans and receivables

All loans that are considered individually significant are assessed on a case-by-case basis throughout the year for 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 66 to 67. Individually significant provisions are calculated using discounted cash flows for each exposure. The cash flows are determined with reference to the individual characteristics of the borrower including an assessment of the cash flows that may arise from foreclosure less costs to sell in respect of obtaining and selling any associated collateral. The time period likely to be required to realise the collateral and receive the cash flows is taken into account in estimating the future cash flows and discounting these back to present value.

Individually insignificant loans and receivables

Provisioning is assessed on a collective basis to estimate losses for homogeneous groups of loans that are considered individually insignificant. This applies for customer connections less than £/€ 500,000 or € 750,000 for EBS.

Individually insignificant – Mortgage portfolio (Republic of Ireland)

The individually insignificant mortgage provisioning methodology applies to both owner occupier and buy-to-let exposures.

Individually insignificant mortgage specific provisions are calculated using an individually insignificant and IBNR 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. The methodology is regularly reviewed and updated to reflect current data on loss history and portfolio development as well as incorporating additional loss parameters assessed on restructuring outcomes.

The model parameters were refined during the year based on an additional one year data set.

Key model parameters at 31 December 2014 for owner occupier mortgages are as follows: cure (4%); and repossession/advanced forbearance (96%), in line with 2013.

The corresponding buy-to-let model parameters at 31 December 2014 are as follows: cure (0.5%) and repossession/advanced forbearance (99.5%), in line with 2013.

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 on a case by case basis, by subtracting the net present value of the modelled recovery amount from the current loan balance. The model parameters are determined from observed data where possible. Where not directly observable, related measures are used to infer the parameter where possible; otherwise, it is based on expert judgement. The relevant model parameters include: percentage of forced disposals; costs and time to dispose (voluntary and forced); house price fall from peak; 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.

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3.1 Credit risk – Credit risk management

Loan loss provisioning* *(continued)*

Individually insignificant – Non-mortgage portfolio (Republic of Ireland)

A new non-mortgage individually insignificant and IBNR model was introduced and implemented for the year-end 2014. Previously, the recovery rates for the non-mortgage individually insignificant portfolio were 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. The new model now also takes into consideration underlying security in determining the appropriate provision cover rate for impaired exposures. The specific provision for impaired cases is calculated using a LGD model, which differentiates loss based on loan size, product type and sector.

Individually insignificant – Mortgage and non-mortgage portfolio (United Kingdom)

Individually insignificant mortgage specific provisions are calculated based on a model which assumes that the outcome for all impaired loans is repossession. The individually insignificant non-mortgage specific provisions are calculated based on recovery rates observed over the past 4 years.

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 the Group has incurred as a result of events occurring before the balance sheet date, which the Group is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the Group, those loans are removed from the Group and assessed on an individual basis for impairment.

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

Provisioning statistical models are used to determine the appropriate level of IBNR provisions for a portfolio/group of exposures with similar risk characteristics. A new non-mortgage model was introduced in the Republic of Ireland for year-end December 2014 as described above. The model estimates IBNR losses taking into consideration the following:

– historical loss experience (loss emergence rates based on historic grade migration experience or probability of default) 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);
– loss given default rates based on historical loan loss experience, adjusted for current observable data;
– 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, e.g. non-impaired forborne mortgages and restructured loans.

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3.1 Credit risk – Credit risk management

Loan loss provisioning* *(continued)*

Republic of Ireland residential mortgage portfolio – IBNR

The residential mortgage portfolio IBNR is calculated using the individually insignificant and IBNR mortgage model as described above. The table below sets out the parameters used in the calculation of IBNR for the mortgage portfolio as at 31 December 2014 and 31 December 2013:

						2014
	Owner-occupier			Buy-to-let		
	Exposure	Average PD	Average LGD	Exposure	Average PD	Average LGD
	€ m	%	%	€ m	%	%
Good upper[(1)]	**12,928**	**0.9**	**18.9**	**1,055**	**1.5**	**15.6**
Good lower[(1)]	**8,386**	**2.8**	**20.4**	**1,390**	**5.5**	**19.3**
Watch[(1)]	**2,546**	**15.6**	**21.7**	**426**	**27.0**	**20.4**
Vulnerable[(1)]	**764**	**81.6**	**20.6**	**233**	**71.2**	**20.2**
The parameters for Cured and Forborne non-impaired, are set out below.These sub portfolios carry a higher level of IBNR:						
Cured	**477**	**37.9**	**19.6**	**197**	**54.5**	**21.5**
Forborne – non-impaired	**1,798**	**23.9**	**19.9**	**446**	**30.6**	**21.3**

				2013
	Owner-occupier		Buy-to-let	
	Average PD	Average LGD	Average PD	Average LGD
	%	%	%	%
Good upper[(1)]	0.8	18.5	1.4	18.1
Good lower[(1)]	2.5	20.5	4.1	22.5
Watch[(1)]	16.0	20.6	17.6	24.2
Vulnerable[(1)]	69.9	20.8	73.5	25.4
The parameters for Cured and Forborne non-impaired, are set out below. These sub portfolios 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

[(1)]For definition see page 123.

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 individually insignificant and IBNR mortgage model. The mortgage provision model calculates individually insignificant specific provisions and IBNR provisions.

Additional IBNR, where appropriate, determined by management judgement, is applied at a portfolio level and is not included in the analysis above.

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3.1 Credit risk – Credit risk management

Loan loss provisioning* *(continued)*

Republic of Ireland non-mortgage portfolio – IBNR

The non-mortgage portfolio IBNR (excludes a number of portfolios, in particular: credit cards; property and construction; and corporate loans) is calculated using the individually insignificant and IBNR mortgage model as described above. The table below sets out the parameters used in the calculation of IBNR for this portfolio:

	2014		
	Exposure	Non-mortgage Average PD	Average LGD
	€ m	%	%
Good upper	48	0.4	45.1
Good lower	4,129	1.8	47.4
Watch	701	7.4	48.6
Vulnerable	861	19.9	47.8
Included within the above are:			
> 90 days past due but not impaired	251	17.5	49.1
Cured in the past 12 months	228	14.4	48.4

The IBNR for the portfolio is calculated as PD multiplied by LGD multiplied by Exposure (adjusted for the Emergence Period) with the PD and LGD coming from statistical models.

The IBNR for the property and construction portfolio and larger exposures continues to be calculated based on the "average annual loss rate" for each homogeneous pool, suitably adjusted where appropriate for any factors currently affecting the portfolio, which may not have been a feature in the past. Credit card provisions (specific and IBNR) are calculated on a custom built provisioning model.

Additional IBNR, where appropriate, determined by management judgement, is applied at a portfolio level and is not included in the analysis above.

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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.

Emergence periods are reflective of the characteristics of the particular portfolio. Emergence periods are estimated based on historic loan loss experience supported by back testing, and as appropriate, individual case sampling.

Emergence periods are reviewed on at least an annual basis. At 31 December 2014, a change to the Republic of Ireland emergence periods was made for the mortgage portfolio (increase from 9 to 12 months) and for the non-mortgage portfolios (increase from 6 to 8 months, with the exception of credit cards and corporate portfolios, where emergence periods remain at 3 and 6 months respectively). Increasing the emergence period gave rise to higher IBNR provisions of € 93 million for the mortgage portfolio and € 44 million for the non-mortgage portfolio. The increases were driven by more data becoming available (including the impact of forbearance), the inclusion of a statistical confidence measure for non-mortgages, and also a continued emphasis on maintaining a conservative estimate of the unidentified incurred loss within the portfolio.

The average emergence period for UK mortgages is 8 months with the non-mortgage emergence period ranging from between 3 to 7 months.

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 Chief Credit Officer ("CCO") or alternate specified Chair as outlined in the terms of reference for Credit Committees (approved by ERC annually), 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 the 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 the security held. Partial write-offs may also occur when it is considered that there is no prospect for the recovery of the provisioned amount, for example when a loan enters a legal process. The provision is written off but the remaining reduced loan balance remains on the balance sheet as impaired. In addition, write-offs may reflect restructuring activity with customers who are subject to the terms of the agreement and satisfactory performance.

Reversals of Impairment

If the amount of an impairment loss decreased in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment provision amount. The writeback is recognised in the income statement.

Impact of changes to key assumptions and estimates on 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. A significant judgemental area is the calculation of individually insignificant and IBNR impairment provisions which are subject to estimation uncertainty.

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

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3.1 Credit risk – Credit risk management

Loan loss provisioning* *(continued)*

Impact of changes to key assumptions and estimates on the impairment provisions *(continued)*

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 light of differences between loss estimates and actual loss experience. For example, loss rates and the expected timing of future recoveries are benchmarked against actual outcomes where available to ensure they remain appropriate.

However, the exercise of judgement requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular, to changes in economic and credit conditions across a large number of geographical areas.

Given the relative size of the Republic of Ireland mortgage portfolio, the key variables include house price fall from peak 50% (49% Dublin and 51% non-Dublin) 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 impairment provisions of 1.5% (blended rate of owner-occupier/buy-to-let) of c. € 22 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 house price fall from peak assumption used for the collective mortgage provisions for December 2014 is estimated to result in movements in provisions of c. € 34 million (€ 26 million specific provision and € 8 million IBNR).

An increase in the assumed repossession rate of 1% for collective mortgage provisions would result in an increase in provisions of 0.2% (blended rate of owner-occupier/buy-to-let) of c. € 3 million.

For the € 11.3 billion or 51% of impaired loans for which automated cash flows are available, changes in interest rates and cash flow timing would have the following impact:

– If interest rates increased by 1%, this would have an impact on the discounting effect, resulting in an increase in impairment provisions of c. € 98 million.
– If anticipated cash receipt timelines moved out by 1 year, the impact on impairment provisioning would be an increase of c. € 130 million.

An IBNR provision is made for impairments that have been incurred but have not been separately identifiable at the balance sheet date. This provision is sensitive to changes in the time between the loss event and the date the impairment is specifically identified. This period is known as the loss emergence period. In the Republic of Ireland mortgage portfolio, the emergence period is currently 12 months; a decrease of one month in the loss emergence period in respect of the loan portfolio assessed would result in a decrease of c. € 30 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 IBNR provisions would result in an increase of c. € 35 million. For the United Kingdom, the impact would be an increase of c. £ 8 million.

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Risk management – 3. Individual risk types

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 2014 and 31 December 2013 loans and receivables to customers by industry sector and geography[(1)]:

(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.

							2014
	Included on statement of financial position as				Analysed geographically[(1)]		
Loans and receivables to customers*	Loans and receivables to customers € m	Disposal groups and non-current assets held for sale € m	Total € m	Total %	Republic of Ireland € m	United Kingdom € m	Rest of the World € m
Agriculture	1,818	–	1,818	2.4	1,747	71	–
Energy	265	–	265	0.3	239	25	1
Manufacturing	1,733	–	1,733	2.3	1,271	462	–
Property and construction	15,537	–	15,537	20.5	11,220	4,317	–
Distribution	6,253	–	6,253	8.2	5,055	1,198	–
Transport	1,010	–	1,010	1.3	819	191	–
Financial	887	–	887	1.2	589	295	3
Other services	5,646	–	5,646	7.5	2,969	2,634	43
Personal:							
Residential mortgages	38,846	–	38,846	51.2	36,324	2,522	–
Other	3,837	–	3,837	5.1	3,429	408	–
Gross loans and receivables	75,832	–	75,832	100.0	63,662	12,123	47
Analysed as to:							
Neither past due nor impaired	51,146	–	51,146				
Past due but not impaired	2,524	–	2,524				
Impaired – provisions held	22,162	–	22,162				
	75,832	–	75,832				
Unearned income	(123)	–	(123)				
Deferred costs	59	–	59				
Provisions for impairment	(12,406)	–	(12,406)				
Total statement of financial position	63,362	–	63,362				

(1)Based on booking office.

The credit portfolio is diversified within each of its geographic markets by spread of locations, industry classification and individual customer.

Other than property and construction (15%) and residential mortgages in the Republic of Ireland (48%) as at 31 December 2014, no one industry or loan category, in any geographic market accounts for more than 10% of AIB Group's total loan portfolio.

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3.1 Credit risk – Credit profile of the loan portfolio

	2013+						
	Included on statement of financial position as				Analysed geographically[1]		
Loans and receivables to customers*	Loans and receivables to customers € m	Disposal groups and non-current assets held for sale € m	Total € m	Total %	Republic of Ireland € m	United Kingdom € m	Rest of the World € m
Agriculture	1,830	–	1,830	2.2	1,772	58	–
Energy	268	28	296	0.4	268	23	5
Manufacturing	1,547	–	1,547	1.9	1,211	336	–
Property and construction	19,747	–	19,747	23.8	14,626	5,121	–
Distribution	6,927	–	6,927	8.3	5,311	1,616	–
Transport	1,026	–	1,026	1.2	838	188	–
Financial	650	–	650	0.8	472	174	4
Other services	5,772	–	5,772	7.0	3,027	2,646	99
Personal:							
Residential mortgages	40,764	–	40,764	49.2	38,151	2,613	–
Other	4,292	–	4,292	5.2	3,859	433	–
Gross loans and receivables	82,823	28	82,851	100	69,535	13,208	108
Analysed as to:							
Neither past due nor impaired	50,326	28	50,354				
Past due but not impaired	3,586	–	3,586				
Impaired - provisions held	28,911	–	28,911				
	82,823	28	82,851				
Unearned income	(101)	–	(101)				
Deferred costs	74	–	74				
Provisions for impairment	(17,083)	–	(17,083)				
Total statement of financial position	65,713	28	65,741				

[1]Based on booking office.

+The industry sector 'lease financing' is no longer reported by the Group. Accordingly, for December 2013, where tables show a sectoral analysis, lease financing is re-presented in the relevant sector to which the borrower belongs.

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Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

						2014
	Included on statement of financial position as			**Analysed geographically[(1)]**		
Impaired loans and receivables to customers*	**Loans and receivables to customers**	**Disposal groups and non-current assets held for sale**	**Total**	**Republic of Ireland**	**United Kingdom**	**Rest of the World**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Agriculture	**302**	**–**	**302**	**293**	**9**	**–**
Energy	**83**	**–**	**83**	**83**	**–**	**–**
Manufacturing	**233**	**–**	**233**	**179**	**54**	**–**
Property and construction	**8,836**	**–**	**8,836**	**6,951**	**1,885**	**–**
Distribution	**2,109**	**–**	**2,109**	**1,831**	**278**	**–**
Transport	**100**	**–**	**100**	**73**	**27**	**–**
Financial	**183**	**–**	**183**	**168**	**15**	**–**
Other services	**763**	**–**	**763**	**572**	**191**	**–**
Personal:						
Residential mortgages	**8,509**	**–**	**8,509**	**8,217**	**292**	**–**
Other	**1,044**	**–**	**1,044**	**974**	**70**	**–**
Total	**22,162**	**–**	**22,162**	**19,341**	**2,821**	**–**

						2013+
	Included on statement of financial position as			Analysed geographically[(1)]		
Impaired loans and receivables to customers*	Loans and receivables to customers	Disposal groups and non-current assets held for sale	Total	Republic of Ireland	United Kingdom	Rest of the World
	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	345	–	345	334	11	–
Energy	74	–	74	70	–	4
Manufacturing	405	–	405	278	127	–
Property and construction	13,176	–	13,176	10,721	2,455	–
Distribution	3,053	–	3,053	2,645	408	–
Transport	173	–	173	171	2	–
Financial	230	–	230	211	19	–
Other services	949	–	949	756	181	12
Personal:						
Residential mortgages	9,083	–	9,083	8,788	295	–
Other	1,423	–	1,423	1,345	78	–
Total	28,911	–	28,911	25,319	3,576	16

(1)Based on booking office.

+The industry sector 'lease financing' is no longer reported by the Group. Accordingly, for December 2013, where tables show a sectoral analysis, lease financing is re-presented in the relevant sector to which the borrower belongs.

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3.1 Credit risk – Credit profile of the loan portfolio

						2014
	Included on statement of financial position as			**Analysed geographically[(1)]**		
Provisions for impairment on loans and receivables to customers*	**Loans and receivables to customers €m**	**Disposal groups and non-current assets held for sale €m**	**Total €m**	**Republic of Ireland €m**	**United Kingdom €m**	**Rest of the World €m**
Agriculture	**185**	**–**	**185**	**178**	**7**	**–**
Energy	**40**	**–**	**40**	**40**	**–**	**–**
Manufacturing	**144**	**–**	**144**	**115**	**29**	**–**
Property and construction	**5,478**	**–**	**5,478**	**4,326**	**1,152**	**–**
Distribution	**1,217**	**–**	**1,217**	**1,072**	**145**	**–**
Transport	**69**	**–**	**69**	**44**	**25**	**–**
Financial	**96**	**–**	**96**	**90**	**6**	**–**
Other services	**493**	**–**	**493**	**391**	**102**	**–**
Personal						
Residential mortgages	**2,877**	**–**	**2,877**	**2,724**	**153**	**–**
Other	**716**	**–**	**716**	**663**	**53**	**–**
Specific	**11,315**	**–**	**11,315**	**9,643**	**1,672**	**–**
IBNR	**1,091**	**–**	**1,091**			
Total	**12,406**	**–**	**12,406**			

						2013+
	Included on statement of financial position as			Analysed geographically[(1)]		
Provisions for impairment on loans and receivables to customers*	Loans and receivables to customers €m	Disposal groups and non-current assets held for sale €m	Total €m	Republic of Ireland €m	United Kingdom €m	Rest of the World €m
Agriculture	256	–	256	248	8	–
Energy	43	–	43	43	–	–
Manufacturing	255	–	255	203	52	–
Property and construction	8,136	–	8,136	6,693	1,443	–
Distribution	1,857	–	1,857	1,648	209	–
Transport	126	–	126	125	1	–
Financial	134	–	134	123	11	–
Other services	666	–	666	552	105	9
Personal						
Residential mortgages	3,333	–	3,333	3,204	129	–
Other	1,092	–	1,092	1,038	54	–
Specific	15,898	–	15,898	13,877	2,012	9
IBNR	1,185	–	1,185			
Total	17,083	–	17,083			

(1)Based on booking office.

+The industry sector 'lease financing' is no longer reported by the Group. Accordingly, for December 2013, where tables show a sectoral analysis, lease financing is re-presented in the relevant sector to which the borrower belongs.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

The following table analyses loans and receivables to customers by segment showing asset quality and impairment provisions for the years ended 31 December 2014 and 31 December 2013:

				2014				2013+
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	29,631	2,177	–	31,808	30,714	2,252	–	32,966
Buy-to-let	3,567	345	3,126	7,038	3,817	361	3,620	7,798
	33,198	2,522	3,126	38,846	34,531	2,613	3,620	40,764
Other personal	2,341	407	1,089	3,837	2,318	432	1,542	4,292
Property and construction	2,647	4,395	8,495	15,537	2,785	5,208	11,754	19,747
SME/other commercial	4,685	4,492	3,712	12,889	4,624	4,302	4,815	13,741
Corporate	4,241	392	90	4,723	3,268	905	134	4,307
Total	47,112	12,208	16,512	75,832	47,526	13,460	21,865	82,851
Analysed as to asset quality(1)								
Satisfactory	33,581	7,051	1,219	41,851	33,019	7,048	973	41,040
Watch	3,571	1,222	379	5,172	4,587	1,481	718	6,786
Vulnerable	2,915	1,049	2,683	6,647	3,034	1,251	1,829	6,114
Impaired	7,045	2,886	12,231	22,162	6,886	3,680	18,345	28,911
Total criticised loans	13,531	5,157	15,293	33,981	14,507	6,412	20,892	41,811
Total loans percentage	%	%	%	%	%	%	%	%
Criticised loans/total loans	29	42	93	45	31	48	96	50
Impaired loans/total loans	15	24	74	29	14	27	84	35
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	2,310	1,718	7,287	11,315	2,401	2,070	11,427	15,898
IBNR	714	85	292	1,091	828	132	225	1,185
Total impairment provisions	3,024	1,803	7,579	12,406	3,229	2,202	11,652	17,083
Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	33	60	60	51	35	56	62	55
Total provisions/impaired loans	43	62	62	56	47	60	64	59
Total provisions/total loans	6	15	46	16	7	16	53	21
Income statement – impairment charge/(credit)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	308	129	(512)	(75)	713	254	1,091	2,058
IBNR	(105)	(59)	61	(103)	137	(88)	(194)	(145)
Total impairment charge/(credit)	203	70	(451)	(178)	850	166	897	1,913
	%	%	%	%	%	%	%	%
Impairment charge/(credit)/ average loans	0.43	0.54	(2.29)	(0.22)	1.74	1.18	3.97	2.24

(1)Satisfactory: credit which is not included in any of the criticised categories of Watch, Vulnerable and Impaired loans. For a definition of the criticised categories, see page 61.

+The industry sector 'lease financing' is no longer reported by the Group. Accordingly, for December 2013, where tables show a sectoral analysis, lease financing is re-presented in the relevant sector to which the borrower belongs.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

The following summarises the key points affecting the credit profile of the loan portfolio:

– Improved demand for credit resulted in new lending of € 5.9 billion in 2014.
– Significant progress was made during 2014 in working with customers to restructure facilities.
– Impairment provisions reduced from a charge of € 1,913 million in 2013, to a net writeback of € 178 million in 2014 driven by restructuring activity and a significant reduction in new impairments due to the improved economic environment.

The Group is predominantly Republic of Ireland and United Kingdom focused and most sectors have experienced improved trading conditions in 2014 due to the stronger economic environment. The Group has material concentrations in residential mortgages and property and construction.

The satisfactory portfolio grew by 2% in 2014. This return to growth is in contrast to the trends observed in 2012 and 2013 when it reduced by 20% and 13% respectively. This has been due to increased demand for credit across most sectors and a reduction in downward grade migration. New business drawdowns increased to € 5.9 billion in 2014 (2013 € 3.9 billion), and included SME/other commercial in the Republic of Ireland (€ 0.9 billion), corporate loans (€ 1.7 billion) and Republic of Ireland mortgages (€ 1.3 billion).

Restructuring

Restructuring the loans of customers in difficulty was a key focus for the Group during 2014. Treatment strategies, as described on pages 70 to 72, have been developed for customers who are experiencing financial difficulties. The approach is one of structured engagement with co-operating customers to assess their long term levels of sustainable debt.

A non-retail customer in difficulty typically has exposures across a number of asset classes, including owner-occupier and buy-to-let mortgages, SME debt and associated property exposures. The aim is to apply the treatment strategies at a customer level to deliver a holistic solution which prioritises owner-occupier and viable SME debt. Each case requires an in-depth review of cash flows and security, updated for current valuations and business performance. This process may result in writebacks or top-ups of provisions across asset classes or for the customer as a whole. Write-offs may also be a feature of this process.

Credit quality

Credit quality in the portfolio has begun to improve. Criticised loans, including impaired, decreased by 19%, driven by the restructuring activity, write-offs and lower downward grade migration. Within criticised loans, vulnerable loans increased by c.€ 0.5 billion which was due to the restructuring of impaired loans during the year. Most individually assessed loans are initially graded as vulnerable following restructure.

Residential mortgages

Residential mortgages amounted to 51% of total loans and receivables to customers, with the loans mainly located in the Republic of Ireland (94%) with most of the remainder in Northern Ireland. The portfolio consists of 82% owner-occupier loans and 18% buy-to-let.

Total loans in arrears in the Republic of Ireland mortgage portfolio decreased by 18% during the year, including a decrease of 22% in the owner-occupier portfolio and a decrease of 7% in the buy-to-let portfolio. The amount of loans which were new into arrears in 2014 fell by 43% in comparison to those entering arrears for the first time in 2013. These decreases in arrears can be attributed to increased restructuring activity and improved economic conditions. Overall loans to value in the Republic of Ireland mortgage portfolio have improved due to property price increases and loan amortisation.

Further detailed disclosures in relation to the Republic of Ireland mortgage portfolio are provided on pages 98 to 107 and the United Kingdom mortgage portfolio on pages 108 to 114.

Property and construction

The property and construction portfolio amounted to 20% of total loans and receivables. The property market in the Republic of Ireland has seen resurgence in demand as well as increased property values during 2014. This reflects a more positive economic environment and increased liquidity which has resulted in a greater level of transactions across all sectors. The portfolio is comprised of 69% investment loans (€ 10.7 billion), 26% land and development loans (€ 4.1 billion) and 5.1% other property and construction loans (€ 0.8 billion). Overall, the portfolio reduced by € 4.2 billion or 21% during 2014, with all of the reduction coming from the criticised grades. This reduction is due to the impact of write-offs, amortisations and repayments, resulting from asset disposals by customers within the criticised portfolio.

Further detailed disclosures in relation to the property and construction portfolio are provided on pages 117 to 119.

Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

SME/other commercial

The SME/other commercial lending portfolio amounted to 17% of total loans and receivables. The geographical split is 65% in the Republic of Ireland with the remaining 35% in the United Kingdom. This portfolio in both the Republic of Ireland and the United Kingdom is concentrated in sub-sectors which are reliant on the domestic economies. Key sub-sectors include agriculture,hotels, retail, and other services. Credit quality within the portfolio has improved due to restructuring and the improved economic environment.

Further detailed disclosures in relation to the SME/other commercial lending portfolio are provided on pages 120 to 121.

Loans and receivables to customers for the remaining portfolios consisted of € 3.8 billion in other personal loans and € 4.7 billion to corporate borrowers. These portfolios are profiled in more detail on pages 115 to 116 and 122 respectively.

Impairment provisions

Specific provisions as a percentage of impaired loans decreased from 55% at 31 December 2013 to 51% at 31 December 2014. This was mainly driven by restructures and write-offs of provisions within portfolios with higher provision cover which had the impact of reducing overall cover for the remaining portfolio. Provision write-offs are generated through both restructuring agreements with customers and also write-offs of provisions where further recovery is considered unlikely.

IBNR provisions of € 1.1 billion were held at 31 December 2014 compared to € 1.2 billion at 31 December 2013. Despite the improvement in performance, the IBNR reduced only slightly compared to December 2013 and includes the impact of an increase in the emergence period in the Republic of Ireland for mortgages from 9 to 12 months and for non-mortgages from 6 to 8 months. The level of IBNR reflects the need to maintain a conservative estimate of unidentified incurred loss within the portfolio.

The income statement provision writeback of € 178 million compared to a charge of € 1.9 billion in 2013. Income statement specific provisions included € 541 million from new impairments and a € 616 million writeback of provisions (net of top-ups). This writeback amounted to c. 2% of opening impaired loans, and was generated primarily by the restructuring assessment process described above and a reduction in the house price fall from peak assumption used for the mortgage individually insignificant provision model from 55% at December 2013 to 50% during 2014.

The table on the following page profiles the asset quality of the Group's loans and receivables as at 31 December 2014 and 31 December 2013. Profiles of past due but not impaired loans are detailed on pages 89 and 90, impaired loans are detailed on pages 91and 92 and provisions are detailed on pages 93 to 95.

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 2014 and 31 December 2013.

Asset quality*	Residential mortgages € m	Other personal € m	Property and construction € m	SME/other commercial € m	Corporate € m	2014 Total € m
Neither past due nor impaired	29,014	2,590	6,226	8,991	4,325	51,146
Past due but not impaired	1,323	203	475	503	20	2,524
Impaired – provisions held	8,509	1,044	8,836	3,395	378	22,162
Gross loans and receivables	38,846	3,837	15,537	12,889	4,723	75,832
Specific provisions	(2,877)	(716)	(5,478)	(2,054)	(190)	(11,315)
IBNR provisions	(550)	(52)	(174)	(254)	(61)	(1,091)
Total provisions for impairment	(3,427)	(768)	(5,652)	(2,308)	(251)	(12,406)
Gross loans and receivables less provisions	35,419	3,069	9,885	10,581	4,472	63,426
Unearned income						(123)
Deferred costs						59
Net loans and receivables						63,362

Asset quality*	Residential mortgages € m	Other personal € m	Property and construction € m	SME/other commercial € m	Corporate € m	2013+ Total € m
Neither past due nor impaired	29,688	2,536	5,913	8,426	3,791	50,354
Past due but not impaired	1,993	333	658	562	40	3,586
Impaired – provisions held	9,083	1,423	13,176	4,753	476	28,911
Gross loans and receivables	40,764	4,292	19,747	13,741	4,307	82,851
Specific provisions	(3,333)	(1,092)	(8,136)	(3,109)	(228)	(15,898)
IBNR provisions	(619)	(55)	(324)	(108)	(79)	(1,185)
Total provisions for impairment	(3,952)	(1,147)	(8,460)	(3,217)	(307)	(17,083)
Gross loans and receivables less provisions	36,812	3,145	11,287	10,524	4,000	65,768
Unearned income						(101)
Deferred costs						74
Net loans and receivables						65,741

Gross loans and receivables to customers reduced by 8.5% to € 75.8 billion in 2014. The reduction was driven by a decrease in criticised loans of € 7.8 billion primarily due to provision write-offs of € 4.7 billion and loan repayments mainly due to asset sales. The satisfactory portfolio grew by 2% in 2014.

Loans which were neither past due nor impaired increased to 67% of total loans, up from 61% as at 31 December 2013.

+The industry sector 'lease financing' is no longer reported by the Group. Accordingly, for December 2013, where tables show a sectoral analysis, lease financing is re-presented in the relevant sector to which the borrower belongs.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

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 2% of the portfolio at 31 December 2014, are classified as repayable within one year. Approximately 7% 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 below includes loans and receivables to customers amounting to Nil (31 December 2013: € 28 million) within disposal groups and non-current assets held for sale.

Loans and receivables to customers

							2014
	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**
Republic of Ireland	**4,038**	**59,624**	**63,662**	**24,612**	**6,773**	**32,277**	**63,662**
United Kingdom	**898**	**11,225**	**12,123**	**4,529**	**2,826**	**4,768**	**12,123**
Rest of the World	**–**	**47**	**47**	**22**	**25**	**–**	**47**
Total loans by maturity	**4,936**	**70,896**	**75,832**	**29,163**	**9,624**	**37,045**	**75,832**

							2013
	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
Republic of Ireland	4,375	65,160	69,535	30,579	5,452	33,504	69,535
United Kingdom	839	12,369	13,208	5,468	2,817	4,923	13,208
Rest of the World	–	108	108	86	20	2	108
Total loans by maturity	5,214	77,637	82,851	36,133	8,289	38,429	82,851

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*

							2014
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	50	10	3	9	15	40	127
Energy	–	–	–	–	–	3	3
Manufacturing	21	4	1	1	2	8	37
Property and construction	140	37	28	58	58	154	475
Distribution	69	18	7	28	35	31	188
Transport	6	1	–	–	–	3	10
Financial	12	1	–	2	–	–	15
Other services	69	26	3	10	11	24	143
Personal							
Residential mortgages	552	259	151	116	127	118	1,323
Credit cards	30	7	4	3	1	–	45
Other	50	14	13	18	15	48	158
	999	377	210	245	264	429	2,524
Segment							
DCB	733	280	145	131	128	120	1,537
AIB UK	118	36	28	27	20	14	243
FSG	148	61	37	87	116	295	744
	999	377	210	245	264	429	2,524
As a percentage of	%	%	%	%	%	%	%
total gross loans	1.32	0.50	0.28	0.32	0.35	0.57	3.33

							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

The figures reported are inclusive of overdrafts, bridging loans and cases with expired limits.

*Forms an integral part of the audited financial statements

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)*

Loans past due but not impaired reduced by € 1.1 billion to € 2.5 billion or 3.3% of total loans and receivables to customers (2013: € 3.6 billion or 4.3%).

Residential mortgage loans which were past due but not impaired at 31 December 2014, amounted to € 1.3 billion. This represents 52% of total loans which were past due but not impaired (2013: € 2.0 billion or 56%). The level of residential mortgage loans in early arrears (less than 30 days) decreased by 36% in 2014, due to active management of early arrears cases and the improving economic environment. Property and construction loans which were past due but not impaired represent a further 19% or € 0.5 billion of total loans which were past due but not impaired (2013: 18% or € 0.7 billion), with other personal at 8% or € 0.2 billion (2013: 9% or € 0.3 billion).

*Forms an integral part of the audited financial statements

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:

							2014
		Impaired loans				Specific impairment provisions	
	Gross loans and receivables	Individually assessed	Collectively assessed	Total	% of total loans	Total	% of impaired loans
	€ m	€ m	€ m	€ m		€ m	
Retail							
Residential mortgages	38,846	3,453	5,056	8,509	22	2,877	34
Other personal lending	3,837	691	353	1,044	27	716	69
Total retail	42,683	4,144	5,409	9,553	22	3,593	38
Commercial							
Property and construction	15,537	8,543	293	8,836	57	5,478	62
SME/commercial	12,889	2,981	414	3,395	26	2,054	61
Total commercial	28,426	11,524	707	12,231	43	7,532	62
Corporate	4,723	378	–	378	8	190	50
Total	75,832	16,046	6,116	22,162	29	11,315	51
Specific impairment provisions at 31 December 2014		9,185	2,130	11,315			
		%	%	%			
Specific provision cover percentage		57	35	51			

							2013+
		Impaired loans				Specific impairment provisions	
	Gross loans and receivables	Individually assessed	Collectively assessed	Total	% of total loans	Total	% of impaired loans
	€ m	€ m	€ m	€ m		€ m	
Retail							
Residential mortgages	40,764	4,104	4,979	9,083	22	3,333	37
Other personal lending	4,292	866	557	1,423	33	1,092	77
Total retail	45,056	4,970	5,536	10,506	23	4,425	42
Commercial							
Property and construction	19,747	12,668	508	13,176	67	8,136	62
SME/commercial	13,741	4,054	699	4,753	35	3,109	66
Total commercial	33,488	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			

+The industry sector 'lease financing' is no longer reported by the Group. Accordingly, for December 2013, where tables show a sectoral analysis, lease financing is re-presented in the relevant sector to which the borrower belongs.

Specific provisions as a percentage of impaired loans decreased from 55% at 31 December 2013 to 51% at 31 December 2014. This was mainly driven by restructures and write-offs of provisions within portfolios with higher provision cover which had the impact of reducing overall cover for the remaining portfolio.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Impaired loans for which provisions are held* *(continued)*

The provision cover for the collectively assessed portfolio reduced from 45% to 35%. This was driven by a lower proportion of non-mortgage loans within the collective models (smaller loans with lower security and higher provision cover), a reduction in the mortgage individually insignificant provision cover (due to the improvement in the house price fall from peak assumption), and a reduction in the individually insignificant non-mortgage provision cover due to provision write-offs and the implementation of a new individually insignificant non-mortgage model which takes into consideration underlying security as described on page 75.

*Forms an integral part of the audited financial statements

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 2014 and 31 December 2013:

2014*	Residential mortgages € m	Other personal € m	Property and construction € m	SME/Other commercial € m	Corporate € m	Total € m
At 1 January	3,952	1,147	8,460	3,224	307	17,090
Exchange translation adjustments	12	9	97	22	10	150
(Credit to)/charge against income statement – customers[(1)]	(76)	15	(244)	81	46	(178)
Credit to income statement – banks[(2)]	–	–	–	(7)	–	(7)
Amounts written off[(3)]	(461)	(403)	(2,664)	(1,013)	(114)	(4,655)
Recoveries of amounts written off in previous years[(3)]	–	–	3	1	2	6
At 31 December	3,427	768	5,652	2,308	251	12,406
Total provisions are split as follows:						
Specific	2,877	716	5,478	2,054	190	11,315
IBNR	550	52	174	254	61	1,091
	3,427	768	5,652	2,308	251	12,406
Amounts include:						
Loans and receivables to customers *(note 24 to the consolidated financial statements)*						12,406
						12,406

2013*	Residential mortgages € m	Other personal € m	Property and construction € m	SME/Other commercial € m	Corporate € m	Total € m
At 1 January	3,206	1,139	8,126	3,478	583	16,532
Exchange translation adjustments	–	(4)	(44)	(23)	(5)	(76)
Other	20	–	(34)	–	–	(14)
Charge against income statement – customers[(1)]	813	125	724	221	30	1,913
– banks[(2)]	–	–	–	3	–	3
Amounts written off[(3)]	(87)	(114)	(296)	(456)	(181)	(1,134)
Disposals	–	–	(16)	–	(120)	(136)
Recoveries of amounts written off in previous years[(3)]	–	1	–	1	–	2
At 31 December	3,952	1,147	8,460	3,224	307	17,090
Total provisions are split as follows:						
Specific	3,333	1,092	8,136	3,116	228	15,905
IBNR	619	55	324	108	79	1,185
	3,952	1,147	8,460	3,224	307	17,090
Amounts include:						
Loans and receivables to banks *(note 23 to the consolidated financial statements)*						7
Loans and receivables to customers *(note 24 to the consolidated financial statements)*						17,083
						17,090

[(1)]Geographic split :Republic of Ireland a credit of € 205 million (2013: a charge of € 1,726 million); United Kingdom a charge of € 27 million (2013: a charge of € 185 million) and Rest of the World Nil (2013: a charge of € 2 million).

[(2)]Geographic split: Republic of Ireland a credit of € 7 million (2013: a charge of € 3 million); United Kingdom Nil (2013: Nil) and Rest of the World Nil (2013: Nil).

[(3)]For geographical and sector split, see page 96.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Provisions – income statement

The following table analyses the income statement provision charge/(credit) split between individually significant, individually insignificant and IBNR for loans and receivables for the years ended 31 December 2014 and 31 December 2013:

				2014*
	DCB € m	**AIB UK € m**	**FSG € m**	**Total € m**
Specific provisions – Individually significant loans and receivables	**188**	**97**	**(335)**	**(50)**
– Individually insignificant loans and receivables	**120**	**32**	**(177)**	**(25)**
IBNR	**(105)**	**(59)**	**61**	**(103)**
Total provisions for impairment charge/(credit) on loans and receivables to customers	**203**	**70**	**(451)**	**(178)**
Writeback of provisions for impairment on loans and receivables to banks				**(7)**
Writeback of provisions for liabilities and commitments				**(4)**
Provisions for impairment on financial investments available for sale				**1**
Total				**(188)**

				2013*
	DCB € m	AIB UK € m	FSG € m	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 on loans and receivables to banks				3
Provisions charge for liabilities and commitments				17
Writeback of provisions for impairment on financial investments available for sale				(9)
Total				1,924

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Provisions – income statement *(continued)*

The following table analyses by segment the income statement impairment provision charge/(credit) for the years ended 31 December 2014 and 31 December 2013:

	2014*			2013*		
	Residential mortgages € m	**Other € m**	**Total € m**	Residential mortgages € m	Other € m	Total € m
DCB	**(24)**	**227**	**203**	679	171	850
AIB UK	**17**	**53**	**70**	(9)	175	166
FSG	**(69)**	**(382)**	**(451)**	143	754	897
Total	**(76)**	**(102)**	**(178)**	813	1,100	1,913

The following table analyses by segment the income statement impairment provision charge/(credit) as a percentage of average loans expressed as basis points ("bps") for the years ended 31 December 2014 and 31 December 2013:

	2014*			2013*		
	Residential mortgages bps	**Other bps**	**Total bps**	Residential mortgages bps	Other bps	Total bps
DCB	**(7)**	**169**	**43**	195	122	174
AIB UK	**68**	**51**	**54**	(34)	154	118
FSG	**(202)**	**(235)**	**(229)**	384	400	397
Total	**(19)**	**(26)**	**(22)**	197	249	224

Loan impairment provisions reduced from a charge of € 1.9 billion in 2013, to a net writeback of € 178 million in 2014. The writeback comprised of € 75 million in specific provision writebacks and a release of IBNR provisions of € 103 million (31 December 2013: € 2.1 billion charge in specific provisions and release of IBNR provisions of € 145 million).

The specific provision writeback of € 75 million can be split into € 541 million new impairment provisions and a € 616 million writeback (net of top-ups), which amounted to 2% of opening impaired loans. The writeback was mainly due to the restructuring process described on page 85 and was driven primarily by increases in asset values, additional security in some cases, and improvements in trading performance and cash flows. In addition, the house price fall from peak assumption used in the mortgage individually insignificant provision model was changed from 55% at 31 December 2013 to 50% during 2014. This resulted in a specific provision writeback of approximately € 130 million.

The 2014 income statement provision charge of € 203 million in DCB comprises a specific charge of € 308 million and an IBNR release of € 105 million. This compares to an income statement specific provision charge of € 713 million and an IBNR charge of € 137 million for 2013. The provision charge reduced mainly due to a lower level of new impairments, and the impact of the improvement in the house price fall from peak assumption.

The 2014 income statement provision recovery of € 451 million in FSG comprises a writeback of specific provisions of € 512 million and an IBNR charge of € 61 million. This compares to an income statement specific provision charge of € 1,091 million and an IBNR release of € 194 million for 2013. The specific provision turnaround in 2014 was driven primarily by an increase in writebacks (net of top-ups) and by a lower level of new impairments. The IBNR charge of € 61 million in 2014 was mainly due to an increase in IBNR for the SME sector due to increased risks observed within the portfolio during 2014.

The impairment provision charge in AIB UK decreased from € 166 million to € 70 million reflecting continued improvement in economic conditions during 2014.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Loans written off and recoveries of previously written off loans

The following table analyses loans written off and recoveries of previously written off loans by geography and industry sector for the years ended 31 December 2014 and 2013.

	Loans written off		Recoveries of loans previously written off	
	2014 € m	2013 € m	**2014 € m**	2013 € m
IRELAND				
Agriculture	**56.2**	2.9	**–**	–
Energy	**14.3**	0.3	**–**	–
Manufacturing	**80.9**	40.3	**0.1**	0.1
Property and construction	**2,257.3**	158.9	**0.3**	–
Distribution	**530.3**	291.4	**0.1**	–
Transport	**58.9**	57.0	**–**	–
Financial	**53.9**	38.2	**0.1**	0.1
Other services	**191.4**	47.3	**0.6**	–
Personal – Residential mortgages	**447.4**	66.7	**–**	–
– Other	**385.0**	91.3	**0.1**	0.8
	4,075.6	794.3	**1.3**	1.0
UNITED KINGDOM				
Agriculture	**1.6**	0.2	**–**	–
Energy	**–**	–	**–**	–
Manufacturing	**8.3**	18.6	**–**	–
Property and construction	**407.1**	128.0	**3.1**	0.4
Distribution	**77.0**	106.7	**–**	0.1
Transport	**0.5**	1.7	**–**	–
Financial	**6.0**	0.4	**–**	0.3
Other services	**34.4**	54.7	**–**	–
Personal – Residential mortgages	**13.9**	10.6	**–**	–
– Other	**17.5**	8.9	**–**	–
	566.3	329.8	**3.1**	0.8
REST OF THE WORLD				
Energy	**1.6**	2.4	**1.2**	–
Manufacturing	**–**	–	**–**	–
Property and construction	**–**	6.6	**–**	–
Distribution	**–**	0.4	**–**	–
Transport	**–**	–	**–**	–
Other services	**11.4**	0.1	**–**	–
	13.0	9.5	**1.2**	–
TOTAL	**4,654.9**	1,133.6	**5.6**	1.8

Write-offs as a percentage of total loans and receivables at 1 January 2014, equated to 5.6% compared to 1.3% for 2013.

3.1 Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Residential mortgages

Residential mortgages amounted to € 38.8 billion at 31 December 2014, with the majority (94%) relating to residential mortgages in the Republic of Ireland and the remainder relating to the United Kingdom. This compares to € 40.8 billion at 31 December 2013, of which 94% related to residential mortgages in the Republic of Ireland. The split of the residential mortgage book was owner-occupier € 31.8 billion and buy-to-let € 7.0 billion (31 December 2013: owner-occupier € 33 billion and buy-to-let € 7.8 billion). There was an impairment provision credit of € 76 million to the income statement in 2014 comprising a € 4 million specific writeback and a € 72 million IBNR release (2013: € 0.8 billion comprising € 0.7 billion specific charge and a € 0.1 billion IBNR charge). Statement of financial position provisions of € 3.4 billion were held at 31 December 2014, split € 2.9 billion specific and € 0.5 billion IBNR (31 December 2013: € 3.9 billion split € 3.3 billion specific and € 0.6 billion IBNR).

This section provides the information listed below in relation to residential mortgages.

Republic of Ireland residential mortgages – pages 98 to 107

- 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 that were past due but not impaired
- Collateral value of residential mortgages that were past due but not impaired
- Residential mortgages that were impaired
- Properties in possession
- Repossessions disposed of

United Kingdom ("UK") residential mortgages – pages 108 to 114

- 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 that were past due but not impaired
- Collateral value of UK residential mortgages that were past due but not impaired
- UK residential mortgages that were impaired
- UK properties in possession

Residual debt, which is now unsecured following the disposal of property on which the residential mortgage was secured, is included in the residential mortgage portfolio and as such, is included in the tables within this section.

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 2014 and 31 December 2013:

									2014*
	DCB			FSG			Total		
Statement of financial position	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Total gross residential mortgages	29,631	3,568	33,199	–	3,125	3,125	29,631	6,693	36,324
In arrears (>30 days past due)[(1)]	5,519	824	6,343	–	2,584	2,584	5,519	3,408	8,927
In arrears (>90 days past due)[(1)]	5,215	790	6,005	–	2,547	2,547	5,215	3,337	8,552
Of which impaired	5,004	749	5,753	–	2,464	2,464	5,004	3,213	8,217
Statement of financial position specific provisions	1,394	300	1,694	–	1,030	1,030	1,394	1,330	2,724
Statement of financial position IBNR provisions	420	58	478	–	54	54	420	112	532
Provision cover percentage	%	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	27.9	40.0	29.4	–	41.8	41.8	27.9	41.4	33.2
Income statement charge/(credit)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Income statement specific provisions	17	28	45	–	(77)	(77)	17	(49)	(32)
Income statement IBNR provisions	(23)	(46)	(69)	–	8	8	(23)	(38)	(61)
Total impairment (credit)	(6)	(18)	(24)	–	(69)	(69)	(6)	(87)	(93)

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

*Forms an integral part of the audited financial statements.

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)*

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 charge	€ 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 charge	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.

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 amounted to € 36.3 billion at 31 December 2014 compared to € 38.2 billion at 31 December 2013. The decrease in the portfolio was observed mainly in the criticised grades and was due to amortisation and restructuring. Total drawdowns in 2014 were € 1.3 billion, of which 97% related to owner-occupier, whilst the weighted average indexed loan-to-value for new residential mortgages was 70%, down from 72% in 2013.

The split of the residential mortgage portfolio is 82% owner-occupier and 18% buy-to-let and comprised 40% tracker rate, 52% variable rate and 8% fixed rate mortgages. The proportion of the total residential mortgage portfolio in negative equity decreased from 51% at 31 December 2013 to 34% at 31 December 2014 reflecting the increase in residential property prices in Ireland during 2014 and loan amortisation, whilst the quantum of negative equity in the book reduced from € 4.6 billion to € 2.7 billion.

Residential mortgage arrears

Total loans in arrears in the Republic of Ireland residential mortgage portfolio decreased by 18% during the year, reflecting a decrease of 22% in the owner-occupier portfolio and a decrease of 7% in the buy-to-let portfolio. The amount of loans which were new into arrears in 2014 fell by 43% in comparison to those entering arrears for the first time in 2013. These decreases in arrears can be attributed to increased restructuring activity and improved economic conditions which was evident in both the early arrears (less than 90 days past due) and the late arrears (greater than 90 days past due).

Total loans in arrears greater than 90 days at 11.3% decreased in the year to 31 December 2014 and remain below the industry average of 12.9%[(1)]. For the owner-occupier book, loans in arrears greater than 90 days at 9.0% were below the industry average of 11.2%. For the buy-to-let book, loans in arrears greater than 90 days at 24.7% exceeded the industry average of 22.1%.

Forbearance

The Group has maintained a strong focus on restructuring the residential mortgage portfolio during the year. The Group has successfully met its Mortgage Arrears Resolution Targets ("MART"), with sustainable solutions offered to 100% of loans greater than 90 days past due (as defined by MART), with 58% deemed concluded at the year end, of which 87% were meeting the terms of their agreement at 31 December 2014.

Residential mortgages subject to forbearance measures increased by € 0.6 billion to € 5.6 billion at 31 December 2014, compared to a decrease of € 0.8 billion in 2013. A key feature of the forbearance portfolio is the growth in the proportion of advanced forbearance solutions (split mortgages, low fixed interest rate voluntary sale for loss, negative equity trade down and positive equity solutions) driven by the Group's strategy to deliver sustainable long-term solutions to customers and support customers in remaining in their family home.

Details of forbearance measures are set out in Section 3.2 below.

Impairment provisions

Impaired loans decreased from € 8.8 billion at 31 December 2013 to € 8.2 billion at 31 December 2014, mainly due to restructuring, write-offs of provisions and amortisation through asset sales. The level of newly impaired loans declined by 37% in 2014.

There was a specific provision writeback of € 32 million in the year compared to a € 662 million charge for 2013. This can be split into a charge for new impairments of € 186 million and a writeback of provisions (net of top-ups) of € 218 million. The writeback was due to a change in the assumption used in the individually insignificant and IBNR mortgage model for the house price fall from peak from 55% to 50% and the impact of restructuring. The specific provision cover level reduced from 36.5% to 33.2% during the year as a result.

An IBNR release in 2014 of € 61 million compares to a charge of € 160 million in 2013. This was mainly due to the change in the house price fall from peak assumption as described above and a reduction in required IBNR for the non-impaired forbearance portfolio off-set by an increase in emergence period.

Specific provisions of € 0.9 billion were held against the forborne impaired portfolio of € 3.3 billion providing cover of 26.9%. In relation to the non-impaired forborne portfolio of € 2.3 billion, of which € 0.7 billion is on an interest only arrangement or an arrangement to repay amounts greater than interest only, IBNR impairment provisions of € 0.1 billion were held at 31 December 2014.

[(1)]Source: Central Bank of Ireland ("CBI") Residential Mortgage Arrears and Repossessions Statistics as at 30 September 2014, based on numbers of accounts.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Republic of Ireland residential mortgages *(continued)*

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 2014 and 31 December 2013:

	2014*				2013*			
	Total		Impaired		Total		Impaired	
Republic of Ireland	Number	Balance € m	Number	Balance € m	Number	Balance € m	Number	Balance € m
1996 and before	6,144	149	954	34	7,812	189	1,083	37
1997	2,831	70	350	14	3,131	87	379	15
1998	3,447	114	503	24	3,851	144	534	26
1999	4,601	198	658	46	5,547	236	729	52
2000	6,095	308	855	66	6,589	357	902	72
2001	6,737	423	919	80	7,179	484	978	89
2002	10,551	835	1,549	170	11,210	945	1,596	183
2003	14,856	1,402	2,469	315	15,670	1,575	2,562	348
2004	20,060	2,339	3,633	567	21,425	2,576	3,686	612
2005	28,295	3,725	5,739	1,035	29,435	4,080	5,821	1,117
2006	36,280	5,807	8,672	1,841	37,137	6,307	8,660	2,003
2007	35,222	5,871	8,701	1,852	35,944	6,334	8,624	1,965
2008	33,384	5,607	6,917	1,465	34,075	6,066	6,827	1,580
2009	22,040	3,335	2,835	519	23,045	3,578	2,632	512
2010	15,404	2,282	947	162	15,877	2,419	821	153
2011	4,653	682	109	20	4,839	737	96	20
2012	6,752	1,049	28	6	6,934	1,116	18	4
2013	5,646	906	7	1	5,863	921	–	–
2014	6,060	1,222	2	–	–	–	–	–
Total	**269,058**	**36,324**	**45,847**	**8,217**	275,563	38,151	45,948	8,788

The majority (€ 21.0 billion or 58%) of the € 36.3 billion residential mortgage book originated between 2005 and 2008, of which 29% (€ 6.2 billion) was impaired at 31 December 2014. This was driven by reduced household income and increased unemployment in the last number of years, and reflects the decrease in property prices since their peak in 2007. 16% of the residential mortgage portfolio was originated before 2005 of which 23% was impaired at 31 December 2014, while the remaining 26% of the portfolio was originated since 2009 of which 7% was impaired at 31 December 2014.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

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 in the Republic of Ireland for November 2014. The CSO Residential Property Price Index for November 2014 reported that national residential property prices were 38% lower than their highest level in early 2007 and reported an annual increase in residential property prices of 16% in the year to 30 November 2014.

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 2014 and 31 December 2013:

						2014*
	Owner-occupier		**Buy-to-let**		**Total**	
Republic of Ireland	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	**5,307**	**17.9**	**802**	**12.0**	**6,109**	**16.8**
50% to 70%	**5,542**	**18.7**	**893**	**13.4**	**6,435**	**17.7**
71% to 80%	**3,256**	**11.0**	**545**	**8.1**	**3,801**	**10.5**
81% to 90%	**3,386**	**11.4**	**590**	**8.8**	**3,976**	**11.0**
91% to 100%	**2,794**	**9.4**	**683**	**10.2**	**3,477**	**9.6**
101% to 120%	**4,328**	**14.6**	**1,147**	**17.1**	**5,475**	**15.0**
121% to 150%	**3,998**	**13.5**	**1,164**	**17.4**	**5,162**	**14.2**
Greater than 150%	**947**	**3.2**	**780**	**11.7**	**1,727**	**4.8**
Unsecured	**73**	**0.3**	**89**	**1.3**	**162**	**0.4**
Total	**29,631**	**100.0**	**6,693**	**100.0**	**36,324**	**100.0**
Weighted average indexed loan-to-value[(1)]:						
Stock of residential mortgages at year end		**83.6**		**101.4**		**87.1**
New residential mortgages issued during year		**70.5**		**55.2**		**70.0**
Impaired residential mortgages		**107.0**		**119.8**		**112.4**

						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

[(1)]Weighted average indexed loan-to-values are the individual indexed loan-to-value calculations weighted by the mortgage balance against each property.

31% of the total owner-occupier and 46% of the total buy-to-let mortgages were in negative equity at 31 December 2014, compared to 48% and 62% respectively at 31 December 2013. The weighted average indexed loan-to-value for the total residential mortgage book was 87.1% at 31 December 2014 compared to 102.8% at 31 December 2013, with the reduction driven primarily by the increase in property prices in 2014, 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 mortgages that were neither past due nor impaired by the indexed loan-to-value ratios at 31 December 2014 and 31 December 2013:

						2014*
	Owner-occupier		Buy-to-let		Total	
Republic of Ireland	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	**4,739**	**20.0**	**613**	**19.1**	**5,352**	**19.9**
50% to 70%	**4,799**	**20.3**	**615**	**19.2**	**5,414**	**20.2**
71% to 80%	**2,785**	**11.8**	**330**	**10.3**	**3,115**	**11.6**
81% to 90%	**2,851**	**12.0**	**333**	**10.4**	**3,184**	**11.8**
91% to 100%	**2,244**	**9.5**	**360**	**11.2**	**2,604**	**9.7**
101% to 120%	**3,290**	**13.9**	**490**	**15.3**	**3,780**	**14.1**
121% to 150%	**2,706**	**11.5**	**331**	**10.3**	**3,037**	**11.3**
Greater than 150%	**235**	**1.0**	**133**	**4.1**	**368**	**1.4**
Unsecured	**7**	**0.0**	**4**	**0.1**	**11**	**0.0**
Total	**23,656**	**100.0**	**3,209**	**100.0**	**26,865**	**100.0**

						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

The proportion of residential mortgages that was neither past due nor impaired and in negative equity at 31 December 2014 decreased in comparison to 31 December 2013, reflecting residential property price increases during the year, coupled with amortisation of the loan book. 27% of residential mortgages that were neither past due nor impaired were in negative equity at 31 December 2014 compared to 43% at 31 December 2013.

*Forms an integral part of the audited financial statements

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 mortgages that were greater than 90 days past due and/or impaired by the indexed loan-to-value ratios at 31 December 2014 and 31 December 2013:

								2014*
	Owner-occupier		Buy-to-let		Total		Total residential mortgage portfolio	
Republic of Ireland	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	**451**	**8.6**	**169**	**5.1**	**620**	**7.2**	**6,109**	**16.8**
50% to 70%	**620**	**11.9**	**253**	**7.6**	**873**	**10.2**	**6,435**	**17.7**
71% to 80%	**396**	**7.6**	**201**	**6.0**	**597**	**7.0**	**3,801**	**10.5**
81% to 90%	**456**	**8.7**	**242**	**7.2**	**698**	**8.2**	**3,976**	**11.0**
91% to 100%	**467**	**9.0**	**304**	**9.1**	**771**	**9.0**	**3,477**	**9.6**
101% to 120%	**900**	**17.2**	**630**	**18.9**	**1,530**	**17.9**	**5,475**	**15.0**
121% to 150%	**1,161**	**22.3**	**815**	**24.5**	**1,976**	**23.1**	**5,162**	**14.2**
Greater than 150%	**699**	**13.4**	**638**	**19.1**	**1,337**	**15.6**	**1,727**	**4.8**
Unsecured	**65**	**1.3**	**85**	**2.5**	**150**	**1.8**	**162**	**0.4**
Total	**5,215**	**100.0**	**3,337**	**100.0**	**8,552**	**100.0**	**36,324**	**100.0**

								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

The proportion of residential mortgages that was greater than 90 days past due and/or impaired and in negative equity at 31 December 2014 (57%) decreased in comparison to 31 December 2013 (73%), reflecting the increases in residential property prices during the year.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

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 2014 and 31 December 2013:

			2014*			2013*
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Neither past due nor impaired	**23,656**	**3,209**	**26,865**	24,032	3,458	27,490
Past due but not impaired	**971**	**271**	**1,242**	1,552	321	1,873
Impaired - provisions held	**5,004**	**3,213**	**8,217**	5,130	3,658	8,788
Gross residential mortgages	**29,631**	**6,693**	**36,324**	30,714	7,437	38,151
Provisions for impairment	**(1,814)**	**(1,442)**	**(3,256)**	(2,100)	(1,696)	(3,796)
	27,817	**5,251**	**33,068**	28,614	5,741	34,355

The percentage of the portfolio which is neither past due nor impaired increased in 2014 to 74% from 72% at 31 December 2013.

Residential mortgages that were past due but not impaired

Residential mortgages are assessed for impairment if they are past due, typically, for more than 90 days or if the borrower exhibits an inability to meet their 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 cash flows, and an appropriate provision is raised. Where loans are not deemed to be impaired, they are collectively assessed as part of the IBNR provision calculation.

The following table profiles the Republic of Ireland residential mortgages that were past due but not impaired at 31 December 2014 and 31 December 2013:

			2014*			2013*
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	**456**	**76**	**532**	739	94	833
31 - 60 days	**195**	**48**	**243**	324	49	373
61 - 90 days	**109**	**23**	**132**	224	38	262
91 - 180 days	**73**	**34**	**107**	165	62	227
181 - 365 days	**79**	**40**	**119**	72	46	118
Over 365 days	**59**	**50**	**109**	28	32	60
Total past due but not impaired	**971**	**271**	**1,242**	1,552	321	1,873
Total gross residential mortgages	**29,631**	**6,693**	**36,324**	30,714	7,437	38,151

The amount of loans past due but not impaired at 31 December 2014 decreased by 34% when compared to 31 December 2013, driven by the improved economic environment and an increased focus on the management of early arrears.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Collateral value of residential mortgages that were past due but not impaired

The following table profiles the collateral value of Republic of Ireland residential mortgages that were past due but not impaired at 31 December 2014 and 31 December 2013:

			2014*			2013*
Republic of Ireland	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	428	71	499	648	82	730
31 - 60 days	181	44	225	281	43	324
61 - 90 days	101	21	122	192	33	225
91 - 180 days	71	30	101	147	52	199
181 - 365 days	76	37	113	68	38	106
Over 365 days	57	43	100	27	27	54
Total past due but not impaired	914	246	1,160	1,363	275	1,638

The collateral value for the past due but not impaired portfolio was equal to 93% of the outstanding loan balances at 31 December 2014, an increase from 87% at 31 December 2013.

Residential mortgages that were impaired

The following table profiles the Republic of Ireland residential mortgages that were impaired at 31 December 2014 and 31 December 2013:

			2014*			2013*
Republic of Ireland	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Not past due	1,174	706	1,880	686	873	1,559
1 - 30 days	267	98	365	173	165	338
31 - 60 days	125	67	192	146	126	272
61 - 90 days	101	60	161	152	125	277
91 - 180 days	306	180	486	615	308	923
181 - 365 days	536	352	888	916	494	1,410
Over 365 days	2,495	1,750	4,245	2,442	1,567	4,009
Total impaired	5,004	3,213	8,217	5,130	3,658	8,788
Total gross residential mortgages	29,631	6,693	36,324	30,714	7,437	38,151

Impaired loans decreased by € 0.6 billion during 2014 due to restructuring and write-offs of provisions. In addition the rate of new impairment slowed significantly in 2014 in comparison to 2013, driven by an improved economic environment. Of the residential mortgage portfolio that was impaired at 31 December 2014, € 1.9 billion or 23% was not past due (2013: € 1.6 billion or 18%), of which € 1.2 billion (2013: € 0.8 billion) was subject to forbearance measures at 31 December 2014. This includes c. € 0.3 billion which were subject to advanced forbearance (mainly split mortgages) which remain impaired for a probation period (typically 12 months) following restructure.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Republic of Ireland residential mortgages – properties in possession[(1)]

AIB seeks to avoid repossession through working with customers, but where agreement cannot be reached, AIB proceeds to repossession of the property or the appointment of a 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 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.

For the purpose of the following table, a residential property is considered to be in AIB's possession when AIB has taken possession of and is in a position to dispose of the property. This includes situations of repossession, voluntary surrender and abandonment of the property. This is a change from repossessions reported prior to 2014. Accordingly, the stock of residential properties in possession at 31 December 2013 now includes 218 properties which were in AIB's possession through abandonment, but where AIB had not secured legal title. The Group intends to dispose of all such properties in the foreseeable future.

The number (stock) of properties in possession at 31 December 2014 and 31 December 2013 is set out below:

	2014*		2013*	
	Stock	**Balance outstanding € m**	Stock	Balance outstanding € m
Owner-occupier	**548**	**145**	308	82
Buy-to-let	**82**	**19**	70	18
Total	**630**	**164**	378	100

[(1)]The number of residential properties in possession relates to those held as security for residential mortgages only.

The increase in the stock of residential properties in possession in 2014 relates to the addition of 352 properties (2013: 119 properties), partly offset by the disposal of 100 properties (2013: 92 properties). There has been a significant increase in stock due to the focus on restructuring during the year. The majority of the properties taken into possession 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 2014 and 31 December 2013:

						2014*
	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	**60**	**17**	**7**	**–**	**10**	**234**
Buy-to-let	**40**	**12**	**5**	**–**	**7**	**252**
Total	**100**	**29**	**12**	**–**	**17**	**241**

						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

[(1)]Before specific impairment provisions.

The disposal of 100 residential properties in the Republic of Ireland resulted in a total loss on disposal of € 17 million (before specific impairment provisions) and compares to 2013 when 92 residential properties were disposed of resulting in a total loss of € 19 million. Losses on the sale of such 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 2014 and 31 December 2013:

	2014*			2013*		
Statement of financial position	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Total gross residential mortgages	**2,177**	**345**	**2,522**	2,252	361	2,613
In arrears (>30 days past due)(1)	**293**	**60**	**353**	325	66	391
In arrears (>90 days past due)(1)	**262**	**56**	**318**	295	60	355
Of which impaired	**239**	**53**	**292**	243	52	295
Statement of financial position specific provisions	**119**	**34**	**153**	99	30	129
Statement of financial position IBNR provisions	**16**	**2**	**18**	24	3	27
Provision cover percentage	**%**	**%**	**%**	%	%	%
Specific provisions/impaired loans	**49.7**	**64.2**	**52.4**	40.6	58.5	43.8
Income statement charge/credit)	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Income statement specific provisions	**24**	**4**	**28**	26	8	34
Income statement IBNR provisions	**(10)**	**(1)**	**(11)**	(8)	(35)	(43)
Total impairment charge/(credit)	**14**	**3**	**17**	18	(27)	(9)

(1)Includes all impaired loans whether past due or not.

The UK mortgage portfolio is predominantly based in Northern Ireland (74% of total) with the remainder located in Great Britain.

Total loans in arrears in the UK residential mortgage portfolio decreased in the twelve months to December 2014 driven by improved economic conditions, with total loans in arrears greater than 90 days reducing from 12.5% to 11.1%. Statement of financial position specific provisions of € 153 million were held at 31 December 2014 and provided cover of 52.4% (31 December 2013: € 129 million providing cover of 43.8%). The cover increased in 2014 due to a change in the UK individually insignificant model assumption for disposal costs and a reduced market valuation for a small number of high value properties.

Statement of financial position IBNR provisions of € 18 million were held at 31 December 2014, down from € 27 million at 31 December 2013, reflecting an improvement in estimated incurred loss in the non-impaired portfolio.

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3.1 Credit risk – Credit profile of the loan portfolio

United Kingdom residential mortgages by year of origination

The following table profiles the UK total residential mortgage portfolio and impaired residential mortgage portfolio by year of origination at 31 December 2014 and 31 December 2013:

	2014*				2013*			
	Total		Impaired		Total		Impaired	
United Kingdom	Number	Balance € m	Number	Balance € m	Number	Balance € m	Number	Balance € m
1996 and before	389	19	4	–	501	23	4	–
1997	85	4	–	–	108	4	–	–
1998	104	5	5	–	137	7	5	–
1999	229	13	2	–	282	14	–	–
2000	226	12	2	–	272	18	2	–
2001	4,210	133	176	9	4,681	148	208	10
2002	1,453	79	82	4	1,573	89	76	4
2003	1,964	138	164	16	2,153	146	195	17
2004	2,263	183	161	12	2,456	196	181	14
2005	3,025	291	305	31	3,195	304	309	33
2006	4,002	500	440	66	4,237	515	462	69
2007	3,531	608	499	112	3,712	638	497	112
2008	1,428	249	117	30	1,563	277	108	26
2009	702	82	34	6	800	96	26	8
2010	370	44	11	6	403	47	10	1
2011	178	18	3	–	203	21	5	1
2012	196	25	1	–	203	26	1	–
2013	326	44	1	–	333	44	–	–
2014	409	75	–	–	–	–	–	–
Total	25,090	2,522	2,007	292	26,812	2,613	2,089	295

The majority (€ 1.6 billion or 65%) of the € 2.5 billion residential mortgage book in the UK was originated between 2005 and 2008, of which 14% (€ 0.2 billion) was impaired at 31 December 2014 driven by reduced household income and reflecting the decrease in property prices since their peak in 2007. 23% of the residential mortgage portfolio was originated before 2005 of which 7% was impaired at 31 December 2014, while the remaining 12% of the portfolio was originated since 2009 of which 4% was impaired at 31 December 2014.

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Risk management – 3. Individual risk types

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 for Quarter 3 2014. The index for Quarter 3 2014 reported that house prices across the UK increased by 8% for the year to the end of Quarter 3 2014.

In Northern Ireland (which includes 74% of the UK residential mortgage portfolio), the Nationwide HPI for Quarter 3 2014 reported that house prices were 47% lower than their peak in 2007 and reported an increase of 7% for the year to the end of Quarter 3 2014.

Actual and weighted average indexed loan-to-value ratios of United Kingdom residential mortgages

The following table profiles the UK residential mortgage portfolio by the indexed loan-to-value ratios and the weighted average indexed loan-to-value ratios at 31 December 2014 and 31 December 2013:

						2014*
	Owner-occupier		Buy-to-let		Total	
United Kingdom	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	**580**	**26.6**	**79**	**22.9**	**659**	**26.1**
50% to 70%	**423**	**19.5**	**39**	**11.4**	**462**	**18.4**
71% to 80%	**232**	**10.6**	**23**	**6.7**	**255**	**10.1**
81% to 90%	**202**	**9.3**	**22**	**6.3**	**224**	**8.9**
91% to 100%	**141**	**6.5**	**19**	**5.4**	**160**	**6.3**
101% to 120%	**184**	**8.4**	**49**	**14.1**	**233**	**9.2**
121% to 150%	**198**	**9.1**	**61**	**17.7**	**259**	**10.3**
Greater than 150%	**183**	**8.4**	**36**	**10.5**	**219**	**8.7**
Unsecured	**34**	**1.6**	**17**	**5.0**	**51**	**2.0**
Total	**2,177**	**100.0**	**345**	**100.0**	**2,522**	**100.0**
Weighted average indexed loan-to-value[(1)]:						
Stock of residential mortgages at year end		**81.2**		**91.6**		**82.6**
New residential mortgages issued during year		**68.9**		**50.1**		**68.8**
Impaired residential mortgages		**129.9**		**129.6**		**129.9**

						2013*
	Owner-occupier		Buy-to-let		Total	
United Kingdom	€ 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

[(1)]Weighted average indexed loan-to-values are the individual indexed loan-to-value calculations weighted by the mortgage balance against each property.

26% of the total owner-occupier and 42% of the total buy-to-let mortgages were in negative equity at 31 December 2014, compared to 36% and 52% respectively at 31 December 2013, driven primarily by the increase in property prices in 2014, coupled with amortisation of the loan book. The weighted average indexed loan-to-value for the total residential mortgage book was 82.6% at 31 December 2014 compared to 92.0% at 31 December 2013, reflecting the increase in residential property prices in the period.

*Forms an integral part of the audited financial statements

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 mortgages that were neither past due nor impaired by the indexed loan-to-value ratios at 31 December 2014 and 31 December 2013:

						2014*
	Owner-occupier		Buy-to-let		Total	
United Kingdom	€ m	%	€ m	%	€ m	%
Less than 50%	**544**	**29.1**	**76**	**27.0**	**620**	**28.9**
50% to 70%	**388**	**20.8**	**35**	**12.2**	**423**	**19.7**
71% to 80%	**210**	**11.3**	**22**	**7.7**	**232**	**10.8**
81% to 90%	**178**	**9.5**	**19**	**6.8**	**197**	**9.1**
91% to 100%	**122**	**6.5**	**16**	**5.8**	**138**	**6.4**
101% to 120%	**160**	**8.6**	**39**	**13.7**	**199**	**9.2**
121% to 150%	**161**	**8.6**	**51**	**18.1**	**212**	**9.9**
Greater than 150%	**104**	**5.6**	**24**	**8.7**	**128**	**6.0**
Total	**1,867**	**100.0**	**282**	**100.0**	**2,149**	**100.0**

						2013*
	Owner-occupier		Buy-to-let		Total	
United Kingdom	€ 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

Residential mortgages that were neither past due nor impaired and in negative equity at 31 December 2014 decreased in comparison to 31 December 2013, reflecting the increases in residential property prices in the year. 25% of residential mortgages that were neither past due nor impaired were in negative equity at 31 December 2014 compared to 34% at 31 December 2013.

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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 greater than 90 days past due and/or impaired

The following table profiles the UK residential mortgages that were greater than 90 days past due and/or impaired by the indexed loan-to-value ratios at 31 December 2014 and 31 December 2013:

								2014*
	Owner-occupier		Buy-to-let		Total		Total residential mortgage portfolio	
United Kingdom	€ m	%	€ m	%	€ m	%	€ m	%
Less than 50%	24	9.4	2	3.2	26	8.3	659	26.1
50% to 70%	25	9.6	3	5.2	28	8.8	462	18.4
71% to 80%	18	6.9	2	2.6	20	6.2	255	10.1
81% to 90%	20	7.5	2	3.9	22	6.9	224	8.9
91% to 100%	16	6.1	2	3.3	18	5.6	160	6.3
101% to 120%	19	7.2	9	16.9	28	8.9	233	9.2
121% to 150%	34	12.9	9	15.5	43	13.3	259	10.3
Greater than 150%	72	27.5	10	18.3	82	25.9	219	8.7
Unsecured	34	12.9	17	31.1	51	16.1	51	2.0
Total	262	100.0	56	100.0	318	100.0	2,522	100.0

								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

The proportion of residential mortgages that was greater than 90 days past due and/or impaired and in negative equity (excluding unsecured loans) at 31 December 2014, decreased in comparison to 31 December 2013, driven by a decrease in the amount of loans greater than 90 days past due and/or impaired at year end coupled with an increase in property prices in the year.

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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 2014 and 31 December 2013:

			2014*			2013*
United Kingdom	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Neither past due nor impaired	1,867	282	2,149	1,906	292	2,198
Past due but not impaired	71	10	81	103	17	120
Impaired - provisions held	239	53	292	243	52	295
Gross residential mortgages	2,177	345	2,522	2,252	361	2,613
Provisions for impairment	(135)	(36)	(171)	(123)	(33)	(156)
	2,042	309	2,351	2,129	328	2,457

United Kingdom residential mortgages that were past due but not impaired

Residential mortgages are assessed for impairment if they are past due, typically for more than 90 days, or if the borrower exhibits an inability to meet its obligations to the Group based on objective evidence of loss events ('impairment triggers') such as a request for forbearance. Loans are deemed impaired where the expected future cash flows either from the loan itself or from associated collateral will not be sufficient to repay the loan 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 UK residential mortgages that were past due but not impaired at 31 December 2014 and 31 December 2013:

			2014*			2013*
United Kingdom	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	17	3	20	21	3	24
31 - 60 days	13	3	16	15	3	18
61 - 90 days	18	1	19	15	3	18
91 - 180 days	8	1	9	16	2	18
181 - 365 days	7	1	8	20	6	26
Over 365 days	8	1	9	16	–	16
Total	71	10	81	103	17	120

Collateral value of United Kingdom residential mortgages that were past due but not impaired

The following table profiles the collateral value of UK residential mortgages that were past due but not impaired at 31 December 2014 and 31 December 2013:

			2014*			2013*
United Kingdom	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	15	2	17	19	2	21
31 - 60 days	11	2	13	13	3	16
61 - 90 days	16	1	17	13	2	15
91 - 180 days	8	1	9	14	2	16
181 - 365 days	7	1	8	18	6	24
Over 365 days	7	1	8	13	–	13
Total	64	8	72	90	15	105

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

United Kingdom residential mortgages that were impaired

The following table profiles the UK residential mortgages that were impaired at 31 December 2014 and 31 December 2013:

			2014*			2013*
United Kingdom	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Not in arrears	13	3	16	10	1	11
1 - 30 days	3	–	3	2	1	3
31 - 60 days	6	2	8	4	–	4
61 - 90 days	8	1	9	10	1	11
91 - 180 days	19	3	22	17	5	22
181 - 365 days	34	13	47	51	15	66
Over 365 days	156	31	187	149	29	178
Total impaired	239	53	292	243	52	295
Total gross residential mortgages	2,177	345	2,522	2,252	361	2,613

The stock of impaired loans remained stable at 31 December 2014 in comparison to 31 December 2013.

United Kingdom residential mortgages – properties in possession[1]

For the purpose of the following table, a residential property is considered to be in AIB's possession when AIB has taken possession of and is in a position to dispose of the property. This includes situations of repossession, voluntary surrender and abandonment of the property.

The number (stock) of properties in possession as at 31 December 2014 and 31 December 2013 is set out below:

		2014*		2013*
	Stock	Balance outstanding € m	Stock	Balance outstanding € m
Owner-occupier	72	26	136	36
Buy-to-let	33	5	76	14
Total	105	31	212	50

[1]The number of residential properties in possession relates to those held as security for residential mortgages only.

The decrease in the stock of residential properties in possession relates to the disposal of 234 properties during 2014 and the removal of 12 properties from the stock following the clearance of arrears on the related mortgages, partly off-set by taking 139 properties into possession.

The disposal of 234 residential properties in possession resulted in a loss on disposal of € 28 million before specific impairment provisions (31 December 2013: disposal of 205 properties resulting in a loss on disposal of € 24 million). Losses on the sale of properties in possession are recognised in the income statement as part of the specific provision charge.

*Forms an integral part of the audited financial statements

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 2014 and 31 December 2013:

				2014*				2013*
	DCB € m	AIB UK € m	FSG € m	Total € m	DCB € m	AIB UK € m	FSG € m	Total € m
Analysed as to asset quality								
Satisfactory	1,914	253	58	2,225	1,909	259	58	2,226
Watch	143	46	33	222	169	46	41	256
Vulnerable	131	38	177	346	132	50	205	387
Impaired	153	70	821	1,044	108	77	1,238	1,423
Total criticised loans	427	154	1,031	1,612	409	173	1,484	2,066
Total gross loans and receivables	2,341	407	1,089	3,837	2,318	432	1,542	4,292
Total loans percentage	%	%	%	%	%	%	%	%
Criticised loans/total loans	18	38	95	42	18	40	96	48
Impaired loans/total loans	7	17	75	27	5	18	80	33
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	112	53	551	716	75	54	963	1,092
IBNR	28	2	22	52	29	3	23	55
Total impairment provisions	140	55	573	768	104	57	986	1,147
Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	73	76	67	69	69	70	78	77
Total provisions/impaired loans	92	79	70	74	96	74	80	81
Total provisions/total loans	6	14	53	20	4	13	64	27
Income statement charge/(credit)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	50	3	(35)	18	41	3	103	147
IBNR	–	(2)	(1)	(3)	6	(9)	(19)	(22)
Total impairment charge/(credit)	50	1	(36)	15	47	(6)	84	125
	%	%	%	%	%	%	%	%
Impairment charge/(credit) /average loans	2.19	0.39	(2.63)	0.38	1.99	(1.29)	5.08	2.83

The other personal lending portfolio at € 3.8 billion reduced by € 0.5 billion during the year and comprises € 2.9 billion in loans and overdrafts and € 0.9 billion in credit card facilities.

During 2014, the level of loans and receivables with satisfactory credit quality remained stable, with debt amortisation offset by new lending. This is in contrast to the decline in satisfactory grades experienced in 2012 and 2013, where amortisation exceeded the demand for credit. An increase in demand for personal loans which was observed during the year, was particularly evident in the second half of the year, due to both the improved economic environment and an expanded product offering, including on-line approval through internet and telephone banking applications.

The portfolio experienced a € 0.5 billion reduction in criticised loans in 2014, of which € 0.4 billion was written off. At 31 December 2014, € 1.6 billion or 42% of the portfolio was criticised of which impaired loans amounted to € 1.0 billion (2013: € 2.1 billion or 48% and € 1.4 billion).

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Other personal lending *(continued)*

The reduction in the specific provision cover on impaired loans of 8% in the year is mainly due to the impact of write-offs of provisions on loans within the portfolio with higher provision cover as well as the implementation of a new individually insignificant non-mortgage model which takes into consideration underlying security, where available, as described on page 75.

The specific provision cover in DCB increased from 69% to 73% due to an increase in smaller loans and credit card exposures (with higher provision cover) within the impaired loans.

The reduced income statement provision charge was due to a lower level of new impairments compared with 2013 and provision writebacks due to restructuring and the new individually insignificant non-mortgage model. Provisions from new impairments amounted to € 75 million.

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 2014 and 31 December 2013:

				2014*				2013+*
	DCB € m	AIB UK € m	FSG € m	Total € m	DCB € m	AIB UK € m	FSG € m	Total € m
Investment								
Commercial investment	2,078	2,012	4,333	8,423	2,189	2,323	6,031	10,543
Residential investment	269	798	1,166	2,233	281	781	1,380	2,442
	2,347	2,810	5,499	10,656	2,470	3,104	7,411	12,985
Land and development								
Commercial development	125	84	786	995	141	184	1,067	1,392
Residential development	101	902	2,084	3,087	105	1,338	3,087	4,530
	226	986	2,870	4,082	246	1,522	4,154	5,922
Contractors	74	154	126	354	69	155	189	413
Housing associations	–	445	–	445	–	427	–	427
Total gross loans and receivables	2,647	4,395	8,495	15,537	2,785	5,208	11,754	19,747
Analysed as to asset quality								
Satisfactory	1,554	1,357	684	3,595	1,727	1,398	472	3,597
Watch	343	681	145	1,169	383	788	472	1,643
Vulnerable	220	450	1,267	1,937	255	534	542	1,331
Impaired	530	1,907	6,399	8,836	420	2,488	10,268	13,176
Total criticised loans	1,093	3,038	7,811	11,942	1,058	3,810	11,282	16,150
Total loans percentage	%	%	%	%	%	%	%	%
Criticised loans/total loans	41	69	92	77	38	73	96	82
Impaired loans/total loans	20	43	75	57	15	48	87	67
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	223	1,166	4,089	5,478	149	1,459	6,528	8,136
IBNR	25	45	104	174	123	80	121	324
Total impairment provisions	248	1,211	4,193	5,652	272	1,539	6,649	8,460
Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	42	61	64	62	35	59	63	62
Total provisions/impaired loans	47	64	66	64	65	62	65	64
Total provisions/total loans	9	28	49	36	10	30	56	43
Income statement charge/(credit)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	113	32	(235)	(90)	62	150	605	817
IBNR	(93)	(39)	(22)	(154)	3	(19)	(77)	(93)
Total impairment charge/(credit)	20	(7)	(257)	(244)	65	131	528	724
	%	%	%	%	%	%	%	%
Impairment charge/(credit) /average loans	0.77	(0.15)	(2.48)	(1.36)	1.93	2.39	4.39	3.47

+The industry sector 'lease financing' is no longer reported by the Group. Accordingly, for December 2013, where tables show a sectoral analysis, lease financing is re-presented in the relevant sector to which the borrower belongs.

*Forms an integral part of the audited financial statements

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 20% of total loans and receivables, or 16% of loans and receivables less impairment provisions. The portfolio is comprised of 69% investment loans (€ 10.7 billion), 26% land and development loans (€ 4.1 billion) and 5% other property and construction loans (€ 800 million). AIB UK accounts for 28% of the portfolio.

Overall, the portfolio reduced by € 4.2 billion or 21% during 2014, with all of the reduction coming from the criticised grades. This reduction is due primarily to the impact of restructuring activity (as described on page 85) and to write-offs, amortisations and repayments, resulting from asset disposals by customers within the criticised grades. Total provision write-offs for property and construction for the year were € 2.7 billion. The restructuring of impaired loans during the year resulted in an increase in vulnerable loans in this sector. Most individually assessed restructured loans are initially graded as vulnerable.

The property market in the Republic of Ireland has seen resurgence in demand as well as increased values. This reflects a more positive economic environment and increased liquidity which has resulted in a greater level of transactions across all sectors. It is important to note however, that the improved market demand and values are off a low base. The demand remains particularly evident in prime locations with demand continuing to be lower in secondary areas. The commercial market in the United Kingdom had a positive year against a backdrop of increased liquidity from domestic and global investors. Accordingly, the rate of downward grade migration and new impairments significantly decreased during 2014 as a result of the improved market conditions.

There was a writeback of specific provisions net of top-ups of € 166 million (c. 1% of opening impaired loans) mainly due to the restructuring process described on page 85. This was partially off-set by provisions for new impairments which amounted to € 76 million.

The IBNR provision has reduced by € 150 million due to a reduction in portfolio risk as a workout strategy has been finalised for most cases in the portfolio, reducing uncertainty regarding potential losses.

Investment

Property investment loans amounted to € 10.7 billion at 31 December 2014 (31 December 2013: € 13.0 billion) of which € 8.4 billion related to commercial investment. The reduction was largely as a result of asset sales which reduced loan balances and restructures within the criticised loan portfolio along with amortisation and repayment of debt. € 7.1 billion of the investment property portfolio related to loans for the purchase of property in the Republic of Ireland, € 3.3 billion in the United Kingdom, and € 192 million in other geographical locations.

The commercial property market outperformed expectations in 2014. Greater liquidity, evident across most markets, fuelled the increase in transactions particularly, in the second half of the year. Prime office rents have been driven upwards by a shortage of supply, particularly in Dublin 2 and Dublin 4. Price increases are dominated by prime locations, with rural locations remaining fragile. While there is continued strong demand for prime retail space, 2014 also saw some evidence of rental growth in regional locations. The positive market conditions combined with the restructuring activity completed during the year resulted in a writeback of provisions.

€ 7.8 billion or 73% of the investment property portfolio was criticised at 31 December 2014 compared with € 10.2 billion or 78% at 31 December 2013. Included in criticised loans was € 5.2 billion loans which were impaired (2013: € 7.6 billion) and on which the Group had € 2.7 billion in statement of financial position specific provisions, providing cover of 53% (2013: € 3.9 billion or 51%). Total impairment provisions as a percentage of total loans is 27%, down from 32% at 31 December 2013. The impairment credit to the income statement of € 193 million on the investment property element of the property and construction portfolio compared to a charge of € 465 million in 2013, with the reduction due to increased provision writebacks.

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 2014, land and development loans amounted to € 4.1 billion (2013: € 5.9 billion). € 3.1 billion of this portfolio related to loans in the Republic of Ireland and € 1 billion in the United Kingdom.

The increase in house price values evident in 2014 combined with a lack of supply of new homes has led to an increased demand for well located sites with planning permission already in place, and particularly for three and four bedroom houses. Prices remain weak outside of the main urban areas, however, liquidity has improved with a more normalised market observed, even in more rural locations.

€ 3.8 billion of the land and development portfolio was criticised at 31 December 2014 (2013 € 5.6 billion), including € 3.5 billion of loans which were impaired (2013: € 5.3 billion) and on which the Group had € 2.6 billion in statement of financial position specific provisions, providing cover of 75% (2013: 77%). The impairment credit of € 40 million to the income statement compared to a charge of € 239 million in 2013.

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 2014 and 31 December 2013:

				2014*				2013+*
	DCB € m	AIB UK € m	FSG € m	Total € m	DCB € m	AIB UK € m	FSG € m	Total € m
Agriculture	1,167	71	472	1,710	1,158	58	535	1,751
Distribution:								
Hotels	427	650	692	1,769	360	870	952	2,182
Licensed premises	235	134	514	883	240	154	638	1,032
Retail/wholesale	899	276	929	2,104	936	226	1,213	2,375
Other distribution	83	20	86	189	82	22	105	209
	1,644	1,080	2,221	4,945	1,618	1,272	2,908	5,798
Other services	1,248	2,534	665	4,447	1,276	2,414	863	4,553
Other	626	807	354	1,787	572	558	509	1,639
Total gross loans and receivables	4,685	4,492	3,712	12,889	4,624	4,302	4,815	13,741
Analysed as to asset quality								
Satisfactory	3,444	3,321	290	7,055	3,395	2,792	226	6,413
Watch	584	390	156	1,130	748	472	133	1,353
Vulnerable	333	229	747	1,309	273	323	626	1,222
Impaired	324	552	2,519	3,395	208	715	3,830	4,753
Total criticised loans	1,241	1,171	3,422	5,834	1,229	1,510	4,589	7,328
Total loans percentage	%	%	%	%	%	%	%	%
Criticised loans/total loans	26	26	92	45	27	35	95	53
Impaired loans/total loans	7	12	68	26	5	17	80	35
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	167	291	1,596	2,054	101	375	2,633	3,109
IBNR	127	15	112	254	51	22	35	108
Total impairment provisions	294	306	1,708	2,308	152	397	2,668	3,217
Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	51	53	63	61	48	52	69	66
Total provisions/impaired loans	90	56	68	68	73	56	70	68
Total provisions/total loans	6	7	46	18	3	9	56	24
Income statement charge/(credit)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	81	20	(164)	(63)	74	26	249	349
IBNR	75	(7)	76	144	(21)	(17)	(90)	(128)
Total impairment charge/(credit)	156	13	(88)	81	53	9	159	221
	%	%	%	%	%	%	%	%
Impairment charge/(credit) /average loans	3.36	0.28	(1.99)	0.60	1.10	0.20	3.19	1.55

+The industry sector 'lease financing' is no longer reported by the Group. Accordingly, for December 2013, where tables show a sectoral analysis, lease financing is re-presented in the relevant sector to which the borrower belongs.

*Forms an integral part of the audited financial statements

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. The geographical split is 65% in the Republic of Ireland and the remaining 35% in the United Kingdom. Loans and receivables in this sector reduced by € 0.85 billion from € 13.7 billion as at 31 December 2013, primarily due to provision write-offs.

Satisfactory loans and receivables increased within all segments in 2014, mainly due to new drawdowns exceeding amortisations. In contrast, this satisfactory portfolio declined in 2013 and 2012 by 9% and 15% respectively due to low demand for credit and downward grade migration. The UK SME portfolio increased by € 0.5 billion during 2014, partly due to a realignment of the business (resulting in a higher level of loans being categorised as SME/other commercial instead of corporate) and the impact of sterling appreciation. Total new SME lending within the Republic of Ireland was € 0.9 billion.

The SME portfolio in both the Republic of Ireland and the United Kingdom is concentrated in sub-sectors which are reliant on the domestic economies. There is now evidence that the Republic of Ireland is moving into a period of sustainable economic growth. Results of the SME Credit Demand Survey carried out by RED C and published in November 2014 highlight significantly improved trading conditions for Irish SMEs. This improvement is mainly observed in urban areas, with rural locations remaining weak.

Notwithstanding the positive signals and improving economic outlook, the domestic market remains challenging with many SMEs experiencing difficulties managing their finances. The Group continues to strongly engage in restructuring existing facilities in order to sustain viable SME businesses as described on page 85.

The following are the key themes within the largest segments of the portfolio:

- The agriculture sub-sector (13% of the portfolio) performed well in 2014, with growth in demand for new credit due to expansion by farmers in preparation for the removal of EU milk quotas.
- The hotels sub-sector comprises 14% of the portfolio. Whilst trading conditions remain challenging, a significant improvement was observed in 2014 due to a stronger local economy and increased numbers of tourists. Valuations for hotels improved, with a number of foreign investors and fund managers competing for available properties.
- The licensed premises sub-sector comprises 7% of the portfolio. The market is weak and still struggling from the impact of austerity. However, some locations such as Dublin and central Cork are showing improved performances based on the improving economic outlook.
- The retail/wholesale sub-sector (16% of the portfolio) improved in 2014 due to the stronger economic environment, nevertheless, there is still stress in the sub-sector, particularly in rural areas.
- The other services sub-sector comprises 35% of the portfolio which includes businesses such as solicitors, accounting, audit, tax, computer services, R&D, consultancy, hospitals, nursing homes and plant and machinery. This sub-sector performed well in 2014 with an increase in drawdowns.

Credit quality within the portfolio improved due to restructuring and the improved economic environment. The level of criticised loans reduced from € 7.3 billion to € 5.8 billion, mainly due to a reduction of € 1.4 billion in impaired loans. Specific provision write-offs for the year were € 1.0 billion.

The specific provision cover decreased from 66% at December 2013 to 61% at December 2014 mainly due to write-offs of provisions for loans with higher provision cover, writebacks due to restructuring, and the implementation of a new individually insignificant non-mortgage model as described on page 75.

Specific provisions on new impairments amounted to € 132 million, and were off-set by a writeback of € 195 million (net of top-ups).

An increase in the level of IBNR of € 144 million was required, mainly due to a specific portfolio risk that was identified during the year.

3.1 Credit risk – credit profile of the loan portfolio

Loans and receivables to customers – Corporate lending

The following table analyses corporate lending by segment showing asset quality and impairment provisions for the years ended 31 December 2014 and 31 December 2013:

				2014*				2013*
	DCB € m	**AIB UK € m**	**FSG € m**	**Total € m**	DCB € m	AIB UK € m	FSG € m	Total € m
Satisfactory	**3,867**	**315**	**47**	**4,229**	2,686	772	53	3,511
Watch	**87**	**9**	**–**	**96**	99	6	–	105
Vulnerable	**2**	**2**	**16**	**20**	137	23	55	215
Impaired	**285**	**66**	**27**	**378**	346	104	26	476
Total criticised loans	**374**	**77**	**43**	**494**	582	133	81	796
Total gross loans and receivables	**4,241**	**392**	**90**	**4,723**	3,268	905	134	4,307
Total loans percentage	**%**	**%**	**%**	**%**	%	%	%	%
Criticised loans/total loans	**9**	**20**	**48**	**10**	18	15	60	18
Impaired loans/total loans	**7**	**17**	**30**	**8**	11	11	19	11
Impairment provisions – statement of financial position	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m
Specific	**114**	**55**	**21**	**190**	153	53	22	228
IBNR	**56**	**5**	**–**	**61**	79	–	–	79
Total impairment provisions	**170**	**60**	**21**	**251**	232	53	22	307
Provision cover percentage	**%**	**%**	**%**	**%**	%	%	%	%
Specific provisions/impaired loans	**40**	**83**	**78**	**50**	44	51	85	48
Total provisions/impaired loans	**60**	**91**	**78**	**66**	67	51	85	64
Total provisions/total loans	**4**	**15**	**23**	**5**	7	6	16	7
Income statement charge/(credit)	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m
Specific	**19**	**46**	**(1)**	**64**	12	41	(4)	49
IBNR	**(18)**	**–**	**–**	**(18)**	(6)	–	(13)	(19)
Total impairment charge/(credit)	**1**	**46**	**(1)**	**46**	6	41	(17)	30
	%	**%**	**%**	**%**	%	%	%	%
Impairment charge/(credit) /average loans	**0.02**	**7.77**	**(0.46)**	**1.00**	0.18	3.67	(9.02)	0.63

The corporate portfolio amounted to € 4.7 billion at 31 December 2014 compared with € 4.3 billion at 31 December 2013. Within this, satisfactory loans increased by 20% compared to 2013, with drawdowns exceeding amortisation by € 0.7 billion.

The growth in the DCB segment was due to increased demand within the Republic of Ireland, driven by the improved business environment. In addition, Corporate Banking North America originated loans within DCB increased by € 0.6 billion (further details are included on page 126).

The AIB UK corporate portfolio reduced by € 0.5 billion. This decline was driven by a realignment of the business, with more business being categorised as SME/other commercial.

The credit profile of the corporate lending portfolio continues to outperform the other loan portfolios due to less reliance on the Republic of Ireland domestic market, and on the property market. Criticised loans have decreased by 38% or € 0.3 billion in 2014, including a write-off of provisions of € 0.1 billion.

The income statement provision charge for the year was € 46 million or 1.0% of average customer loans (2013: € 30 million or 0.63%). The provision cover for impaired loans increased slightly from 48% to 50%. IBNR provisions reduced from € 79 million to € 61 million or from 2.1% to 1.4% of non-impaired loans and receivables, in line with improved impairment trends.

*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 role of rating tools in identifying and managing loans including those of lower credit quality is highlighted in further detail on pages 60 to 62. These lower credit quality loans are referred to as 'Criticised loans' and include Watch, Vulnerable and Impaired, and are defined on page 61.

For reporting purposes loans and receivables to customers are categorised into:

– Neither past due nor impaired;
– Past due but not impaired; and
– 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 defined 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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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 2014 and 31 December 2013 is as follows:

2014	Residential mortgages € m	Other personal € m	Property and construction € m	SME/other commercial € m	Corporate € m	Total € m
Neither past due nor impaired						
Good upper	13,711	181	96	47	765	14,800
Good lower	10,956	1,989	3,433	6,886	3,446	26,710
Watch	2,207	192	1,115	1,050	96	4,660
Vulnerable	2,140	228	1,582	1,008	18	4,976
Total	29,014	2,590	6,226	8,991	4,325	51,146
Past due but not impaired						
Good upper	4	1	–	8	2	15
Good lower	76	54	66	114	16	326
Watch	348	30	54	80	–	512
Vulnerable	895	118	355	301	2	1,671
Total	1,323	203	475	503	20	2,524
Total impaired	8,509	1,044	8,836	3,395	378	22,162
Total gross loans and receivables	38,846	3,837	15,537	12,889	4,723	75,832
Unearned income						(123)
Deferred costs						59
Impairment provisions						(12,406)
Total						63,362

2013+	Residential mortgages € m	Other personal € m	Property and construction € m	SME/other commercial € m	Corporate € m	Total € m
Neither past due nor impaired						
Good upper	13,070	190	153	83	696	14,192
Good lower	12,148	1,916	3,310	6,195	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	2,536	5,913	8,426	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	13,176	4,753	476	28,911
Total gross loans and receivables	40,764	4,292	19,747	13,741	4,307	82,851
Unearned income						(101)
Deferred costs						74
Impairment provisions						(17,083)
Total						65,741

+The industry sector ‘lease financing’ is no longer reported by the Group. Accordingly, for December 2013, where tables show a sectoral analysis, lease financing is re-presented in the relevant sector to which the borrower belongs.

The table above shows an increase in vulnerable loans in the property and construction sector of € 0.6 billion which was primarily due to restructuring of impaired loans during the year. Following a restructure, loans are graded initially as vulnerable.

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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 2014 and 31 December 2013 is as follows:

					2014
	Bank € m	**Corporate € m**	**Sovereign € m**	**Other € m**	**Total € m**
AAA/AA	**3,991**	**–**	**4,114**	**99**	**8,204**
A/A-	**1,615**	**–**	**18,619**[1]	**–**	**20,234**
BBB+/BBB/BBB-	**7**	**–**	**2,462**	**–**	**2,469**
Sub investment	**149**	**–**	**–**	**1**	**150**
Unrated	**–**	**3**	**–**	**–**	**3**
Total	**5,762**	**3**	**25,195**[2]	**100**	**31,060**

					2013
	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m
AAA/AA	3,408	–	5,417	304	9,129
A/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

[1]Includes NAMA senior bonds which do not have an external credit rating and to which the Group has attributed a rating of A- (31 December 2013: BBB+) i.e. 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
Corporate Banking North America lending including leveraged debt

The Group has a specialised leveraged lending team in North America and which is involved in participating in the provision of finance to US corporations for mergers, acquisitions, buy-outs and general corporate purposes. The portfolio increased by c. 62% in 2014 (43% on a constant currency basis) as part of a strategic decision to grow this portfolio.

Loans originated by this team are reported on the basis of the booking office i.e., Ireland € 1,523 million and Rest of the World € 18 million. Furthermore, these loans are reported under the operating segment of DCB, with the property loans below included under the property and construction analysis and all other loans reported under the Corporate asset class.

A sectoral analysis of the portfolio is as follows:

	Drawn balances	
	2014*	2013*
	€ m	€ m
Agriculture	**9**	3
Property and construction	**5**	–
Distribution	**164**	59
Energy	**27**	45
Financial	**71**	42
Manufacturing	**443**	275
Transport	**207**	119
Other services	**615**	405
	1,541	948

At 31 December 2014, 90% of the portfolio was graded BB or better, with no loans classified as impaired.

92% of the customers in this portfolio are domiciled in the USA, 4% in Canada and 4% in the Rest of the World.

Large exposures
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 2014, the Group's top 50 exposures amounted to € 5.1 billion, and accounted for 6.8% (€ 7.5 billion and 9.1% at 31 December 2013) of the Group's on-balance sheet total gross loans and receivables to customers. In addition, these customers have undrawn facilities amounting to c. € 200 million. No single customer exposure exceeded regulatory requirements. In addition, the Group holds NAMA senior bonds amounting to € 9.4 billion (31 December 2013: € 15.6 billion).

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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 2014 and 31 December 2013:

	2014*			2013*		
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	**9,107**	**1,327**	**–**	10,328	910	–
Euro government securities	**3,631**	**170**	**–**	1,968	110	(1)
Non Euro government securities	**182**	**9**	**–**	608	54	–
Supranational banks and government agencies	**2,852**	**119**	**–**	3,092	29	(6)
Collateralised mortgage obligations	**99**	**–**	**(1)**	–	–	–
Other asset backed securities	**1**	**–**	**–**	535	1	(54)
Euro bank securities	**3,897**	**105**	**–**	3,671	59	(7)
Non Euro bank securities	**–**	**–**	**–**	34	–	–
Non Euro corporate securities	**3**	**–**	**(1)**	3	–	–
Other investments	**–**	**–**	**–**	12	–	–
Total debt securities	**19,772**	**1,730**	**(2)**	20,251	1,163	(68)
Equity securities[(1)]	**413**	**338**	**(3)**	117	38	(7)
Total financial investments available for sale	**20,185**	**2,068**	**(5)**	20,368	1,201	(75)

[(1)]Includes NAMA subordinated bonds with a fair value of € 374 million (2013: € 73 million) of which unrealised gains amount to € 327 million (2013:€ 26 million).

The following tables categorise AIB Group's available-for-sale debt securities by contractual residual maturity and weighted average yield at 31 December 2014 and 2013:

	2014							
	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	**–**	**–**	**5,632**	**4.7**	**2,933**	**3.3**	**542**	**3.3**
Euro government securities	**230**	**2.0**	**1,167**	**1.5**	**2,234**	**1.7**	**–**	**–**
Non Euro government securities	**29**	**2.2**	**90**	**2.7**	**63**	**1.8**	**–**	**–**
Supranational banks and government agencies	**150**	**2.0**	**1,775**	**1.1**	**900**	**1.3**	**27**	**2.0**
Collateralised mortgage obligations	**–**	**–**	**–**	**–**	**–**	**–**	**99**	**1.5**
Other asset backed securities	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**0.3**
Euro bank securities	**95**	**1.0**	**3,014**	**1.0**	**788**	**1.3**	**–**	**–**
Non Euro corporate securities	**3**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**507**	**1.8**	**11,678**	**2.9**	**6,918**	**2.3**	**669**	**3.0**

	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

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3.1 Credit risk – Financial investments available for sale

The following tables analyse the available for sale portfolio by geography at 31 December 2014 and 31 December 2013:

	2014*			2013*		
Government securities	**Irish Government € m**	**Euro government € m**	**Non Euro government € m**	Irish Government € m	Euro government € m	Non Euro government € m
Republic of Ireland	**9,107**	**–**	**–**	10,328	–	–
Italy	**–**	**1,253**	**–**	–	228	–
France	**–**	**468**	**–**	–	753	–
Spain	**–**	**1,209**	**–**	–	–	–
Netherlands	**–**	**294**	**–**	–	505	–
Germany	**–**	**225**	**–**	–	271	–
Austria	**–**	**102**	**–**	–	155	–
Portugal	**–**	**–**	**–**	–	6	–
United Kingdom	**–**	**–**	**146**	–	–	519
Rest of the World	**–**	**80**	**36**	–	50	89
	9,107	**3,631**	**182**	10,328	1,968	608

	2014*	2013*
Asset backed securities	**Total € m**	Total € m
United Kingdom	**–**	69
United States of America	**99**	74
Spain	**1**	322
Rest of the World	**–**	70
	100	535

	2014*		2013*	
Bank securities	**Euro € m**	**Non Euro € m**	Euro € m	Non Euro € m
Republic of Ireland	**266**	**–**	484	–
France	**818**	**–**	741	–
Netherlands	**561**	**–**	486	–
United Kingdom	**439**	**–**	486	–
Australia	**380**	**–**	221	–
Sweden	**263**	**–**	192	34
Canada	**378**	**–**	84	–
Finland	**234**	**–**	142	–
Norway	**253**	**–**	193	–
Belgium	**183**	**–**	53	–
Germany	**50**	**–**	77	–
Denmark	**72**	**–**	75	–
Spain	**–**	**–**	437	–
	3,897	**–**	3,671	34

*Forms an integral part of the audited financial statements

3.1 Credit risk – Financial investments available for sale

Debt securities

Debt securities available for sale ("AFS") have decreased from a fair value of € 20.3 billion at 31 December 2013 to € 19.8 billion at 31 December 2014. Sales and maturities of € 8.8 billion (nominal € 8.5 billion) were partially offset by purchases of € 7.3 billion (nominal € 6.8 billion) and an increase in fair value of € 1 billion. The sales during the year generated € 369 million in profit on disposal.

The increase in fair value was due to a tightening of Irish sovereign spreads and the impact of lower interest rates on fixed rate security holdings.

Sovereign holdings were diversified during the year with a reduction in Irish sovereign holdings of € 1.2 billion and an increase in Spanish and Italian sovereign holdings of € 2.2 billion.

The external ratings profile of the portfolio continues to improve with almost half the portfolio upgrading from a rating of BBB to a rating of A– in 2014, in line with the Irish sovereign rating upgrades from Fitch, Standard & Poor's and Moody's. The breakdown by rating was AAA: 23% (2013: 23%), AA: 16% (2013: 19%), A: 48% (2013: 2%), BBB: 12% (2013: 55%) and sub investment grade 1% (2013: 0%).

Equity securities

Equity securities available for sale increased by € 0.3 billion due to the increase in fair value of the NAMA subordinated debt holding. NAMA subordinated bonds are included within AFS equity securities. The fair value of these bonds at 31 December 2014 increased to € 374 million (31 December 2013: € 73 million) as the fair value estimate increased from 15.5% to 79.4% due to continued improvements in NAMA's financial position and forecasts.

Asset backed securities

Asset backed holdings in Spain, Portugal and the UK were sold during the first half of the year. The overall reduction in asset backed holdings helped improve the Group's Liquidity Coverage Ratio and Net Stable Funding Ratio.

Bank securities

At 31 December 2014, the fair value of bank securities of € 3.9 billion (31 December 2013: € 3.7 billion) included € 2.8 billion of covered bonds (31 December 2013: € 2.9 billion), € 0.9 billion of senior unsecured bank debt (31 December 2013: € 0.5 billion) and € 0.1 billion of government guaranteed senior bank debt (31 December 2013: € 0.4 billion). Spanish and Irish bank securities reduced by € 0.6 billion, Canadian and Australian holdings increased by € 0.5 billion, with € 0.1 billion increases each in Belgian and Finnish holdings.

Republic of Ireland

The fair value of Irish debt securities in the AFS category amounted to € 9.4 billion at 31 December 2014 (31 December 2013: € 10.8 billion) and consisted of sovereign debt € 9.1 billion (31 December 2013: € 10.3 billion), senior unsecured bonds of € 0.14 billion and covered bonds of € 0.13 billion (31 December 2013: € 0.1 billion). The Group no longer holds Irish Government guaranteed senior bank debt (31 December 2013: € 0.4 billion). The NAMA subordinated debt holding is classified as an available for sale equity and has a fair value of € 374 million (31 December 2013: € 73 million).

In addition to Irish Government securities outlined above, the Group holds NAMA senior debt amounting to € 9.5 billion nominal (31 December 2013: € 15.8 billion), which is guaranteed by the Irish Government and is classified as loans and receivables.

Spain

The fair value of Spanish debt securities at 31 December 2014 was € 1.2 billion (31 December 2013: € 0.7 billion). During the period, almost all Spanish holdings of asset backed securities and covered bonds were sold and € 1.2 billion of sovereign debt was purchased across a range of issues with maturities between 5 and 8 years.

Italy

The fair value of Italian debt securities of € 1.3 billion at 31 December 2014 comprised solely of sovereign debt securities (31 December 2013: € 0.2 billion). The additional c. € 1 billion of Italian sovereign debt was purchased across a range of issues with maturities between 4 and 8 years.

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3.2 Additional credit risk information – Forbearance*

The following table sets out the risk profile of loans and receivables to customers (before impairment provisions) analysed as to non-forborne and forborne at 31 December 2014:

	Residential mortgages € m	Other personal € m	Property and construction € m	SME/other commercial € m	Corporate € m	2014 Total € m
Non-forborne loans and receivables to customers						
Neither past due nor impaired:						
Good upper	13,285	180	96	46	765	14,372
Good lower	10,485	1,750	3,362	6,630	3,446	25,673
Watch	1,856	153	1,041	910	90	4,050
Vulnerable	1,520	117	446	585	–	2,668
Total	27,146	2,200	4,945	8,171	4,301	46,763
Past due but not impaired	867	141	354	373	18	1,753
Impaired	5,188	788	7,888	2,809	264	16,937
Total	33,201	3,129	13,187	11,353	4,583	65,453
Forborne loans and receivables to customers						
Neither past due nor impaired:						
Good upper	426	1	–	1	–	428
Good lower	471	239	71	256	–	1,037
Watch	351	39	74	140	6	610
Vulnerable	620	111	1,136	423	18	2,308
Total	1,868	390	1,281	820	24	4,383
Past due but not impaired	456	62	121	130	2	771
Impaired	3,321	256	948	586	114	5,225
Total	5,645[1]	708	2,350	1,536	140	10,379
Total loans and receivables to customers	38,846	3,837	15,537	12,889	4,723	75,832
	%	%	%	%	%	%
Weighted average interest rate of forborne loans and receivables to customers	2.8	6.5	3.1	3.9	4.2	3.3

[1]Republic of Ireland: € 5,570 million and United Kingdom: € 75 million.

The Republic of Ireland residential mortgage forbearance portfolio is profiled in more detail on pages 131 to 136 and further detail on the non-mortgage forbearance portfolio is included on pages 137 to 138.

Interest income is recognised, based on the original effective interest rate, on forborne loans in accordance with Accounting policy number 6 and is included in 'Interest and similar income' in the Income Statement. The application of the effective interest method has the effect of recognising income receivable evenly in proportion to the amount outstanding over the period to repayment. Interest income on non-impaired forborne loans is based on the gross loan balance, whereas the net carrying amount after specific provisions is used for impaired forborne loans.

Interest income on impaired loans amounted to € 329 million in 2014. At 31 December 2014, the net carrying amount of impaired loans amounted to € 10,847 million which included forborne impaired mortgages of € 2,421 million and forborne impaired non-mortgages of € 854 million.

*Forms an integral part of the audited financial statements

3.2 Additional credit risk information – Forbearance*

Republic of Ireland 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 together with available forbearance strategies in operation to assist borrowers who have difficulty in meeting repayment commitments are set out on page 71.

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 2014 and 31 December 2013:

	2014		2013	
Republic of Ireland owner-occupier	**Number**	**Balance € m**	Number	Balance € m
At 1 January	**19,848**	**2,952**	22,248	3,544
Additions	**12,561**	**1,691**	6,873	981
Expired arrangements	**(4,156)**	**(639)**	(8,706)	(1,463)
Payments	**–**	**(219)**	–	(107)
Interest	**–**	**77**	–	35
Closed accounts[(1)]	**(507)**	**(30)**	(521)	(35)
Transfer from owner-occupier to buy-to-let	**(32)**	**(2)**	(46)	(3)
At 31 December	**27,714**	**3,830**	19,848	2,952

	2014		2013	
Republic of Ireland buy-to-let	**Number**	**Balance € m**	Number	Balance € m
At 1 January	**8,309**	**1,998**	8,925	2,233
Additions	**1,893**	**345**	2,061	459
Expired arrangements	**(2,155)**	**(480)**	(2,577)	(612)
Payments	**–**	**(125)**	–	(73)
Interest	**–**	**26**	–	14
Closed accounts[(1)]	**(143)**	**(26)**	(146)	(26)
Transfer from owner-occupier to buy-to-let	**32**	**2**	46	3
At 31 December	**7,936**	**1,740**	8,309	1,998

	2014		2013	
Republic of Ireland – Total	**Number**	**Balance € m**	Number	Balance € m
At 1 January	**28,157**	**4,950**	31,173	5,777
Additions	**14,454**	**2,036**	8,934	1,440
Expired arrangements	**(6,311)**	**(1,119)**	(11,283)	(2,075)
Payments	**–**	**(344)**	–	(180)
Interest	**–**	**103**	–	49
Closed accounts[(1)]	**(650)**	**(56)**	(667)	(61)
At 31 December	**35,650**	**5,570**	28,157	4,950

[(1)]Accounts closed during year due primarily to customer repayments and redemptions.

The stock of loans subject to forbearance measures increased by € 0.6 billion in 2014 compared to a decrease in 2013 of € 0.8 billion. This trend reflects the impact of the increase in permanent sustainable solutions such as split mortgages, arrears capitalisations, Low Fixed Interest Rate and Positive Equity solutions. In contrast, forbearance decreased in 2013 as customers were removed from temporary forbearance measures such as interest only. The trend towards more permanent solutions can also be seen from the 44% decline in expired arrangements from 11,283 to 6,311.

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3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

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 2014 and 31 December 2013:

						2014
	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	3,609	566	1,804	294	1,805	272
Reduced payment (greater than interest only)	1,326	251	854	183	472	68
Payment moratorium	510	79	152	23	358	56
Arrears capitalisation	13,409	1,860	8,030	1,187	5,379	673
Term extension	5,518	592	624	75	4,894	517
Split mortgages	2,384	370	2,305	349	79	21
Voluntary sale for loss	342	26	220	20	122	6
Low fixed interest rate	375	59	260	40	115	19
Positive equity solution	223	22	112	11	111	11
Other	18	5	4	1	14	4
Total forbearance	27,714	3,830	14,365	2,183	13,349	1,647

						2014
	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	2,017	468	1,119	289	898	179
Reduced payment (greater than interest only)	836	195	466	115	370	80
Payment moratorium	352	48	183	26	169	22
Arrears capitalisation	3,641	881	3,058	775	583	106
Term extension	860	118	190	32	670	86
Split mortgages	15	2	14	2	1	–
Voluntary sale for loss	208	27	162	25	46	2
Low fixed interest rate	2	–	1	–	1	–
Positive equity solution	5	1	3	–	2	1
Total forbearance	7,936	1,740	5,196	1,264	2,740	476

						2014*
	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	5,626	1,034	2,923	583	2,703	451
Reduced payment (greater than interest only)	2,162	446	1,320	298	842	148
Payment moratorium	862	127	335	49	527	78
Arrears capitalisation	17,050	2,741	11,088	1,962	5,962	779
Term extension	6,378	710	814	107	5,564	603
Split mortgages	2,399	372	2,319	351	80	21
Voluntary sale for loss	550	53	382	45	168	8
Low fixed interest rate	377	59	261	40	116	19
Positive equity solution	228	23	115	11	113	12
Other	18	5	4	1	14	4
Total forbearance	35,650	5,570	19,561	3,447	16,089	2,123

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3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by type of forbearance *(continued)*

						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.

A key feature of the forbearance portfolio is the growth in the proportion of advanced forbearance solutions (split mortgages, low fixed interest rate voluntary sale for loss, negative equity trade down and positive equity solutions) driven by the Group's strategy to deliver sustainable long-term solutions to customers. Advanced forbearance solutions at € 510 million accounted for 9% of the total forbearance portfolio as at 31 December 2014, compared to less than 1% (€ 47 million) as at 31 December 2013. Following restructure, loans are reported as impaired for a probationary period of at least 12 months (unless a larger individually assessed case).

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3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by type of forbearance *(continued)*

Other permanent standard forbearance solutions are term extensions and arrears capitalisation (which often includes a term extension). Permanent forbearance solutions are reported within the stock of forbearance for 5 years, and therefore, represent in some cases forbearance solutions which were agreed up to 5 years ago. They include loans where a subsequent interest only or other temporary arrangement had expired at 31 December 2014, but where an arrears capitalisation or term extension was awarded previously.

Arrears capitalisation is the largest category of forbearance solution at 31 December 2014, accounting for 49% of the total forbearance portfolio (31 December 2013: 39% of the total forbearance portfolio). A high proportion of the arrears capitalisation portfolio (72%) is impaired or 90 days in arrears. This reflects the historic nature of the forbearance event for part of the portfolio and the requirement that loans complete a probationary period of at least 12 months before being upgraded from impairment, as described above.

The Group's processes for assessing customers and agreeing sustainable forbearance solutions have improved over the last 2 years with the development of advanced forbearance products. This is reflected in the performance of the arrears capitalisations booked in 2014 (€ 1.1 billion), of which 94% were either not in arrears or less than 90 days past due at 31 December 2014.

The focus on long term sustainable solutions is evident from the decrease in the stock of solutions which are typically temporary, including interest only (reduced by € 0.5 billion to € 1.0 billion) and reduced payment greater than interest only.

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3.2 Additional credit risk information – Forbearance*

Republic of Ireland 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 2014 and 31 December 2013:

			2014			2013
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
1 – 30 days	**138**	**31**	**169**	154	22	176
31 – 60 days	**63**	**14**	**77**	70	13	83
61 – 90 days	**42**	**8**	**50**	53	11	64
91 – 180 days	**33**	**15**	**48**	55	22	77
181 – 365 days	**41**	**16**	**57**	34	14	48
Over 365 days	**33**	**18**	**51**	14	13	27
Total past due but not impaired	**350**	**102**	**452**	380	95	475

The amount of loans subject to forbearance and past due but not impaired decreased in the full year to 31 December 2014 by € 23 million, driven by a decrease in the arrears of less than 180 days, which was offset by an increase in arrears greater than 180 days. The proportion of the portfolio past due but not impaired reduced marginally in the period from 10% at 31 December 2013 to 8% at 31 December 2014.

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 2014 and 31 December 2013:

			2014			2013
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Not past due	**874**	**363**	**1,237**	331	439	770
1 – 30 days	**221**	**52**	**273**	98	78	176
31 – 60 days	**87**	**29**	**116**	72	62	134
61 – 90 days	**62**	**28**	**90**	64	63	127
91 – 180 days	**143**	**75**	**218**	205	143	348
181 – 365 days	**191**	**159**	**350**	246	217	463
Over 365 days	**498**	**509**	**1,007**	397	479	876
Total impaired	**2,076**	**1,215**	**3,291**	1,413	1,481	2,894

Impaired loans subject to forbearance increased by € 0.4 billion during the year. Statement of financial position specific provisions of € 0.9 billion were held against the forborne impaired book at 31 December 2014, providing cover of 26.9%, while the income statement specific provision charge was € 124 million for the year.

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3.2 Additional credit risk information – Forbearance*

Republic of Ireland 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 2014 and 31 December 2013:

			2014			2013
Republic of Ireland	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Less than 50%	557	126	683	334	74	408
50% – 70%	648	164	812	336	107	443
71% – 80%	391	128	519	230	91	321
81% – 90%	397	151	548	223	117	340
91% – 100%	387	165	552	237	142	379
101% – 120%	632	330	962	508	326	834
121% – 150%	640	383	1,023	614	523	1,137
Greater than 150%	151	266	417	470	618	1,088
Unsecured	27	27	54	–	–	–
Total forbearance	3,830	1,740	5,570	2,952	1,998	4,950

The degree of negative equity in the residential mortgage portfolio in the Republic of Ireland that was subject to forbearance measures at 31 December 2014 reduced to 37% of the owner-occupier and 56% of the buy-to-let mortgages compared to 54% and 73% respectively at 31 December 2013, due primarily to the increase in property prices in 2014.

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3.2 Additional credit risk information – Forbearance*

Non-mortgage

The following table sets out an analysis of non-mortgage forbearance solutions at 31 December 2014:

						2014
	Total	Loans neither > 90 days in arrears nor impaired	Loans > 90 days in arrears but not impaired	Impaired loans	Specific provisions on impaired loans	Specific provision cover %
	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m	%
Other personal						
Interest only	67	29	9	29	19	66
Reduced payment						
(greater than interest only)	7	5	–	2	2	100
Payment moratorium	4	3	–	1	1	100
Arrears capitalisation	36	2	3	31	17	55
Term extension	105	98	2	5	2	40
Fundamental restructure	17	16	–	1	–	–
Restructure	462	262	16	184	129	70
Other	10	5	2	3	2	67
Total	708	420	32	256	172	67
Property and construction						
Interest only	455	119	11	325	166	51
Reduced payment						
(greater than interest only)	29	10	1	18	8	44
Payment moratorium	18	18	–	–	–	–
Arrears capitalisation	60	6	8	46	26	57
Term extension	294	240	7	47	16	34
Fundamental restructure	722	710	3	9	–	–
Restructure	663	202	16	445	279	63
Other	109	50	1	58	31	53
Total	2,350	1,355	47	948	526	55
SME/other commercial						
Interest only	198	87	8	103	50	49
Reduced payment						
(greater than interest only)	36	8	2	26	13	50
Payment moratorium	9	7	–	2	1	50
Arrears capitalisation	47	10	2	35	19	54
Term extension	172	120	7	45	12	27
Fundamental restructure	180	169	4	7	3	43
Restructure	838	457	34	347	215	62
Other	56	32	3	21	9	43
Total	1,536	890	60	586	322	55
Corporate						
Reduced payment						
(greater than interest only)	3	1	2	–	–	–
Payment moratorium	13	–	–	13	8	62
Arrears capitalisation	7	–	–	7	4	57
Fundamental restructure	17	17	–	–	–	–
Restructure	36	–	–	36	17	47
Other	64	6	–	58	1	2
Total	140	24	2	114	30	26
Total non-mortgage forbearance	4,734	2,689	141	1,904	1,050	55

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3.2 Additional credit risk information – Forbearance*

Non-mortgage *(continued)*

The Group has developed treatment strategies for customers in the non-mortgage portfolio who are experiencing financial difficulties and who require a restructure. 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. 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. Further information on non-mortgage forbearance is included on pages 71 to 72.

Non-retail customers in difficulty typically have exposures across a number of asset classes including SME debt, associated property exposures and residential mortgages.

As at December 2014, non-mortgage loans reported as being subject to forbearance amounted to € 4.7 billion of which € 1.9 billion is impaired with specific provision cover of 55%. The majority of these forborne loans are in the property and construction (€ 2.4 billion) and SME/other commercial (€ 1.5 billion) sectors.

Within non-mortgage forbearance categories, 'Fundamental restructure' (€ 0.9 billion in total) includes longer term solutions where customers have been through a full review as described above, have proven sustainable cash flows/repayment capacity and their sustainable debt has been restructured. This may include debt write-off. Loans to borrowers that are fundamentally restructured typically result in the initial loans together with any related impairment provisions being derecognised and the new restructured loans being graded as 'vulnerable' in most cases. Approximately € 2.3 billion of non-mortgage loans were de-recognised during 2014, with related impairment provisions and suspended interest of c.€ 1.2 billion.

The 'Restructure' category (€ 2.0 billion) includes some longer term/permanent solutions where the existing customer debt was deemed to be sustainable post restructuring. The solutions offered include interest only with asset disposal or bullet/fixed payment, debt consolidation, amongst others. This category also includes cases which were restructured prior to the current treatment strategies being developed. Some of these cases may yet qualify for a 'Fundamental Restructure' following a full review of sustainable repayment capacity.

The remaining forbearance categories include borrowers that have been afforded temporary forbearance measures which, depending on performance, may in time, move out of forbearance or qualify for a more permanent forbearance solution.

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3.3 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 cash flows 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 cash flows 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 CRD IV related 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") and ultimately the LCR as required by the recently published European Commission Delegated Regulation ("the Delegated Act") to supplement the CRR and which is scheduled to come into force on 1 October 2015.

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.

In addition to the CRR liquidity requirements, the Group's liquidity management policy seeks to ensure AIB's compliance with the "Principles for 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 ("CBI") "Requirements for the Management of Liquidity Risk" (June 2009) and in doing so ensures that it has sufficient liquidity to meet its current and forecasted requirements. AIB is required to comply with the liquidity requirements of the CBI/SSM 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 on 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 and controlled 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 to 8 day and 9 day to 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 on 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 the Treasury function which in 2014 reported to the Director of Products and Capital Markets 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 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.

*Forms an integral part of the audited financial statements

3.3 Liquidity risk*

At 31 December 2014, the Group held € 40 billion in qualifying liquid assets/contingent funding (including € 3 billion in liquid assets only available for use within the UK) of which approximately € 20 billion was not available due to repurchase, secured loan and other agreements. The available Group liquidity pool comprises the remainder and is held to cover contractual and stress outflows. As at 31 December 2014, the Group liquidity pool was € 17 billion (2013: € 14 billion). During 2014, the month-end liquidity pool ranged from € 14 billion to € 19 billion and the month-end average balance was € 16 billion.

Composition of the Group liquidity pool as at 31 December 2014 and 31 December 2013

				2014
			Liquidity pool of which LCR eligible[1]	
	Liquidity pool[1] € bn	Liquidity pool available (ECB eligible) € bn	Level 1 € bn	Level 2 € bn
Cash and deposits with central banks	0.9	–	2.9	–
Total government bonds	4.5	4.5	4.5	–
Other:				
Agencies and agency mortgage-backed securities	–	–	–	–
Other including NAMA senior bonds	11.4	11.3	7.5	–
Total other	11.4	11.3	7.5	–
Total	16.8	15.8	14.9	–

				2013
			Liquidity pool of which Basel III LCR eligible	
	Liquidity pool € bn	Liquidity pool available (ECB eligible) € bn	Level 1 € bn	Level 2 € 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

[1]Basis of calculation for LCR differs to the Group's basis.

Level 1 – High Quality Liquid Assets ("HQLA") include amongst others domestic currency (euro) denominated bonds issued or guaranteed by European Economic Area ("EEA") sovereigns, other very highly rated sovereign bonds and unencumbered cash at central banks.

Level 2 – HQLA include highly rated sovereign bonds, highly rated covered bonds and certain other strongly rated securities.

The above is based on May 2014 CBI guidelines (CBI LCR guidelines) for the LCR interim observation period. The Delegated Act comes into force in October 2015 and contains some changes in relation to qualifying liquid assets.

Management of the Group liquidity pool

AIB manages its 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 pool assets primarily comprise government guaranteed bonds. AIB improved its liquidity buffer during the course of 2014 from € 14 billion to € 17 billion. The liquidity buffer has increased, predominantly due to a combination of profits for the year, and positive movement in the liquid asset portfolio due to yield compression.

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3.3 Liquidity risk*

Other contingent liquidity

AIB has access to other unencumbered assets which provide a source of contingent liquidity. These are not in the Group's liquidity pool. However, as a contingency, these assets may be monetised in a stress scenario to generate liquidity through their use as collateral for secured funding or outright sale.

Liquidity regulation

AIB Group is required to comply with the liquidity requirements of the Single Supervisory Mechanism ("SSM") (CBI prior to November 2014) and also with the requirements of local regulators in jurisdictions in which it operates.

The Group monitors and reports its current and forecast position against Basel III and CRD IV related 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 October 2015 at 60%, rising to 100% by January 2018. The minimum NSFR requirement is scheduled to be introduced in January 2018 at 100%. Based on the current regulatory LCR guidelines, as at 31 December 2014, AIB had an estimated LCR of c.116%. At 31 December 2014, the Group had an estimated NSFR of c.112%. The Group has adopted a prudent approach to the LCR calculation in the observation period[(1)].

The LCR and NSFR of c.105% and c.95% respectively reported at 2013 were based on the Group's interpretation of Basel III standards as at 31 December 2013. In addition to the LCR guidelines referred to above, in January 2014, a consultative document was issued by the Basel Committee on Banking Supervision with revised NSFR rules. The 31 December 2014 NSFR is based on the Group's interpretation of these rules.

During 2014, the Group commenced regulatory reporting in line with CRD IV requirements.

Based on the Basel III standards and their EU implementation through the CRD IV, and ultimately, the recently published Delegated Act, AIB is set to comply with these ratios.

[(1)]The period from 31 March 2014 to 1 October in 2015, when the 60% minimum LCR is effective, will be used by the CBI/SSM as an observation period during which time the CBI/SSM will monitor reporting institutions convergence towards the minimum standard.

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 a 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. European Banking Authority ("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 stress tests is to ensure the continued stability of the Group's liquidity position, within the Group's pre-defined liquidity risk tolerance levels. The results are reported to the ALCo, 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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3.3 Liquidity risk*

Internal and regulatory liquidity stress tests comparison

The LCP stress scenarios, including the EBA prescribed stress scenarios and CRD IV 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/CRD IV related ratios provide an independent assessment of the Group's liquidity risk profile.

Stress test	EBA liquidity stress	Liquidity Coverage Ratio (LCR)	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 2014, the Group held liquid assets in excess of minimum required levels for internal stress measurement purposes and the CRD IV LCR requirement. Internal Stress testing also considers stress periods of between 1 month and 1 year, breaches of which would trigger the LCP.

Compliance with internal regulatory stress tests as at 31 December 2014 and 31 December 2013:

Liquidity pool as a percentage of anticipated net cash flows	2014 %	2013 %
Liquidity holding as a % of one month stress requirement	**182**	137
CRD IV LCR	**116**	105[1]

[1]2013 based on Basel III.

Funding structure

The Group's funding strategy is to deliver a sustainable, diversified and robust customer deposit base at economic pricing and to continue rebuilding a strong wholesale funding franchise with appropriate access to term markets in order 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.

Sources of funds	31 December 2014 € bn	31 December 2014 %	31 December 2013 € bn	31 December 2013 %
Customer accounts	**64.0**	**63**	65.7	60
Deposits by central banks and banks – secured	**16.4**	**16**	22.6	21
– unsecured	**0.4**	**–**	0.5	–
Certificates of deposit and commercial paper	**–**	**–**	0.1	–
Covered bonds	**3.8**	**4**	3.3	3
Securitisations	**0.8**	**1**	1.0	1
Senior debt	**3.3**	**3**	4.3	4
Capital	**13.0**	**13**	11.8	11
Total source of funds	**101.7**	**100**	109.3	100
Other	**5.8**		8.1	
	107.5		117.4	

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3.3 Liquidity risk*

Funding structure *(continued)*

Customer accounts

The following table analyses average deposits by customers for 2014 and 2013:

	2014	2013
	Total € m	Total € m
Current accounts	19,710	16,619
Deposits:		
Demand	9,504	9,305
Time	31,032	34,914
Repurchase agreements	4,890	3,808
Total	65,136	64,646

Current accounts are both interest bearing and non-interest cheque bearing accounts raised through AIB Group's branch network in the Republic of 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:

	2014	2013
	Total € m	Total € m
Euro	50,245	52,788
US dollar	1,212	1,143
Sterling	12,458	11,631
Other currencies	103	105
Total	64,018	65,667

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. Customer accounts have decreased by € 1.7 billion in the full year 2014, with decreases in customer repos and rate sensitive deposits as margins were managed downwards being partially offset by increases in current account balances. The level of customer deposits and the reduction in customer loan balances means the Group continues to have a strong loan to deposit ratio. The Group's loan to deposit ratio as at 31 December 2014 was 99% (31 December 2013: 100%).

While the Group continued to participate in CBI/ECB operations, 2014 saw a reduction of € 9.3 billion in ECB funding. CBI/ECB funding amounted to € 3.4 billion at 31 December 2014, down from € 12.7 billion at 31 December 2013. CBI/ECB drawings no longer include funding from the ECB's 3 year Long-Term Refinancing Operations ("LTROs") (31 December 2013: € 11 billion). However, included in the € 3.4 billion is € 1.9 billion of Targeted Longer-Term Refinancing Operations ("TLTRO") which locks in low cost term funding that will benefit the Group's NSFR.

Wholesale funding markets saw continued improvement in sentiment towards Ireland and towards AIB in 2014. The Group raised secured funding through a € 500 million covered bond issuance and an unsecured € 500 million medium term note. These were issued at spreads of 95 bps and 180 bps respectively over market rates, an improvement compared to 180 bps and 235 bps on issuances in the second half of 2013. The two issuances have been part of a balanced and measured re-engagement in the wholesale markets.

Senior debt funding of € 3.3 billion at 31 December 2014 decreased from € 4.3 billion at 31 December 2013 due to maturing bonds. This was predominantly due to € 0.8 billion of senior debt maturities and € 0.7 billion related to liability management in the form of a buyback of senior ELG covered debt that was due to mature in quarter one 2015. The reductions were partly offset by the € 0.5 billion issuance outlined above.

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3.3 Liquidity risk*

The Group continues to engage with the markets in a measured and consistent manner extending the duration of funding transactions. In November 2014, the Group renegotiated the terms of the 2013 € 500 million Credit Card funding deal, at a reduced level of € 200 million.

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, together with 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 restructure stressed assets, this is paramount to increasing the Group's pool of available liquid assets and to the Group's overall funding/liquidity strategy.

Composition of wholesale funding

As at 31 December 2014, total wholesale funding outstanding was € 26 billion (2013: €33 billion). € 17 billion of wholesale funding matures in less than one year (2013: € 12 billion). € 9 billion of wholesale funding had a residual maturity of over one year, including € 1.9 billion of TLTRO drawings (2013: € 21 billion).

As at 31 December 2014, outstanding wholesale funding comprised € 21 billion of secured funding (2013: € 27 billion) and € 5 billion of unsecured funding (2013: € 6 billion).

							2014
	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	9.9	4.6	–	–	14.5	2.3	16.8
Certificate of deposits and commercial paper	–	–	–	–	–	–	–
Senior unsecured	–	2.2	–	–	2.2	1.1	3.3
Covered bonds/ABS	–	–	–	0.6	0.6	4.0	4.6
Subordinated liabilities	–	–	–	–	–	1.4	1.4
Total 31 December 2014	**9.9**	**6.8**	**–**	**0.6**	**17.3**	**8.8**	**26.1**
Of which:							
Secured	9.5	4.6	–	0.6	14.7	6.4	21.1
Unsecured	0.4	2.2	–	–	2.6	2.4	5.0
	9.9	6.8	–	0.6	17.3	8.8	26.1

							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

*Forms an integral part of the audited financial statements

3.3 Liquidity risk*

Currency composition of wholesale debt

At 31 December 2014, 99% (2013: 97%) of wholesale funding was in euro. A negligible balance was held in other currencies, mainly GBP and USD. AIB manages cross-currency refinancing risk to foreign-exchange cash-flow limits.

Encumbrance

The asset encumbrance disclosure has been produced in line with the Group's interpretation of the 2014 EBA Guidelines on disclosure of encumbered and unencumbered assets. 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 to be sold.

The ability to encumber certain pools of assets is a key element of the Group's funding and liquidity strategy. In particular, encumbrance through the repo markets plays an important role in funding the Group's NAMA senior bonds and financial investments available for sale portfolios. The funding of customer loans is also supported through the issuance of covered bonds and securitisations. Other lesser sources of encumbrance include cash placed, mainly with banks, in respect of derivative liabilities, sterling notes and coins issued and loan collateral pledged in support of pension liabilities in AIB Group (UK) p.l.c..

The Group has seen, and would expect to continue to see a downward trend in encumbrance as the Group's funding requirement is reduced through NAMA bond repayments. The Group includes two authorised mortgage banks, AIB Mortgage Bank and EBS Mortgage Finance that issue residential mortgage backed covered securities ("ACS"). In addition, the Group uses a number of securitisation vehicles for funding purposes. As well as direct market issuance, the mortgage banks and the securitisation vehicles repo bonds centrally for liquidity management purposes. Unused bonds held centrally contribute to the Group's liquidity buffer and do not add to the Group's encumbrance level unless used in a repurchase agreement or pledged externally. Secured funding between the parent and other Group entities (e.g. EBS Ltd and AIB Group (UK) p.l.c.) is an element of the Group's liquidity management processes.

The following table analyses total assets by (1) encumbered assets and (2) unencumbered assets as at 31 December 2014:

				2014
			Unencumbered assets	
	Assets € m	Encumbered assets € m	Readily available € m	Other € m
Loans and receivables to banks	1,865	1,727	138	–
Loans and receivables to customers	63,362	11,102	13,523	38,737
NAMA senior bonds	9,423	1,405	8,018	–
Financial investments available for sale:				
Debt securities	19,772	14,893	4,879	–
Equity securities	413	–	–	413
Other	12,620	175	2,650	9,795
Total	107,455	29,302	29,208	48,945

The Group had an encumbrance ratio of 27% as at 31 December 2014, i.e. it is point in time encumbrance. The encumbrance level is based on the amount of assets that are required in order to meet regulatory and contractual commitments. Both mortgage banks hold higher levels of assets in their covered pools in order to meet rating agency requirements and beyond this for reasons of operational flexibility. € 13,523 million of residential loan mortgages included in loans and receivables to customers are unencumbered but are regarded by the Group as readily encumberable as they are held in covered bond and securitisation structures. The remaining loan assets in this category € 38,737 million, whilst unencumbered, are not regarded as being available in support of liquidity management at present. Other assets such as deferred tax assets, derivative assets, property, plant and equipment are not regarded as encumberable.

Financial liabilities of € 23,771 million matched encumbered assets amounting to € 27,131 million (including collateral received from counterparties which is available for encumbrance). The fair value of collateral received available for encumbrance amounted to € 457 million of which Nil was encumbered.

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3.3 Liquidity Risk*

Encumbrance *(continued)*

Asset encumbrance of loans and receivables to customers

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.

The following table analyses the asset encumbrance of loans and receivables to customers as at 31 December 2014:

				2014
	Assets	Externally issued notes	Other secured funding	Retained notes
	€ bn	€ bn	€ bn	€ bn
Mortgages (residential mortgage backed securities)	23.3	4.5	3.1	4.3
Retail and SME (credit card issuance)	0.3	–	0.2	–
Other	1.0	–	–	–
Total	**24.6**	**4.5**	**3.3**	**4.3**

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 counterparties and in central bank facilities.

In addition to securities already in issue, at 31 December 2014, the Group had excess collateral within its asset backed funding programmes that could readily be used to issue additional bonds of € 3.8 billion.

Firm financing repurchase agreements

The following table analyses the firm financing repurchase agreements as at 31 December 2014 and 31 December 2013:

				2014				2013
	Less than 1 month € bn	1 month to 3 months € bn	Over 3 months € bn	Total € bn	Less than 1 month € bn	1 month to 3 months € bn	Over 3 months € bn	Total € bn
Maturity profile	10	5	3	18	10	6	12	28

Credit ratings

The Group’s debt ratings as at 4 March 2015 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 "Ba2" for deposits and "Ba3" 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.

*Forms an integral part of the audited financial statements

3.3 Liquidity risk*

Financial assets and financial liabilities by contractual residual maturity

	Repayable on demand € m	3 months or less but not repayable on demand € m	1 year or less but over 3 months € m	5 years or less but over 1 year € m	Over 5 years € m	2014 Total € m
Financial assets						
Derivative financial instruments[3]	–	23	75	820	1,120	2,038
Loans and receivables to banks[4]	1,828	37	–	–	–	1,865
Loans and receivables to customers[4]	25,078	873	3,212	9,624	37,045	75,832
NAMA senior bonds[5]	–	9,423	–	–	–	9,423
Financial investments available for sale[2]	3	226	278	11,678	7,587	19,772
Other financial assets	–	499	–	–	–	499
	26,909	11,081	3,565	22,122	45,752	109,429
Financial liabilities						
Deposits by central banks and banks	366	14,151	–	2,251	–	16,768
Customer accounts	31,678	16,779	10,895	4,665	1	64,018
Derivative financial instruments[3]	–	131	156	806	1,241	2,334
Debt securities in issue	–	2,241	548	3,972	1,100	7,861
Subordinated liabilities and other capital instruments	–	–	–	1,411	40	1,451
Other financial liabilities	443	3	–	–	–	446
	32,487	33,305	11,599	13,105	2,382	92,878

	Repayable on demand € m	3 months or less but not repayable on demand € m	1 year or less but over 3 months € m	5 years or less but over 1 year € m	Over 5 years € m	2013 Total € 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

[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 2 March 2015. 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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3.3 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 the 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:

						2014
	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 liabilities						
Deposits by central banks and banks	**366**	**14,156**	**7**	**2,260**	**–**	**16,789**
Customer accounts	**31,678**	**16,961**	**11,070**	**4,931**	**1**	**64,641**
Derivative financial instruments	**–**	**139**	**415**	**1,161**	**721**	**2,436**
Debt securities in issue	**–**	**2,342**	**726**	**4,328**	**1,136**	**8,532**
Subordinated liabilities and other capital instruments	**–**	**–**	**160**	**1,761**	**128**	**2,049**
Other financial liabilities	**443**	**3**	**–**	**–**	**–**	**446**
	32,487	**33,601**	**12,378**	**14,441**	**1,986**	**94,893**

						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 liabilities						
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
Derivative financial instruments	–	406	323	884	977	2,590
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

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3.3 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.

						2014
	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	**1,246**	**–**	**–**	**–**	**–**	**1,246**
Commitments	**9,082**	**–**	**–**	**–**	**–**	**9,082**
	10,328	**–**	**–**	**–**	**–**	**10,328**

						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

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3.4 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 the interest rate and credit spread 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.

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.

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.

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. Risks associated with valuation adjustments such as credit value adjustment ("CVA") and funding value adjustment ("FVA") are managed by the trading unit in the Group's treasury function.

The Group's treasury function is responsible for managing market risk in the Group. This includes a mandate to trade on its own account in selected wholesale markets. The trading strategies employed by Treasury are desk and market specific with risk tolerances approved on an annual basis through the Group's Risk Appetite Statement.

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 Committee ("ALCo") is a sub-committee of the Leadership Team and advises the Chief Financial Officer ("CFO") on the management of the Group's assets and liabilities (including the management of capital, funding and liquidity, and net interest margin) and on the management of market risks (including structural foreign exchange hedging). ALCo monitors the Group's IRRBB and approves relevant policies, limits, behavioural assumptions and the Market Risk Strategy and Appetite Statement.

Treasury Asset and Liability Management ("TALM"), reporting to the CFO, is responsible for identifying, measuring, monitoring and reporting the Group's aggregate market risk profile and managing the Group's financial instruments valuation processes, in addition to estimating the level of capital required to support market risks.

The Financial Risk function, reporting to the Chief Risk Officer ("CRO"), is responsible for exercising independent risk oversight and control over the Group's market risk. In particular, Financial Risk provides oversight on the integrity and effectiveness of the risk and control environment. It provides assurance that the risk dimensions of the business activity are understood and ensures the escalation of 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). The Financial Risk function is also responsible for the integrity of the market risk measurement methodologies.

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3.4 Market risk*

Risk management and mitigation

Market risk in the Group is managed by Treasury. 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, available for sale credit spread risk, IRRBB and trading risk are managed by distinct business units.

The ALCo is the governance committee for market risk. 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.

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 ALCo receives 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.

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Risk management - 3. Individual risk types

3.4 Market risk*

The following table sets out the allocation of financial assets and financial liabilities subject to market risk between trading and non-trading portfolios, showing the principal market risks to which the assets and liabilities are exposed at 31 December 2014 and 31 December 2013:

				2014
		Market risk measures		
	Carrying amount € m	Trading portfolios € m	Non-trading portfolios € m	Risk factors
Assets subject to market risk				
Cash and balances at central banks	5.393	–	5,393	Interest rate
Trading portfolio financial assets	1	1	–	Interest rate, credit spreads
Derivative financial instruments	2,038	1,024	1,014	Interest rate, foreign exchange, credit spreads
Loans and receivables to banks	1,865	–	1,865	Interest rate
Loans and receivables to customers	63,362	–	63,362	Interest rate
NAMA senior bonds	9,423	–	9,423	Interest rate
Financial investments available for sale	20,185	–	20,185	Interest rate, credit spreads
Liabilities subject to market risk				
Deposits by central banks and banks	16,768	–	16,768	Interest rate
Customer accounts	64,018	–	64,018	Interest rate
Derivative financial instruments	2,334	1,150	1,184	Interest rate, foreign exchange, credit spreads
Debt securities in issue	7,861	–	7,861	Interest rate, credit spreads
Subordinated liabilities and other capital instruments	1,451	–	1,451	Interest rate, credit spreads

				2013
		Market risk measures		
	Carrying amount € m	Trading portfolios € m	Non-trading portfolios € m	Risk factors
Assets subject to market risk				
Cash and balances at central banks	4,132	–	4,132	Interest rate
Disposal groups and non-current assets held for sale[(1)]	28	–	28	Interest rate
Trading portfolio financial assets	2	2	–	Interest rate, credit spreads
Derivative financial instruments	1,629	1,001	628	Interest rate, foreign exchange, credit spreads
Loans and receivables to banks	2,048	–	2,048	Interest rate
Loans and receivables to customers	65,713	–	65,713	Interest rate
NAMA senior bonds	15,598	–	15,598	Interest rate
Financial investments available for sale	20,368	–	20,368	Interest rate, credit spreads
Liabilities subject to market risk				
Deposits by central banks and banks	23,121	–	23,121	Interest rate
Customer accounts	65,667	–	65,667	Interest rate
Derivative financial instruments	1,960	923	1,037	Interest rate, foreign exchange, credit spreads
Debt securities in issue	8,759	–	8,759	Interest rate, credit spreads
Subordinated liabilities and other capital instruments	1,352	–	1,352	Interest rate, credit spreads

[(1)]Includes loans and receivables to customers held for sale.

For details of the interest rate risk gap position for non-trading portfolios refer to note 48 to the consolidated financial statements.

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3.4 Market risk*

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 2014 and 31 December 2013 and the impact on net interest income over a twelve month period.

Sensitivity of projected net interest income to interest rate movements	31 December 2014 € m	2013 € m
+ 100 basis point parallel move in all interest rates	**21**	(50)
– 100 basis point parallel move in all interest rates	**(25)**	8

The above analysis is subject to certain simplifying assumptions such as all interest rate movements occurring simultaneously and in a parallel manner. Additionally, it is 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 2014 and 2013, measured in terms of Value at Risk. 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	
	2014 € m	2013 € m	**2014 € m**	2013 € m	**2014 € m**	2013 € m
Interest rate risk						
1 day holding period:						
Average	**0.1**	0.1	**3.5**	1.5	**3.5**	1.5
High	**0.5**	0.6	**5.6**	3.9	**5.6**	3.9
Low	**–**	–	**1.2**	1.0	**1.2**	0.9
31 December	**0.1**	0.2	**1.5**	2.9	**1.5**	2.7

The following table sets out the VaR for foreign exchange rate and equity risk for the years ended 31 December 2014 and 2013:

	Foreign exchange rate risk		Equity risk	
	VaR (trading book)		VaR (trading book)	
	2014 € m	2013 € m	**2014 € m**	2013 € m
1 day holding period:				
Average	**0.04**	0.04	**0.05**	0.36
High	**0.10**	0.05	**0.11**	0.73
Low	**0.02**	0.02	**0.02**	0.02
31 December	**0.03**	0.05	**0.02**	0.03

The modest VaR position during 2014 is explained by the very low levels of open risk being run in Treasury across interest rate, foreign exchange and equity positions. Within the interest rate category, Treasury adapted its discretionary position throughout the year in line with its dynamic reappraisal of the risk reward opportunities associated with the evolution of the Euro yield curve.

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Risk management - 3. Individual risk types

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; and
– Technology in place to support assessment and mitigation of operational risks.

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 materiality 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 continuity and resilience.

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 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.

*Forms an integral part of the audited financial statements

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 emerging prudential regulations being monitored by the Compliance Upstream unit. Regulatory Compliance undertakes a periodic detailed assessment of the key conduct of business 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 and/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

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Regulatory Compliance report to the Group General Counsel and independently to the Board, 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 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 being 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 Group ALCo monitors structural foreign exchange risk and 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.

3.8 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 above what is already planned 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.

The Group maintains a number of defined benefit pension schemes for current and former employees, further details of which are included in note 11 to the consolidated financial statements. These defined benefit schemes were closed to future accrual from the 31 December 2013. Approval was received from the Pensions Authority 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 United Kingdom, the Group has established 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 potential financial market fluctuations and possible 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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*Forms an integral part of the audited financial statements

Governance and oversight

Governance and oversight –
1. The Board and Executive Officers

Certain information in respect of the Directors and Executive Officers is set out below.

Richard Pym – Chairman – Non-Executive Director and Nomination and Corporate Governance Committee Chairman
Mr Pym was co-opted to the Board on 13 October 2014 as Chairman Designate and Non-Executive Director and was appointed Chairman with effect from 1 December 2014. He is a Chartered Accountant with extensive experience in financial services having held a number of senior roles including Group Chief Executive Officer of Alliance & Leicester plc. He is Chairman of Nordax Bank AB (publ) and UK Asset Resolution Limited, the entity which manages, on behalf of the UK Government, the run off of the Government owned closed mortgage books of Bradford & Bingley plc and NRAM plc. Mr Pym is a former Chairman of The Co-operative Bank plc, BrightHouse Group plc, Halfords Group plc and a former Non-Executive Director of The British Land Company plc, Old Mutual plc and Selfridges plc. Mr Pym is a member of the Remuneration Committee and Chairman of the Nomination and Corporate Governance Committee. (Age 65)

Simon Ball BSc (Economics), FCA – Non-Executive Director
Mr Ball is currently the Non-Executive Deputy Chairman and Senior Independent Director of Cable & Wireless Communications plc, a Non-Executive Director of Commonwealth Games England, and Non-Executive Chairman of Anchura Group Limited. Prior to this, he 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 HMG Department for Constitutional Affairs. Mr Ball, who joined the Board in October 2011, 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 to oversee the process to appoint a new Non-Executive Chairman and stood down from that role in December 2014 following the Chairman's appointment. (Age 54)

Mark Bourke* B.E., ACA, AITI - Chief Financial Officer
Mr Bourke joined AIB in April 2014 as Chief Financial Officer and member of the Leadership Team and was co-opted to the Board on 29 May 2014. He joined AIB from IFG Group plc where he held a number of senior roles, including Group Chief Executive Officer, Deputy Chief Executive Officer and Finance Director. Mr Bourke began his career at PricewaterhouseCoopers (PwC) in 1989 and is a former partner in international tax services with PwC US in California. He is a member of Chartered Accountants Ireland and the Irish Taxation Institute. (Age 48)

Bernard Byrne* FCA – Director of Retail and Business Banking
Mr Byrne joined AIB in May 2010 as Group Chief Financial Officer and member of the Leadership Team, was appointed Director of Personal, Business and Corporate Banking in 2011, and took up his current role in 2015. 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 and was appointed Non-Executive Director of EBS Limited in July 2011. (Age 46)

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 53)

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 in Corporate, Treasury and Personal Banking in Ireland and the UK. 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 61)

Governance and oversight – 1. The Board and Executive Officers

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 September 2012, he was a director of each of the US subsidiaries of IBRC. He is at present 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, the Nomination and Corporate Governance Committee, the Remuneration Committee and the Audit Committee. (Age 66)

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 and Chairman of a number of indigenous technology start up companies. He is a past President of the American Chamber of Commerce in Ireland and former board member of Enterprise 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 64)

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, 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 and a Non-Executive Director of St. Vincent's Healthcare Group Ltd. 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 72)

Catherine Woods BA, Mod (Econ) – Senior Independent 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. She was appointed as Senior Independent Non-Executive Director for the AIB Board in January 2015. (Age 52)

*** Executive Directors**

Executive Officers (in addition to Executive Directors above)

Dominic Clarke, LLB, ACA - Chief Risk Officer

Mr Clarke joined AIB in May 2012 as Head of Internal Audit and was appointed to his current role as Chief Risk Officer in November 2014. He was a Managing Director in Deutsche Bank and worked previously for Barclays in the UK and trained as a chartered accountant at PwC's Banking and Capital Markets practice. He also holds a Law degree. (Age 42)

Helen Dooley LLB – Group General Counsel

Ms Dooley was appointed to her current role as Group General Counsel and to the Leadership Team in October 2012 and in June 2014 she also assumed responsibility for the Compliance function. Ms Dooley 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 46)

Governance and oversight – 1. The Board and Executive Officers

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 42)

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 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 35)

Fergus Murphy BSc (Mgt), MA, DABS, AMCT, FIBI – Director of Corporate and Institutional Banking

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. He was subsequently appointed Group Services and Transformation Director in December 2011, Head of Products and Capital Markets in 2012 and took up his current role in January 2015. 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 a Board member of the Irish Business and Employers Confederation ("IBEC") and chairs the IBEC Audit Committee. He is former Chairman of Financial Services Ireland. (Age 51)

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 49)

Steve Reid FCIOBS, MSFA - Managing Director, AIB Group (UK) p.l.c.

Mr Reid was appointed to his current role and the Leadership Team in July 2013. He previously 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 51)

Stephen White – BComm - Group Chief Operating Officer

Mr White was appointed to his current role and the Leadership Team in July 2014. Prior to this he was based in Melbourne, Australia, where he worked for National Australia Bank ("NAB"). He held a number of senior executive roles with NAB, including Executive General Manager Customer Payments and Processing and Chief Operating Officer of the Business Bank. Prior to this time in Australia he also held a number of senior executive roles in the UK including Clydesdale/Yorkshire Bank, Abbey National and NHS Direct. He was educated at Edinburgh University. (Age 43)

Governance and oversight –
2. Report of the Directors *for the year ended 31 December 2014*

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 2014. A Statement of the Directors' responsibilities is shown on page 189.

Results

The Group's profit attributable to the ordinary shareholders of the Company amounted to € 915 million and was arrived at as shown in the consolidated income statement on page 223.

Dividend

There was no dividend paid to ordinary shareholders in 2014.

Going concern

The Group's activities are subject to risks and uncertainties as set out on pages 51 to 56.

Notwithstanding these risks 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 approved by the Board in December 2014 covering the period 2015 to 2017, the Restructuring Plan approved by the European Commission in May 2014, 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 outlook for the Irish, the eurozone and UK economies and the factors and uncertainties impacting their performance. Furthermore, the Directors have considered the results of the Comprehensive Assessment stress testing conducted by the European Central Bank in conjunction with the Central Bank of Ireland and published in October 2014, which confirm that AIB Group has capital buffers comfortably above minimum requirements under stress test assessment scenarios.

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 39 and in the Schedule on pages 163 to 164.

On 13 May 2014, arising from the decision of AIB not to pay a dividend amounting to € 280 million on the 2009 Preference Shares, the National Pensions Reserve Fund Commission ("NPRFC")[(1)] became entitled to bonus shares in lieu and the Company issued 2,177,293,934 new ordinary shares by way of a bonus issue to the NPRFC[(1)].

As at 31 December 2014, some 35.7 million shares (0.007% of issued ordinary shares), purchased in previous years were held as Treasury Shares; see note 40.

Accounting policies

The principal accounting policies, together with the basis of preparation of the financial statements, are set out on pages 194 to 217.

Review of activities

The Statement by the Chairman on page 4 to 5, the review by the Chief Executive Officer on pages 6 to 10 and the Operating and financial review on pages 28 to 43 contain a review of the development of the business of the Company during the year, of recent events, and of likely future developments.

Directors

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

– Mr Mark Bourke was appointed Executive Director on 29 May 2014;
– Mr Tom Wacker retired as Non-Executive Director on 12 October 2014;
– Mr Richard Pym was appointed Non-Executive Director and Chairman Designate on 13 October 2014, and assumed the role of Chairman on 1 December 2014;
– Mr David Hodgkinson stood down as Chairman of the Board on 30 November 2014 and retired as Non-Executive Director on 18 December 2014;
– Mr Dick Spring retired as Non-Executive Director on 18 December 2014;
– On 19 January 2015, AIB advised that Mr David Duffy had informed the Board of his decision to step down as CEO and Executive Director on a date to be agreed.

The names of the Directors, together with a short biographical note on each Director, are shown on pages 158 to 160.

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 165 to 166.

(1)National Treasury Management Agency as controller and manager of the Ireland Strategic Investment Fund (NTMA / ISIF with effect 22 December 2014).

Governance and oversight –
2. Report of the Directors *for the year ended 31 December 2014*

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 the Remuneration report on page 183.

Directors' Remuneration
The Company's policy with respect to Directors' remuneration is included in the Remuneration report on page 179. Details of the total remuneration of the Directors in office during 2014 and 2013 are shown in the Remuneration Report on pages 180 to 184.

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 2014:
– NPRFC[(1)] 99.8%.

Corporate Governance
The Directors' Corporate Governance Statement appears on pages 167 to 178 and forms part of this Report. Additional information is included in the Schedule to the Report of the Directors on pages 163 to 166.

Political Donations
The Directors have satisfied themselves that there were no political contributions during the year, that 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 177 and 178, 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 387; 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 51 to 56.

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.

[(1)]National Treasury Management Agency as controller and manager of the Ireland Strategic Investment Fund (NTMA / ISIF with effect 22 December 2014).

Richard Pym
Chairman

David Duffy
Chief Executive Officer

4 March 2015

3. Schedule to Report of the Directors *for the year ended 31 December 2014*

Schedule to Report of the Directors

Information required to be contained in the Directors' Annual Report by the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006.

As required by these Regulations, the information contained below represents the position as of 31 December 2014.

Capital Structure

The authorised share capital of the Company is € 1,790,000,000 divided into 702,000,000,000 Ordinary Shares of € 0.0025 each ('Ordinary Shares') and 3,500,000,000 2009 Non-Cumulative Preference Shares of € 0.01 each ('2009 Preference Shares'). The issued share capital of the company is 523,474,125,551 Ordinary Shares and 3,500,000,000 2009 Preference Shares.

For so long as the Government Preference Shareholder holds 2009 Preference Shares, subject to certain exceptions, the consent of the Minster will be required for the passing of certain share capital resolutions of the Company, including resolutions relating to: (i) an increase in the authorised share capital; (ii) a re-issue of Treasury Shares; (iii) the issue of any shares; or (iv) the redemption, consolidation, conversion or sub-division of the share capital. The exceptions referred to above include any issue of shares made for the purposes of redeeming or purchasing the 2009 Preference Shares.

Rights and Obligations of Each Class of Share

The following rights attach to the Ordinary Shares:

– The right to receive duly declared dividends, in cash or, where offered by the Directors, by allotment of additional Ordinary Shares.
– The right to attend and speak, in person or by proxy, at general meetings of the Company.
– The right to vote, in person or by proxy, at general meetings of the Company having, in a vote taken by show of hands, one vote, and, on a poll, a vote for each Ordinary Share held.
– The right to appoint a proxy, in the required form, to attend and/or vote at general meetings of the Company.
– The right to receive, (by post or electronically), twenty-one days at least before the Annual General Meeting, a copy of the Directors' and Auditor's reports accompanied by (a) copies of the balance sheet, profit and loss account and other documents required by the Companies Acts to be annexed to the balance sheet or (b) such summary financial statements as may be permitted by the Companies Acts.
– The right to receive notice of general meetings of the Company.
– In a winding-up of the Company, and subject to payments of amounts due to creditors and to holders of shares ranking in priority to the Ordinary Shares, repayment of the capital paid up on the Ordinary Shares and a proportionate part of any surplus from the realisation of the assets of the Company.

There is attached to the Ordinary Shares an obligation for the holder, when served with a notice from the Directors requiring the holder to do so, to inform the Company in writing not more than 14 days after service of such notice, of the capacity in which the shareholder holds any share of the Company and if such shareholder holds any share other than as beneficial owner to furnish in writing, so far as it is within the shareholder's knowledge, the name and address of the person on whose behalf the shareholder holds such share or, if the name or address of such person is not forthcoming, such particulars as will enable or assist in the identification of such person and the nature of the interest of such person in such share. Where the shareholder served with such notice (or any person named or identified by a shareholder on foot of such notice), fails to furnish the Company with the information required within the time specified, the shareholder shall not be entitled to attend meetings of the Company, nor to exercise the voting rights attached to such share, and, if the shareholder holds 0.25% or more of the issued Ordinary Shares, the Directors will be entitled to withhold payment of any dividend payable on such shares and the shareholder will not be entitled to transfer such shares except by sale through a Stock Exchange to a bona fide unconnected third party. Such sanctions will cease to apply after not more than seven days from the earlier of receipt by the Company of notice that the member has sold the shares to an unconnected third party or due compliance, to the satisfaction of the Company, with the notice served as provided for above.

The following rights attach to the 2009 Preference Shares:

– The right to receive a non-cumulative cash dividend at a fixed rate of 8% of the subscription price per annum payable annually, at the discretion of the Directors, in arrears on each anniversary of the date of the issue of the shares.
– The right to receive this dividend ranks:
  (a) pari passu with other shares constituting core tier 1 capital (excluding the Ordinary Shares);
  (b) junior to certain other preferred securities; and
  (c) in priority to the Ordinary Shares.
– In the event that a dividend on 2009 Preference Shares is not paid in cash, the right to receive a bonus issue of Ordinary Shares ('Bonus Shares') calculated by dividing the amount of the unpaid dividend by the average price of an Ordinary Share over the 30 trading days prior to the dividend payment date, subject to an adjustment in circumstances where the Bonus Shares are not issued on the dividend payment date.

– Where the issue of Bonus Shares is deferred, the holders of 2009 Preference Shares are granted voting rights at general meetings of the Company equivalent to the voting rights that would have attached to the Bonus Shares if they had been issued on the relevant dividend payment date ('Provisional Voting Rights') provided these shall not be exercisable to vote:
  (a) against any Directors' resolution for the issue of core tier 1 securities to redeem or purchase all or any of the 2009 Preference Shares; or
  (b) on any resolution on any action by the Company in relation to 'Preferred Securities' as defined in the Memorandum and Articles of Association.
– The right to receive copies of the circulars to shareholders but not to attend, speak or vote at general meetings save while held by a Government Body and then only in the following circumstances and the following manner:
  (a) on a resolution seeking approval for a change of control of the Company or a sale of all or substantially all of its business; and
  (b) on a resolution to appoint, re-elect or remove directors.
– Subject as provided below, on either of the foregoing resolutions (and while held by a Government Body) the right to cast a number of votes equal to 25% of all votes capable of being cast by shareholders (including the 2009 Preference Shareholder) on a poll at a general meeting of the Company.
– If the NPRFC[1] and Government Entities, through their holding of Ordinary Shares (or other securities issued in future), control 25% or more of the total voting rights, then the 2009 Preference Shares will carry no voting rights. If those entities, through their holding of Ordinary Shares (or other securities issued in future), control less than 25% of the total voting rights, then, in respect of resolutions to appoint, re-elect or remove directors and any resolution concerning a proposed change of control of AIB, the 2009 Preference Shares carry the right to "top-up" their total voting rights to 25% of the total voting rights, including the votes attaching to the 2009 Preference Shares.
– In a winding up of the Company or a return of capital by the Company (other than a redemption or purchase of shares) the right to receive a repayment of the capital (including premium) paid up, rank as follows:
  (a) pari passu with the repayment of the paid up nominal value on Ordinary Shares;
  (b) in priority to the payment of any further amount on Ordinary Shares; and
  (c) junior to the repayment of capital on all other classes of shares that rank ahead of the Ordinary Shares.
– The right while held by a Government Body to appoint directly either (a) 25% of the Directors where the total number of Directors is 15 or less or (b) 4 Directors where the total number of Directors is 16, 17 or 18 (in either case including any Directors nominated by the Minister pursuant to the Government Guarantee Schemes).

Redemption of 2009 Preference Shares

The following terms and conditions apply in relation to the redemption of the 2009 Preference Shares:
– The 2009 Preference Shares will not be redeemable at the option of the holder.
– The 2009 Preference Shares may be redeemed or purchased, in whole or in part, at any time subject to the consent of Central Bank/SSM provided that the redemption or purchase is made up of distributable profits and/or the proceeds of an issue of shares constituting core tier 1 capital.
– The redemption price for the first five years shall be € 1.00 per 2009 Preference Share, being the original subscription price including premium of each 2009 Preference Share. Thereafter, the redemption price of each 2009 Preference Share will be € 1.25, including premium.
– The Company shall be required to redeem all of the 2009 Preference Shares if there are less than 35,000,000 2009 Preference Shares in issue, subject to the Central Bank's/SSM's consent.
– The Company may redeem or purchase 2009 Preference Shares which are held by a Government Entity without being required to redeem or purchase any 2009 Preference Shares held by another person.
– On redemption or purchase of 2009 Preference Shares, the Company will be required to issue any outstanding Bonus Shares.

Percentage of Total Share Capital Represented by Each Class of Share

The Ordinary Shares represent approximately 98% of the authorised share capital and approximately 97.4% of the issued share capital of the Company. The 2009 Preference Shares represent approximately 2% of the authorised share capital and approximately 2.6% of the issued share capital of the Company.

Restrictions on the Transfer of Shares

Save as set out below, there are no limitations in Irish law or in the Company's Articles of Association on the holding of the Ordinary Shares and there is no requirement to obtain the approval of the Company, or of other holders of the Ordinary Shares, for a transfer of Ordinary Shares.
  (a) The Ordinary Shares are, in general, freely transferable but the Directors may decline to register a transfer of Ordinary Shares upon notice to the transferee, within two months after the lodgement of a transfer with the Company, in the following cases:
    (i) a lien held by the Company on the shares;

[1]National Treasury Management Agency as controller and manager of the Ireland Strategic Investment Fund (NTMA / ISIF with effect 22 December 2014).

(ii) in the case of a purported transfer to an infant or a person lawfully declared to be incapable for the time being of dealing with their affairs; or

(iii) in the case of a single transfer of shares which is in favour of more than four persons jointly.

– Ordinary Shares held in certificated form are transferable upon production to the Company's Registrars of the Original Share certificate and the usual form of stock transfer duly executed by the holder of the shares.
– Shares held in uncertificated form are transferable in accordance with the rules or conditions imposed by the operator of the relevant system which enables title to the Ordinary Shares to be evidenced and transferred without a written instrument and in accordance with the Companies Act 1990 (Uncertificated Securities) Regulations 1996.
– The rights attaching to Ordinary Shares remain with the transferor until the name of the transferee has been entered on the Register of Members of the Company.

(b) 2009 Preference Shares are freely transferable provided that the minimum number of 2009 Preference Shares transferred to any one person is not less than 50,000.

Exercise of Rights of Shares in Employees' Share Schemes

The AIB Approved Employees' Profit Sharing Scheme 1998 and the Allied Irish Banks, p.l.c. Share Ownership Plan (UK) provide that voting rights in respect of shares held in trust for employees who are participants in those schemes are, on a poll, to be exercised only in accordance with any directions in writing by the employees concerned to the Trustees of the relevant scheme.

Deadlines for exercising Voting Rights

Voting rights at general meetings of the Company are exercised when the chairman puts the resolution at issue to the vote of the meeting. A vote decided by a show of hands is taken forthwith. A vote taken on a poll for the election of the Chairman or on a question of adjournment is also taken forthwith and a poll on any other question is taken either immediately, or at such time (not being more than thirty days from the date of the meeting at which the poll was demanded or directed) as the chairman of the meeting directs. Where a person is appointed to vote for a shareholder as proxy, the instrument of appointment must be received by the Company not less than forty-eight hours before the time appointed for holding the meeting or adjourned meeting at which the appointed proxy proposes to vote, or, in the case of a poll, not less than forty-eight hours before the time appointed for taking the poll.

Rules Concerning Amendment of the Company's Articles of Association

As provided in the Companies Acts, 1963 to 2013, the Company may, by special resolution, alter or add to its Articles of Association. A resolution is a special resolution when it has been passed by not less than three-fourths of the votes cast by shareholders entitled to vote and voting in person or by proxy, at a general meeting at which not less than twenty-one clear days' notice specifying the intention to propose the resolution as a special resolution, has been duly given. A resolution may also be proposed and passed as a special resolution at a meeting of which less than twenty-one clear days' notice has been given if it is so agreed by a majority in number of the members having the right to attend and vote at any such meeting, being a majority together holding not less than ninety per cent in nominal value of the shares giving that right.

Rules Concerning the Appointment and Replacement of Directors of the Company

– Other than in the case of a casual vacancy, Directors are appointed on a resolution of the shareholders at a general meeting, usually the Annual General Meeting.
– No person, other than a Director retiring at a general meeting is eligible for appointment as a Director without a recommendation by the Directors for that person's appointment unless, not less than forty-two days before the date of the general meeting, written notice by a shareholder, duly qualified to be present and vote at the meeting, of the intention to propose the person for appointment and notice in writing signed by the person to be proposed of willingness to act, if so appointed, shall have been given to the Company.
– A shareholder may not propose himself or herself for appointment as a Director.
– The Directors have power to fill a casual vacancy or to appoint an additional Director (within the maximum number of Directors fixed by the Company in general meeting) and any Director so appointed holds office only until the conclusion of the next Annual General Meeting following his appointment, when the Director concerned shall retire, but shall be eligible for reappointment at that meeting.
– One third of the Directors for the time being (or if their number is not three or a multiple of three, not less than one third), are obliged to retire from office at each Annual General Meeting on the basis of the Directors who have been longest in office since their last appointment. While not obliged to do so, the Directors have, in recent years, adopted the practice of all (those wishing to continue in office) offering themselves for re-election at the Annual General Meeting.
– A person is disqualified from being a Director, and their office as a Director ipso facto vacated, in any of the following circumstances:
  – if at any time the person has been adjudged bankrupt or has made any arrangement or composition with his or her creditors generally;
  – if found to be mentally disordered in accordance with law;
  – if the person be prohibited or restricted by law from being a Director;

  - if, without prior leave of the Directors, he or she be absent from meetings of the Directors for six successive months (without an alternate attending) and the Directors resolve that his or her office be vacated on that account;
  - if, unless the Directors or a court otherwise determine, he or she be convicted of an indictable offence;
  - except in the case of a Government Appointee, if he or she be requested, by resolution of the Directors, to resign his or her office as Director on foot of a unanimous resolution (excluding the vote of the Director concerned) passed at a specially convened meeting at which every Director is present (or represented by an alternate) and of which not less than seven days' written notice of the intention to move the resolution and specifying the grounds therefore, has been given to the Director;
  - except in the case of a Government Appointee, if he or she has reached an age specified by the Directors as being that at which that person may not be appointed a Director or, being already a Director, is required to relinquish office and a Director who reaches the specified age continues in office until the last day of the year in which he or she reaches that age; or
  - in the case of a Government Appointee, if removed from office by the Government Preference Shareholder pursuant to the Articles of Association.
- In addition, the office of Director is vacated, subject to any right of appointment or reappointment under the Articles, if:
  - not being a Director holding for a fixed term an executive office in his or her capacity as a Director, if he or she resigns their office by a written notice given to the Company, upon the expiry of such notice; or
  - being the holder of an executive office other than for a fixed term, the Director ceases to hold such executive office on retirement or otherwise; or
  - the Director tenders his or her resignation to the Directors and the Directors resolved to accept it; or
  - he or she ceases to be a Director pursuant to any provision of the Articles.
- Notwithstanding anything in the Articles of Association or in any agreement between the Company and a Director, the Company may, by Ordinary Resolution of which extended notice has been given in accordance with the Companies Acts, remove any Director before the expiry of his or her period of office.
- The Minister for Finance has power to nominate such number of non-executive directors equal to either (a) 25 per cent of the Directors when the total number of Directors is 15 or less or (b) 4 Directors where the total number of Directors is 16, 17 or 18.

The Powers of the Directors Including in Relation to the Issuing or Buying Back by the Company of its Shares

Under the Articles of Association, the business of the Company is to be managed by the Directors who may exercise all the powers of the Company subject to the provisions of the Companies Acts, the Memorandum and Articles of Association of the Company and to any directions given by special resolution of a general meeting. The Articles of Association further provide that the Directors may make such arrangement as may be thought fit for the management, organisation and administration of the Company's affairs including the appointment of such executive and administrative officers, managers and other agents as they consider appropriate and delegate to such persons (with such powers of sub-delegation as the Directors shall deem fit) such functions, powers and duties as the Directors may deem requisite or expedient.

Pursuant to resolution of the shareholders, in accordance with the provisions of the Companies Acts, the Directors are unconditionally authorised until 26 July 2016 to exercise all the powers of the Company to allot relevant securities up to the aggregate nominal amount of € 6,892,692,445. By such authority, the Directors may make offers or agreements which would, or might, require the allotment of such securities after 26 July 2016.

Any Treasury Shares for the time being held by the Company may, by decision of the Directors, be re-issued off market. Where Treasury Shares are re-issued for the purposes of the AIB Approved Employees' Profit Sharing Scheme 1998, the Allied Irish Banks, p.l.c. Share Ownership Plan (UK), the AIB Group Share Option Scheme or the AIB Group Performance Share Plan 2005, the minimum price at which a Treasury Share may be re-issued is the issue price as provided for in such a scheme. In all other circumstances the minimum price shall be 95% of the Appropriate Price. The "Appropriate Price" is the average of the closing quotation prices of the Ordinary Shares for the five business days immediately preceding the day on which the Treasury Share is re-issued, as published in the Irish Stock Exchange Daily Official List (or any successor publication thereto or any equivalent publication for securities admitted to trading on the Enterprise Securities Market). For any business day on which there is no dealing on the Ordinary Shares on that Exchange, the minimum price will be the price equal to (i) the mid-point between the high and low market guide prices and for the Ordinary Shares as published in the Irish Stock Exchange Daily Official List (or any successor publication thereto or any equivalent publication for securities admitted to trading on the Enterprise Securities Market); or (ii) if there is only one such market guide price so published, the price so published. The maximum price at which a Treasury Share may be re-issued off-market is 120% of the Appropriate Price.

Governance and oversight –
4. Corporate Governance statement

Corporate Governance arrangements and practices

AIB's Governance Framework encompasses the leadership, direction and control of AIB and its subsidiaries (collectively referred to as 'AIB', the 'Group' or the 'Company'), reflects best practice standards, guidelines and statutory obligations and ensures that the organisation and control arrangements are appropriate to governance of the Group's strategy, operations and mitigation of related material risks. The Framework underpins effective decision making and accountability and is the basis on which we conduct our business and engage with our customers and stakeholders.

The Group's governance arrangements include:

– a Board of Directors of sufficient size and expertise, the majority of whom are independent Non-Executive Directors, to oversee the operations of the Group;
– a Chief Executive Officer to whom the Board has delegated responsibility 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, compliance and performance of all the Group's businesses;
– an Executive Leadership Team comprising strong and diverse management capabilities;
– a clear organisational structure with well defined, transparent and consistent lines of responsibility;
– a well-documented and executed delegation of authority framework;
– a framework and policy architecture which comprises a comprehensive and coherent suite of frameworks, policies, procedures and standards covering business and financial planning, corporate governance and risk management;
– effective structures and processes to identify, manage, monitor and report the risks to which the Group is or might be exposed;
– adequate internal control mechanisms, including sound administrative and accounting procedures, IT systems and controls, and remuneration policies and practices which are consistent with and promote sound and effective risk management; and
– strong and functionally independent internal and external audit functions.

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' which 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.

The Company has also adopted the provisions of the UK Corporate Governance Code (the UK Code which is available on www.frc.org.uk).

The Directors believe that the Company complied with the provisions of the Central Bank Code throughout 2014. They also believe the Company is in compliance with the provisions of the UK Code, other than in the following instances:

– provision B.7.1 which requires that all directors should be subject to annual election by shareholders; 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), the terms of which do not require him to stand for election or regular re-election by shareholders;
– provision C.3.2 which requires that the Board Risk Committee, if composed of independent directors, or the Board should review the company's internal control and risk management systems, otherwise, this activity should be undertaken by the Audit Committee; review of the company's internal control and risk management systems is performed by the Board Risk Committee which is chaired by Dr Michael Somers who, as a shareholder appointed director is not deemed independent for the purposes of the UK Code; and
– provision D.2.2 with regard to the Remuneration Committee's delegated responsibility for setting remuneration for all Executive Directors and the Chairman, including pension rights and any compensation payments; under the terms of capital injection agreements with the Irish Government and the Relationship Framework agreed with the Minister, neither the Committee nor the Board has autonomy in that regard.

During 2014, there were other provisions of the UK Code with which the Company was not compliant, including those relating to independence of the former Chairman on appointment, of shareholder appointed directors and of the committees of which such directors are, or were, members, the appointment of a Senior Independent Non-Executive Director, and the formulation of a Board Diversity Policy, matters which have since been resolved.

AIB's corporate governance practices also reflect Irish company law, the Listing Rules of the Enterprise Securities Market of the Irish Stock Exchange and, in relation to the UK businesses, UK company law.

Governance and oversight – 4. Corporate Governance statement

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.

While arrangements have been made by the Directors for delegation of the management, organisation and administration of the Company's affairs, the following matters are specifically reserved for decision by the Board:

- to retain primary responsibility for corporate governance within the Company at all times and oversee the efficacy of governance arrangements;
- to determine the Company's strategic objectives and policies, and to ensure that the necessary financial and human resources and operational capabilities are in place for the Company to meet its objectives;
- to approve the annual financial plan, interim and annual financial statements, operating and capital budgets, major acquisitions and disposals, and risk appetite limits, frameworks and relevant policies;
- to appoint the Chairman of the Board, Board Directors, Chief Executive Officer and Members of the Leadership Team, to address related succession planning, and to approve, where appropriate, the removal of persons in charge of Control Functions;
- to endorse the appointment of people who may have a material impact on the risk profile of the Company and monitor on an ongoing basis their appropriateness for the role;
- to render an account of the Company's activities to its shareholders;
- to protect the assets of the Company taking into account the interests of the shareholders and the employees in general with appropriate regard for the interests of other stakeholders; and
- to put in place and monitor procedures designed to ensure that the Company complies with the law and good corporate citizenship.

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 Risk Officer's monthly report, and relevant updates from the Chairman of the Board Risk Committee. An overview of the Board Risk Committee's activities is detailed on pages 173 and 174.

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 which the State holds c. 99.8% of the issued 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.

The names of the Directors, with brief biographical notes, are shown on pages 158 and 160.

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 on-going training and development of all directors, and reviewing the performance of individual directors.

Mr Richard Pym was appointed Chairman Designate on 13 October 2014 and assumed the role of Non-Executive Chairman with effect from 1 December 2014. Mr David Hodgkinson stood down as Non-Executive Chairman on 30 November 2014 and retired from the Board on 18 December 2014.

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.

Chief Executive Officer

The Chief Executive Officer ("CEO") 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 CEO on 12 December 2011.

On 19 January 2015, AIB advised that Mr Duffy had informed the Board of his decision to step down as CEO and Executive Director to pursue a career opportunity overseas. Mr Duffy will remain in position to support the Board in identifying his successor with his final departure date to be agreed. The Board has commenced a process to appoint a permanent successor to the role, subject to all relevant approvals.

Senior Independent Non-Executive Director

The Senior Independent Non-Executive Director is available to shareholders if they have concerns which contact through the normal channels of Chairman or CEO have failed to resolve, or for which such contact is considered by the shareholder(s) concerned to be inappropriate. Ms Catherine Woods was appointed Senior Independent Non-Executive Director with effect from 30 January 2015.

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.

The Board held fourteen scheduled meetings during 2014, and one additional out-of-course meeting. 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. A number of Non-Executive Directors of the Parent Company are also Non-Executive Directors of the Company's major regulated subsidiary companies, namely AIB Group (UK) p.l.c., AIB Mortgage Bank and EBS Limited.

Board membership

It is the policy of the Board that a majority of the Directors should be Non-Executive. At 31 December 2014, there were 7 Non-Executive Directors and 3 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.

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 2014, the Board retained the services of Boardroom Review to undertake an independent evaluation of the Board's performance. Boardroom Review have been undertaking such reviews for a number of years and have worked with a variety of FTSE and other companies across many sectors. The results of the review which included recommendations for minor modifications to the workings of the Board and its Committees, were presented to the Board and adopted.

The Chairman meets annually with each Director individually to review their performance. These reviews include discussion of, inter alia, the Director's 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 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 on the following page and separately within the commentary on each of the Board Committees on subsequent pages.

Attendance at scheduled Board and Board Committee Meetings

Name	Board (scheduled)		Board (out of course)		Audit Committee		Board Risk Committee		Remuneration Committee		Nomination and Corporate Governance Committee	
Directors	A	B	A	B	A	B	A	B	A	B	A	B
Simon Ball	14	14	1	1			10	10			6	6
Mark Bourke *(appointed 29 May 2014)*	9	9	1	1								
Bernard Byrne	14	14	1	1								
David Duffy	14	14	1	1								
Tom Foley	14	14	1	1	13	13			4	3		
Peter Hagan	14	14	1	1	3	2	10	10	4	4	6	6
David Hodgkinson *(retired 18 December 2014)*	14	14	1	1					4	4	6	6
Jim O'Hara	14	14	1	0	13	13			4	4	6	6
Richard Pym *(appointed 13 October 2014)*	3	3										
Dr Michael Somers	14	14	1	1			10	10			6	5
Dick Spring *(retired 18 December 2014)*	14	11	1	1			10	9			6	6
Tom Wacker *(retired 12 October 2014)*	11	9	1	1	10	9						
Catherine Woods	14	14	1	1	13	13	10	10				

Column A indicates the number of scheduled meetings held during 2014 which the Director was eligible to attend; Column B indicates the number of meetings attended by each Director during 2014.

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, on the recommendation of the Nomination and Corporate Governance Committee.

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 each AGM and have offered themselves for reappointment with the exception of directors appointed by the Government. Under the terms of the Government's capital injection agreements, Government appointed directors are not, and have not been, 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 at December 2014, namely Mr Simon Ball, Mr Tom Foley, Mr Peter Hagan, Mr Jim O'Hara, Mr Richard Pym, Dr Michael Somers 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 Dr Somers should be considered independent for the purposes of the Central Bank Code. Notwithstanding Dr Somers designation as non-independent under the UK Code arising from his appointment by the Irish State as shareholder, the Board is satisfied that Dr Somers exercises independence of thought and action in fulfilling his duties as a Non-Executive Director.

Induction and professional development

There is an induction process for new directors, the contents of which varies for Executive and Non-Executive Directors. In respect of the latter, the induction is designed to provide familiarity with the Group and its operations, and comprises the provision of relevant briefing material, including details of the Group's strategic, business and financial 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.

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 and are formally noted by the Board. Papers for all Board Committee meetings are also made available to all Directors, irrespective of membership. 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, 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

Members: Ms Catherine Woods, Chairman; Mr Tom Foley; Mr Peter Hagan (from 25 September 2014); Mr Jim O'Hara; Mr Tom Wacker (retired from the Board 12 October 2014).

Member attendance during 2014:		**A**	**B**
Tom Foley	Current Member	13	13
Jim O'Hara	Current Member	13	13
Peter Hagan	Current Member	3	2
Catherine Woods	Current Member	13	13
Tom Wacker	Former Member	10	9

Column A indicates the number of Committee meetings held during 2014 which the Member was eligible to attend; Column B indicates the number of meetings attended by each Member during 2014.

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 the Auditor, the Chief Financial Officer, the Group Internal Auditor, the Chief Risk Officer, the Group General Counsel and the Head of Compliance each of whom, attend the Committee's meetings by invitation. Other senior executives also attend by invitation where appropriate.

The following, whilst not intended to be exhaustive, is a summary of the activities undertaken by the Committee in the past year 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, 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 on loans and receivables as at 31 December 2014;

  - the engagement with customers in financial difficulty and associated loan restructuring activity, where the Committee received updates from Management on the operational procedures and processes in place to implement approved forbearance solutions and products, and on the associated accounting considerations and treatments;
  - the basis of recognition of deferred tax assets in Ireland and the UK; and
  - retirement benefit obligations and related accounting treatment and disclosure requirements;
- considered other matters where Management judgement was important to the results and financial position of the Group. Following input from the Auditor as appropriate, the Committee satisfied itself that Management's estimates, judgements and disclosures were appropriate and in compliance with financial reporting standards. A detailed analysis of the significant matters is provided in the 'critical accounting policies and estimates' (on pages 218 to 222);
- provided advice to the Board in respect of the Annual Financial Report, confirming that the Committee is satisfied that the Annual Financial Report for the year ended 31 December 2014, 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 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 Chief Risk Officer and the Group Internal Auditor, in each case with only Non-Executive Directors present.

Internal Audit

The Committee provides assurance to the Board regarding the independence and performance of the Group Internal Audit function. The Committee considered and approved the Internal Audit annual audit plan and the adequacy of resources allocated to the function. Throughout the year, the Chairman of the Committee met with the Group Internal Auditor between scheduled meetings of the Committee to discuss forthcoming agendas for Committee meetings and material issues arising, and the Committee met with the Group Internal Auditor in confidential session once during 2014, in the absence of management. The Group Internal Auditor has unrestricted access to the Chairman of the Audit Committee.

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. In November 2014, the then Group Internal Auditor was appointed to the role of Chief Risk Officer. The Committee is engaged with Management and the Nomination and Corporate Governance Committee regarding the appointment of a suitable replacement.

External Audit

Deloitte & Touche was appointed Auditor by shareholders at the Company's AGM in 2013 following a competitive tender process which was overseen by the Members of the Audit Committee, who led interviews with and assessment of the short-listed candidates and made a final recommendation to the Board on the appointment.

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 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 15 on page 248).

The Committee considered 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, confidential discussions with the Auditor 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 2014, in the absence of management, and the Committee Chairman met with the Auditor between scheduled meetings of the Committee to discuss material issues arising.

Board Risk Committee

Members: Dr Michael Somers, Chairman; Mr Simon Ball; Mr Peter Hagan, Mr Dick Spring (retired from the Board on 18 December 2014) and Ms Catherine Woods.

Member attendance during 2014:		**A**	**B**
Simon Ball	Current member	10	10
Peter Hagan	Current member	10	10
Dr Michael Somers	Current member	10	10
Dick Spring	Former member	10	9
Catherine Woods	Current member	10	10

Column A indicates the number of Committee meetings held during 2014 which the Member was eligible to attend; Column B indicates the number of meetings attended by each Member during 2014.

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 four 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 and commissioning, receiving and considering reports from the Chief Risk Officer, the Chief Credit Officer, the 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 Chief Financial Officer, the Chief Risk Officer, the Chief Credit Officer, and the Group Internal Auditor. Other senior executives also attend, where appropriate.

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 past 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, conduct 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:
  - the governance and organisational framework;
  - the risk appetite framework and risk appetite statement;
  - the funding and liquidity policy, strategy and related stress tests;
  - risk frameworks and policies, including those relating to (i) credit and credit risk, (ii) capital management, (iii) financial risk, including market risk, and (iv) conduct risk; and
  - 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) Anti-Money Laundering/Financial Sanctions policies and frameworks;
  (b) significant operational risk events and potential risks;
  (c) credit risk performance and trends, including days past due and monthly overview of significant credit transactions;
  (d) the operating model for material outsourcing; and
  (e) regulatory developments, including business preparedness for the introduction of the Single Supervisory Mechanism ("SSM") in November 2014;
- 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.

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. In November 2014, Mr Peter Rossiter resigned as Chief Risk Officer and was succeeded by Mr Dominic Clarke.

The Committee meets individually on an annual basis with the Chief Risk Officer, Chief Credit Officer and the Group Internal Auditor 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

Members: Mr Richard Pym, Chairman (from 19 December 2014); Mr Simon Ball, (Chairman from 13 June 2013 to 19 December 2014); Mr David Hodgkinson (retired from the Board on 18 December 2014); Mr Peter Hagan, Mr Jim O'Hara, Dr Michael Somers; Mr Dick Spring (retired from the Board on 18 December 2014).

Member attendance during 2014:		**A**	**B**
Simon Ball	Current member	6	6
David Hodgkinson	Former member	6	6
Peter Hagan	Current member	6	6
Jim O'Hara	Current member	6	6
Dr Michael Somers	Current member	6	5
Dick Spring	Former member	6	6

Column A indicates the number of Committee meetings held during 2014 which the Member was eligible to attend; Column B indicates the number of meetings attended by each Member during 2014.

The Nomination and Corporate Governance Committee's responsibilities include: recommending candidates to the Board for appointment as Directors, reviewing the size, structure, composition, diversity and skills of the Board, the Board Committees and subsidiary company Boards and the independence of Non-Executive Directors, reviewing Board and Senior Executive succession planning, and monitoring the Group's corporate social responsibilities and activities concerning customers, staff, the marketplace, the environment and the community.

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 past year:
– the appointment of a successor as Chairman of the Board following an extensive candidate search and evaluation process;
– the schedule of matters reserved for the Board;
– Board skills and succession planning;
– appointments to key executive positions;
– compliance with the Central Bank of Ireland and UK Corporate Governance Codes;
– the independence of individual Directors and the Board;
– consideration of appropriate external service providers to conduct the Board's performance evaluation;
– leadership development and succession planning;
– formulation of a Board Diversity Policy and agreement of meaningful targets for female membership of the Board; and
– alignment of corporate social responsibility strategy and initiatives with the Company's overall strategy.

Board appointments

The search for suitable candidates for the Board is a continuous process, and recommendations for appointment are made based on merit and objective criteria, having regard for the skills, experience and diversity requirements of the Board.

In addressing appointments to the Board, the Nomination and Corporate Governance Committee prepares a role specification having regard for the skills and experience required for any particular role.

The services of experienced third party professional search firms are retained for non-executive director appointments. The typical process involves the search firm identifying an appropriate pool of candidates based on the Committee's specification and providing independent assessments of the candidates for the Committee's consideration. The Committee works with the search firm to produce a shortlist of candidates from the pool who are then contacted by the firm to assess their interest in the role and availability. A series of meetings and interviews may be conducted with potential candidates, at different stages in the process, by the search firm, the Chairman and members of the Committee. A comprehensive due diligence process is undertaken which includes candidates' self-certification of probity and financial soundness and external checks involving a review of various publicly available sources. The due diligence process facilitates the Committee in satisfying itself as to the candidate's independence, fitness and probity, and capacity to devote sufficient time to the role. A final recommendation is made to the Board by the Committee.

The Relationship Framework specified by the Minister for Finance, which governs the relationship between the Company and the State as shareholder, requires the Board to obtain the written consent of the Minister in accordance with a pre-determined consent/consultation procedure ("the procedure") before appointing, reappointing or removing the Chairman or Chief Executive Officer, and to consult with the Minister in accordance with the procedure in respect of all other Board appointments proposed.

The processes described above were followed during 2014 for the selection and appointment of Mr Richard Pym as Chairman, with Korn Ferry Whitehead Mann ("KFWM") having been retained to support that appointment. KFWM has also worked with the Group on executive and other non-executive searches and in support of executive leadership development.

Diversity

Employee diversity and inclusion in AIB is addressed through policy, practices and values which recognise that a productive workforce comprises different work styles, cultures, generations, genders and ethnic backgrounds and oppose all forms of unlawful or unfair discrimination. The efficacy of related policy and practices and the embedding of Company values is overseen by the Board.

The Board recognises and embraces the benefits of diversity among its own Members, including diversity of skills, experience, background, gender, ethnicity and other qualities, and is committed to achieving the most appropriate blend and balance of diversity possible over time. To this end, the Board approved a Board Diversity Policy during February 2015 which states that the Board's aim, with regard to gender diversity, is to ensure that the percentage of females on the Board reaches or exceeds 25 per cent by the end of 2016 and thereafter.

The Nomination and Corporate Governance Committee is responsible for developing measurable objectives to effect the implementation of this policy and for monitoring progress towards achievement of the objectives. The policy and performance relative to the target will be reviewed annually by the Committee in conjunction with Board succession and skills planning.

Remuneration Committee

Members: Mr Jim O'Hara (Chairman); Mr Tom Foley; Mr Peter Hagan; Mr David Hodgkinson (retired from the Board on 18 December 2014); Mr Richard Pym (from 19 December 2014).

Member attendance during 2014:		**A**	**B**
Tom Foley	Current member	4	3
Peter Hagan	Current member	4	4
Jim O'Hara	Current member	4	4
David Hodgkinson	Former member	4	4

Column A indicates the number of Committee meetings held during 2014 which the Member was eligible to attend; Column B indicates the number of meetings attended by each Member during 2014.

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. The Remuneration 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.

AIB's Remuneration Policy is currently governed by the Subscription and Placing Agreements in place with the Irish State and encompasses all financial benefits available to employees across the Group.

Governance and oversight –
4. Corporate Governance statement

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 2014:
– the proposed remuneration of the incoming Chairman;
– compliance with CRD IV remuneration related provisions and the Central Bank of Ireland's guidelines on the remuneration of sales staff;
– the tender process for the appointment of external Independent Remuneration Consultants;
– the 2013 Annual Financial Report remuneration disclosures and the 2013 Remuneration Disclosure Report; and
– the Terms of Reference of the Remuneration Committee were also reviewed in 2014 by the Committee and updated to reflect minor administrative changes.

Directors' remuneration

Details of the total remuneration of the Directors in office during 2014 and 2013 are shown in the Remuneration Report on pages 180 to 184.

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 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 Report on Form 20-F for relevant years. The Group's presentation to fund managers and analysts of annual and interim financial results are also available on the Company's website. For the period 2008 to 2013, the Annual Financial Report and the Annual Report on Form 20-F have been combined. 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 2015 AGM is scheduled to be held on Tuesday, 28 April 2015, at the 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 days before the meeting, in accordance with statutory requirements.

Accountability and Audit

Accounts and Directors' Responsibilities

The Statement concerning the responsibilities of the Directors in relation to the financial statements appears on page 189.

Going Concern

The Group's activities are subject to risk factors and uncertainties as set out on pages 51 to 56.

Notwithstanding these risks and uncertainties, the Directors have prepared the financial statements on a going concern basis as they are satisfied, having considered the risks and uncertainties impacting the Group, that is has the ability to continue in business for the period of assessment.

Directors' Statement on Risk Management and Internal Controls

The Board of Directors is responsible for the effective management of risks and opportunities and for the system of internal control in the Group. The Group operates a continuous risk management process which identifies and evaluates the key risks facing the Group and its subsidiaries. The system of internal control is designed to ensure that there is thorough and regular evaluation of the nature and extent of risks and the ability of the Group to react accordingly, rather than to eliminate risk. This is done through a process of identification, measurement, monitoring and reporting, which provides reasonable, but not absolute, assurance against material misstatement or loss. This process includes an assessment of the effectiveness of internal control, which was in place for the full year under review up to the date of approval of the accounts, and which accords with the Central Bank Code and the UK Corporate Governance Code.

Supporting this process, the Group's system of internal control is based on the following:

Board governance and oversight

- The Board reviews the effectiveness of the system of internal control on a continuous basis 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 is responsible for fostering sound risk governance within the Group, ensures risks within the Group are appropriately identified, managed and controlled and ensures that the Group's strategy is informed by, and aligned with, the Group's Risk Appetite Statement.
- The Audit Committee reviews various aspects of internal control, including the design and operating effectiveness of the financial reporting framework, 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 Audit Committee's review of the Business Governance Assurance process at regular intervals throughout the year forms an integral part of its assessment of the internal control environment.
- The Chief Financial Officer ("CFO"), the Chief Risk Officer ("CRO") and the Group Internal Auditor are involved in all meetings of the Audit Committee and BRC.
- 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.
- The Nomination and Corporate Governance Committee's responsibilities include, amongst others, recommending candidates to the Board for appointment as Directors and reviewing the size, structure and composition of the Board and the Board Committees.
- Risk management committees are in place with approved terms of reference ("ToR") that operate under delegated authority from the Board and Leadership Team.

Executive risk management and control

- At the executive level, a Leadership Team is in place with responsibility for establishing business strategy, risk appetite, enterprise risk management and control.
- The Group operates a 'three lines of defence' framework in the delineation of accountabilities for risk governance.
- 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 adherence to Board approved risk appetite and limits.
- The Group Asset and Liability Committee ("ALCo") is a sub-committee of the Leadership Team and acts as the Group's strategic balance sheet management forum that combines a business decisioning and risk governance mandate.
- There is a centralised risk control 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 reported to the Central Bank of Ireland/SSM.
- 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 conduct of business and financial crime compliance and forthcoming regulations across the Group, and on management's focus on compliance matters.
- There is an independent Group Internal Audit 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 Chairman of the Audit Committee.
- AIB employees who perform Pre-Approved Controlled functions/Controlled functions meet the required standards as outlined in AIB's Fitness and Probity programme.

Governance and oversight –
4. Corporate Governance statement

For further information on the Risk Management framework of the Group see pages 57 to 59 of this report.

Given the work of the Board, BRC, Audit Committee and representations made by the Executive that appropriate actions are in place to address any shortcoming in the control framework identified, the Board is satisfied that there was an effective system of control in place throughout the year.

Code of conduct

In June 2012, the Group adopted a new Code of Conduct in relation to business ethics that applies to all employees (the "Code of Conduct"). 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. The Code of Conduct was extensively revised and re-launched to staff in September 2014.

As part of the implementation of the Code of Conduct, the Group encourages its employees to raise any concerns of wrongdoing through a number of channels, both internal and external (Speak-Up policy). One such channel includes a confidential external helpline. Employees are assured that if they raise a concern in good faith, the Group will not tolerate any victimisation or unfair treatment of the employee as a result.

The Protected Disclosure Act 2014 (Republic of Ireland) came into law in July 2014 and provides statutory protection for whistleblowers in relation to reporting potential wrongdoing in the workplace. An extensive review of the Speak Up policy in 2014 addressed the requirements of the Protected Disclosure Act 2014, as well as the UK Public Interest Disclosure Act 1998 (as amended 2013) and the recommendations of the UK Whistleblowing Commission (2013).

The Code of Conduct and supporting policies are subject to annual review and update to the Board.

Governance and oversight – 5. Remuneration report

Board Remuneration Committee

AIB's Remuneration Policy is set and governed by the Remuneration Committee in accordance, currently, with relevant provisions of the Subscription and Placing Agreements in place with the Irish State and the Relationship Framework specified by the Minister for Finance. The Remuneration Policy encompasses all financial benefits available to employees across the Group.

Details of the Remuneration Committee membership, the number of meetings and the matters considered during 2014 are set out in the Corporate Governance Statement on page 175. The Committee's Terms of Reference may be viewed in the Corporate Governance section of the Group website at www.aibgroup.com.

Remuneration Policy and Governance

AIB's Remuneration Policy provides the framework by which AIB seeks to reward employees while also supporting the Group's long term strategic objectives. The Board recognises the need to embed the right skill-sets and customer centric employee behaviours which drive the achievement of sustainable growth for all stakeholders. The Board further aims to ensure that policy and reward decisions facilitate the Bank in attracting, retaining and motivating high calibre individuals, and provide fair, competitive remuneration and promote effective risk management, consistent with the bank's risk appetite statement.

During 2014, the Remuneration Policy was updated to incorporate the provisions of the Capital Requirements Directive (CRD IV) which came into force with effect from 1 January 2014.

AIB published its Remuneration Disclosure Report 2013 in May 2014 as part of its Pillar 3 Disclosures. The Disclosure Report summarised AIB's principal remuneration policies and practices in relation to decision making and governance of remuneration, the link between pay and performance, the remuneration of those staff whose professional activities are considered to have a material impact on AIB's risk profile and the design features of variable incentive schemes. The Remuneration Disclosure Report 2014 will be included in the Group's Pillar 3 Disclosures and will be available on AIB's website.

Compliance with Capital Requirements Directive (CRD IV)

The Capital Requirements Directive IV (CRD IV) contained a number of additional remuneration provisions which principally related to setting appropriate ratios between fixed and variable remuneration, the application of malus and clawback arrangements and the introduction of qualitative and quantitative criteria for those staff whose professional activities have a material impact on the Group's risk profile ("Identified Staff").

While the Remuneration Policy was updated in 2014 to reflect these new provisions, there were no bonus or other variable or incentive schemes in operation during 2014 and therefore, the provisions were not applied in practice.

Changes in pension arrangements

Arising from the Labour Court and Labour Relations Commission recommendations of July 2013 on pay, pensions and future working hours, the AIB Group defined benefit pension schemes closed to future accrual on 31 December 2013. With effect from 1 January 2014, employees were migrated to a new defined contribution scheme with a standard employer contribution of 10% plus an additional matched employer contribution, subject to limits based on age bands of 12%, 15% or 18%.

Remuneration Review

There were no general salary increases awarded in 2014 as remuneration continued to be closely monitored in line with financial performance and the constraints arising under the Subscription and Placing Agreements. Out of course salary increases were overseen by the Remuneration Committee and 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 severance schemes.

The salaries of Senior Executives within the Bank were managed by the Remuneration Committee in accordance with the Subscription and Placing Agreements.

Remuneration was principally comprised of fixed pay and pension provisions. There were no bonus schemes or share incentive schemes in operation during 2014.

Directors' remuneration*

The following tables detail the total remuneration of the Directors in office during 2014 and 2013:

Remuneration	Directors' fees Parent and Irish subsidiary companies[1] € 000	Directors' fees AIB Group (UK) p.l.c.[2] € 000	Salary € 000	Annual taxable benefits[3] € 000	Pension contribution[4] € 000	2014 Total € 000
Executive Directors						
Mark Bourke *(Appointed 29 May 2014)*			266	18	53	337
Bernard Byrne			450	30	90	570
David Duffy			425	–	64	489
			1,141	48	207	1,396
Non-Executive Directors						
Simon Ball	85					85
Tom Foley	90					90
Peter Hagan	88					88
David Hodgkinson[1(b)] *(Chairman to 30 November 2014, retired on 18 December 2014)*	265					265
Jim O'Hara	100					100
Richard Pym[1(a)] *(Appointed 13 October 2014, Chairman from 1 December 2014)*	80					80
Dr Michael Somers *(Deputy Chairman)*	120					120
Dick Spring *(retired on 18 December 2014)*	77					77
Tom Wacker[2] *(retired on 12 October 2014)*	59	44				103
Catherine Woods	115					115
	1,079	44				1,123
Former Directors						
Declan Collier[2]		56				56
Kieran Crowley[2]		50				50
Stephen L Kingon[2]		64				64
Anne Maher[5]	41					41
David Pritchard[2]		108				108
Other[6]						26
Total						2,864

*Forms an integral part of the audited financial statements

Directors' remuneration* *(continued)*

[1] Fees paid to Non-Executive Directors during 2014 were based on the following computations:

(a) Mr Richard Pym was appointed a Non-Executive Director on 13 October 2014 and Chairman with effect from 1 December 2014. Mr Pym is paid an annual non-pensionable flat fee of € 365,000 which includes remuneration for all services as a director of Allied Irish Banks, p.l.c.; the fee above is the proportion earned between 13 October and 31 December 2014;

(b) Mr David Hodgkinson, who retired as Non-Executive Chairman on 30 November 2014 and as a Director on 18 December 2014, was paid an annual non-pensionable flat fee of € 275,000 during his tenure; the fee above is the proportion earned between 1 January and 18 December 2014;

(c) All other Non-Executive Directors are paid a basic, non-pensionable fee of € 65,000 in respect of service as a Director and additional non-pensionable remuneration in respect of other responsibilities, such as through the chairmanship or membership of Board Committees or the board of a subsidiary company, or performing the roles of Deputy Chairman or Senior Independent Non-Executive Director;

[2] Current or former Non-Executive Directors of Allied Irish Banks, p.l.c. who also serve as Directors of AIB Group (UK) p.l.c. ("AIB UK") are separately paid a non-pensionable flat fee, which is agreed and paid by AIB UK, in respect of their service as a Director of that company. In that regard, Messrs. Wacker, Collier, Crowley, Kingon and Pritchard earned fees as quoted during 2014;

[3] 'Annual taxable benefits' represents a reduced non-pensionable cash allowance in lieu of company car, medical insurance and other contractual benefits following an internal review of pay and benefits in 2012;

[4] 'Pension Contribution' represents agreed payments to a defined contribution scheme to provide post-retirement pension benefits for Executive Directors from normal retirement date. The fees of the Non-Executive Directors are non-pensionable;

[5] Ms Anne Maher is a former Non-Executive Director of Allied Irish Banks, p.l.c. who has, since her resignation, continued as a Director of the Corporate Trustee of the AIB Irish Pension Scheme and of the AIB Defined Contribution Scheme, in respect of which she earned fees as quoted;

[6] 'Other' represents the payment of pensions to former Directors or their dependants granted on an ex-gratia basis and are fully provided for in the Statement of Financial Position;

[7] All Directors' fees are subject to (i) Irish tax and other statutory deductions including Pay Related Social Insurance, from which non-Irish resident directors can be exempt, and Universal Social Charge, and (ii) the consent / consultation procedure outlined in the Relationship Framework specified by the Irish Minister for Finance in respect of the relationship between the Irish Minister for Finance and Allied Irish Banks, p.l.c.

*Forms an integral part of the audited financial statements

*Directors' remuneration** *(continued)*

Remuneration	Directors' fees Parent and Irish subsidiary companies € 000	Directors' fees AIB Group (UK) p.l.c. € 000	Salary € 000	Annual taxable benefits € 000	Pension contribution € 000	2013 Total € 000
Executive Directors						
Bernard Byrne			361	30	99	490
David Duffy			425	–	64	489
			786	30	163	979
Non-Executive Directors						
Simon Ball	85					85
Tom Foley	104					104
Peter Hagan	87					87
David Hodgkinson						
(Chairman)	275					275
Jim O'Hara	127					127
Dr Michael Somers						
(Deputy Chairman)	150					150
Dick Spring	77					77
Tom Wacker	63	35				98
Catherine Woods	159					159
	1,127	35				1,162
Former Directors						
Declan Collier		35				35
Kieran Crowley		47				47
Stephen L Kingon		58				58
Anne Maher	31					31
David Pritchard		94				94
Other						41
Total						2,447

*Forms an integral part of the audited financial statements

Directors' remuneration* *(continued)*

Interests in shares

The beneficial interests of the Directors and the Secretary in office at 31 December 2014, and of their spouses and minor children, in the Company's ordinary shares are as follows:

Ordinary shares	31 December 2014	1 January 2014**
Directors:		
Simon Ball	–	–
Mark Bourke	–	–
Bernard Byrne	–	–
David Duffy	–	–
Tom Foley	100	100
Peter Hagan	–	–
Jim O'Hara	–	–
Richard Pym	–	–
Dr Michael Somers	13,437	13,437
Catherine Woods	–	–
Secretary:		
David O'Callaghan	7,490	7,490

**or date of appointment, if later

Throughout 2014, the Directors were prohibited from dealing in the Company's shares due to significant ongoing corporate activity and close periods in advance of public disclosures.

The following table sets out the beneficial interests of the Directors and Leadership Team (Senior Executive Officers) members of AIB as a group (including their spouses and minor children) at 31 December 2014.

Title of class	Identity of person or group	Number owned	Percent of class
Ordinary shares	Directors and Leadership Team members of AIB as a group	17,659	***

***The total shares in issue at 31 December 2014, excluding 35,680,114 Treasury Shares, was 523,438,445,437.

*Forms an integral part of the audited financial statements

Directors' remuneration* *(continued)*

Share options

No share options were granted or exercised during 2014 and there were no options to subscribe for ordinary shares outstanding in favour of the Executive Directors or Company Secretary at 31 December 2014.

The Chairman and the Non-Executive Directors do not participate in the share options plans. The aggregate number of share options outstanding at 31 December 2014 in the names of Executive Directors and members of the Leadership Team was 5,000 as follows:

Outstanding as at 31 December 2013:	**7,000**
Add: Options held by Senior Executive Officers appointed during 2014	**–**
Add: Options granted during 2014	**–**
Less: Options exercised during 2014	**–**
Less: Options lapsed during 2014	**(2,000)**
Less: Options held by Senior Executive Officers who left office during 2014	**–**
Options outstanding as at 31 December 2014	**5,000**

Performance shares

There were no conditional grants of awards of ordinary shares outstanding to Executive Directors or the Secretary at 31 December 2014.

Apart from the interests set out above, the Directors and Secretary in office at year-end, and their spouses and minor children, have no other interests in the shares of the Company.

There were no changes in the Directors' and Secretary's interests shown above between 31 December 2014 and 4 March 2015.

The year-end closing price, on the Enterprise Securities Market of the Irish Stock Exchange, of the Company's ordinary shares was € 0.08 per share; during the year, the price ranged from € 0.07 to € 0.17.

Service contracts

There are no service contracts in force for any Director with the Company or any of its subsidiaries.

*Forms an integral part of the audited financial statements

Governance and oversight – 6. Supervision and Regulation

6.1 Current climate of regulatory change

The regulatory landscape for the banking sector continues to evolve with a strong focus on supporting the stability of the banking system and ensuring appropriate resolution and recovery mechanisms are in place post the global financial crisis.

The Group is committed to proactively identifying regulatory and compliance obligations arising in each of the Group's operating markets in Ireland, the United Kingdom and the United States and ensuring the implementation of regulatory change on time.

6.2 Ireland

Overview of financial services legislation

The development of the banking union framework (committed to at European Union ("EU") level by heads of state and governments in 2012) progressed in 2014 with the implementation of the EU Single Banking Supervisory Mechanism ("SSM") and the implementation and transposition of the Capital Requirements Regulation and the Capital Requirements Directive IV (together "CRD IV").

During 2014 the Group's key focus areas included: SSM; CRD IV; the Banking Recovery and Resolution Directive (Directive 2014/59EU) (" BRRD"); European Markets Infrastructure Regulation (Regulation (EU) 648/2012) ("EMIR"); Protected Disclosures Act 2014; Credit Reporting Act 2013; Central Bank of Ireland's ("CBI") Corporate Governance Code for Credit Institutions and Insurance Undertakings; the recast Deposit Guarantee Schemes Directive (Directive 2014/49/EU) (the "DGSD"); the directive on credit agreements relating to residential immovable property (Directive 2014/17/EU), known as the Mortgage Credit Directive ("MCD") and the CBI's Guidelines on Variable Remuneration for Sales Staff.

Capital Requirements Directive IV ("CRD IV")

CRD IV which, amongst other things, implements Basel III rules in the EU became applicable on 1 January 2014 on a phased basis, with full effect on 1 January 2019.

During 2014, the Group focussed on the implementation of CRD IV to ensure the timely alignment with its new requirements. The Group will continue this focus in 2015, with particular emphasis on the various regulatory and the implementing technical standards being published at EU level to support the full implementation process of CRD IV.

BRRD

BRRD was published in June 2014 and is to come into effect in 2015. The overarching goal of BRRD is to break the linkages between national banking systems and sovereigns. In particular, it is intended to enable authorities to resolve failing banks at a national level (including cross-border banks) to lower the risk of impacting the broader financial system, while sharing the costs of resolution with bank shareholders and creditors. To achieve this objective, the BRRD includes explicit provisions for the 'bail-in' of senior creditors where necessary. The 'bail-in' provisions are not required to be brought into force until the beginning of 2016.

During 2014 the Group reviewed and updated its recovery plan that has been submitted to the CBI. During 2015 the Group will complete further updates to the recovery plan and will continue to work with the CBI on resolution planning.

EMIR

EMIR is intended to increase the stability and transparency of over-the-counter derivative markets in the EU and is being introduced in a phased manner over 2013-2015. It imposes requirements with regard to transacting derivatives, including clearing and margining, reporting to central repositories, and risk mitigation techniques.

During 2014, the Group introduced processes to ensure compliance with the new regulatory obligations brought about by EMIR in 2014 and will continue the implementation process throughout 2015 as the additional EMIR regulatory obligations become applicable.

Markets in Financial Instruments Directive

A recast Directive on Markets in Financial Instruments (Directive 2014/65/EU) ("MiFID II") and a Regulation on Markets in Financial Instruments (Regulation (EU) No 600/2014) ("MiFIR") were published in the official journal of the EU in May 2014. MiFID II covers investor protection, transparency rules and organisational requirements. MiFIR covers pre and post trade transparency. MiFID II and MiFIR must be implemented in all EU Member States by quarter one, 2017.

Much of the detailed requirements of MiFID II and MiFIR will be set out in the regulatory and implementing technical standards to be developed by the European Securities Market Authority (ESMA) which the Group will focus on during 2015.

6.2 Ireland *(continued)*

CBI Codes and Guidelines

On a national level, the Group addressed the regulatory obligations set out in the CBI's publication of a revised and updated Corporate Governance Code for Credit Institutions and Insurance Undertakings and the CBI's Guidelines on Variable Remuneration for Sales Staff.

6.3 Regulatory change horizon 2015 - Ireland

Throughout 2015, as further regulatory reform continues to emerge from regulators, the Group will continue to focus on the management of regulatory change and its compliance obligations in particular on the DGSD and the MCD.

DGSD

In June 2014, the DGSD was published by the EU. The DGSD requires the harmonisation of deposit guarantee schemes across Europe focussing on faster payout, improved financing and enhanced customer information. EU Member States will be required to make certain changes to the manner in which their deposit guarantee schemes are operated with the majority of changes to be implemented by 3 July 2015. The DGSD has yet to be transposed into Irish law and the Group is preparing for implementation.

MCD

The MCD was published in March 2014 and must be implemented by March 2016. The MCD will bring about some key changes in relation to revised pre-contractual information, revised Annual Percentage Rate calculation, restrictions on early repayment and minimum competency levels for staff "manufacturing" mortgages. The MCD has yet to be transposed into Irish law and therefore its final impact is uncertain, however the Group has mobilised a working group to assess the impact of the MCD and prepare for implementation.

Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Housing Loan Requirements) Regulations 2015 (S.I. 47 of 2015) ("Housing Loan Requirements Regulations")

The Housing Loan Requirements Regulations were signed into law on 9 February 2015. Amongst the measures introduced are limits on loan-to-value and loan-to-income for principal dwelling houses and buy-to-lets.

CBI Revised SME Lending Code

At a national level, the Group is monitoring the expected implementation during 2015 by the CBI of a revised Code of Conduct for Business Lending to Small and Medium Enterprises 2012.

Credit Reporting Act 2013

During 2014, the CBI provided a revised timeframe in relation to the implementation of the Credit Reporting Act 2013 with regard to the central credit register. The Group awaits further update from the CBI and will monitor this throughout 2015.

Companies Act 2014

The Group is monitoring the expected commencement, during 2015, of the Companies Act 2014. The Group will ensure that, at the commencement date, it is prepared for any measures introduced, including those which will affect the Group's relationship with its customers, e.g. new classifications of companies and new rules for registering security with the Companies Registration Office.

6.4 United Kingdom

During 2014, AIB Group (UK) p.l.c. continued to prioritise compliance with its regulatory obligations in Great Britain and Northern Ireland and will remain focussed on this throughout 2015.

Immigration Act

The UK Immigration Act 2014 ("Immigration Act") came into law in December 2014 and prohibits banks and building societies from opening current accounts for persons who do not have leave to remain in the United Kingdom, referred to as 'disqualified persons. During 2014, AIB Group (UK) p.l.c. addressed the regulatory obligations arising from the Immigration Act and to ensure compliance.

Mortgage regulation

The Mortgage Market Review brought about significant changes to mortgage regulation in the UK and came into force in April 2014. One of the key changes is that, with limited exceptions, mortgage sales must be on an advised basis. AIB Group (UK) p.l.c. received approval from the Financial Conduct Authority ("FCA") to provide mortgage advice on regulated mortgage contracts.

In 2015, the Prudential Regulatory Authority and FCA will implement the Senior Managers and Certification Regime for UK banks. This will replace the current approved persons regime and is intended to enable regulators to better hold senior managers to account for the quality of their decision making. The exact implementation date is currently unknown but is likely to be in the latter half of the year.

6.5 United States

Applicable federal and state securities laws and regulations

Although AIB delisted its ordinary shares from the New York Stock Exchange in August 2011, it had continued to be subject to regulation and supervision by the United States Securities and Exchange Commission (the "SEC").

On 9 December 2014, AIB filed a certificate under Form 15F with the SEC. This filing will enable AIB to terminate the registration of its American Depositary Shares ("ADSs") (representing 10 ordinary shares of EUR 0.0025 each) under Section 12(g) of the Securities Exchange Act 1934 (the "Exchange Act"), and its reporting obligations under Section 13(a) and Section 15(d) of the Exchange Act with the SEC. Upon such filing, AIB's reporting obligations with the SEC were immediately suspended. The termination of AIB's registration and reporting obligations are expected to become effective no later than 90 days after the filing of Form 15F. Accordingly, AIB will no longer file its Annual Report on Form 20F with the SEC.

Compliance with federal and state banking laws and regulations

During 2014, AIB's state-licensed branch in New York continued to prioritise compliance with its regulatory obligations in the United States and will remain focussed on this throughout 2015. In particular, it will continue to monitor ongoing business activities with regard to the Dodd Frank Act 2010.

Financial statements

Statement of Directors' responsibilities

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

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

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU and have elected to prepare the Company financial statements in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Acts 1963 to 2013. The Directors have also elected to prepare the Group financial statements in accordance with IFRSs as issued by the International Accounting Standards Board ("IASB").

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

In preparing each of the Group and Company financial statements, the Directors are required to:
– select suitable accounting policies and then apply them consistently;
– make judgements and estimates that are reasonable and prudent;
– state that the financial statements comply with IFRSs as adopted by the EU and IFRSs issued by the IASB; and
– prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Acts 1963 to 2013.They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and Company and to prevent and detect fraud and other irregularities. Under applicable law, the Directors are also responsible for preparing a Directors' Report and reports relating to directors' remuneration and corporate governance that comply with that law and Enterprise Securities Market ("ESM") Rules.

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

Each of the Directors confirm, to the best of their knowledge and belief, that:
– they have complied with the above requirements in preparing the financial statements;
– the Group financial statements, prepared in accordance with IFRSs as issued by the IASB and as adopted by the EU, give a true and fair view of the state of the Group's affairs as at 31 December 2014 and of its profit for the year then ended;
– the Company financial statements prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the state of the Company's affairs as at 31 December 2014;
– the Directors' report, Business review and Risk management sections, contained in the Annual Report includes a fair review of the development and performance of the business and the financial position of the Group, together with a description of the principal risks and uncertainties faced by the Group; and
– the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

For and on behalf of the Board

Richard Pym
Chairman

David Duffy
Chief Executive Officer

4 March 2015

Independent Auditor's Report

Independent Auditor's Report to the members of Allied Irish Banks, p.l.c.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, of the state of the Group's affairs as at 31 December 2014 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs, as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2013, of the state of the parent company's affairs as at 31 December 2014; and
- the financial statements have been properly prepared in accordance with the Companies Acts, 1963 to 2013.

The financial statements comprise the Group financial statements: the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows and the consolidated statement of changes in equity; and the parent company financial statements: the parent company statement of financial position, the parent company statement of cash flows, and the parent company statement of changes in equity; and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Acts, 1963 to 2013.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk of material misstatement	Our audit response to the risk
Loan impairment and restructuring The risk that provisions for impairment on loans and receivables do not represent an appropriate estimate of the losses incurred. This includes the risk that the estimate of cashflows on restructuring cases is not appropriately measured. The determination of appropriate provisions requires a significant amount of management judgment and relies on available data.	We undertook an assessment of the provisioning practices to compare them with the requirements of IFRS. We tested credit management processes and controls over both new lending and for restructuring transactions; front line credit monitoring and assessment; the operations and controls over collective and latent models; and the work of the credit review function. In examining both sample loan cases and models we challenged management on the judgments made regarding the application of triggers, status of restructures, collateral valuation and realisation time frames; and examined the credit risk functions analysis of data at a portfolio level. We tested samples of the data used in the models together with the calculations in and the output from the models. Where appropriate, this work involved assessing third party valuations of collateral, internal valuation guidelines derived from benchmark data; external expert reports on borrowers' business plans; and enterprise valuations to determine whether appropriate valuation methodologies were employed and assessing the objectivity of the external experts used.
Deferred tax Risk related to the incorrect recognition or measurement of deferred taxation. Deferred tax assets are recognised for unused tax losses to the extent that it is probable that there will be sufficient future taxable profits against which the losses can be used. The assessment of the conditions for the recognition of a deferred tax asset is a critical judgment given the inherent uncertainties associated with projecting profitability over a long time period.	We reviewed the plans and the model used by management to assess the likelihood of future profitability and challenged management's assessment of a range of positive and negative evidence for the projection of long-term future profitability. We reviewed management's analysis of their consideration of the "more likely than not" test and reviewed the sensitivity analysis disclosed.

Risk of material misstatement	Our audit response to the risk
IT Controls The Groups IT environment is complex with financial accounting systems dependent on IT. Deficiencies in the privileged access controls over a number of significant applications could have had a significant impact on financial reporting controls and systems.	We examined the design and execution of IT controls including those relating to systems access, IT operations and program change, including mitigating controls where relevant. Where deficiencies affected specific applications within our audit scope we extended our control testing to provide assurance over both the compensating controls and the completeness and accuracy of management information used in key controls. Where appropriate we extended the scope of our substantive procedures.
Retirement Benefit Obligations The risk that the recognition and measurement of pension and other retirement benefit obligations are inappropriate.	We challenged the appropriateness of key assumptions and sensitivities used in determining retirement benefits including discount rates, inflation rates and mortality assumptions. We tested the calculation of the asset and liability.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our assessment of materiality

We define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person relying on the financial statements, would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be € 75 million, which we set at less than 1% of shareholders equity which we have determined, in our professional judgement, to be one of the principal benchmarks within the financial statements of the Group. We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of € 3.75 million as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focussed our Group audit scope primarily on the audit work in six legal entities all of which were subject to a full audit, whilst the remaining legal entities were subject to specified audit procedures, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations in those entities. In addition, audits are performed for entity statutory purposes for all legal entities.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

As part of the group audit, the group engagement team issued instructions to all component audit teams, and evaluated the outputs from each audit location.

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

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit;
- In our opinion proper books of account have been kept by the parent company;
- The parent company balance sheet is in agreement with the books of account;
- In our opinion the information given in the Report of the Directors is consistent with the financial statements and the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the process for preparing the Group financial statements is consistent with the Group financial statements; and
- The net assets of the parent company, as stated in the parent company balance sheet are more than half of the amount of its called up share capital and, in our opinion, on that basis there did not exist at 31 December 2014 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the parent company.

Independent Auditor’s Report *(continued)*

Matters on which we are required to report by exception
Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:
– materially inconsistent with the information in the audited financial statements; or
– apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
– otherwise misleading.

Respective responsibilities of directors and auditors
As explained more fully in the Directors’ Responsibilities Statement, the directors are responsible for the preparation of the financial statements that give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

This report is made solely to the company’s members, as a body, in accordance with section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

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

Gerard Fitzpatrick
For and on behalf of Deloitte & Touche
Chartered Accountants and Statutory Audit Firm
Hardwicke House
Hatch Street
Dublin 2
Ireland

4 March 2015

Deloitte.

Accounting policies*

*Forms an integral part of the audited financial statements.

Accounting policies

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. 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 2014. The accounting policies have been consistently applied by Group entities and are consistent with the previous year, unless otherwise described. The consolidated financial statements also comply with the Companies Acts 1963 to 2013 and the Communities (Credit Institutions: Accounts) Regulations, 1992 (as amended) and the Asset Covered Securities Acts 2001 and 2007.

The parent company financial statements and related notes set out on pages 326 to 380 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 2014 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 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 judgements and estimates

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 judgements and estimates is set out in 'Critical accounting judgements and estimates' on pages 218 to 222.

3 Basis of preparation *(continued)*

Going concern

The financial statements for the year ended 31 December 2014 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 2015 to 2017 approved by the Board in December 2014, the restructuring plan approved by the European Commission in May 2014, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios. In formulating these plans, the current Irish economic environment and forecasts for growth and employment were considered as well as the stabilisation of property prices. The Directors have also considered the outlook for the eurozone and UK economies, and the factors and uncertainties impacting their performance.

In addition, the Directors have considered the results of the Comprehensive Assessment stress testing conducted by the European Central Bank in conjunction with the Central Bank of Ireland and published in October 2014, which confirm that AIB Group has capital buffers comfortably above minimum requirements under stress test assessment scenarios.

The Directors have also considered the principal risks and uncertainties which could materially affect the Group's future business performance and profitability and which are outlined on pages 51 to 56.

The Directors 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 45 to 49.

The Group funding and liquidity profile is outlined on page 139 to 149. In relation to liquidity and funding, the Directors are satisfied, based on AIB's position in the market place, that in all reasonable circumstances required liquidity and funding from the Central Bank of Ireland/ECB would be available to the Group during the period of assessment.

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 2014.

Amendments to IAS 32 *Financial Instruments: Presentation* on Offsetting Financial Assets and Financial Liabilities

These amendments are effective from 1 January 2014. The amendments clarify that the right of set-off must be currently available and legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The adoption of these amendments did not impact on the presentation of the financial position of the Group.

Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosures of Interests in Other Entities* and IAS 27 *Separate Financial Statements on Investment Entities*

These amendments, which are effective from 1 January 2014, provide an exception for investment entities to consolidate particular subsidiaries. These subsidiaries should be measured at fair value through profit and loss in the consolidated and separate financial statements. The amendments also set out the disclosure requirements for investment entities. The adoption of these amendments did not impact the Group's financial position or results.

3 Basis of preparation *(continued)*

Amendments to IAS 36 *Impairment of Assets on Recoverable Amount Disclosures for Non-Financial Assets*

These amendments, which are effective from 1 January 2014, clarify that the scope of the disclosures about the recoverable amount of impaired assets is limited to those that are 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;
– 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; and
– removal of requirement to disclose recoverable amounts of cash generating units where there is no impairment.

The adoption of these amendments will impact the disclosures required for the recoverable amount of impaired non-financial assets where this is based on fair value less costs of disposal.

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

These amendments, which are effective from 1 January 2014, provide an exception to the requirement to discontinue hedge accounting where a hedging derivative is novated, provided certain criteria are met.

Annual improvements

Other amendments, resulting from Annual Improvements to IFRSs issued by the IASB which the Group adopted in 2014, 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 policy was revised effective from 1 January 2014:

– Derivatives and hedge accounting (Accounting Policy number 22).

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*.

4 Basis of consolidation *(continued)*

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.

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). 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 can be clearly demonstrated 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.

4 Basis of consolidation *(continued)*

Associated undertakings

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.

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 relevant proportion of 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.

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.

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 (excluding amounts included in net interest on the net deferred benefit liability (asset)) 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 income. The present value of provisions is included in other liabilities.

When a decision is made that a leasehold property will cease 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. 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.

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 balance sheet 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 will reflect 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 to the extent that 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.

13 Income tax, including deferred income tax *(continued)*

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. 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.

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.

15 Impairment of financial assets *(continued)*

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 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 for 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 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.

15 Impairment of financial assets *(continued)*

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 sections 3.1 and 3.2. 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.

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 individually assessed mortgage and 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.

15 Impairment of financial assets *(continued)*

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.

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.

16 Determination of fair value of financial instruments *(continued)*

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.

17 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.

17 NAMA senior bonds *(continued)*

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.

On an on-going basis and in accordance with IAS 39, AG8, the Group reviews its assumptions as regards the amount and timing of expected cash flows based on experience to date and other relevant information. The revised cash flows are discounted at the bonds' original effective interest rate. Any difference between the revised discounted cash flows and the previous carrying value is recognised as 'other operating income' in the income statement.

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.

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 Financial 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 Property, 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

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.

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.

22 Derivatives and hedge accounting *(continued)*

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 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.

Disposal groups and non-current assets held for sale *(continued)*

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 the 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 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 required Ark Life 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 acquired with a view to resale were not fair valued. For presentation purposes in the statement of financial position, Ark Life's identifiable liabilities were measured at fair value and this amount was 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 was not required in the notes to the financial statements.

Inter-company assets and liabilities were eliminated against the carrying amount of the disposal group where applicable. Inter-company interest income/expense of the continuing group was 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.

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.

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.

28 Shareholders' equity *(continued)*

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 57.

Dividends on preference shares accounted for as equity are recognised in equity when approved for payment by the Board of Directors.

Other capital reserves

Other 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 where deferred shares were created and cancelled.

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 42). 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 38) 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.

The non-refundable receipts of € 6,054 million from the Irish Government and the NPRFC[1] are distributable. These are included in revenue reserves.

Revenue reserves

Revenue reserves represent retained earnings of the parent company, subsidiaries and associated undertakings together with amounts transferred from share premium and capital redemption reserves following Irish High Court approval. 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.

[1]National Treasury Management Agency as controller and manager of the Ireland Strategic Investment Fund (NTMA / ISIF with effect 22 December 2014).

28 Shareholders' equity *(continued)*

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.

29 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.

30 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 a maturity of less than three months from the date of acquisition.

31 Prospective accounting changes

The following new standards and amendments to existing standards approved by the IASB in 2014 or prior years, 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 new standards and 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 IFRS 11 *Joint Arrangements:* Accounting for Acquisitions of Interests in Joint Operations	The amendments to IFRS 11 *Joint Arrangements* state that, where a joint operator acquires an interest in a joint operation that constitutes a business, it must apply all of the principles on business combinations accounting in IFRS 3 *Business Combinations*, and other IFRSs. The joint operator must disclose the information that is required in those IFRSs in relation to business combinations. These amendments are not expected to have a significant impact on AIB Group The amendments are subject to EU endorsement.	Annual periods beginning on or after 1 January 2016
Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*: Clarification of Acceptable Methods of Depreciation and Amortisation	The amendment to IAS 16 *Property, Plant and Equipment* clarifies that the use of a revenue-based method to calculate depreciation of an asset is not appropriate. The amendment to IAS 38 *Intangible Assets* introduces a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate. There are limited circumstances when this presumption can be overturned. These amendments will not impact AIB Group. The amendments are subject to EU endorsement.	Annual periods beginning on or after 1 January 2016
Amendments to IAS 27 *Separate Financial Statements*: Equity Method in Separate Financial Statements	The amendments to IAS 27 *Separate Financial Statements* allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. These amendments are not expected to have a significant impact on AIB Group The amendments are subject to EU endorsement.	Annual periods beginning on or after 1 January 2016
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The amendments address an inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements* and those in IAS 28 *Investments in Associates and Joint Ventures* in dealing with the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are not expected to have a significant impact on AIB Group The amendments are subject to EU endorsement.	Annual periods beginning on or after 1 January 2016

31 Prospective accounting changes *(continued)*

Pronouncement	Nature of change	IASB effective date
Amendments to IAS 1 *Presentation of Financial Statements:* Disclosure Initiative	These amendments to IAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures. These amendments are not expected to have a significant impact on AIB Group The amendments are subject to EU endorsement.	Annual periods beginning on or after 1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities*: Applying the Consolidation Exception	These amendments address issues that have arisen and provide clarification in the context of applying the consolidation exception for investment entities. These amendments are not expected to have a significant impact on AIB Group The amendments are subject to EU endorsement	Annual periods beginning on or after 1 January 2016
Annual Improvements to IFRSs 2012-2014 Cycle	The IASB's annual improvements project provides a process for making amendments to IFRSs that are considered non-urgent but necessary. The amendments clarify guidance and wording, or correct for relatively minor unintended consequences, conflicts or oversights in existing IFRSs. Annual Improvements to IFRSs 2012-2014 Cycle amends IFRSs in relation to four issues addressed during this cycle. None of the amendments are expected to have a significant impact on reported results or disclosures. The amendments are subject to EU endorsement.	Annual periods beginning on or after 1 July 2016
IFRS 15 *Revenue from Contracts with Customers*	IFRS 15, which was issued in May 2014, replaces IAS 11 *Construction Contracts* and IAS 18 *Revenue* in addition to IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. IFRS 15 specifies how and when an entity recognises revenue from a contract with a customer through the application of a single, principles based five-step model. The standard specifies new qualitative and quantitative disclosure requirements to enable users of financial statements understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The impacts of this standard are being considered by AIB Group. The standard is subject to EU endorsement.	Annual periods beginning on or after 1 January 2017

31 Prospective accounting changes *(continued)*

Pronouncement	Nature of change	IASB effective date
IFRS 9 *Financial Instruments*	In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*. This completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The main changes are as follows: **Classification and measurement** IFRS 9 introduces a single, principles-based classification approach that has two measurement categories: amortised cost and 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. **Impairment** IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model with this model being applied to all financial instruments. IFRS 9 requires an entity to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected credit losses on a timely basis. **Hedge accounting** IFRS 9 replaces the rules-based general hedge accounting requirements in IAS 39 *Financial Instruments: Recognition and Measurement* with a principles-based approach that more closely aligns the accounting treatment with risk management activities. However, an entity may continue to apply the hedge accounting requirements of IAS 39. The accounting for macro hedges is not included within IFRS 9 and continues to be accounted for in accordance with the requirements of IAS 39. **Own credit** IFRS 9 requires that changes in the fair value of an entity's own debt caused by changes in its own credit quality be recognised in other comprehensive income rather than in profit or loss. The Group is currently assessing the impact that IFRS 9 will have on its financial statements. While the impact is expected to be significant, it is not practicable to provide a reasonable estimate of the effects at this time but expect to do so prior to the effective date. The standard is subject to EU endorsement.	Annual periods beginning on or after 1 January 2018

Critical accounting judgements and estimates

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 2014 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 approved in December 2014 covering the period 2015 to 2017; the Restructuring Plan approved by the European Commission in May 2014; liquidity and funding forecasts, and capital resources projections; and the results of the Comprehensive Assessment stress testing conducted by the ECB. There have all been prepared under base and stress scenarios having considered the outlook for the Irish, the eurozone and UK economies. In addition, the Directors have considered the commitment of support provided to AIB by the Irish Government.

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 2014 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.

After a period of time, when it is concluded that there is no real prospect of recovery of loans/part of loans which have been subjected to a specific provision, the Group writes off that amount of the loan deemed irrecoverable against the specific provision held against the loan.

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 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.

Specific provisions *(continued)*

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 78 and 79 of the Risk management section of this report.

The property and construction loan portfolio continues to have a high level of provisions following the downturn in both the Irish and UK economies. While collateral values have stabilised and recovered somewhat, market activity remains low relative to normalised levels. 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. 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 78 and 79 of the Risk management 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. 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 32.

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;
– 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 Restructuring Plan approved by the European Commission in May 2014, targeting a return to profitability in 2014 and the ability to grow profits thereafter;

Critical accounting judgements and estimates

Deferred taxation *(continued)*

- Management actions taken in 2012 to 2014 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 losses in prior years; and
- external forecasts for Ireland, and the UK 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.

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 proposed changes to the UK tax rates) and the likelihood of future developments and their impact on profitability and utilisation.

The Group's strategy and its medium term financial plan targeted a return to profitability by 2014 and growth in profitability thereafter. The return to profitability objective was realised in 2014 and growth thereafter has been reaffirmed in the annual planning exercise covering the period 2015 to 2017 undertaken by the Group in the second half of 2014. 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 2015-2017. Assuming a sustainable market return on equity (9%) 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 (€ 3.24 billion) to be utilised. Furthermore, under this scenario, it is expected that 51% of the deferred tax asset will be utilised in 15 years with 84% utilised in 20 years.

In a more stressed scenario with a return on equity of 8% and GDP growth of 1.5%, the utilisation period increases by a further 3 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 UK profits arising as being more likely than not. The carrying value of deferred tax assets relating to UK tax losses reduced by € 86 million, reflecting a lower level of expected profitability in the 15 year period.

Furthermore, in December 2014, the UK Chancellor announced in his Autumn Statement a proposal that, from 1 April 2015, only fifty per cent of a bank's annual trading profits can be sheltered by unused tax losses arising before that date. As the legislation had not been substantively enacted at 31 December 2014, the proposed change has not been reflected in the 2014 financial statements. Once the legislation is substantively enacted, this could result in an immediate reduction of c £178 million (€ 229 million) in the Group's UK deferred tax asset, based on the 2014 year end position.

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 € 3,670 million of which € 3,242 million relates to Irish tax losses and € 428 million relates to UK 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. The 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.

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 both 2014 and 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 these reviews, AIB adjusted the carrying value of the bonds and reflected the difference € 132 million (2013: € 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.

Critical accounting judgements and estimates

Retirement benefit obligations *(continued)*

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 11 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.

Consolidated income statement

for the year ended 31 December 2014

	Notes	**2014 € m**	2013 € m	2012 € m
Continuing operations				
Interest and similar income	2	**3,090**	3,321	3,916
Interest expense and similar charges	3	**(1,403)**	(1,973)	(2,810)
Net interest income		**1,687**	1,348	1,106
Dividend income	4	**25**	4	1
Fee and commission income	5	**430**	414	396
Fee and commission expense	5	**(40)**	(36)	(29)
Net trading (loss)/income	6	**(1)**	102	(100)
Profit/(loss) on disposal/transfer of loans and receivables	7	**52**	(226)	(803)
Other operating income	8	**379**	104	50
Other income		**845**	362	(485)
Total operating income		**2,532**	1,710	621
Administrative expenses	9	**(1,527)**	(1,359)	(1,716)
Impairment and amortisation of intangible assets	30	**(65)**	(73)	(60)
Impairment and depreciation of property, plant and equipment	31	**(46)**	(51)	(60)
Total operating expenses		**(1,638)**	(1,483)	(1,836)
Operating profit/(loss) before provisions		**894**	227	(1,215)
Writeback/(provisions) for impairment on loans and receivables	26	**185**	(1,916)	(2,434)
Writeback/(provisions) for liabilities and commitments	37	**4**	(17)	(9)
(Provisions)/writeback for impairment on financial investments available for sale	12	**(1)**	9	(86)
Operating profit/(loss)		**1,082**	(1,697)	(3,744)
Associated undertakings	29	**23**	7	10
Profit on disposal of property	13	**6**	2	2
Profit on disposal of businesses	14	**–**	1	3
Profit/(loss) before taxation from continuing operations		**1,111**	(1,687)	(3,729)
Income tax (charge)/credit from continuing operations	16	**(230)**	90	172
Profit/(loss) after taxation from continuing operations		**881**	(1,597)	(3,557)
Discontinued operations				
Profit after taxation from discontinued operations	17	**34**	–	–
Profit/(loss) for the year		**915**	(1,597)	(3,557)
Attributable to:				
Owners of the parent:				
Profit/(loss) from continuing operations		**881**	(1,597)	(3,557)
Profit from discontinued operations		**34**	–	–
		915	(1,597)	(3,557)
Basic earnings/(loss) per share				
Continuing operations	18(a)	**0.2c**	(0.3c)	(0.7c)
Discontinued operations	18(a)	**–**	–	–
		0.2c	(0.3c)	(0.7c)
Diluted earnings/(loss) per share				
Continuing operations	18(b)	**0.2c**	(0.3c)	(0.7c)
Discontinued operations	18(b)	**–**	–	–
		0.2c	(0.3c)	(0.7c)

Richard Pym
Chairman

David Duffy
Chief Executive Officer

Catherine Woods
Director

David O'Callaghan
Company Secretary

4 March 2015

Consolidated statement of comprehensive income

for the year ended 31 December 2014

	Notes	**2014 € m**	2013 € m	2012 € m
Profit/(loss) for the year		**915**	(1,597)	(3,557)
Other comprehensive income – continuing operations				
Items that will not be reclassified to profit or loss:				
Net change in property revaluation reserves		**(1)**	(1)	(2)
Net actuarial (losses)/gains in retirement benefit schemes, net of tax	16	**(939)**	251	(716)
Total items that will not be reclassified to profit or loss		**(940)**	250	(718)
Items that may be reclassified subsequently to profit or loss:				
Net change in foreign currency translation reserves	16	**27**	(9)	34
Net change in cash flow hedges, net of tax	16	**348**	(18)	(162)
Net change in fair value of available for sale securities, net of tax	16	**728**	513	1,295
Total items that may be reclassified subsequently to profit or loss		**1,103**	486	1,167
Other comprehensive income for the year, net of tax from continuing operations		**163**	736	449
Total comprehensive income for the year		**1,078**	(861)	(3,108)
Attributable to:				
Owners of the parent:				
Continuing operations		**1,044**	(861)	(3,108)
Discontinued operations		**34**	–	–
		1,078	(861)	(3,108)

Richard Pym
Chairman

David Duffy
Chief Executive Officer

Catherine Woods
Director

David O'Callaghan
Company Secretary

4 March 2015

Consolidated statement of financial position

as at 31 December 2014

	Notes	2014 € m	2013 € m
Assets			
Cash and balances at central banks	49	**5,393**	4,132
Items in course of collection		**146**	164
Disposal groups and non-current assets held for sale	20	**14**	2,782
Trading portfolio financial assets	21	**1**	2
Derivative financial instruments	22	**2,038**	1,629
Loans and receivables to banks	23	**1,865**	2,048
Loans and receivables to customers	24	**63,362**	65,713
NAMA senior bonds	27	**9,423**	15,598
Financial investments available for sale	28	**20,185**	20,368
Interests in associated undertakings	29	**69**	58
Intangible assets	30	**171**	176
Property, plant and equipment	31	**290**	301
Other assets		**211**	242
Current taxation		**10**	1
Deferred taxation	32	**3,576**	3,828
Prepayments and accrued income		**526**	609
Retirement benefit assets	11	**175**	83
Total assets		**107,455**	117,734
Liabilities			
Deposits by central banks and banks	33	**16,768**	23,121
Customer accounts	34	**64,018**	65,667
Disposal groups held for sale	20	**–**	3,593
Derivative financial instruments	22	**2,334**	1,960
Debt securities in issue	35	**7,861**	8,759
Current taxation		**–**	48
Other liabilities	36	**1,225**	1,321
Accruals and deferred income		**729**	943
Retirement benefit liabilities	11	**1,239**	177
Provisions for liabilities and commitments	37	**258**	299
Subordinated liabilities and other capital instruments	38	**1,451**	1,352
Total liabilities		**95,883**	107,240
Shareholders' equity			
Share capital	39	**1,344**	5,248
Share premium	39	**1,752**	2,848
Reserves		**8,476**	2,398
Total shareholders' equity		**11,572**	10,494
Total liabilities and shareholders' equity		**107,455**	117,734

Richard Pym	**David Duffy**	**Catherine Woods**	**David O'Callaghan**
Chairman	Chief Executive Officer	Director	Company Secretary

4 March 2015

Consolidated statement of cash flows

for the year ended 31 December 2014

	Notes	2014 € m	2013 € m	2012 € m
Reconciliation of profit/(loss) before taxation to net cash inflow/(outflow) from operating activities				
Profit/(loss) for the year before taxation from continuing operations		**1,111**	(1,687)	(3,729)
Adjustments for:				
Profit on disposal of businesses	14	**–**	(1)	(3)
Profit on disposal of property, plant and equipment	13	**(6)**	(2)	(2)
(Profit)/loss on disposal/transfer of loans and receivables	7	**(52)**	226	803
Dividends received from equity securities	4	**(25)**	–	–
Dividends received from associated undertakings	29	**(11)**	(3)	(14)
Associated undertakings net income	29	**(23)**	(7)	(10)
(Writeback)/provisions for impairment on loans and receivables	26	**(185)**	1,916	2,434
(Writeback)/provisions for liabilities and commitments	37	**(5)**	17	9
Provisions/(writeback) for impairment on financial investments available for sale	12	**1**	(9)	86
Change in other provisions		**70**	84	175
Retirement benefits – defined benefit credit	11	**(3)**	(131)	(123)
Termination benefits		**(2)**	(3)	132
Contributions to defined benefit pension schemes	11	**(87)**	(234)	(236)
Depreciation, amortisation and impairment	30 & 31	**111**	124	120
Interest on subordinated liabilities and other capital instruments	3	**256**	241	223
Net loss on buy back of debt securities in issue		**1**	–	–
Profit on disposal of financial investments available for sale	8	**(389)**	(41)	(31)
Loss on termination of fair value hedging swaps	8	**208**	10	7
Remeasurement of NAMA senior bonds	8	**(132)**	(62)	–
Amortisation of premiums and discounts		**31**	(57)	(128)
Change in prepayments and accrued income		**87**	(51)	114
Change in accruals and deferred income		**(220)**	(316)	153
Net cash inflow/(outflow) from operating activities before changes in operating assets and liabilities		**736**	14	(20)
Change in deposits by central banks and banks		**(6,395)**	(5,309)	(8,456)
Change in customer accounts		**(3,586)**	3,397	2,654
Change in loans and receivables to customers(1)		**3,736**	5,078	6,798
Change in NAMA senior bonds		**6,343**	1,916	2,438
Change in loans and receivables to banks		**(420)**	567	265
Change in trading portfolio financial assets		**1**	21	33
Change in derivative financial instruments		**(271)**	249	(776)
Change in items in course of collection		**24**	26	13
Change in debt securities in issue		**(886)**	(1,875)	(4,996)
Change in notes in circulation		**5**	(50)	9
Change in other assets		**36**	(5)	254
Change in other liabilities		**(299)**	(264)	(102)
Dividends received from equity securities	4	**25**	–	–
Effect of exchange translation and other adjustments		**(223)**	78	(31)
Net cash (outflow)/inflow from operating assets and liabilities		**(1,910)**	3,829	(1,897)
Net cash (outflow)/inflow from operating activities before taxation		**(1,174)**	3,843	(1,917)
Taxation (paid)/refund		**(26)**	40	42
Net cash (outflow)/inflow from operating activities		**(1,200)**	3,883	(1,875)
Investing activities *(note a)*		**1,706**	(3,827)	546
Financing activities *(note b)*		**(160)**	(160)	(160)
Change in cash and cash equivalents		**346**	(104)	(1,489)
Opening cash and cash equivalents		**5,730**	5,926	7,373
Effect of exchange translation adjustments		**308**	(92)	42
Closing cash and cash equivalents		**6,384**	5,730	5,926

Consolidated statement of cash flows *(continued)*
for the year ended 31 December 2014

	Notes	2014 € m	2013 € m	2012 € m
(a) Investing activities				
Net cash outflow on acquisition of business combinations	17	**–**	(325)[2]	–
Purchase of financial investments available for sale	28	**(7,336)**	(6,666)	(5,059)
Proceeds from sales and maturity of financial investments available for sale	8 & 28	**8,791**	3,040	5,685
Additions to property, plant and equipment	31	**(47)**	(32)	(37)
Disposal of property, plant and equipment	13 & 31	**9**	15	3
Additions to intangible assets	30	**(60)**	(62)	(71)
Proceeds of disposal of investment in associated undertakings	29	**2**	10	–
Proceeds of disposal of investment in businesses and subsidiaries		**336**[4]	190[3]	11
Dividends received from associated undertakings	29	**11**	3	14
Cash flows from investing activities		**1,706**	(3,827)	546
(b) Financing activities				
Interest paid on subordinated liabilities and other capital instruments		**(160)**	(160)	(160)
Cash flows from financing activities		**(160)**	(160)	(160)

[1]Also includes loans and receivables to customers within disposal groups and non-current assets held for sale.

[2]Acquisition of Ark Life Assurance Company Limited.

[3]Disposal of Aviva Life Holdings Ireland Limited.

[4]Disposal of Ark Life Assurance Company Limited.

Consolidated statement of changes in equity

for the year ended 31 December 2014

	Attributable to equity holders of parent											
	Share capital €m	Share premium €m	Capital reserves €m	Capital redemption reserves €m	Revaluation reserves €m	Available for sale securities reserves €m	Cash flow hedging reserves €m	Revenue reserves €m	Foreign currency translation reserves €m	Treasury shares €m	Share based payments reserves €m	Total €m
At 1 January 2014	5,248	2,848	2,597	–	18	641	35	(2)	(442)	(462)	13	10,494
Total comprehensive income for the year												
Profit for the year	–	–	–	–	–	–	–	915	–	–	–	915
Other comprehensive income *(note 16)*	–	–	–	–	(1)	728	348	(939)	27	–	–	163
Total comprehensive income for the year	–	–	–	–	(1)	728	348	(24)	27	–	–	1,078
Transactions with owners, recorded directly in equity												
Contributions by and distributions to owners of the Group												
Capital contributions *(note 41)*	–	–	(564)	–	–	–	–	564	–	–	–	–
Ordinary shares issued in lieu of dividend *(note 39)*	22	(22)	–	–	–	–	–	–	–	–	–	–
Cancellation of deferred shares *(notes 39 and 41)*	(3,926)	–	–	3,926	–	–	–	–	–	–	–	–
Reduction of capital *(notes 39 and 41)*	–	(1,074)	–	(3,926)	–	–	–	5,000	–	–	–	–
Share based payments	–	–	–	–	–	–	–	8	–	–	(8)	–
Other movements *(note 41)*	–	–	(75)	–	–	–	–	75	–	–	–	–
Total contributions by and distributions to owners of the Group	(3,904)	(1,096)	(639)	–	–	–	–	5,647	–	–	(8)	–
At 31 December 2014	1,344	1,752	1,958	–	17	1,369	383	5,621	(415)	(462)	5	11,572

Consolidated statement of changes in equity

for the year ended 31 December 2013

	Attributable to equity holders of parent										
	Share capital € m	Share premium € m	Capital reserves € m	Revaluation reserves € m	Available for sale securities reserves € m	Cash flow hedging reserves € m	Revenue reserves € m	Foreign currency translation reserves € m	Treasury shares € m	Share based payments reserves € m	Total € 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 *(note 16)*	–	–	–	(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 41)*	–	–	(219)	–	–	–	219	–	–	–	–
Ordinary shares issued in lieu of dividend *(note 39)*	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

Notes to the consolidated financial statements

1 Segmental information

The operating segments of the Group are as follows:

- **Domestic Core Bank ("DCB");**
- **AIB UK;**
- **Financial Solutions Group ("FSG"); and**
- **Group.**

These segments reflect the internal reporting structure which is used by management to assess performance and allocate resources.

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 Group'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") 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 central control and support functions costs which include operations and technology, risk, audit, finance, general counsel, human resources and corporate affairs and 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 each segment's funding requirements and the Group's funding cost profile, which is informed by wholesale and retail funding costs. 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.

1 Segmental information *(continued)*

	DCB	AIB UK	FSG	Group	Total	Exceptional** items	2014 Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Operations by business segment							
Net interest income	1,190	275	221	1	1,687	–	1,687
Other income	696	69	72	6	843	2	845
Total operating income	1,886	344	293	7	2,530	2	2,532
Personnel expenses	(406)	(99)	(105)	(157)	(767)	(24)	(791)
General and administrative expenses	(260)	(69)	(35)	(187)	(551)	(185)	(736)
Depreciation, impairment and amortisation	(44)	(5)	(7)	(29)	(85)	(26)	(111)
Total operating expenses	(710)	(173)	(147)	(373)	(1,403)	(235)	(1,638)
Operating profit/(loss) before provisions	1,176	171	146	(366)	1,127	(233)	894
(Provisions)/writeback for impairment on loans and receivables	(196)	(70)	451	–	185	–	185
Writeback/(provisions) for liabilities and commitments	2	–	3	(1)	4	–	4
(Provisions) for impairment on financial investments available for sale	(1)	–	–	–	(1)	–	(1)
Total (provisions)/writeback	(195)	(70)	454	(1)	188	–	188
Operating profit/(loss)	981	101	600	(367)	1,315	(233)	1,082
Associated undertakings	18	5	–	–	23	–	23
Profit on disposal of property	3	3	–	–	6	–	6
Profit/(loss) before taxation from continuing operations	1,002	109	600	(367)	1,344	(233)	1,111

**Exceptional and one-off items are shown separately above. These are items that management believe obscures the underlying performance trends in the business. Exceptional items include:

– Profit on transfer of financial instruments to NAMA;
– Termination benefits;
– Bank levy; and
– Restructuring and restitution expenses.

For further information on these items see page 29.

1 Segmental information *(continued)*

	DCB €m	AIB UK €m	FSG €m	Group €m	Total €m	Exceptional** items €m	2013 Total €m
Operations by business segment							
Net interest income	973	177	190	5	1,345	3	1,348
Other income/(loss)	469	68	25	17	579	(217)	362
Total operating income/(loss)	1,442	245	215	22	1,924	(214)	1,710
Personnel expenses	(452)	(109)	(128)	(162)	(851)	147	(704)
General and administrative expenses	(244)	(56)	(32)	(187)	(519)	(136)	(655)
Depreciation, impairment and amortisation	(54)	(6)	(1)	(39)	(100)	(24)	(124)
Total operating expenses	(750)	(171)	(161)	(388)	(1,470)	(13)	(1,483)
Operating profit/(loss) before provisions	692	74	54	(366)	454	(227)	227
Provisions for impairment on loans and receivables	(853)	(166)	(897)	–	(1,916)	–	(1,916)
Writeback/(provisions) for liabilities and commitments	–	10	(8)	1	3	(20)	(17)
Writeback/(provisions) for impairment on financial investments available for sale	10	–	(1)	–	9	–	9
Total (provisions)/writeback	(843)	(156)	(906)	1	(1,904)	(20)	(1,924)
Operating loss	(151)	(82)	(852)	(365)	(1,450)	(247)	(1,697)
Associated undertakings	8	2	(3)	–	7	–	7
Profit on disposal of property	1	–	–	–	1	1	2
Profit on disposal of business	–	–	–	1	1	–	1
Loss before taxation from continuing operations	(142)	(80)	(855)	(364)	(1,441)	(246)	(1,687)

Upon completion of the deleveraging target in the second half of 2013, certain assets transferred between segments with effect from 1 July 2013.

**Exceptional and one-off items are shown separately above. These are items that management believe obscures the underlying performance trends in the business. Exceptional items include:

– Loss on disposal of loans;
– Loss on transfer of financial instruments to NAMA;
– Termination benefits;
– Retirement benefit curtailment;
– Restructuring and restitution expenses; and
– Gain on disposal of Aviva Life Holdings ("ALH").

For further information on these items see page 29.

1 Segmental information *(continued)*

	DCB € m	AIB UK € m	FSG € m	Group € m	Total € m	Exceptional** items € m	2012 Total € m
Operations by business segment							
Net interest income	747	102	230	27	1,106	–	1,106
Other income/(loss)	346	67	(45)	(50)	318	(803)	(485)
Total operating income	1,093	169	185	(23)	1,424	(803)	621
Personnel expenses	(517)	(110)	(168)	(246)	(1,041)	33	(1,008)
General and administrative expenses	(238)	(86)	(69)	(196)	(589)	(119)	(708)
Depreciation, impairment and amortisation	(54)	(11)	(6)	(47)	(118)	(2)	(120)
Total operating expenses	(809)	(207)	(243)	(489)	(1,748)	(88)	(1,836)
Operating profit/(loss) before provisions	284	(38)	(58)	(512)	(324)	(891)	(1,215)
Provisions for impairment on loans and receivables	(202)	(97)	(2,135)	–	(2,434)	–	(2,434)
Provisions for liabilities and commitments	(4)	–	(5)	–	(9)	–	(9)
Provisions for impairment on financial investments available for sale	(84)	–	(2)	–	(86)	–	(86)
Total provisions	(290)	(97)	(2,142)	–	(2,529)	–	(2,529)
Operating loss	(6)	(135)	(2,200)	(512)	(2,853)	(891)	(3,744)
Associated undertakings	13	2	(5)	–	10	–	10
Profit on disposal of property	–	–	–	2	2	–	2
Profit on disposal of business	1	–	2	–	3	–	3
Profit/(loss) before taxation from continuing operations	8	(133)	(2,203)	(510)	(2,838)	(891)	(3,729)

**Exceptional and one-off items are shown separately above. These are items that management believe obscures the underlying performance trends in the business. Exceptional items include:

- Loss on disposal of loans;
- Profit on transfer of financial instruments to NAMA;
- Termination benefits;
- Retirement benefit curtailment; and
- Restructuring and restitution expenses.

1 Segmental information *(continued)*
Other amounts – statement of financial position

	DCB € m	AIB UK € m	FSG € m	Group € m	2014 Total € m
Loans and receivables to customers	**44,125**	**10,374**	**8,863**	**–**	**63,362**
Interests in associated undertakings	**51**	**18**	**–**	**–**	**69**
Total assets	**82,672**	**15,907**	**8,876**	**–**	**107,455**
Customer accounts	**51,231**	**11,504**	**1,283**	**–**	**64,018**
Total liabilities[(1)]	**81,673**	**12,927**	**1,283**	**–**	**95,883**
Capital expenditure	**104**	**2**	**1**	**–**	**107**

	DCB € m	AIB UK € m	FSG € m	Group € m	2013 Total € m
Loans and receivables to customers	44,251	11,225	10,237	–	65,713
Loans and receivables held for sale	–	–	28	–	28
Interests in associated undertakings	44	14	–	–	58
Total assets	89,080	15,636	13,018	–	117,734
Customer accounts	53,605	10,918	1,144	–	65,667
Total liabilities[(1)]	90,083	12,420	4,737	–	107,240
Capital expenditure	89	3	2	–	94

[(1)]The fungible nature of liabilities within the banking industry inevitably leads to allocations of liabilities to segments, some of which are necessarily subjective. Accordingly, the directors believe that the analysis of total assets is more meaningful than the analysis of liabilities.

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1 Segmental information *(continued)*

Geographic information - continuing operations[1][2]	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
				2014
Gross external revenue	**1,975**	**547**	**10**	**2,532**
Inter-geographical segment revenue	**314**	**(308)**	**(6)**	**–**
Total revenue	**2,289**	**239**	**4**	**2,532**

Geographic information - continuing operations[1][2]	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
				2013
Gross external revenue	1,546	169	(5)	1,710
Inter-geographical segment revenue	(47)	53	(6)	–
Total revenue	1,499	222	(11)	1,710

Geographic information - continuing operations[1]	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
				2012
Gross external revenue	164	517	(60)	621
Inter-geographical segment revenue	54	(34)	(20)	–
Total revenue	218	483	(80)	621

Revenue from external customers comprises interest and similar income (note 2) interest expense and similar charges (note 3) and all other items of income (notes 4 to 8).

Geographic information	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
				2014
Non-current assets[3]	**441**	**19**	**1**	**461**

Geographic information	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
				2013
Non-current assets[3]	454	22	1	477

Geographic information	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
				2012
Non-current assets[3]	489	30	1	520

[1]The geographical distribution of total revenue is based primarily on the location of the office recording the transaction.

[2]For details of significant geographic concentrations, see the Risk management section.

[3]Non-current assets comprise intangible assets, and property, plant and equipment.

2 Interest and similar income

	2014 € m	2013 € m	2012 € m
Interest on loans and receivables to customers	**2,421**	2,520	2,976
Interest on loans and receivables to banks	**22**	19	31
Interest on trading portfolio financial assets	**–**	–	1
Interest on NAMA senior bonds	**80**	130	329
Interest on financial investments available for sale	**567**	652	579
	3,090	3,321	3,916

Interest income includes a credit of € 138 million (2013: a credit of € 138 million; 2012: a credit of € 217 million) removed from other comprehensive income in respect of cash flow hedges.

Interest income reported above, calculated using the effective interest method, relates to financial assets not carried at fair value through profit or loss.

Interest income recognised on impaired loans amounts to € 329 million (2013: € 373 million; 2012: € 392 million).

3 Interest expense and similar charges

	2014 € m	2013 € m	2012 € m
Interest on deposits by central banks and banks	**46**	123	252
Interest on customer accounts	**766**	1,265	1,823
Interest on debt securities in issue	**335**	344	512
Interest on subordinated liabilities and other capital instruments	**256**	241	223
	1,403	1,973	2,810

Interest expense includes a charge of € 92 million (2013: a charge of € 133 million; 2012: a charge of € 128 million) removed from other comprehensive income in respect of cash flow hedges.

Included within interest expense is a charge of € 59 million (2013: € 173 million; 2012: € 388 million) in respect of the Irish Government's Eligible Liabilities Guarantee ("ELG") Scheme.

Interest expense reported above, calculated using the effective interest method, relates to financial liabilities not carried at fair value through profit or loss.

4 Dividend income

Dividend income relates to income from equity shares held as financial investments available for sale and amounts to € 25 million (2013: € 4 million; 2012: € 1 million). In 2014, this dividend income was received on NAMA subordinated bonds.

5 Net fee and commission income

	2014 € m	2013 € m	2012 € m
Retail banking customer fees	**373**	351	322
Credit related fees	**30**	31	33
Other commissions	**–**	–	9
Insurance commissions	**27**	32	32
Fee and commission income	**430**	414	396
Fee and commission expense[(1)]	**(40)**	(36)	(29)
	390	378	367

[(1)]Fee and commission expense includes ATM expenses of € 5 million (2013: € 5 million; 2012: € 8 million) and credit card commissions of € 26 million (2013: € 23 million; 2012: € 12 million).

Fees and commissions which are an integral part of the effective interest rate are recognised as part of interest and similar income (note 2) or interest expense and similar charges (note 3).

6 Net trading (loss)/income

	2014 € m	2013 € m	2012 € m
Foreign exchange contracts	**45**	37	45
Interest rate contracts and debt securities	**(68)**	53	(75)
Credit derivative contracts	**(2)**	–	(38)
Equity securities, index contracts and warrants	**24**[(1)]	12[(2)]	(32)[(3)]
	(1)	102	(100)

[(1)]Mark to market gain on equity warrants

[(2)]Includes a gain of € 10 million arising on disposal of ALH (note 17).

[(3)]The mark to market loss on put options, held by AIB and Aviva for the sales of ALH and Ark Life respectively, amounted to € 32 million (note 17).

The total hedging ineffectiveness on cash flow hedges reflected in the income statement amounted to Nil (2013: a credit of € 7 million; 2012: a charge of € 7 million) and is included in net trading income.

7 Profit/(loss) on disposal/transfer of loans and receivables

The following table sets out details of the profit/(loss) on disposal/transfer of loans and receivables:

	2014 € m	2013 € m	2012 € m
Profit/(loss) on disposal of loans and receivables to customers	**50**	(201)	(962)
Profit/(loss) on transfer of loans and receivables to NAMA	**2**	(25)	159
Total	**52**	(226)	(803)

Profit/(loss) on disposal of loans and receivables to customers includes the impact of deleveraging non-core assets of Nil (2013: loss € 193 million; 2012: loss € 962 million).

In February 2010, AIB was designated a participating institution under the NAMA Act and following the enactment of legislation in November 2009, financial instruments transferred to NAMA during 2010 and 2011. Whilst these transfers were practically complete at 31 December 2011, a provision was made in respect of adjustments to transfers which had not settled at that date (note 37). Subsequently, NAMA resolved certain issues in relation to loans and receivables which had transferred in 2010 and 2011. This resulted in the profit/(loss) set out above.

8 Other operating income

	2014 € m	2013 € m	2012 € m
Profit on disposal of available for sale debt securities	**369**	30	25
Loss on termination of hedging swaps[(1)]	**(208)**	(10)	(7)
Profit on disposal of available for sale equity securities	**20**	11	6
Effect of re-estimating the timing of cash flows on NAMA senior bonds *(note 27)*	**132**	62	–
Net loss on buy back of debt securities in issue	**(1)**	–	–
Miscellaneous operating (expense)/income[(2)]	**67**	11	26
	379	104	50

[(1)]Realised loss where the hedged item was disposed of, the majority of which is reported in profit on disposal of available for sale debt securities.

[(2)]Miscellaneous operating income includes:

- Foreign exchange gains € 11 million (2013: a credit of € 1 million; 2012: Nil).
- Income of € 27 million in settlement of claim (2013: Nil; 2012: Nil).
- Nil charge relating to terminated cash flow hedges which has been removed from equity (2013: Nil; 2012: charge of € 2 million).
- Effect of realisation/re-estimation of cash flows on loans and receivables previously restructured - credit of € 24 million (2013: Nil; 2012: Nil).

9 Administrative expenses

	2014 € m	2013 € m	2012 € m
Personnel expenses:			
Wages and salaries	**599**	653	786
Termination benefits[(1)]	**24**	86	171
Retirement benefits[(2)] *(note 11)*	**91**	(112)	(102)
Social security costs	**66**	77	85
Other personnel expenses	**11**	–	68
Total personnel expenses	**791**	704	1,008
General and administrative expenses:			
Irish banking levy	**60**	–	–
Other general and administrative expenses	**676**	655	708
Total general and administrative expenses	**736**	655	708
	1,527	1,359	1,716

[(1)]At 31 December 2014, a charge of € 24 million (2013: a charge of € 86 million; 2012: a charge of € 164 million) has been made to the income statement in respect of termination benefits arising from the voluntary severance programme. This amount comprises Nil (2013: € 23 million; 2012: € 140 million) in respect of past service costs relating to the early retirement scheme and € 24 million (2013: € 92 million; 2012: € 38 million) relating to the voluntary severance scheme (note 11) and Nil (2013: a credit of € 29 million; 2012: € 14 million) in respect of a pension curtailment gain for voluntary severance employees. In addition, a provision of Nil (2013: Nil; 2012: € 7 million) was made in respect of other termination benefits, principally, in the Isle of Man/Channel Islands.

[(2)]Comprises a credit of € 3 million relating to defined benefit expense (2013: credit of € 131 million; 2012: credit of € 123 million), a defined contribution expense charge of € 86 million (2013: € 13 million; 2012: € 13 million) and a long term disability payments expense charge of € 8 million (2013: € 6 million; 2012: € 8 million) (note 11).

Employee numbers by segment are set out in note 52.

10 Share-based compensation schemes

The Group operates a number of share-based compensation schemes as outlined in this note on terms approved by the shareholders. The share-based compensation schemes which AIB Group operates in respect of ordinary shares in Allied Irish Banks, p.l.c., are:

(i) The AIB Group Share Option Scheme;
(ii) Employees' Profit Sharing Schemes;
(iii) AIB Group Performance Share Plan 2005.

At 31 December 2014, the ordinary shares of Allied Irish Banks, p.l.c. were trading at € 0.079 per share, accordingly, there is no expectation that outstanding options will be exercised.

(i) AIB Group Share Option Scheme

The following disclosures regarding the **'AIB Group Share Option Scheme'** (the '2000 Scheme') relate to both AIB Group and to Allied Irish Banks, p.l.c.. Options were last granted under this scheme in 2005, and these options vested in 2008 based on the 2007 earnings per share out-turn, and are exercisable up to 2015, however, as these options are deeply out of the money, there is no expectation that they will be exercised.

The following table summarises the share option scheme activity over each of the years ended 31 December 2014, 2013 and 2012.

		2014		2013		2012
	Number of options '000	**Weighted average exercise price €**	Number of options '000	Weighted average exercise price €	Number of options '000	Weighted average exercise price €
Outstanding at 1 January	**3,490.7**	**13.85**	5,746.5	13.64	8,353.7	13.62
Exercised	**–**	**–**	–	–	–	–
Forfeited/lapsed	**(2,285.7)**	**12.62**	(2,255.8)	13.30	(2,607.2)	13.58
Outstanding at 31 December	**1,205.0**	**16.20**	3,490.7	13.85	5,746.5	13.64
Exercisable at 31 December	**1,205.0**	**16.20**	3,490.7	13.85	5,746.5	13.64

(ii) Employees' Profit Sharing Schemes

The Company operates the **'AIB Approved Employees' Profit Sharing Scheme 1998'** ('the Scheme') on terms approved by the shareholders at the 1998 Annual General Meeting. All employees, including executive directors of the Company and certain subsidiaries are eligible to participate, subject to minimum service periods and being in employment on the date on which an invitation to participate is issued. The Directors, at their discretion, may set aside each year, for distribution under the Scheme, a sum not exceeding 5% of eligible profits of participating companies. No shares have been awarded under this Scheme since 2008.

(iii) AIB Group Performance Share Plan 2005

This Plan was approved by the shareholders at the 2005 AGM. Conditional grants of awards of ordinary shares are made to employees. There were no conditional grants outstanding at the end of December 2012 and there were no awards of performance shares in 2014 or 2013. The plan will terminate in 2015.

Income statement expense

The total expense arising from share-based payment transactions amounted to Nil for the year ended 31 December 2014 (2013: Nil; 2012: Nil).

Limitations on share-based payment schemes

The Company complies with guidelines issued by the Irish Association of Investment Managers in relation to shares of Allied Irish Banks, p.l.c. issued under the above schemes.

11 Retirement benefits

The Group operates a number of defined contribution and defined benefit schemes for employees. All defined benefit schemes are closed to future accrual.

Defined contribution schemes

From 1 January 2014, all staff transferred to defined contribution schemes with a standard employer contribution of 10% plus an additional matched employer contribution, subject to limits based on age bands, of 12%, 15% or 18%. In 2014, the employer contribution was 12%, 15% or 18% for each employee irrespective of whether the staff member made a contribution. The same contribution arrangement will continue in 2015.

For members of defined contribution schemes in 2013, the standard contribution rate to the Irish DC scheme was 8% and 10% in respect of the defined contribution element of a hybrid arrangement that was in place for certain staff. In 2013, the UK DC scheme had employer contributions ranging from 5% to 20%, increasing as the employee gets older. The member contribution rate also increases with age. All members of the UK DC scheme also accrued benefits under S2P (the UK State Second Pension).

The total cost in respect of the Irish DC scheme, the EBS DC scheme and the UK DC scheme for 2014 was € 86 million (2013: € 13 million; 2012: € 13 million). The cost in respect of defined contributions is included in administrative expenses (note 9).

Defined benefit schemes

All defined benefit schemes operated by the Group closed to future accrual with effect from 31 December 2013 and staff transferred to defined contribution schemes for future pension benefits. This led to a reduction of € 231 million in the defined benefit obligation and a credit to the income statement as a negative past service cost in 2013. The most significant defined benefit schemes operated by the Group are the AIB Group Irish Pension Scheme ('the Irish scheme') and the AIB Group UK Pension Scheme ('the UK scheme').

Retirement benefits for the defined benefit schemes are calculated by reference to service and Final Pensionable Salary at 31 December 2013. The Final Pensionable Salary used in the calculation of this benefit for staff is based on their average pensionable salary in the period between 30 June 2009 and 31 December 2013. This calculation of benefit for each staff member will revalue between 1 January 2014 and retirement date in line with the statutory requirement to revalue deferred benefits. There is no link to any future changes in salaries.

Regulatory framework

In Ireland, the Pensions Act provisions set out the requirement for a defined benefit scheme that fails the Minimum Funding Standard ("MFS") to have a funding plan in place and approved by the Pensions Authority. The objective of an MFS funding plan is to set out the necessary corrective action to restore the funding of the scheme over a reasonable time period and enable the scheme to meet the MFS standard at a future date.

The AIB MFS funding proposal, which was agreed in 2013 under these regulatory requirements with the Pensions Authority and Trustee of the Irish Scheme, has remaining average contributions of € 50.5 million per annum over the next four years.

Responsibilities for governance

The Trustees of each Group pension scheme are ultimately responsible for the governance of the schemes.

Risks

Details of the Pension risk to which the Group is exposed is set out in the Risk section on page 156 of this report.

Valuations

Independent actuarial valuations for the main Irish and UK schemes are carried out on a triennial basis by the Schemes' actuary, Mercer. The last such valuations of the Irish and UK schemes were carried out as at 30 June 2012 and 31 December 2011 respectively using Projected Unit Methods. The next actuarial valuations will be carried out in respect of the Irish and UK schemes for valuation dates no later than 30 June 2015 and 31 December 2014 respectively. Actuarial valuations are available for inspection by the members of the schemes.

11 Retirement benefits *(continued)*

Pension Levy

The Irish Finance (No 2) Act 2011 which was signed into law in June 2011, introduced a stamp duty levy of 0.6% on the market value of assets under management in Irish pension schemes, for the years 2011 to 2014 (inclusive). The levy is based on the market value of the assets at the 30 June in each relevant year.

The Irish Finance Act 2014 which was signed into law in December 2014, introduced an additional stamp duty levy of 0.15% on the market value of the assets under management in Irish pension schemes, for the years 2014 and 2015 (inclusive). The levy is based on the market value of the assets at the 30 June in each relevant year.

In 2014, a levy of € 30.3 million was paid in respect of the Irish defined benefit schemes and a levy of € 2.4 million was paid in respect of the Irish DC schemes. The payment of the levy in respect of the Irish defined benefit schemes was incorporated into the return on pension scheme assets.

Contributions

The total contributions to all the defined benefit pension schemes operated by the Group in 2015 are estimated to be € 83.6 million. Payments in 2014 amounted to € 87 million, of which € 82 million related to the Irish scheme, as required by regulation, as part of the Scheme's Minimum Funding Standard regulatory funding plan.

Voluntary Severance Programme

During 2013, the Group recognised a past service cost in the income statement and an increase in the benefit obligation of € 23 million for the Group's early retirement scheme. Furthermore, a negative past service cost of € 29 million was recognised in the income statement in relation to employees who left under the voluntary severance scheme and who were members of a Group defined benefit pension scheme.

11 Retirement benefits *(continued)*

Financial assumptions

The following table summarises the financial assumptions adopted in the preparation of these financial statements in respect of the main schemes at 31 December 2014 and 2013. The assumptions have been set based upon the advice of the Group's actuary.

Financial assumptions	2014 %	2013 %
Irish scheme		
Rate of increase of pensions in payment	**1.40**[1]	1.70
Discount rate	**2.20**	3.90
Inflation assumptions	**1.75**	2.00
UK scheme		
Rate of increase of pensions in payment	**3.00**	3.30
Discount rate	**3.70**	4.70
Inflation assumptions (RPI)	**3.00**	3.30
Other schemes		
Rate of increase of pensions in payment	**0.00 – 3.00**	0.00 – 3.10
Discount rate	**2.20 – 4.00**	3.90 – 5.00
Inflation assumptions	**1.75 – 3.00**	2.00 – 3.40

[1]Nil for the next 3 years and 1.75% per annum thereafter.

Mortality assumptions

The life expectancies underlying the value of the scheme liabilities for the Irish and UK schemes at 31 December 2014 and 2013 are shown in the following table:

		Life expectancy - years			
		Irish scheme		UK scheme	
		2014	2013	**2014**	2013
Retiring today age 63					
	Males	**24.8**	24.7	**26.3**	26.3
	Females	**26.2**	26.0	**28.6**	28.5
Retiring in 10 years at age 63					
	Males	**26.1**	26.0	**27.5**	27.4
	Females	**27.3**	27.2	**29.8**	29.7

The mortality assumptions for the Irish scheme were updated in 2013 to reflect emerging market experience following a review of mortality undertaken by the Society of Actuaries in 2013. The table shows that a member of the Irish scheme retiring at age 63 on 31 December 2014 is assumed to live on average for 24.8 years for a male (26.3 years for the UK scheme) and 26.2 years for a female (28.6 years for the UK scheme). There will be variation between members but these assumptions are expected to be appropriate for all members. The table also shows the life expectancy for members aged 53 on 31 December 2014 who will retire in ten years. Younger members are expected to live longer in retirement than those retiring now, reflecting a decrease in mortality rates in future years due to advances in medical science and improvements in standards of living.

11 Retirement benefits *(continued)*

Movement in defined benefit obligation and scheme assets

The following table sets out the movement in the defined benefit obligation and scheme assets during 2014 and 2013:

	2014			2013		
	Defined benefit obligation € m	Fair value of scheme assets € m	Net defined benefit liability (asset) € m	Defined benefit obligation € m	Fair value of scheme assets € m	Net defined benefit liability (asset) € m
At 1 January	5,336	(5,242)	94	5,536	(4,774)	762
Included in profit or loss						
Current service cost	–	–	–	78	–	78
Past service cost:						
– Termination benefits	–	–	–	(6)	–	(6)
– Other	(4)	–	(4)	(238)	–	(238)
Interest cost (income)	215	(215)	–	221	(195)	26
Administration costs	–	1	1	–	3	3
	211	(214)	(3)	55	(192)	(137)
Included in other comprehensive income						
Remeasurements loss (gain):						
Actuarial loss (gain) arising from:						
Experience adjustments	(16)	–	(16)	8	–	8
Changes in demographic assumptions	–	–	–	(130)	–	(130)
Changes in financial assumptions	1,631	–	1,631	101	–	101
Return on scheme assets excluding interest income[1]	–	(548)	(548)	–	(271)	(271)
Translation adjustment on non-euro schemes	87	(94)	(7)	(27)	23	(4)
	1,702	(642)	1,060	(48)	(248)	(296)
Other						
Contributions by employer	–	(87)	(87)	–	(234)	(234)
Contributions by employees	–	–	–	16	(16)	–
Benefits paid	(178)	178	–	(223)	222	(1)
	(178)	91	(87)	(207)	(28)	(235)
At 31 December	7,071	(6,007)	1,064	5,336	(5,242)	94

	2014	2013
Recognised on the statement of financial position as:		
Retirement benefit assets		
– UK scheme	164	69
– Other schemes	11	14
Total retirement benefit assets	175	83
Retirement benefit liabilities		
– Irish scheme	1,125	129
– EBS scheme	97	37
– Other schemes	17	11
Total retirement benefit liabilities	1,239	177
Net pension deficit	1,064	94

[1]Includes payment of pension levy.

11 Retirement benefits *(continued)*

Scheme assets

The following table sets out an analysis of the scheme assets at 31 December 2014 and 2013:

	2014 € m	2013 € m
Cash and cash equivalents	**185**	278
Equity instruments		
Quoted equity instruments:		
Basic materials	**70**	81
Consumer goods	**180**	181
Consumer services	**148**	144
Energy	**106**	125
Financials	**312**	306
Healthcare	**147**	128
Industrials	**169**	172
Technology	**150**	134
Telecoms	**49**	55
Utilities	**48**	44
Total quoted equity instruments	**1,379**	1,370
Unquoted equity instruments	**10**	6
Total equity instruments	**1,389**	1,376
Debt instruments		
Quoted debt instruments		
Corporate bonds	**823**	685
Government bonds	**869**	542
Total quoted debt instruments	**1,692**	1,227
Unquoted debt instruments		
Corporate bonds	**49**	49
Government bonds	**28**	28
Total unquoted debt instruments	**77**	77
Total debt instruments	**1,769**	1,304
Real estate[(1)(2)]	**230**	187
Derivatives[(2)]	**5**	7
Investment funds		
Quoted investment funds		
Alternatives	**13**	13
Bonds	**420**	316
Cash	**24**	22
Equity	**133**	241
Fixed interest	**82**	64
Forestry	**35**	33
Liability driven	**801**	547
Multi-asset	**423**	320
Property	**1**	1
Total quoted investment funds	**1,932**	1,557
Unquoted investment funds	**–**	5
Total investment funds	**1,932**	1,562
Mortgage backed securities[(2)]	**486**	528
Structured debt	**11**	–
Fair value of scheme assets at 31 December	**6,007**	5,242

[(1)]Located in Europe.

[(2)]A quoted market price in an active market is not available.

11 Retirement benefits *(continued)*

Sensitivity analysis for principal assumptions used to measure scheme liabilities

There are inherent uncertainties surrounding the financial assumptions adopted in calculating the actuarial valuation of the pension schemes. Set out in the table below is a sensitivity analysis of the key assumptions for the Irish scheme and the UK scheme.

Note that the changes in assumptions are independent of each other i.e. the effect of the reflected change in the discount rate assumes that there has been no change in the rate of mortality assumption and vice versa.

	Irish scheme defined benefit obligation		UK scheme defined benefit obligation	
	Increase € m	Decrease € m	Increase € m	Decrease € m
Discount rate (0.25% movement)	(279)	301	(62)	65
Inflation (0.25% movement)	268	(250)	63	(59)
Future mortality (1 year movement)	164	(163)	35	(35)

Maturity of the defined benefit obligation

The weighted average duration of the Irish scheme at 31 December 2014 is 22 years and of the UK scheme at 31 December 2014 is 20 years.

Asset-liability matching strategies

The Irish Scheme has conducted a review of its investment strategies which included a consideration of the nature and duration of its liabilities. The current Minimum Funding Standard regulatory funding plan requires that the scheme's investment strategy takes account of the liabilities by the completion of the plan in 2018.The implementation of the investment strategy continued in 2014 and is ongoing. The UK scheme has already implemented a de-risking strategy that has resulted in a significant investment in liability matching assets. This strategy includes the elimination of all equity investments and the investment of all assets in a combination of corporate bonds, sovereign bonds and liability matching instruments.

Funding arrangements and policy

In addition to the funding arrangement set out in 'Regulatory framework' on page 241, AIB executed a series of agreements on 22 October 2013 to give effect to an asset backed funding plan for the UK scheme which replaced the previous funding plan. Based on the results of the 31 December 2011 valuation, the asset backed funding plan grants the scheme expected annual payments of £ 22.4 million (range of £ 15 million to £ 35 million), which will be payable quarterly from 1 January 2016 to 31 December 2032. In addition, if the 31 December 2032 actuarial valuation of the scheme reveals a deficit, the scheme will receive a termination payment equal to the lower of that deficit or £ 60 million (note 46).

Long-term disability payments

AIB provides an additional benefit to employees who suffer prolonged periods of sickness, subject to qualifying terms of the insurer. It provides for the partial replacement of income in event of illness or injury resulting in the employee's long term absence from work. In 2014, the Group contributed € 8 million (2013: € 6 million; 2012: € 8 million) towards insuring this benefit. This amount is included in administrative expenses (note 9).

12 (Provisions)/writeback for impairment on financial investments available for sale

	2014 € m	2013 € m	2012 € m
Debt securities *(note 28)*	**(1)**	18	–
Equity securities *(note 28)*	**–**	(9)[1]	(86)[1]
	(1)	9	(86)

[1]Of which Nil (2013: Nil; 2012: € 82 million) relates to NAMA subordinated bonds.

13 Profit on disposal of property

2014

The sale of properties surplus to requirements gave rise to profit on disposal of € 6 million.

2013

The sale of properties surplus to requirements and cessation of business gave rise to profit on disposal of € 2 million.

2012

Release of deferred profit on sale of property € 2 million.

14 Profit on disposal of businesses

2014

There was no profit or loss on disposal of businesses within the Group during the current financial year.

2013

The Group received an additional consideration of € 1 million which had been deferred in 2012 following the disposal of an offshore subsidiary.

2012

In November 2011, AIB entered into an agreement to sell its investment in AIB Asset Management Holdings (Ireland) Limited and related companies. AIB's investment was derecognised in May 2012, following regulatory approval for the disposal. This resulted in a profit of € 2 million before tax (tax charge: Nil). The sale of an offshore subsidiary also gave rise to a profit of € 1 million (tax charge Nil).

15 Auditor's fees

The disclosure of Auditor's fees is in accordance with (SI 220)[1]. This mandates disclosure of fees paid to the Group Auditor only (Deloitte & Touche Ireland) for services to the parent company in the categories set out below. All years presented are on that basis.

	2014 € m	2013* € m
Auditor's fees *(excluding VAT)*:		
Audit	**2.2**	1.9
Other assurance services	**0.4**	0.3
Taxation advisory services	**–**	–
Other non-audit services	**0.1**	0.1
	2.7	2.3

Included in the above are amounts paid to the Group Auditor, for services provided to other Group companies:

– audit € 0.3 million (2013*: € 0.1 million);
– other assurance services € 0.05 million (2013*: Nil);
– taxation advisory services Nil (2013*: € 0.01 million); and
– other non–audit services Nil (2013*: Nil).

Other assurance services include fees for additional assurance issued by the firm outside of the audit of the statutory financial statements of the Group and subsidiaries. These fees include assignments where the Auditor, in Ireland, provides assurance to third parties.

The Group policy on the provision of non-audit services to the parent and its subsidiary companies includes the prohibition on the provision of certain services and the pre-approval by the Audit Committee of the engagement of the Auditor for non-audit work.

The Audit Committee has reviewed the level of non-audit services fees and is satisfied that it has not affected the independence of the Auditor. It is Group policy to subject all large consultancy assignments to competitive tender, where appropriate.

The following table shows fees paid to overseas auditors (excluding Deloitte & Touche Ireland)

	2014 € m	2013* € m
Auditor's fees excluding Deloitte & Touche Ireland *(excluding VAT)*[2]:	**4.8**	3.2

[1]SI 220 is titled the European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010.

[2]In conjunction with the Prudential Regulatory Authority in the UK, Deloitte LLP were appointed to undertake a Section 166 Review in AIB Group (UK) p.l.c. in 2012. During 2014, € 4.3 million has been paid to Deloitte LLP as this review has continued throughout the year (2013*: € 2.8 million).

*Amounts paid in 2013 are from 20 June 2013 (date of appointment of Deloitte & Touche as Group Auditor).

16 Taxation

	2014 € m	2013 € m	2012 € m
Allied Irish Banks, p.l.c. and subsidiaries			
Corporation tax in Republic of Ireland			
Current tax on income for the year	**(1)**	–	–
Adjustments in respect of prior years	**–**	17	(2)
	(1)	17	(2)
Double taxation relief	**–**	–	–
	(1)	17	(2)
Foreign tax			
Current tax on income for the year	**–**	(32)	14
Adjustments in respect of prior years	**34**	1	(12)
	34	(31)	2
	33	(14)	–
Deferred taxation			
Origination and reversal of temporary differences	**(156)**	88	159
Adjustments in respect of prior years	**(21)**	16	13
Reduction in carrying value of deferred tax assets in respect of carried forward losses	**(86)**	–	–
	(263)	104	172
Total tax (charge)/credit for the year	**(230)**	90	172
Effective tax rate	**20.7%**	5.3%	4.6%

Factors affecting the effective tax rate

The effective income tax rate for 2014 is 20.7% (2013: 5.3%; 2012: 4.6%). The following table explains the differences between the Group's weighted average statutory corporation tax rates across its geographic locations and its effective income tax rate:

	2014 %	2013 %	2012 %
Weighted average corporation tax rate	**12.3**	14.2	14.3
Effects of:			
Expenses not deductible for tax purposes	**1.8**	(1.8)	(0.3)
Exempted income, income at reduced rates and tax credits	**(0.2)**	0.8	0.1
Income taxed at higher rates	**–**	(1.6)	–
Deferred tax assets not recognised/reversal of amounts previously not recognised	**8.5**	(2.8)	(7.2)
Other differences	**(0.6)**	0.3	(0.4)
Change in tax rates[1]	**–**	(4.5)	(1.8)
Adjustments to tax charge in respect of previous years	**(1.1)**	0.7	(0.1)
Effective income tax rate	**20.7**	5.3	4.6

[1]Change in the UK tax rate.

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Notes to the consolidated financial statements

16 Taxation *(continued)*

Analysis of selected other comprehensive income

			2014			2013			2012
Continuing operations	**Gross € m**	**Tax € m**	**Net € m**	Gross € m	Tax € m	Net € m	Gross € m	Tax € m	Net € m
Retirement benefit schemes									
Actuarial (losses)/gains in retirement benefit schemes	**(1,067)**	**128**	**(939)**	(292)	41	(251)	830	(114)	716
Total	**(1,067)**	**128**	**(939)**	(292)	41	(251)	830	(114)	716
Foreign currency translation reserves									
Change in foreign currency translation reserves	**27**	**–**	**27**	(9)	–	(9)	34	–	34
Total	**27**	**–**	**27**	(9)	–	(9)	34	–	34
Cash flow hedging reserves									
Fair value (gains) transferred to income statement	**(46)**	**5**	**(41)**	(5)	–	(5)	(87)	10	(77)
Fair value gains/(losses) taken to other comprehensive income	**445**	**(56)**	**389**	(15)	2	(13)	(98)	13	(85)
Total	**399**	**(51)**	**348**	(20)	2	(18)	(185)	23	(162)
Available for sale securities reserves									
Fair value (gains)/losses transferred to income statement	**(388)**	**48**	**(340)**	(51)	10	(41)	55	7	62
Fair value gains taken to other comprehensive income	**1,223**	**(155)**	**1,068**	631	(77)	554	1,412	(179)	1,233
Total	**835**	**(107)**	**728**	580	(67)	513	1,467	(172)	1,295

17 Discontinued operations

Disposal of Ark Life in 2014 and disposal of Aviva Life Holdings Ireland Limited and acquisition of Ark Life in 2013

2014

In May 2014, AIB disposed of its investment in Ark Life Assurance Company Limited ('Ark Life') resulting in a gain on disposal of € 34 million (tax Nil).

2013

Following the exercise of put options in January 2012, AIB's investment in Aviva Life Holdings Ireland Limited ("ALH") was held for sale within 'Disposal groups and non-current assets held for sale' at 31 December 2012. This was designated as an equity investment at fair value through profit or loss. The sale was completed on 8 March 2013, resulting in a gain on disposal of € 10 million and a tax charge of nil. This gain was reported in 'Net trading income/(loss)' (note 6).

AIB then acquired a 100% interest in Ark Life for a consideration of € 325 million. The put option that required AIB to acquire Ark Life had a negative valuation of € 23 million at the date of acquisition.

The investment in Ark Life was initially measured at a fair value less costs to sell of € 302 million being a market related valuation of Ark Life, primarily taking account of Ark Life's market consistent embedded value ("MCEV") of € 447 million. The fair value of the liabilities acquired amounted to € 3.8 billion, while the fair value of the assets acquired amounted to € 4.1 billion. Acquisition related costs for Ark Life amounted to € 3 million and were included in 'Administrative expenses' (note 9).

Since Ark Life was acquired exclusively with a view to its subsequent disposal, it was classified on acquisition date as a discontinued operation in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The investment was accounted for in accordance with the accounting policy set out on page 211 of the Annual Financial Report 2014. As set out in the accounting policy, the disposal group was reported at the lower of its carrying amount and fair value less costs to sell at each reporting date. The fair value was equal to or greater than the carrying value at 31 December 2013. However, no income was recorded in the year in accordance with the accounting policy for a subsidiary acquired exclusively for resale.

2012

There were no discontinued operations in the year to 31 December 2012.

18 Earnings per share

The calculation of basic earnings per unit of ordinary shares is based on the profit/(loss) attributable to ordinary shareholders divided by the weighted average of ordinary shares in issue, excluding treasury shares and own shares held.

The diluted earnings per share is based on the profit/(loss) attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue, excluding treasury shares and own shares held, adjusted for the effect of dilutive potential ordinary shares.

(a) Basic	2014 € m	2013 € m	2012 € m
Profit/(loss) attributable to ordinary shareholders of the parent from continuing operations	881	(1,597)	(3,557)
Profit attributable to ordinary shareholders from discontinued operations	34	–	–
Profit/(loss) attributable to ordinary shareholders	**915**	(1,597)	(3,557)
	Number of shares (millions)		
Weighted average number of ordinary shares in issue during the year	522,649.6	519,761.0	515,789.0
Earnings/(loss) per share from continuing operations – basic	**EUR 0.2c**	EUR (0.3c)	EUR (0.7c)
Earnings per share from discontinued operations – basic	**–**	–	–

(b) Diluted	2014 € m	2013 € m	2012 € m
Profit/(loss) attributable to ordinary shareholders of the parent from continuing operations *(note 18 (a))*	881	(1,597)	(3,557)
Dilutive effect of CCN's interest charge	234	–	–
Adjusted profit/(loss) attributable to ordinary shareholders from continuing operations	1,115	(1,597)	(3,557)
Profit attributable to ordinary shareholders of the parent from discontinued operations	34	–	–
Adjusted profit/(loss) attributable to ordinary shareholders	**1,149**	(1,597)	(3,557)
	Number of shares (millions)		
Weighted average number of ordinary shares in issue during the year	**522,649.6**	519,761.0	515,789.0
Dilutive effect of options outstanding	–	–	–
Dilutive effect of CCNs	160,000.0	–	–
Potential weighted average number of shares	**682,649.6**	519,761.0	515,789.0
Earnings/(loss) per share from continuing operations – diluted	**EUR 0.2c**	EUR (0.3c)	EUR (0.7c)
Earnings per share from discontinued operations – diluted	**–**	–	–

– Bonus shares in lieu of the dividend on the 2009 Preference Shares were issued to the NPRFC[1] in 2014, 2013 and 2012 amounting to: 2,177,293,934; 4,144,055,254; and 3,623,969,972 shares respectively (note 39). These bonus shares have been included in the weighted average number of shares in issue prospectively from the date of issue as they represent a dilution of earnings per share from that date.

– The incremental shares from assumed conversion of options are not included in calculating the diluted per share amounts because they are anti-dilutive.

– In July 2011, AIB issued € 1.6 billion in contingent capital notes ("CCNs"). These notes are mandatorily redeemable and will convert to AIB ordinary shares, by dividing the capital amount of € 1.6 billion by the conversion price of € 0.01 resulting in 160 billion new ordinary shares (note 38), if the Core Tier 1 capital ratio falls below 8.25%. These incremental shares have been included in calculating the 2014 diluted per share amounts because they were dilutive in 2014 but not in 2013 or 2012. However, the impact is minimal.

The ordinary shares are included in the weighted average number of shares on a time apportioned basis.

[1]National Treasury Management Agency as controller and manager of the Ireland Strategic Investment Fund (NTMA / ISIF with effect 22 December 2014).

19 Distributions on equity shares

No dividends were paid on equity shares in 2014, 2013 or 2012.

20 Disposal groups and non-current assets held for sale

At 31 December 2014, disposal groups and non-current assets held for sale include property surplus to requirements.

Disposal groups and non-current assets/liabilities are shown as single line items in the statement of financial position with no re-presentation of comparatives. An analysis of the components of these single line items is set out below:

	2014		2013	
	Assets € m	**Liabilities € m**	Assets € m	Liabilities € m
Loans and receivables to customers	**–**	**–**	28[(1)]	–
Other	**14**	**–**	7	–
Discontinued operations:				
Ark Life[(2)]	**–**	**–**	2,747	3,593
Total disposal groups and non-current assets and liabilities held for sale	**14**	**–**	2,782	3,593

[(1)]Net of provisions of Nil (note 26).

[(2)]Ark Life which had been classified as held for sale as a discontinued operation at 31 December 2013, was disposed of in May 2014 (note 17). Intercompany balances of € 1,148 million between AIB and Ark Life (which included deposits of € 1,011 million) were eliminated on consolidation.

21 Trading portfolio financial assets

	2014 € m	2013 € m
Debt securities	–	1
Equity securities	1	1
	1	2

	2014 € m	2013 € m
Of which listed:		
Debt securities	–	1
Of which unlisted:		
Equity securities	1	1
	1	2

During 2008, trading portfolio financial assets reclassified to financial investments available for sale, in accordance with the amended IAS 39 *Financial Instruments: Recognition and Measurement*, amounted to € 6,104 million. The fair value of reclassified assets at 31 December 2014 was € 42 million (2013: € 467 million; 2012: € 1,025 million; 2011: € 1,410 million; 2010: € 2,538 million; 2009: € 4,104 million; 2008: € 5,674 million).

As at the reclassification date, effective variable interest rates on reclassified trading portfolio financial assets ranged from 4% to 10% with expected gross recoverable cash flows of € 7,105 million. If the reclassification had not been made, the Group's income statement for the year ended 31 December 2014 would have included unrealised fair value gains on reclassified trading portfolio financial assets of € 15 million (2013: gains € 112 million; 2012: gains € 136 million).

After reclassification, the reclassified assets contributed the following amounts to the income statement:

	2014 € m	2013 € m	2012 € m
Interest on financial investments available for sale	2	11	32
Provisions for impairment on financial investments available for sale	(1)	–	–

Up to the date of reclassification in 2008, € 55 million of unrealised losses on the reclassified trading portfolio financial assets were recognised in the income statement (year ended December 2007: € 111 million).

22 Derivative financial instruments

Derivatives are used to service customer requirements, to manage the Group's interest rate, exchange rate, equity and credit exposures and for trading purposes. Derivative instruments are contractual agreements whose value is derived from price movements in underlying assets, interest rates, foreign exchange rates or indices. The majority of the Group's derivative activities are undertaken at the parent company level (Allied Irish Banks, p.l.c.) and the following discussion applies equally to the parent company and Group.

Market risk is the exposure to potential loss through holding interest rate, exchange rate and equity positions in the face of absolute and relative price movements, interest rate volatility, movements in exchange rates and shifts in liquidity. Credit risk is the exposure to loss should the counterparty to a financial instrument fail to perform in accordance with the terms of the contract.

While notional principal amounts are used to express the volume of derivative transactions, the amounts subject to credit risk are much lower because derivative contracts typically involve payments based on the net differences between specified prices or rates.

Credit risk in derivative contracts is the risk that the Group's counterparty in the contract defaults prior to maturity at a time when the Group has a claim on the counterparty under the contract (i.e. contracts with a positive fair value). The Group would then have to replace the contract at the current market rate, which may result in a loss. For risk management purposes, consideration is taken of the fact that not all counterparties to derivative positions are expected to default at the point where the Group is most exposed to them.

The following table presents the total notional principal amount of interest rate, exchange rate, equity and credit derivative contracts for 2014 and 2013 together with the positive and negative fair values attaching to those contracts:

	2014 € m	2013 € m
Interest rate contracts[(1)]		
Notional principal amount	73,230	104,072
Positive fair value	1,852	1,443
Negative fair value	(2,136)	(1,847)
Exchange rate contracts[(1)]		
Notional principal amount	4,816	4,314
Positive fair value	48	35
Negative fair value	(73)	(34)
Equity contracts[(1)]		
Notional principal amount	3,010	2,390
Positive fair value	138	151
Negative fair value	(117)	(79)
Credit derivatives[(1)]		
Notional principal amount	340	–
Positive fair value	–	–
Negative fair value	(8)	–
Total notional principal amount	81,396	110,776
Total positive fair value[(2)]	2,038	1,629
Total negative fair value	(2,334)	(1,960)

[(1)]Interest rate, exchange rate and credit derivative contracts are entered into for both hedging and trading purposes. Equity contracts are entered into for trading purposes only.

[(2)]70% of fair value relates to exposures to banks (2013: 72%).

22 Derivative financial instruments *(continued)*

The Group uses the same credit control and risk management policies in undertaking all off-balance sheet commitments as it does for on balance sheet lending including counterparty credit approval, limit setting and monitoring procedures. In addition, derivative instruments are subject to the market risk policy and control framework as described in the Risk Management section.

The following table analyses the total notional principal amount of interest rate, exchange rate, equity and credit derivative contracts by residual maturity together with the positive fair value attaching to these contracts where relevant:

				2014				2013
	< 1 year € m	**1 < 5 years € m**	**5 years + € m**	**Total € m**	< 1 year € m	1 < 5 years € m	5 years + € m	Total € m
Residual maturity								
Notional principal amount	**30,037**	**33,844**	**17,515**	**81,396**	53,863	44,558	12,355	110,776
Positive fair value	**98**	**820**	**1,120**	**2,038**	243	900	486	1,629

AIB Group has the following concentration of exposures in respect of notional principal amount and positive fair value of interest rate, exchange rate, equity and credit derivative contracts. The concentrations are based primarily on the location of the office recording the transaction.

	Notional principal amount		**Positive fair value**	
	2014 € m	2013 € m	**2014 € m**	2013 € m
Republic of Ireland	**78,035**	107,557	**1,542**	1,253
United Kingdom	**2,886**	2,833	**469**	358
United States of America	**475**	386	**27**	18
	81,396	110,776	**2,038**	1,629

22 Derivative financial instruments *(continued)*

Trading activities

The Group maintains trading positions in a variety of financial instruments including derivatives. These derivative financial instruments include interest rate, foreign exchange, equity and credit derivatives. Most of these positions arise as a result of activity generated by corporate customers while the remainder represent trading decisions of the Group's derivative and foreign exchange traders with a view to generating incremental income.

All trading activity is conducted within risk limits approved by the Board. Systems are in place which measure risks and profitability associated with derivative trading positions as market movements occur. Independent risk control units monitor these risks.

The risk that counterparties to derivative contracts might default on their obligations is monitored on an ongoing basis and the level of credit risk is minimised by dealing with counterparties of good credit standing and by the use of Credit Support Annexes and ISDA Master Netting Agreements. As the traded instruments are recognised at market value, these changes directly affect reported income for the period. Exposure to market risk is managed in accordance with risk limits approved by the Board through buying or selling instruments or entering into offsetting positions.

The Group undertakes trading activities in interest rate contracts with the Group being a party to interest rate swap, forward, future, option, cap and floor contracts. The Group's largest activity is in interest rate swaps. The two parties to an interest rate swap agree to exchange, at agreed intervals, payment streams calculated on a specified notional principal amount.

Risk management activities

In addition to meeting customer needs, the Group's principal objective in holding or transacting derivatives is the management of interest rate and foreign exchange risks which arise within the banking book through the operations of the Group as outlined below.

The operations of the Group are exposed to interest rate risk arising from the fact that assets and liabilities mature or reprice at different times or in differing amounts. Derivatives are used to modify the repricing or maturity characteristics of assets and liabilities in a cost-efficient manner. This flexibility helps the Group to achieve liquidity and risk management objectives. Similarly, foreign exchange derivatives can be used to hedge the Group's exposure to foreign exchange risk.

Derivative prices fluctuate in value as the underlying interest rate or foreign exchange rates change. If the derivatives are purchased or sold as hedges of statement of final position items, the appreciation or depreciation of the derivatives will generally be offset by the unrealised depreciation or appreciation of the hedged items.

To achieve its risk management objectives, the Group uses a combination of derivative financial instruments, particularly interest rate swaps, cross currency interest rate swaps, forward rate agreements, futures, options and currency swaps, as well as other contracts. The notional principal and fair value amounts for instruments held for risk management purposes entered into by the Group at 31 December 2014 and 2013, are presented within this note.

22 Derivative financial instruments *(continued)*

The following table shows the notional principal amount and the fair value of derivative financial instruments analysed by product and purpose as at 31 December 2014 and 31 December 2013. A description of how the fair values of derivatives are determined is set out in note 47.

	2014			2013		
	Notional principal amount	Fair values		Notional principal amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
	€ m	€ m	€ m	€ m	€ m	€ m
Derivatives held for trading						
Interest rate derivatives – over the counter ("OTC")						
Interest rate swaps	17,182	789	(905)	14,748	762	(761)
Cross-currency interest rate swaps	629	46	(42)	720	47	(43)
Interest rate options	677	3	(5)	794	6	(6)
Total interest rate derivatives – OTC	18,488	838	(952)	16,262	815	(810)
Interest rate derivatives – exchange traded						
Interest rate futures	1,706	–	–	121	–	–
Total interest rate derivatives – exchange traded	1,706	–	–	121	–	–
Total interest rate derivatives	20,194	838	(952)	16,383	815	(810)
Foreign exchange derivatives – OTC						
Foreign exchange contracts	4,650	46	(70)	4,130	32	(32)
Currency options bought and sold	166	2	(3)	185	3	(2)
Total foreign exchange derivatives	4,816	48	(73)	4,315	35	(34)
Equity derivatives – OTC						
Equity warrants	23	23	–	–	–	–
Equity index options	2,987	115	(117)	2,390	151	(79)
Total equity derivatives	3,010	138	(117)	2,390	151	(79)
Credit derivatives – OTC						
Credit derivatives	340	–	(8)	–	–	–
Total credit derivatives	340	–	(8)	–	–	–
Total derivatives held for trading	28,360	1,024	(1,150)	23,088	1,001	(923)
Derivatives held for hedging						
Derivatives designated as fair value hedges – OTC						
Interest rate swaps	17,130	500	(587)	16,433	532	(590)
Total derivatives designated as fair value hedges	17,130	500	(587)	16,433	532	(590)
Derivatives designated as cash flow hedges – OTC						
Interest rate swaps	32,792	511	(380)	68,100	81	(367)
Cross currency interest rate swaps	3,114	3	(217)	3,155	15	(80)
Total derivatives designated as cash flow hedges	35,906	514	(597)	71,255	96	(447)
Total derivatives held for hedging	53,036	1,014	(1,184)	87,688	628	(1,037)
Total derivative financial instruments	81,396	2,038	(2,334)	110,776	1,629	(1,960)

22 Derivative financial instruments *(continued)*

Cash flow hedges

The table below sets out the hedged cash flows which are expected to occur in the following periods:

2014	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	Total € m
Forecast receivable cash flows	**27**	**16**	**83**	**114**	**240**
Forecast payable cash flows	**8**	**11**	**52**	**80**	**151**

2013	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	Total € m
Forecast receivable cash flows	91	73	232	240	636
Forecast payable cash flows	31	38	95	111	275

The table below sets out the hedged cash flows, including amortisation of terminated cash flow hedges, which are expected to impact the income statement in the following periods:

2014	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	Total € m
Forecast receivable cash flows	**27**	**16**	**83**	**114**	**240**
Forecast payable cash flows	**33**	**32**	**97**	**99**	**261**

2013	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	Total € m
Forecast receivable cash flows	91	73	232	240	636
Forecast payable cash flows	72	72	179	117	440

For AIB Group, the ineffectiveness reflected in the income statement that arose from cash flow hedges is Nil (2013: a credit of € 7 million).

The pay fixed cash flow hedges are used to hedge the cash flows on variable rate liabilities and the receive fixed cash flow hedges are used to hedge the cash flows on variable rate assets.

The total amount recognised in other comprehensive income net of tax during the year in respect of cash flow hedges was a gain of € 348 million (2013: a charge of € 18 million).

Fair value hedges

Fair value hedges are entered into to hedge the exposure to changes in the fair value of recognised assets or liabilities arising from changes in interest rates, primarily available for sale securities and fixed rate liabilities. The fair values of financial instruments are set out in note 47. The net mark to market on fair value hedging derivatives, excluding accrual and risk adjustments is negative € 161 million (2013: negative € 56 million) and the net mark to market on the related hedged items is positive € 157 million (2013: positive € 54 million).

Netting financial assets and financial liabilities

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 and those with a negative fair value are reported as liabilities.

Details on offsetting financial assets and financial liabilities are set out in note 43.

23 Loans and receivables to banks

	2014 € m	2013 € m
Funds placed with central banks	**664**	656
Funds placed with other banks	**1,201**	1,399
Provision for impairment	**–**	(7)
	1,865	2,048
Amounts include:		
Reverse repurchase agreements	**–**	16

Loans and receivables to banks by geographical area[1]	2014 € m	2013 € m
Republic of Ireland	**402**	478
United Kingdom	**1,461**	1,566
Rest of the World	**2**	4
	1,865	2,048

[1]The classification of loans and receivables to banks by geographical area is based primarily on the location of the office recording the transaction.

Loans and receivables to banks include cash collateral of € 773 million placed with derivative counterparties in relation to net derivative positions and placed with repurchase agreement counterparties (2013: € 798 million) (notes 22 and 43).

Under reverse repurchase agreements, the Group accepted collateral in 2013 that it was permitted to sell or repledge in the absence of default by the owner of the collateral. The collateral received consisted exclusively of non-government securities (bank bonds) with a fair value of € 16 million. The fair value of collateral sold or repledged amounted to € 16 million. These transactions were conducted under terms that are usual and customary to standard reverse repurchase agreements.

24 Loans and receivables to customers

	2014 € m	2013 € m
Loans and receivables to customers	**74,651**	81,680
Reverse repurchase agreements	**110**	–
Amounts receivable under finance leases and hire purchase contracts *(note 25)*	**860**	965
Unquoted debt securities	**147**	151
Provisions for impairment *(note 26)*	**(12,406)**	(17,083)
	63,362	65,713
Of which repayable on demand or at short notice	**25,078**	31,853
Amounts include:		
Due from associated undertakings	**–**	–

The unwind of the discount on the carrying amount of impaired loans amounted to € 329 million (2013: € 373 million) and is included in the carrying value of loans and receivables to customers. This has been credited to interest income.

Under reverse repurchase agreements, the Group has accepted collateral with a fair value of € 107 million (2013: Nil) that it is permitted to sell or repledge in the absence of default by the owner of the collateral. In addition, loans and receivables to customers includes cash collateral amounting to € 72 million (2013: € 27 million) placed with derivative counterparties.

For details of credit quality of loans and receivables to customers, including forbearance, refer to 'Risk management – 3.1 and 3.2'.

25 Amounts receivable under finance leases and hire purchase contracts

The following balances principally comprise of leasing arrangements involving vehicles, plant, machinery and equipment.

	2014 € m	2013 € m
Gross receivables		
Not later than 1 year	386	465
Later than one year and not later than 5 years	578	617
Later than 5 years	29	24
	993	1,106
Unearned future finance income	(136)	(144)
Deferred costs incurred on origination	3	3
Total	860	965
Present value of minimum payments analysed by residual maturity		
Not later than 1 year	315	392
Later than one year and not later than 5 years	519	552
Later than 5 years	26	21
Present value of minimum payments	860	965
Provision for uncollectible minimum payments receivable[1]	80	223
Net investment in new business	364	303

[1]Included in the provisions for impairment on loans and receivables to customers (note 26).

26 Provisions for impairment on loans and receivables

The following table shows provisions for impairment on loans and receivables (both to banks and customers) and also includes provisions on loans and receivables within disposal groups and non-current assets held for sale. Further information on provisions for impairment is disclosed in the 'Risk management' section.

	2014 Total € m	2013 Total € m
At 1 January	17,090	16,532
Exchange translation adjustments	150	(76)
Other[1]	–	(14)
(Credit to)/charge against income statement – customers	(178)	1,913
(Credit to)/charge against income statement – banks	(7)	3
Amounts written off	(4,655)	(1,134)
Disposals	–	(136)
Recoveries of amounts written off in previous years	6	2
At 31 December	12,406	17,090
Total provisions are split as follows:		
Specific	11,315	15,905
IBNR	1,091	1,185
	12,406	17,090
Amounts include:		
Loans and receivables to banks *(note 23)*	–	7
Loans and receivables to customers *(note 24)*	12,406	17,083
	12,406	17,090

[1]Includes transfers (to)/from provisions for liabilities and commitments.

27 NAMA senior bonds

During 2010 and 2011, AIB received NAMA senior bonds and NAMA subordinated bonds as consideration for loans and receivables transferred to NAMA.

The senior bonds carry a guarantee of the Irish Government with interest payable semi-annually each March and September at a rate of six month Euribor. The bonds were issued from 1 March 2010 and all bonds issued on, or after, 1 March in any year will mature on or prior to 1 March in the following year. NAMA may, with the consent of the Group, settle the bonds by issuing new bonds with the same terms and conditions and a maturity date of up to 364 days.

The following table provides a movement analysis of the NAMA senior bonds:

	2014 € m	2013 € m
At 1 January	15,598	17,387
Amortisation of discount	36	65
Repayments	(6,343)	(1,916)
Effect of re-estimating the timing of cash flows	132	62
At 31 December	9,423	15,598

On initial recognition of the NAMA senior bonds, AIB made certain assumptions as to the timing of expected repayments. In 2014, having considered recent updates from NAMA on its current performance against achieving its strategic objectives, AIB reviewed its expected pattern of repayments on the NAMA senior bonds and has recognised a gain of € 132 million reflecting a revised pattern of repayment including those received during the year. The adjustment to the carrying amount has resulted in the recognition of a gain of € 132 million (31 December 2013: € 62 million) as set out in note 8 'Other operating income'.

The estimated fair value of the bonds at 31 December 2014 is € 9,479 million (31 December 2013: € 15,767 million). The nominal value of the bonds is € 9,477 million (31 December 2013: € 15,820 million). Whilst these bonds do not have an external credit rating, the Group has attributed to them a rating of A– (31 December 2013: BBB+) i.e. the external rating of the Sovereign.

At 31 December 2014, € 1,805 million (31 December 2013: € 12,435 million) of NAMA senior bonds have been pledged to central banks and banks (note 33).

28 Financial investments available for sale

The following table sets out at 31 December 2014 and 31 December 2013, the carrying value (fair value) of financial investments available for sale by major classifications together with the unrealised gains and losses.

2014	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	**9,107**	**1,327**	**–**	**1,327**	**(166)**	**1,161**
Euro government securities	**3,631**	**170**	**–**	**170**	**(21)**	**149**
Non Euro government securities	**182**	**9**	**–**	**9**	**(1)**	**8**
Supranational banks and government agencies	**2,852**	**119**	**–**	**119**	**(15)**	**104**
Collateralised mortgage obligations	**99**	**–**	**(1)**	**(1)**	**–**	**(1)**
Other asset backed securities	**1**	**–**	**–**	**–**	**–**	**–**
Euro bank securities	**3,897**	**105**	**–**	**105**	**(13)**	**92**
Non Euro corporate securities	**3**	**–**	**(1)**	**(1)**	**–**	**(1)**
Total debt securities	**19,772**	**1,730**	**(2)**	**1,728**	**(216)**	**1,512**
Equity securities						
Equity securities – NAMA subordinated bonds	**374**	**327**	**–**	**327**	**(41)**	**286**
Equity securities – other	**39**	**11**	**(3)**	**8**	**(2)**	**6**
Total equity securities	**413**	**338**	**(3)**	**335**	**(43)**	**292**
Total financial investments available for sale	**20,185**	**2,068**	**(5)**	**2,063**	**(259)**	**1,804**

2013	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	10,328	910	–	910	(113)	797
Euro government securities	1,968	110	(1)	109	(14)	95
Non Euro government securities	608	54	–	54	(6)	48
Supranational banks and government agencies	3,092	29	(6)	23	(3)	20
Other asset backed securities	535	1	(54)	(53)	7	(46)
Euro bank securities	3,671	59	(7)	52	(4)	48
Non Euro bank securities	34	–	–	–	–	–
Non Euro corporate securities	3	–	–	–	–	–
Other investments	12	–	–	–	–	–
Total debt securities	20,251	1,163	(68)	1,095	(133)	962
Equity securities						
Equity securities – NAMA subordinated bonds	73	26	–	26	(3)	23
Equity securities – other	44	12	(7)	5	–	5
Total equity securities	117	38	(7)	31	(3)	28
Total financial investments available for sale	20,368	1,201	(75)	1,126	(136)	990

28 Financial investments available for sale *(continued)*

Analysis of movements in financial investments available for sale	2014 Debt securities € m	2014 Equity securities € m	2014 Total € m	2013 Debt securities € m	2013 Equity securities € m	2013 Total € m
At 1 January	**20,251**	**117**	**20,368**	16,201	143	16,344
Exchange translation adjustments	**14**	**–**	**14**	(45)	–	(45)
Purchases	**7,324**	**12**	**7,336**	6,639	27	6,666
Sales	**(8,022)**	**(24)**	**(8,046)**	(1,795)	(79)	(1,874)
Maturities	**(735)**	**–**	**(735)**	(1,122)	–	(1,122)
Writeback/(provisions) for impairment	**(1)**	**–**	**(1)**	18	(9)	9
Amortisation of discounts net of premiums	**(67)**	**–**	**(67)**	(8)	–	(8)
Movement in unrealised gains	**1,008**	**308**	**1,316**	363	35	398
At 31 December	**19,772**	**413**	**20,185**	20,251	117	20,368
Of which:						
Listed	**19,772**	**–**	**19,772**	20,239	12	20,251
Unlisted	**–**	**413**	**413**	12	105	117
	19,772	**413**	**20,185**	20,251	117	20,368

Debt securities analysed by remaining contractual maturity	2014 € m	2013 € m
Due within one year	**507**	1,186
After one year, but within five years	**11,678**	11,357
After five years, but within ten years	**6,918**	6,606
After ten years	**669**	1,102
	19,772	20,251

28 Financial investments available for sale *(continued)*

The following table sets out at 31 December 2014 and 31 December 2013, an analysis of the securities portfolio with unrealised losses, distinguishing between securities with continuous unrealised loss positions of less than 12 months and those with continuous unrealised loss positions for periods in excess of 12 months.

						2014
			Fair value			Unrealised losses
	Investments with unrealised losses of less than 12 months € m	Investments with unrealised losses of more than 12 months € m	Total € m	Unrealised losses of less than 12 months € m	Unrealised losses of more than 12 months € m	Total € m
Debt securities						
Collateralised mortgage obligations	70	–	70	(1)	–	(1)
Non Euro corporate securities	–	3	3	–	(1)	(1)
Total debt securities	70	3	73	(1)	(1)	(2)
Equity securities						
Equity securities – other	11	5	16	(2)	(1)	(3)
Total	81	8	89	(3)	(2)	(5)

						2013
			Fair value			Unrealised losses
	Investments with unrealised losses of less than 12 months € m	Investments with unrealised losses of more than 12 months € m	Total € m	Unrealised losses of less than 12 months € m	Unrealised losses of more than 12 months € m	Total € m
Debt securities						
Euro government securities	–	62	62	–	(1)	(1)
Supranational banks and government agencies	909	50	959	(6)	–	(6)
Other asset backed securities	–	513	513	–	(54)	(54)
Euro bank securities	1,293	160	1,453	(5)	(2)	(7)
Total debt securities	2,202	785	2,987	(11)	(57)	(68)
Equity securities						
Equity securities – other	2	–	2	–	(7)	(7)
Total	2,204	785	2,989	(11)	(64)	(75)

Available for sale financial investments with unrealised losses have been assessed for impairment based on the credit risk profile of the counterparties involved. Impairment losses on debt securities of € 1 million (2013: Nil) and Nil (2013: € 9 million) on equity securities have been recognised as set out in note 12.

29 Interests in associated undertakings

Included in the income statement is the contribution from investments in associated undertakings as follows:

Income statement	2014 € m	2013 € m	2012 € m
Share of results of associated undertakings[1]	23	16	15
Impairment of associated undertakings	(2)	(8)	–
Profit/(loss) on disposal of investment in associated undertakings[2]	2	(1)	–
Loss recognised on the remeasurement to fair value less costs to sell of disposal groups and non-current assets held for sale	–	–	(5)
	23	7	10

Share of net assets including goodwill	2014 € m	2013 € m
At 1 January	58	64
Exchange translation adjustments	1	(1)
Disposals[2]	–	(10)
Income for the year – Continuing operations	23	16
Dividends received from associates	(11)	(3)
Impairment on associated undertakings – Continuing operations	(2)	(8)
At 31 December[3]	69	58
Disclosed in the statement of financial position within:		
Interests in associated undertakings	69	58
Of which listed on a recognised stock exchange	–	–

[1]Includes AIB Merchant Services € 21 million profit (2013: € 10 million profit; 2012: € 14 million profit), Aviva Health Insurance Ireland Limited € 2 million (2013: € 6 million; 2012: Nil) and Other associates Nil (2013: Nil; 2012: € 1 million profit).

[2]Spire Holdings was disposed of during 2014 with € 2 million profit on disposal. LaGuardia Hotel was disposed of during 2013 with € 1 million loss on disposal.

[3]Includes the Group's investments in AIB Merchant Services and Aviva Health Insurance Ireland Limited (2013: AIB Merchant Services and Aviva Health Insurance Ireland Limited).

29 Interests in associated undertakings *(continued)*

The following are the principal associates of the Group at 31 December 2014:

Name of associate	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group at 31 December 2014 %	2013 %
(A) Aviva Health Insurance Ireland Limited	Transaction of health insurance business within the Republic of Ireland	1 Park Place Hatch Street, Dublin 2 Ireland	**30**	30
(B) Zoltar Services Limited trading as AIB Merchant Services	Provider of merchant payment solutions	Registered Office: Unit 6, Belfield Business Park Clonskeagh, Dublin 4 Ireland	**49.9**	49.9

All of the associates are accounted for using the equity method in these consolidated financial statements.

In accordance with the European Communities (Credit Institutions: Accounts) Regulations, 1992, Allied Irish Banks, p.l.c. will annex a full listing of associated undertakings to its annual return to the Companies Registration Office.

There was no unrecognised share of losses of associates in 2014 or 2013.

Change in the Group's ownership interest in associates

There was no change in the ownership interest in associates.

Significant restrictions

There is no significant restriction on the ability of associates to transfer funds to the Group in the form of cash or dividends, or to repay loans or advances made by the Group.

30 Intangible assets

	2014			2013		
	Software € m	**Other € m**	**Total € m**	Software € m	Other € m	Total € m
Cost						
At 1 January	**708**	**3**	**711**	689	3	692
Additions – internally generated	**48**	**–**	**48**	52	–	52
– externally purchased	**12**	**–**	**12**	10	–	10
Amounts written off[1]	**–**	**–**	**–**	(43)	–	(43)
At 31 December	**768**	**3**	**771**	708	3	711
Amortisation/impairment						
At 1 January	**532**	**3**	**535**	502	3	505
Amortisation for the year	**48**	**–**	**48**	58	–	58
Impairment for the year	**17**	**–**	**17**	15	–	15
Amounts written off[1]	**–**	**–**	**–**	(43)	–	(43)
At 31 December	**597**	**3**	**600**	532	3	535
Net book value at 31 December	**171**	**–**	**171**	176	–	176

[1]Relates to assets which are no longer in use with a nil carrying value.

Internally generated intangible assets under construction amounted to: € 40 million (2013: € 35 million).

The cost of internally generated software amounted to: € 442 million (2013: € 398 million).

Future capital expenditure in relation to both intangible assets and property, plant and equipment is set out in note 51.

31 Property, plant and equipment

	Property			Equipment	2014 Total
	Freehold	Long leasehold	Leasehold under 50 years		
	€ m	€ m	€ m	€ m	€ m
Cost					
At 1 January 2014	173	99	142	469	883
Reclassification to disposal groups and non-current assets held for sale	(4)	(10)	–	–	(14)
Additions	9	1	10	27	47
Disposals	(1)	–	–	(4)	(5)
Amounts written off[(1)]	(4)	(2)	(28)	(22)	(56)
Exchange translation adjustments	2	–	2	3	7
At 31 December 2014	175	88	126	473	862
Depreciation/impairment					
At 1 January 2014	68	32	93	389	582
Reclassification to disposal groups and non-current assets held for sale	(2)	(2)	–	–	(4)
Depreciation charge for the year	4	4	8	20	36
Impairment charge for the year	1	2	5	4	12
Reversal of impairment charge for the year	–	(2)	–	–	(2)
Disposals	–	–	–	(2)	(2)
Amounts written off[(1)]	(4)	(2)	(28)	(22)	(56)
Exchange translation adjustments	1	–	2	3	6
At 31 December 2014	68	32	80	392	572
Net book value at 31 December 2014	107	56	46	81	290

	Property			Equipment	2013 Total
	Freehold	Long leasehold	Leasehold under 50 years		
	€ m	€ m	€ m	€ m	€ m
Cost					
At 1 January 2013	191	102	141	486	920
Additions	1	1	13	17	32
Disposals	(17)	(4)	(6)	(19)	(46)
Amounts written off[(1)]	(1)	–	(5)	(13)	(19)
Exchange translation adjustments	(1)	–	(1)	(2)	(4)
At 31 December 2013	173	99	142	469	883
Depreciation/impairment					
At 1 January 2013	68	30	93	396	587
Depreciation charge for the year	5	2	8	25	40
Impairment charge for the year	6	2	3	–	11
Disposals	(9)	(2)	(5)	(17)	(33)
Amounts written off[(1)]	(1)	–	(5)	(13)	(19)
Exchange translation adjustments	(1)	–	(1)	(2)	(4)
At 31 December 2013	68	32	93	389	582
Net book value at 31 December 2013	105	67	49	80	301

[(1)]Relates to assets which are no longer in use with a Nil carrying value.

The net book value of property occupied by the Group for its own activities was € 199 million (2013: € 216 million), excluding those held as disposal groups and non-current assets held for sale. Property leased to others by AIB Group had a book value of € 2 million (2013: € 2 million). Property and equipment includes € 8 million for items in the course of construction (2013: € 10 million).

Future capital expenditure in relation to both property plant and equipment and intangible assets is set out in note 51.

32 Deferred taxation

	2014 € m	2013 € m
Deferred tax assets:		
Provision for impairment on loans and receivables	**4**	11
Retirement benefits	**128**	12
Assets leased to customers	**12**	17
Unutilised tax losses	**3,670**	3,871
Amortised income	**1**	2
Other	**46**	76
Total gross deferred tax assets	**3,861**	3,989
Deferred tax liabilities:		
Cash flow hedges	**(54)**	(3)
Amortised income on loans	**(22)**	(45)
Assets used in business	**(12)**	(23)
Available for sale securities	**(197)**	(90)
Total gross deferred tax liabilities	**(285)**	(161)
Net deferred tax assets	**3,576**	3,828
Represented on the statement of financial position as follows:		
Deferred tax assets	**3,576**	3,828

For each of the years ended 31 December 2014 and 2013, full provision has been made for capital allowances and other temporary differences.

Analysis of movements in deferred taxation	2014 € m	2013 € m
At 1 January	**3,828**	3,845
Exchange translation and other adjustments	**41**	(15)
Deferred tax through other comprehensive income	**(30)**	(106)
Income statement – Continuing operations *(note 16)*	**(263)**	104
At 31 December	**3,576**	3,828

Comments on the basis of recognition of deferred tax assets on unused tax losses are included in 'Critical accounting judgements and estimates' on pages 218 to 222. Information on the regulatory capital treatment of deferred tax assets is included in 'Principal risks and uncertainties' on page 55.

At 31 December 2014, recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled € 3,576 million (2013: € 3,828 million). The most significant tax losses arise in the Irish tax jurisdiction and their utilisation is dependent on future taxable profits.

Temporary differences recognised in other comprehensive income consist of deferred tax on available for sale securities, cash flow hedges and actuarial gains/losses on retirement benefit schemes. Temporary differences recognised in the income statement consist of provision for impairment on loans and receivables, amortised income, assets leased to customers, and assets used in the course of business.

Net deferred tax assets of € 3,463 million (2013: € 3,773 million) are expected to be recovered after more than 12 months.

For AIB's principal UK subsidiary, the Group has concluded that the recognition of deferred tax assets 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 asses the likelihood of its profits arising as being more likely than not. For certain other subsidiaries and branches, the Group has concluded that it is more likely than not that there will be insufficient profits to support full recognition of deferred tax assets.

In December 2014, the UK Chancellor announced in his Autumn Statement a proposal that, from 1 April 2015, only fifty per cent of a bank's annual trading profits can be sheltered by unused tax losses arising before that date. As the legislation had not been substantively enacted at 31 December 2014, the proposed change has not been reflected in the 2014 financial statements. Once the legislation is substantively enacted, this could result in an immediate reduction of c £178 million (€ 229 million) in the Group's UK deferred tax asset, based on the 2014 year end position.

32 Deferred taxation *(continued)*

The Group has not recognised deferred tax assets in respect of Irish tax on unused tax losses of € 226 million (2013: € 269 million) and overseas tax (UK and USA) on unused tax losses of € 2,439 million (2013: € 1,675 million), and foreign tax credits, for Irish tax purposes, of € 5 million (2013: € 5 million). Of these tax losses totalling € 2,665 million for which no deferred tax is recognised, € 66 million expires in 2031, € 46 million in 2032, € 33 million in 2033 and € 17 million in 2034.

The aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates for which deferred tax liabilities have not been recognised amounted to Nil (2013: Nil).

Deferred tax recognised directly in equity amounted to Nil (2013: Nil).

Analysis of income tax relating to other comprehensive income

				2014
	Gross	**Tax**	**Net of tax**	**Net amount attributable to owners of the parent**
	€ m	**€ m**	**€ m**	**€ m**
Profit for the year	**1,111**	**(230)**	**881**	**881**
Exchange translation adjustments	**27**	**–**	**27**	**27**
Net change in cash flow hedge reserves	**399**	**(51)**	**348**	**348**
Net change in fair value of available for sale securities	**835**	**(107)**	**728**	**728**
Net actuarial losses in retirement benefit schemes	**(1,067)**	**128**	**(939)**	**(939)**
Net change in property revaluation reserves	**(1)**	**–**	**(1)**	**(1)**
Total comprehensive income for the year	**1,304**	**(260)**	**1,044**	**1,044**
Attributable to:				
Owners of the parent	**1,304**	**(260)**	**1,044**	**1,044**

				2013
	Gross	Tax	Net of tax	Net amount attributable to owners of the parent
	€ m	€ m	€ m	€ m
Loss for the year	(1,687)	90	(1,597)	(1,597)
Exchange translation adjustments	(9)	–	(9)	(9)
Net change in cash flow hedge reserves	(20)	2	(18)	(18)
Net change in fair value of available for sale securities	580	(67)	513	513
Net actuarial gains in retirement benefit schemes	292	(41)	251	251
Net change in property revaluation reserves	(1)	–	(1)	(1)
Total comprehensive income for the year	(845)	(16)	(861)	(861)
Attributable to:				
Owners of the parent	(845)	(16)	(861)	(861)

32 Deferred taxation *(continued)*

Analysis of income tax relating to other comprehensive income

				2012
	Gross	Tax	Net of tax	Net amount attributable to owners of the parent
	€ m	€ m	€ m	€ m
Loss for the year	(3,729)	172	(3,557)	(3,557)
Exchange translation adjustments	34	–	34	34
Net change in cash flow hedge reserves	(185)	23	(162)	(162)
Net change in fair value of available for sale securities	1,467	(172)	1,295	1,295
Net actuarial gains in retirement benefit schemes	(830)	114	(716)	(716)
Net change in property revaluation reserves	–	(2)	(2)	(2)
Total comprehensive income for the year	(3,243)	135	(3,108)	(3,108)
Attributable to:				
Owners of the parent	(3,243)	135	(3,108)	(3,108)

33 Deposits by central banks and banks

	2014 € m	2013 € m
Central banks		
Securities sold under agreements to repurchase	3,400	12,725
Other borrowings	–	–
	3,400	12,725
Banks		
Securities sold under agreements to repurchase	12,653	9,136
Other borrowings – secured	350	750
– unsecured	365	510
	13,368	10,396
	16,768	23,121
Amounts include:		
Due to associated undertakings	–	–

Securities sold under agreements to repurchase (note 46), (with the exception of € 1.9 billion funded through the ECB two year Targeted Long Term Refinancing Operation ("TLTRO") (2013: € 11.25 billion funded through the ECB three year Long Term Refinancing Operation ("LTRO")) mature within six months and are secured by Irish Government bonds, NAMA senior bonds, other marketable securities and eligible assets.

In addition, the Group has granted a floating charge over certain residential mortgage pools, the drawings against which were Nil at 31 December 2014 (2013: Nil).

Deposits by central banks and banks include cash collateral of € 318 million (2013: € 200 million) received from derivative counterparties in relation to net derivative positions (note 22) and also from repurchase agreement counterparties.

Financial assets pledged

(a) Financial assets pledged under existing agreements to repurchase, and providing access to future funding facilities with central banks and banks are detailed in the following table:

	2014			2013		
	Central banks € m	Banks € m	Total € m	Central banks € m	Banks € m	Total € m
Total carrying value of financial assets pledged	5,337	13,857	19,194	14,662	9,938	24,600
Of which:						
Government securities[(1)]	1,084	9,479	10,563	12,048	6,441	18,489
Other securities	4,253[(2)]	4,378	8,631	2,614	3,497	6,111

[(1)]Includes NAMA senior bonds.

[(2)]The Group has securitised certain of its mortgage and loan portfolios held in AIB Mortgage Bank and EBS and has also issued covered bonds. These securities, other than issued to external investors, have been pledged as collateral in addition to other securities held by the Group.

(b) The Group has securitised credit card receivables with a carrying value of € 297 million (2013: € 675 million) as described in note 46. Funding received from external investors is included above as 'other borrowings -secured' and has been secured on these and future credit card receivables.

34 Customer accounts

	2014 € m	2013 € m
Current accounts	**21,665**	18,274
Demand deposits	**10,004**	9,372
Time deposits[(1)]	**30,196**	32,238
Securities sold under agreements to repurchase[(2)]	**2,153**	5,783
	64,018	65,667
Of which:		
Non-interest bearing current accounts	**18,260**	15,384
Interest bearing deposits, current accounts and short-term borrowings	**45,758**	50,283
	64,018	65,667
Amounts include:		
Due to associated undertakings	**75**	150

[(1)]Following the acquisition of Ark Life in March 2013, deposits amounting to € 1,011 million placed by Ark Life with AIB were eliminated on consolidation at 31 December 2013. Since Ark Life is no longer consolidated following its disposal in May 2014, deposits placed by Ark Life are now included in customer accounts since the date of disposal.

[(2)]The Group pledged government available for sale securities with a fair value of € 2,941 million (31 December 2013: € 5,814 million) and non-government available for sale securities with a fair value of Nil (31 December 2013: € 284 million) as collateral for these facilities and providing access to future funding facilities (see note 43 for further information).

At 31 December 2014, the Group's five largest customer deposits amounted to 9% of total customer accounts.

35 Debt securities in issue

	2014 € m	2013 € m
Bonds and medium term notes:		
European medium term note programmes	**3,293**	4,346
Bonds and other medium term notes	**4,518**	4,334
	7,811	8,680
Other debt securities in issue:		
Commercial paper	**50**	79
	7,861	8,759

Debt securities issued during the year amounted to € 3,198 million (31 December 2013: € 3,510 million) of which € 500 million relates to a covered bond issuance (31 December 2013: € 1,000 million), a € 500 million EMTN bond issuance (31 December 2013: € 500 million) with the balance relating to issuances under the short-term commercial paper programme. Debt securities matured or repurchased amounted to € 4,091 million (31 December 2013: € 5,421 million) of which € 937 million (31 December 2013: Nil) related to securities repurchased as part of a debt buyback programme.

36 Other liabilities

	2014 € m	2013 € m
Notes in circulation	**422**	417
Items in transit	**126**	213
Creditors	**12**	12
Fair value of hedged liability positions	**325**	330
Other	**340**	349
	1,225	1,321

37 Provisions for liabilities and commitments

	Liabilities and charges € m	NAMA[1] provisions € m	Onerous[2] contracts € m	Legal claims € m	Other[3] provisions € m	Voluntary severance scheme € m	2014 Total € m
At 1 January	72	35	36	14	139	3	299
Transfers out	–	–	–	–	(5)	–	(5)
Exchange translation adjustments	(1)	–	1	–	5	–	5
Amounts charged to income statement	1[4]	6[1]	29	21	34	1	92
Amounts released to income statement	(5)[4]	(8)[1]	(9)	(2)	(3)	–	(27)
Provisions utilised	(7)	–	(6)	(1)	(89)	(3)	(106)
At 31 December	60	33	51	32	81	1	258

	Liabilities and charges € m	NAMA[1] provisions € m	Onerous[2] contracts € m	Legal claims € m	Other provisions € m	Voluntary severance scheme € m	2013 Total € m
At 1 January	21	31	27	9	156	6	250
Transfers in	34	–	–	4	1	–	39
Transfers out	–	–	(2)	–	(4)	–	(6)
Exchange translation adjustments	–	–	–	–	(4)	–	(4)
Amounts charged to income statement	28[4]	18[1]	20	4	89	3	162
Amounts released to income statement	(11)[4]	(14)[1]	(1)	(2)	(29)	–	(57)
Provisions utilised	–	–	(8)	(1)	(70)	(6)	(85)
At 31 December	72	35	36	14	139	3	299

[1]NAMA income statement charge/(credit) relates to ongoing valuation adjustments in relation to loans previously transferred to NAMA.

[2]Provisions for the unavoidable costs expected to arise from the closure of properties surplus to requirements.

[3]Includes € 58 million provisions in 2014 for refunds to customers. These relate to payment protection insurance in both Ireland and the UK, interest rate hedge products in the UK, credit card insurance, and other restitutions. Provisions in respect of restructuring and reorganisation are also included in 'Other provisions'.

[4]Included in charge/(writeback) of provisions for liabilities and commitments in income statement.

The total provisions for liabilities and commitments expected to be settled within one year amount to € 147 million (2013: € 110 million).

Notes to the consolidated financial statements

38 Subordinated liabilities and other capital instruments

	Notes	2014 € m	2013 € m
Allied Irish Banks, p.l.c.			
€ 1.6bn Contingent Capital Tier 2 Notes due 2016			
Proceeds of issue		**1,600**	1,600
Fair value adjustment on initial recognition		**(447)**	(447)
Amortisation to date		**258**	163
	(a)	**1,411**	1,316
Dated loan capital – European Medium Term Note Programme:			
€ 500m Callable Step-up Floating Rate Notes due October 2017			
– nominal value € 25.5 million (maturity extended to 2035 as a result of the SLO)		**8**	8
£ 368m 12.5% Subordinated Notes due June 2019			
– nominal value £ 79 million (maturity extended to 2035 as a result of the SLO)		**32**	28
£ 500m Callable Fixed/Floating Rate Notes due March 2025			
– nominal value £ 1million (maturity extended to 2035 as a result of the SLO)		**–**	–
		40	36
		1,451	1,352

Maturity of dated loan capital	2014 € m	2013 € m
Dated loan capital outstanding is repayable as follows:		
5 years or more	**40**	36

€ 1.6bn Contingent Capital Tier 2 Notes due 2016

(a) On 26 July 2011, AIB issued € 1.6 billion in nominal value of Contingent Capital Tier 2 Notes ('CCNs') to the Minister for Finance of Ireland ('the Minister') for cash consideration of € 1.6 billion. The fair value of these notes at initial recognition was € 1,153 million with € 447 million being accounted for as a capital contribution from the Minister (note 42). Interest is payable annually in arrears on the nominal value of the notes at a fixed rate of 10% per annum. The interest rate may increase up to 18% at the behest of the Minister but with effect only from the date that the CCNs are sold to a third party external to a State entity. The notes are due to mature on 28 July 2016. The CCNs are unsecured and subordinated obligations of AIB. They rank:

(i) junior to the claims of all holders of unsubordinated obligations of AIB;

(ii) pari passu with the claims of holders of all other subordinated obligations of AIB which qualify as consolidated Tier 2 capital of the Group for regulatory capital purposes or which rank, or are expressed to rank, pari passu with the CCNs; and

(iii) senior to the claims of holders of all other subordinated obligations of AIB which rank junior to the CCNs including any subordinated obligations of AIB which qualify as Tier 1 capital of the Group for regulatory purposes.

While the CCNs are outstanding, if AIB's Common Equity Tier 1 (CET 1) Ratio falls below the trigger ratio of 8.25%, the CCNs will immediately and mandatorily convert to ordinary shares of AIB at a conversion price of € 0.01 per share.

Dated loan capital

The dated loan capital in this section issued under the European Medium Term Note Programme is subordinated in right of payment to the ordinary creditors, including depositors, of the Group.

Following the liability management exercises in 2011 and the Subordinated Liabilities Order ("SLO") in April 2011, residual balances remained outstanding on the dated loan capital instruments above. The SLO, which was effective from 22 April 2011, changed the terms of all of those dated loan agreements outstanding. The original liabilities were derecognised and new liabilities were recognised, with their initial measurement based on the fair value at the SLO effective date. The contractual maturity date changed to 2035 as a result of the SLO, with coupons to be payable at the option of AIB. These instruments will amortise to their nominal value in the period to their maturity in 2035.

39 Share capital

	Authorised		Issued	
	2014	2013	**2014**	2013
	m	m	**m**	m
Ordinary share capital				
Ordinary shares of € 0.0025 (2013: € 0.01) each	**702,000.0**	702,000.0	**523,474.1**	521,296.8
Preference share capital				
2009 Non cumulative preference shares of € 0.01 each	**3,500.0**	3,500.0	**3,500.0**	3,500.0
Deferred share capital				
Deferred shares of € 0.01 each	**–**	403,775.2	**–**	–

Ordinary share capital/share premium

2014

On 13 May 2014, arising from AIB's decision not to pay the discretionary dividend on the 2009 Preference Shares amounting to € 280 million, the NPRFC[1] became entitled to bonus shares in lieu and the Company issued 2,177,293,934 ordinary shares of € 0.01 each by way of a bonus issue to the NPRFC[1]. This number of shares is equal to the aggregate cash amount of the annual dividend of € 280 million on the NPRFC's[1] holding of 3.5 billion 2009 Preference Shares, divided by the average ordinary share price per share in the 30 trading days prior to 13 May 2014. In accordance with the Company's Articles of Association, an amount of € 22 million, equal to the nominal value of the shares issued, was transferred from share premium account to ordinary share capital. Following this transaction, the NPRFC[1] holds 522,558,712,910 ordinary shares in AIB (99.8% of the issued ordinary share capital (31 December 2013: 99.8%)).

Following shareholder resolutions passed at the EGM held on 19 June 2014:
- the authorised share capital of the Company was reduced from € 11,092,752,297 to € 1,790,000,000;
- the ordinary shares of the Company were renominalised, each ordinary share of € 0.01 was subdivided into one ordinary share of € 0.0025 each (carrying the same rights and obligations as an existing ordinary share) and one deferred share of € 0.0075. The deferred shares created on the renominalisation had no voting or dividend rights and had no economic value; and
- the Company acquired all of the deferred shares for nil consideration and immediately cancelled them in accordance with its Articles of Association adopted at the EGM, which resulted in € 3,926 million transferring from share capital to a capital redemption reserve fund.

On 15 October 2014, the Irish High Court confirmed an application by AIB for a reduction of the share premium account by € 1,074 million, in addition to a reduction of € 3,926 million of its capital redemption reserves (note 41). This resulted in a transfer from these reserve accounts (€ 5 billion) to revenue reserves.

2013

On 13 May 2013, arising from the non-payment of dividend amounting to € 280 million on the 2009 Preference Shares, the NPRFC[1] became entitled to bonus shares in lieu and the Company issued 4,144,055,254 ordinary shares of € 0.01 each by way of a bonus issue to the NPRFC[1]. This number of shares is equal to the aggregate cash amount of the annual dividend of € 280 million on the NPRFC's[1] holding of € 3.5 billion 2009 Non Cumulative Preference Shares, divided by the average price per share in the 30 trading days prior to 13 May 2013. In accordance with the Company's Articles of Association, an amount of € 42 million, equal to the nominal value of shares issued, was transferred from share premium to ordinary shares.

Preference share capital - 2009 Preference Shares

On 13 May 2009, in implementing the Government's recapitalisation of AIB, the Company issued: (i) € 3.5 billion of core tier 1 securities in the form of non-cumulative redeemable preference shares (the '2009 Preference Shares') and (ii) 294,251,819 warrants to subscribe for ordinary shares (the '2009 Warrants'), to the NPRFC[1] for an aggregate subscription price of € 3.5 billion. The Government's national pensions reserve fund is controlled by the NPRFC[1] and managed by the National Treasury Management Agency ("NTMA").

The 2009 Preference Shares carry a fixed non cumulative dividend at a rate of 8% per annum, payable annually in arrears at the discretion of AIB. If a cash dividend is not paid, AIB must issue bonus ordinary shares to the holders of the 2009 Preference Shares by capitalising its reserves. The issue of bonus shares can be deferred by AIB, but if so, the holders of 2009 Preference Shares will acquire voting rights at general meetings of AIB equivalent to the voting rights that would have attached to the bonus shares if they had been issued. The dividend may not be deferred beyond the date on which AIB (a) pays a cash dividend on the 2009 Preference Shares or on the ordinary shares; or (b) redeems or purchases any of the 2009 Preference Shares, or ordinary shares. Arising from this provision, AIB issued ordinary shares in lieu of dividend due to the NPRFC[1] in 2010, 2011, 2012, 2013 and 2014. In accordance with the Company's Articles of Association, an amount of € 22 million (2013: € 42 million), equal to the nominal value of the shares issued, was transferred from the share premium account to the ordinary share capital account (see below).

[1]National Treasury Management Agency as controller and manager of the Ireland Strategic Investment Fund (NTMA / ISIF with effect 22 December 2014).

39 Share capital *(continued)*

Preference share capital - 2009 Preference Shares

The 2009 Preference Shares may be purchased or redeemed at the option of AIB, in whole or in part, from distributable profits and/or the proceeds of an issue of shares constituting core tier 1 capital (now CET 1), which for the first five years after the date of issue was at a subscription price of € 1.00 per share (now expired) and thereafter, at a price of € 1.25 per share, subject at all times to the consent of the Central Bank of Ireland/Single Supervisory Mechanism.

The 2009 Preference Shares give the Minister the right, while any such preference shares are outstanding, to appoint directly 25 per cent of the directors of AIB and has voting rights equal to 25 per cent. of all votes capable of being cast by shareholders on a poll at a general meeting of the Company on shareholder resolutions relating to:

(i) the appointment, reappointment or removal of Directors; and
(ii) a change of control of AIB or a sale of all or substantially all of its business. In relation to item (i) above, the 25 per cent. voting rights entitlement is inclusive of the voting rights of all Government entities in respect of any ordinary shares they may hold.

To the extent that the NPRFC[1] holds ordinary shares, it is not restricted from exercising its voting rights in respect of such ordinary shares at a general meeting of the Company.

The 2009 Preference Shares are freely transferable in minimum lots of 50,000 shares. However, the voting rights attaching to the 2009 Preference Shares, the right to appoint directors to the board of AIB and the veto over certain share capital-related resolutions are not transferable, as those rights are exercisable only by a Government Preference Shareholder.

The following tables show the movements in share capital in the statement of financial position during the year:

Issued share capital	**2014 € m**	2013 € m
At 1 January:		
Ordinary shares	**5,213**	5,171
Preference shares	**35**	35
	5,248	5,206
Ordinary shares in lieu of dividend	**22**	42
	5,270	5,248
Ordinary shares of € 0.01 each renominalised	**(5,235)**	–
Ordinary shares of € 0.0025 each arising on renominalisation	**1,309**	–
Deferred shares of € 0.0075 each arising on renominalisation	**3,926**	–
Cancellation of deferred shares	**(3,926)**	–
At 31 December	**1,344**	5,248
Of which:		
Ordinary shares	**1,309**	5,213
2009 Preference Shares	**35**	35
	1,344	5,248

Share premium	**2014 € m**	2013 € m
At 1 January	**2,848**	2,890
Transfer to ordinary share capital in respect of ordinary shares issued in lieu of dividend on 2009 Preference Shares	**(22)**	(42)
Reduction and transfer to revenue reserves	**(1,074)**	–
At 31 December	**1,752**	2,848

Structure of the Company's share capital as at 31 December 2014	**Authorised share capital %**	**Issued share capital %**
Class of share		
Ordinary share capital	**98.0**	**97.4**
2009 Preference Shares	**2.0**	**2.6**

[1]National Treasury Management Agency as controller and manager of the Ireland Strategic Investment Fund (NTMA / ISIF with effect 22 December 2014).

39 Share capital *(continued)*

The following table shows the Group's capital resources at 31 December 2014 and 31 December 2013:

Capital resources	2014 € m	2013 € m
Shareholders' equity	**11,572**	10,494
Contingent capital notes *(note 38)*	**1,411**	1,316
Dated capital notes *(note 38)*	**40**	36
Total capital resources	**13,023**	11,846

40 Own shares

The details of ordinary shares previously purchased under shareholder authority and held as Treasury Shares are as follows:

Treasury Shares	2014	2013
At 31 December	**35,680,114**	35,680,114

Since 2008, the company has not reissued any ordinary shares from its pool of Treasury Shares.

Employee share schemes and trusts

In the past, the Group sponsored a number of employee share schemes whereby purchases of shares were made in the open market to satisfy commitments under the various schemes.

At 31 December 2014, 1.5 million shares (2013: 1.5 million) were held by trustees with a book value of € 23 million (2013: € 23 million), and a market value of € 0.1 million (2013: € 0.1 million). The book value is deducted from revenue reserves while the shares continue to be held by the Group.

Notes to the consolidated financial statements

41 Capital reserves and capital redemption reserves

Capital reserves	Capital contribution reserves 2014 € m	Other capital reserves 2014 € m	Total 2014 € m	Capital contribution reserves 2013 € m	Other capital reserves 2013 € m	Total 2013 € m
At 1 January	**2,344**	**253**	**2,597**	2,385	253	2,638
Transfer to revenue reserves:						
Anglo business transfer	**(470)**	**–**	**(470)**	(140)	–	(140)
CCNs issuance *(note 38)*	**(94)**	**–**	**(94)**	(79)	–	(79)
Disposal of Ark Life[1]	**–**	**(75)**	**(75)**	–	–	–
	(564)	**(75)**	**(639)**	(219)	–	(219)
Other movement	**–**	**–**	**–**	178[2]	–	178
At 31 December	**1,780**	**178**	**1,958**	2,344	253	2,597

[1]Arising from the disposal of Ark Life in May 2014, an amount of € 75 million, previously accounted for as capital reserves, has now been transferred to revenue reserves.

[2]The capital contribution recognised at a Group level with regard to the EBS acquisition on 1 July 2011 amounted to € 777 million. This reflected, in part, negative available for sale securities reserves and cash flow hedge reserves of € 178 million at the date of acquisition. Given that the underlying portfolio has since largely matured or has been sold at fair value to Allied Irish Banks p.l.c., a transfer of € 178 million, being the original negative reserves, has taken place at Group level from capital contribution reserves to available for sale securities reserves/cash flow hedging reserves.

The capital contribution reserves which arose from the acquisition of Anglo deposit business and EBS and the issue of the CCNs were non-distributable on initial recognition but may become distributable as outlined in accounting policy number 28 in this Annual Financial Report. The transfers to revenue reserves relate to the capital contributions being deemed distributable.

Capital redemption reserves

On 20 June 2014, the ordinary shares of Allied Irish Banks, p.l.c. were renominalised which resulted in the creation of ordinary shares of € 0.0025 each, totalling € 1,309 million and deferred shares of € 0.0075 each, totalling € 3,926 million. The deferred shares were acquired by AIB for Nil consideration and immediately cancelled which resulted in € 3,926 million transferring from share capital to capital redemption reserves (note 39).

Following the Irish High Court confirmation on 15 October 2014 of an application by AIB for a reduction of its capital redemption reserve fund, € 3,926 million was transferred to revenue reserves from this account.

Capital redemption reserves	2014 € m	2013 € m
At 1 January	**–**	–
Transfer from share capital *(note 39)*	**3,926**	–
Reduction and transfer to revenue reserves	**(3,926)**	–
At 31 December	**–**	–

42 Capital contributions

On 28 July 2011, the Minister for Finance ('the Minister') and the NPRFC[1] agreed to contribute € 2,283 million and € 3,771 million respectively (total € 6,054 million) as capital contributions to AIB for Nil consideration. These capital contributions constitute CET 1 for regulatory purposes and are included within 'Revenue reserves'. Neither the Minister nor the NPRFC[1] has an entitlement to seek repayment of these capital contributions.

[1]National Treasury Management Agency as controller and manager of the Ireland Strategic Investment Fund (NTMA / ISIF with effect 22 December 2014).

43 Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

– are offset in the Group's statement of financial position; or
– are subject to enforceable master netting arrangements or similar agreements that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and receivables and customer accounts are not included in the tables below unless they are offset in the statement of financial position.

The Group has a number of ISDA Master Agreements (netting agreements) in place which allow it to net the termination values of derivative contracts upon the occurrence of an event of default with respect to its counterparties. The enforcement of netting agreements would potentially reduce the statement of financial position carrying amount of derivative assets and liabilities by € 1,221 million (2013: € 957 million).

The Group's sale and repurchase and reverse sale and repurchase transactions and securities borrowing and lending are covered by netting agreements with terms similar to those of ISDA Master Agreements. Additionally, the Group has agreements in place which may allow it to net the termination values of cross currency swaps upon the occurrence of an event of default.

The ISDA Master Agreements and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position as they create a right of set-off of recognised amounts that become enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties. In addition, the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The Group provides and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

– derivatives
– sale and repurchase agreements
– reverse sale and repurchase agreements
– securities lending and borrowing

Collateral is subject to the standard industry terms of Credit Support Annexes ('CSAs'), which enable the Group to pledge or sell securities received during the term of the transaction. The collateral must be returned on the maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions where the counterparty fails to post collateral. The Credit Support Annexes ("CSAs") in place provide collateral for derivative contracts. At 31 December 2014, € 843 million (2013: € 820 million) of CSAs are included within financial assets and € 279 million (2013: € 188 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 the occurrence of an event of default.

43 Offsetting financial assets and financial liabilities *(continued)*

The disclosures set out in the tables below include financial assets and financial liabilities that:

– are offset in AIB Group's statement of financial position; or
– are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The following tables show financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements at 31 December 2014:

							2014
					Related amounts not offset in the statement of financial position		
Financial assets	Note	Gross amounts of recognised financial assets € m	Gross amounts of recognised financial liabilities offset in the statement of financial position € m	Net amounts of financial assets presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) received € m	Net amount € m
Derivative financial instruments	22	1,490	–	1,490	(1,221)	(279)	(10)
Loans and receivables to customers –							
Reverse repurchase agreements	24	110	–	110	(107)	–	3
Total		**1,600**	**–**	**1,600**	**(1,328)**	**(279)**	**(7)**

							2014
					Related amounts not offset in the statement of financial position		
Financial liabilities	Note	Gross amounts of recognised financial liabilities € m	Gross amounts of recognised financial assets offset in the statement of financial position € m	Net amounts of financial liabilities presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) pledged € m	Net amount € m
Deposits by central banks and banks –							
Securities sold under agreements to repurchase	33	16,053	–	16,053	(16,862)	51	(758)
Customer accounts –							
Securities sold under agreements to repurchase	34	2,153	–	2,153	(2,206)	2	(51)
Derivative financial instruments	22	2,140	–	2,140	(1,221)	(843)	76
Total		**20,346**	**–**	**20,346**	**(20,289)**	**(790)**	**(733)**

43 Offsetting financial assets and financial liabilities *(continued)*

The following tables show financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements at 31 December 2013:

							2013
					Related amounts not offset in the statement of financial position		
Financial assets	**Note**	Gross amounts of recognised financial assets € m	Gross amounts of recognised financial liabilities offset in the statement of financial position € m	Net amounts of financial assets presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) received € m	Net amount € m
Derivative financial instruments	22	1,177	–	1,177	(957)	(188)	32
Loans and receivables to banks –							
Reverse repurchase agreements	23	16	–	16	(16)	–	–
Total		1,193	–	1,193	(973)	(188)	32

							2013
					Related amounts not offset in the statement of financial position		
Financial liabilities	**Note**	Gross amounts of recognised financial liabilities € m	Gross amounts of recognised financial assets offset in the statement of financial position € m	Net amounts of financial liabilities presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) pledged € m	Net amount € m
Deposits by central banks and banks –							
Securities sold under agreements to repurchase	33	21,861	–	21,861	(22,782)	8	(913)
Customer accounts –							
Securities sold under agreements to repurchase	34	5,783	–	5,783	(6,098)	(1)	(316)
Derivative financial instruments	22	1,819	–	1,819	(957)	(820)	42
Total		29,463	–	29,463	(29,837)	(813)	(1,187)

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured on the following bases:

– derivative assets and liabilities – fair value;
– loans and receivables to banks – amortised cost;
– loans and receivables to customers – amortised cost;
– deposits by central banks and banks – amortised cost; and
– customer accounts – amortised cost

The amounts in the above tables that are offset in the statement of financial position are measured on the same basis.

43 Offsetting financial assets and financial liabilities *(continued)*

The following tables reconcile the 'Net amounts of financial assets and financial liabilities presented in the statement of financial position', as set out in the previous pages, to the line items presented in the statement of financial position at 31 December 2014 and 31 December 2013:

Financial assets	**Net amounts of financial assets presented in the statement of financial position € m**	**Line item in statement of financial position**	**Carrying amount in statement of financial position € m**	**2014 Financial assets not in scope of offsetting disclosures € m**
Derivative financial instruments	**1,490**	Derivative financial instruments	**2,038**	**548**
Loans and receivables to customers –				
Reverse repurchase agreements	**110**	Loans and receivables to customers	**63,362**	**63,252**

Financial liabilities	**Net amounts of financial liabilities presented in the statement of financial position € m**	**Line item in statement of financial position**	**Carrying amount in statement of financial position € m**	**2014 Financial liabilities not in scope of offsetting disclosures € m**
Deposits by central banks and banks –				
Securities sold under agreements				
to repurchase	**16,053**	Deposits by central banks and banks	**16,768**	**715**
Customer accounts –				
Securities sold under agreements				
to repurchase	**2,153**	Customer accounts	**64,018**	**61,865**
Derivative financial instruments	**2,140**	Derivative financial instruments	**2,334**	**194**

Financial assets	Net amounts of financial assets presented in the statement of financial position € m	Line item in statement of financial position	Carrying amount in statement of financial position € m	2013 Financial assets not in scope of offsetting disclosures € m
Derivative financial instruments	1,177	Derivative financial instruments	1,629	452
Loans and receivables to banks –				
Reverse repurchase agreements	16	Loans and receivables to banks	2,048	2,032

Financial liabilities	Net amounts of financial liabilities presented in the statement of financial position € m	Line item in statement of financial position	Carrying amount in statement of financial position € m	2013 Financial liabilities not in scope of offsetting disclosures € m
Deposits by central banks and banks –				
Securities sold under agreements				
to repurchase	21,861	Deposits by central banks and banks	23,121	1,260
Customer accounts –				
Securities sold under agreements				
to repurchase	5,783	Customer accounts	65,667	59,884
Derivative financial instruments	1,819	Derivative financial instruments	1,960	141

44 Memorandum items: contingent liabilities and commitments, and contingent assets

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk to meet the financing needs of customers.

These instruments involve, to varying degrees, elements of credit risk which are not reflected in the consolidated statement of financial position. Credit risk is defined as the possibility of sustaining a loss because the other party to a financial instrument fails to perform in accordance with the terms of the contract.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and risk management policies in undertaking off-balance sheet commitments as it does for 'on balance sheet lending'.

The following tables give the nominal or contract amounts of contingent liabilities and commitments:

	Contract amount	
	2014 € m	2013 € m
Contingent liabilities[1] – credit related		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	**739**	796
Other contingent liabilities	**507**	557
	1,246	1,353
Commitments[2]		
Documentary credits and short-term trade-related transactions	**14**	17
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year[3]	**6,837**	6,552
1 year and over[4]	**2,231**	1,667
	9,082	8,236
	10,328	9,589

[1]Contingent liabilities are off-balance sheet products and include guarantees, standby letters of credit and other contingent liability products such as performance bonds.

[2]A commitment is an off-balance sheet product, where there is an agreement to provide an undrawn credit facility. The contract may or may not be cancelled unconditionally at any time without notice depending on the terms of the contract.

[3]An original maturity of up to and including 1 year or which may be cancelled at any time without notice.

[4]With an original maturity of more than 1 year.

	Contingent liabilities		Commitments	
	2014 € m	2013 € m	**2014 € m**	2013 € m
Concentration of exposure				
Republic of Ireland	**629**	745	**7,580**	7,164
United Kingdom	**480**	429	**1,480**	1,045
United States of America	**137**	179	**22**	27
Total	**1,246**	1,353	**9,082**	8,236

44 Memorandum items: contingent liabilities and commitments, and contingent assets *(continued)*

The credit ratings of contingent liabilities and commitments as at 31 December 2014 and 2013 are set out in the following table. Details of the Group's rating profiles are set out in the 'Risk management' section of this report.

	2014 € m	2013 € m
Good upper	**3,544**	2,491
Good lower	**3,527**	3,937
Watch	**730**	381
Vulnerable	**196**	255
Impaired	**488**	669
Unrated	**1,843**	1,856
Total	**10,328**	9,589

Legal proceedings

AIB Group in the course of its business is frequently involved in litigation cases. However, it is not, nor has been involved in, nor are there, so far as the Company is aware, pending or threatened by or against AIB Group any legal or arbitration proceedings, including governmental proceedings, which may have, or have had during the previous twelve months, a material effect on the financial position, profitability or cashflows of AIB Group.

Contingent liability/contingent asset - NAMA

(a) Transfers of financial assets to NAMA are complete. However, NAMA continues to finalise certain value to transfer adjustments and the final consideration payable on tranches which have already transferred. Accordingly, the Group has maintained a provision for the amount of the expected outflow in respect of various adjustments. If the actual amounts provided prove to be lower or higher than the provision, an inflow or outflow of economic benefits may result to the Group (notes 37 and 46).

(b) The Group has provided NAMA with a series of indemnities relating to transferred assets. Any indemnity payment would result in an outflow of economic benefit for the Group.

(c) On dissolution or restructuring of NAMA, the Minister may require that a report and accounts be prepared. If NAMA shows that an aggregate loss has been incurred since its establishment which is unlikely to be made good, the Minister may impose a surcharge on the participating institution. This will involve apportioning the loss on the participating institution, subject to certain restrictions, on the basis of the book value of the assets acquired from that institution in relation to the total book value of assets acquired from all participating institutions.

Participation in TARGET 2 - Ireland

AIB migrated to the TARGET 2 system during 2008. TARGET 2, being the wholesale payment infrastructure for credit institutions across Europe, is a real time gross settlement system for large volume interbank payments in euro. The following disclosures relate to the charges arising as a result of the migration to TARGET 2:

By Deeds of Charge made on 15 February 2008, AIB created first floating charges in favour of the Central Bank of Ireland ('Central Bank') over all of AIB's right, title, interest and benefit, present and future, in and to:

(i) the balances then or at any time standing to the credit of Payment Module accounts held by AIB with a Eurosystem central bank ('Charge over Payment Module Accounts'); and

(ii) each of the eligible securities included from time to time in the Eligible Securities Schedule furnished by AIB to the Central Bank ('Charge over Eligible Securities').

In each case, a 'Charged Property', for the purpose of securing all present and future liabilities of AIB in respect of AIB's participation in TARGET 2, arising from the Deeds of Charge and the Terms and Conditions for participation in TARGET 2 – Ireland (specified from time to time by the Central Bank), including, without limitation, liabilities to the Central Bank, the European Central Bank, or any national central bank of a Member State that has adopted the euro.

The Deeds of Charge contain a provision whereby during the subsistence of the security, otherwise than with the prior written consent of the Central Bank, AIB shall not:

(a) create or attempt to create or permit to arise or subsist any encumbrance on or over the Charged Property or any part thereof; or

(b) otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the Charged Property or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

44 Memorandum items: contingent liabilities and commitments, and contingent assets *(continued)*

Participation in TARGET 2 - Ireland

The Central Bank amended its collateral management system in May 2014, moving from an earmarking system to a pooling one for certain collateral accepted for Eurosystem credit operations. As part of this transition, AIB and the Central Bank entered into a Framework Agreement in respect of Eurosystem Operations secured over Collateral Pool Assets dated 7 April 2014 ('Framework Agreement'). The Framework Agreement provided for the release of the Charge over Eligible Securities with effect from 26 May 2014.

A deed of charge was made on 7 April 2014 between AIB and the Central Bank in connection with the Framework Agreement ('Framework Agreement Deed of Charge'). The Framework Agreement Deed of Charge created a first fixed charge in favour of the Central Bank over AIB's right, title, interest and benefit, present and future in and to eligible assets (as identified as such by the Central Bank) which comprise present and future rights, title, interest, claims and benefits of AIB at that time in and to, or in connection with, a collateral account (the "Collateral Account") and eligible assets which stand to the credit of the Collateral Account and a first floating charge in favour of the Central Bank over AIB's right, title, interest and benefit, present and future in and to other eligible assets of AIB.

The Charge over Payment Module Accounts remains in place.

45 Subsidiaries and consolidated structured entities

The following are the material companies of AIB Group at 31 December 2014 and 31 December 2013:

Name of company	Principal activity	Place of incorporation
Allied Irish Banks, p.l.c.	The parent company of the majority of the subsidiaries within the Group. Its activities include banking and financial services – a licensed bank.	Republic of Ireland
AIB Mortgage Bank	Issue of mortgage covered securities – a licensed bank	Republic of Ireland
EBS Limited	Mortgages and savings – a licensed bank	Republic of Ireland
AIB Group (UK) p.l.c. trading as Allied Irish Bank (GB) in Great Britain and First Trust Bank in Northern Ireland	Banking and financial services – a licensed bank	Northern Ireland

The proportion of ownership interest and voting power held by the Group in the above subsidiaries is 100%.

All subsidiaries of AIB are wholly owned and there are no non-controlling interests in these subsidiaries. Practically all subsidiaries of AIB Group are involved in the provision of financial services or ancillary services.

Significant restrictions

Each of the subsidiaries listed above which is a licensed bank is required by its respective financial regulator to maintain capital ratios above a certain minimum level. These minimum ratios restrict the payment of dividend by the subsidiary and, where the ratios fall below the minimum requirement, will require the parent company to inject capital to make up the shortfall.

Guarantees

Allied Irish Banks p.l.c. (the parent company) has guaranteed a number of its subsidiary companies. These companies are listed in note L to the parent company's financial statements.

45 Subsidiaries and consolidated structured entities *(continued)*

Consolidated structured entities

The Group has acted as sponsor and invested in a number of special purpose vehicles in order to generate funding for the Group's lending activities (with the exception of AIB PFP Scottish Limited Partnership). The Group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity.

The following special purpose vehicles are consolidated by the Group:

– Emerald Mortgages No. 4 Public Limited Company;
– Emerald Mortgages No. 5 Limited;
– Mespil 1 RMBS Limited;
– Tenterden Funding p.l.c.;
– Goldcrest Funding No. 1 Limited ; and
– AIB PFP Scottish Limited Partnership.

Further details on these special purpose vehicles are set out in note 46.

There are no contractual arrangements that could require Allied Irish Banks, p.l.c. or its subsidiaries to provide financial support to the consolidated structured entities listed above. During the year, neither Allied Irish Banks, p.l.c. nor any of its subsidiaries provided financial support to a consolidated structured entity and there is no current intention to provide financial support.

The Group has no interest in unconsolidated structured entities.

Ark Life Assurance Company Limited

Ark Life Assurance Company Limited ('Ark Life') was acquired in 2013, as a wholly owned subsidiary, with a view to its subsequent disposal. It was classified on acquisition date as a discontinued operation in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. This sale was completed in May 2014 (note 17).

Further details on AIB's principal subsidiaries are set out in note L to the parent company's financial statements.

46 Off-balance sheet arrangements and transferred financial assets

Under IFRS, transactions and events are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. As a result, the substance of transactions with a special purpose entity ("SPE") forms the basis for their treatment in the Group's financial statements. An SPE is consolidated in the financial statements when the substance of the relationship between the Group and the SPE indicates that the SPE is controlled by the entity and meets the criteria set out in IFRS 10 *Consolidated Financial Statements.* The primary form of SPE utilised by the Group are securitisations and employee compensation trusts.

Securitisations

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

– as an investor, AIB has primarily been an investor in securitisations issued by other credit institutions as part of the management of its interest rate and liquidity risks through Treasury;
– as an investor, securitisations have been utilised by the Group to invest in transactions that offered an appropriate risk-adjusted return opportunity; and
– as an originator of securitisations to support the funding activities of the Group.

AIB controls certain special purpose entities which were set-up to support the funding activities of the Group. Details of these special purpose entities are set out below under the heading 'Special purpose entities'. AIB controls two special purpose entities set up in relation to the funding of the Group Pension Schemes which are also detailed below.

Stock borrowing and lending securities borrowed are not recognised in the financial statements, unless 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.

Employee compensation trusts

AIB and some of its subsidiary companies use trust structures to benefit employees and to facilitate the ownership of the Group's equity by employees. The Group consolidates these trust structures where the risks and rewards of the underlying shares have not been transferred to the employees. Details of these schemes are provided in note 10 'Share-based compensation schemes' to the consolidated financial statements.

Transfer of financial assets

The Group enters into transactions in the normal course of business in which it transfers previously recognised financial assets. Transferred financial assets may, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*:

(i) continue to be recognised in their entirety; or
(ii) be derecognised in their entirety but the Group retains some continuing involvement.

The most common transactions where the transferred assets are not derecognised in their entirety are sale and repurchase agreements, issuance of covered bonds and securitisations.

(i) Transferred financial assets not derecognised in their entirety

Sale and repurchase agreements

Sale and repurchase agreements are transactions in which the Group sells a financial asset to another party, with an obligation to repurchase it at a fixed price on a certain later date. The Group continues to recognise the financial assets in full in the statement of financial position as it retains substantially all the risks and rewards of ownership. The Group's sale and repurchase agreements are both with central banks, banks and customers. The obligation to pay the repurchase price is recognised within 'Deposits by central banks and banks' (note 33) and 'Customer accounts' (note 34). As the Group sells the contractual rights to the cash flows of the financial assets, it does not have the ability to use or pledge the transferred assets during the term of the sale and repurchase agreement. The Group remains exposed to credit risk and interest rate risk on the financial assets sold. Details of sale and repurchase activity are set out in notes 33 and 34. The obligation arising as a result of sale and repurchase agreements together with the carrying value of the financial assets pledged are set out in the table below.

Issuance of covered bonds

Covered bonds, which the Group issues, are debt securities backed by cash flows from mortgages for the purpose of financing loans secured on residential property through its wholly owned subsidiaries, AIB Mortgage Bank and EBS Mortgage Finance. The Group retains all the risks and rewards of these mortgage loans, including credit risk and interest rate risk, and therefore, the loans continue to be recognised on the Group's statement of financial position with the related covered bonds included within 'Debt securities in issue' (note 35). As the Group segregates the assets which back these debt securities into "cover asset pools" it does not have the ability to otherwise use such segregated financial assets during the term of these debt securities. However, of the total debt securities of this type issued amounting to € 10 billion, internal Group companies hold € 6 billion which are eliminated on consolidation. These internally issued bonds are used by the Group as part of sale and repurchase agreements with the Central Bank of Ireland as outlined above.

46 Off-balance sheet arrangements and transferred financial assets *(continued)*

Special purpose entities

Securitisations are transactions in which the Group sells loans and receivables to customers (mainly mortgages and credit card receivables) to special purpose entities ("SPEs"), which, in turn, issue notes or deposits to external investors. The notes or deposits issued by the SPEs are on terms which result in the Group retaining the majority of ownership risks and rewards and therefore, the loans continue to be recognised on the Group's statement of financial position. The Group remains exposed to credit risk, interest rate risk and foreign exchange risk on the loans sold. The liability in respect of the cash received from the external investors is included within 'Debt securities in issue' (note 35) or in 'Deposits by central banks and banks' (note 33). Under the terms of the securitisations, the rights of the investors are limited to the assets in the securitised portfolios and any related income generated by the portfolios, without further recourse to the Group. The Group does not have the ability to otherwise use the assets transferred as part of securitisation transactions during the term of the arrangement.

In 2012, the Group securitised € 533 million of its residential mortgage portfolio held in the AIB UK segment. These mortgages were transferred to a securitisation vehicle, Tenterden Funding p.l.c. ('Tenterden'). In order to fund the acquired mortgages, Tenterden issued class A notes to external investors and class B notes to an AIB subsidiary. The transferred mortgages have not been derecognised as the Group retains substantially all the risks and rewards of ownership and continue to be reported in the Group's statement of financial position. Tenterden is consolidated into the Group's financial statements with the class B notes being eliminated on consolidation. The liability in respect of cash received by Tenterden from the external investors is included within 'Debt securities in issue' (note 35) on the statement of financial position. At 31 December 2014, the carrying amount of the assets which the Group continues to recognise is € 332 million (2013: € 380 million) and the carrying amount of the associated liabilities is € 178 million (2013: € 237 million).

In 2013, the Group securitised part of its credit card receivables portfolio held in the Domestic Core Bank segment. These credit card receivables were transferred to a securitisation vehicle, Goldcrest Funding No.1 Limited ('Goldcrest'). In order to fund the acquired receivables, Goldcrest received senior loan facility proceeds from external investors secured on these and future credit card receivables and junior loan facility proceeds from Allied Irish Banks p.l.c.. The transferred receivables have not been derecognised as the Group retains substantially all the risks and rewards of ownership and the credit card receivables continue to be reported in the Group's statement of financial position. Goldcrest is consolidated into the Group's financial statements with the junior loan facility being eliminated on consolidation. At 31 December 2014, the carrying amount of the receivables which the Group continues to recognise is € 297 million (2013: € 675 million). The liability in respect of cash received by Goldcrest from external investors is included within 'Deposits by central banks and banks' (note 33) on the statement of financial position.

Arising from the acquisition of EBS on 1 July 2011, the Group controls three special purpose entities which had previously been set up by EBS: Emerald Mortgages No. 4 Public Limited Company; Emerald Mortgages No. 5 Limited; and Mespil 1 RMBS Limited.

Emerald Mortgages No. 4 Public Limited Company

The total carrying value of the original residential mortgages transferred by EBS Limited to Emerald Mortgages No. 4 Public Limited Company ('Emerald 4') as part of the securitisation amounted to € 1,500 million. The carrying amount of transferred secured loans that the Group has recognised at 31 December 2014 is € 735 million (2013: € 823 million). The carrying amount of the bonds issued by Emerald 4 to third party investors amounts to € 575 million (2013: € 815 million) and is included within 'Debt securities in issue' (note 35).

Emerald Mortgages No. 5 Limited

The total carrying amount of original residential mortgages transferred by EBS Limited to Emerald Mortgages No.5 Limited ('Emerald 5') as part of the securitisation amounted to € 2,500 million. The amount of transferred secured loans that the Group has recognised at 31 December 2014 is € 1,533 million (2013: € 1,708 million). Bonds were issued by Emerald 5 to EBS Limited but these are not shown in the Group's financial statements, as these bonds are eliminated on consolidation.

Mespil 1 RMBS Limited

The total carrying amount of secured loans that the Group has recognised as at 31 December 2014 is € 814 million (2013: € 903 million) in relation to the transfers from EBS Limited and Haven Mortgages Limited to Mespil 1 RMBS Limited. The bonds issued by Mespil 1 RMBS Limited to EBS Limited are not shown in the Group's financial statements, as these bonds are eliminated on consolidation.

46 Off-balance sheet arrangements and transferred financial assets *(continued)*

The following table summarises as at the 31 December 2014 and 31 December 2013, the carrying value and fair value of financial assets which did not qualify for derecognition together with their associated financial liabilities:

2014	**Carrying amount of transferred assets €m**	**Carrying amount of associated liabilities held by third parties €m**	**Carrying amount of associated liabilities held by Group companies €m**	**Fair value of transferred assets €m**	**Fair value of associated liabilities held by third parties €m**	**Fair value of associated liabilities held by Group companies €m**	**Net fair value position €m**
Sale and repurchase agreements	**22,135**[1]	**18,206**[2]	**–**	**22,146**	**18,206**	**–**	**3,940**
Covered bond programmes							
Residential mortgage backed	**7,379**[1]	**3,765**	**–**	**6,387**	**4,103**	**–**	**2,284**
Securitisations	**1,365**	**953**	**498**	**1,286**	**902**	**478**	**(94)**

2013	Carrying amount of transferred assets €m	Carrying amount of associated liabilities held by third parties €m	Carrying amount of associated liabilities held by Group companies €m	Fair value of transferred assets €m	Fair value of associated liabilities held by third parties €m	Fair value of associated liabilities held by Group companies €m	Net fair value position €m
Sale and repurchase agreements	30,698	27,644[2]	–	30,833	27,644	–	3,189
Covered bond programmes							
Residential mortgage backed	6,478	3,315	–	5,551	3,537	–	2,014
Securitisations	1,886	1,557	321	1,801	1,394	321	86

[1]The asset pools (€ 20 billion) in the covered bond programme have been apportioned on a pro-rata basis in relation to the value of bonds held by external investors and those held by AIB Group companies. The € 7,379 million above refers to those assets apportioned to external investors. Those held internally by AIB have been used in sale and repurchase agreements or are available for pledging as collateral.

[2]See notes 33 and 34.

AIB Group (UK) p.l.c. Pension Scheme interest in the AIB PFP Scottish Limited Partnership

In December 2013, the Group agreed with the Trustee of the AIB UK Defined Benefit Pension Scheme ("the UK scheme") a restructure of the funding of the deficit in the UK scheme. The future funding period was extended from 8 to 16 years, commencing in 2016 with the implementation of an asset backed funding arrangement.

The Group established a pension funding partnership, AIB PFP Scottish Limited Partnership ("SLP") under which a portfolio of loans were transferred to the SLP from another Group entity, AIB UK Loan Management Limited ("UKLM") for the purpose of ring-fencing the repayments on these loans to fund future deficit payments of the UK scheme.

Assets ring fenced for this purpose entitle the UK scheme to expected annual payments of £ 22.4 million (range of £ 15 million to £ 35 million) from 2016 until 2033, with a potential termination payment in 2032 of up to £ 60 million.

The general partner in the partnership, AIB PFP (General Partner) Limited, which is an indirect subsidiary of Allied Irish Banks p.l.c. has controlling power over the partnership. In addition, the majority of the risks and rewards will be borne by AIB Group as the pension scheme has a priority right to the cash flows from the partnership, such that the variability in recoveries is expected to be borne by AIB Group through UKLM's junior partnership interest. As UKLM continues to bear substantially all the risks and rewards of the loans, the loans are not derecognised from UKLM's balance sheet and accordingly, the Group has determined that the SLP should be consolidated into AIB Group.

46 Off-balance sheet arrangements and transferred financial assets *(continued)*

(ii) Transferred financial assets derecognised in their entirety but the Group retains some continuing involvement

AIB has a continuing involvement in transferred financial assets where it retains any of the risks and rewards of ownership of the transferred financial assets. Set out below are transactions in which AIB has a continuing involvement in assets transferred.

Pension scheme

On 31 July 2012, AIB entered into a Contribution Deed with the Trustee of the AIB Group Irish Pension Scheme ('the Irish Scheme'), whereby it agreed to make contributions to the scheme to enable the Trustee ensure that the regulatory Minimum Funding Standard position of non-pensioner members of the pension scheme was not affected by the agreed early retirement scheme. These contributions amounting to € 594 million were settled through the transfer to the Irish Scheme of interests in a Special Purpose Vehicle ("SPV") owning loans and receivables previously transferred at fair value from the Group. The loans and receivables were derecognised in the Group's financial statements as all of the risks and rewards of ownership had transferred.

A subsidiary company of the Group was appointed as a service provider for the loans and receivables transferred. Under the servicing agreement, the Group subsidiary company collects the cash flows on the transferred loans and receivables on behalf of the pension scheme in return for a fee. The fee is based on an annual rate of 0.125% of the principal balance outstanding of all transferred loans and receivables on the last day of each calendar month. The Group has not recognised a servicing asset/liability in relation to this servicing arrangement, as the fee is considered to be a market rate. Under the servicing agreement, the Irish Scheme has the right to replace the Group subsidiary company as the service provider with an external third party. In 2014, the Group recognised € 1.2 million (cumulative € 3.2 million) (2013: € 1.5 million (cumulative € 2 million)) in the income statement for the servicing of the loans and receivables transferred.

NAMA

During 2010 and 2011, AIB transferred financial assets with a net carrying value of € 15,428 million to NAMA. All assets transferred were derecognised in their entirety.

As part of this transaction, the Group has provided NAMA with a series of indemnities relating to the transferred assets. Also, on the dissolution or restructuring of NAMA, the Irish Minister for Finance ('the Minister') may require a report and accounts to be prepared. If NAMA reports an aggregate loss since its establishment and this is unlikely to be made good, the Minister may impose a surcharge on the participating institution. This will involve apportioning the loss on the participating institution, subject to certain restrictions, on the basis of the book value of the assets transferred by the institution in relation to the total book value of assets transferred by all participating institutions. At this stage, it is not possible to quantify the maximum exposure to loss which may arise on the dissolution or restructuring of NAMA.

In addition, the Group has been appointed by NAMA as a service provider for the loans and receivables transferred, for which it receives a fee. The fee is based on the lower of actual costs incurred or 0.1% of the value of the financial assets transferred. The Group has not recognised a servicing asset/liability in relation to this servicing arrangement. In 2014, the Group recognised € 16 million (cumulative € 69 million) (2013: € 16 million (cumulative € 53 million)) in the income statement for the servicing of financial assets transferred to NAMA.

47 Fair value of financial instruments

The term 'financial instruments' includes both financial assets and financial liabilities. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The Group's accounting policy for the determination of fair value of financial instruments is set out in accounting policy number 16.

Readers of these financial statements are advised to use caution when using the data in the following tables to evaluate the Group's financial position or to make comparisons with other institutions. Fair value information is not provided for items that do not meet the definition of a financial instrument. These items include intangible assets such as the value of the branch network and the long-term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the Group as a going concern at 31 December 2014.

The valuation of financial instruments, including loans and receivables, involves the application of judgement and estimation. Market and credit risks are key assumptions in the estimation of the fair value of loans and receivables. AIB has estimated the fair value of its loans to customers taking into account market risk and the changes in credit quality of its borrowers.

Fair values are based on observable market prices where available, and on valuation models or techniques where the lack of market liquidity means that observable prices are unavailable. The fair values of financial instruments are measured according to the following fair value hierarchy that reflects the observability of significant market inputs:

Level 1 – financial assets and liabilities measured using quoted market prices from an active market (unadjusted).

Level 2 – financial assets and liabilities measured using valuation techniques which use quoted market prices from an active market or measured using quoted market prices unadjusted from an inactive market.

Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable market data.

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

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

The methods used for calculation of fair value in 2014 are as follows:

Financial instruments measured at fair value in the financial statements

Trading portfolio financial instruments

The fair value of trading debt securities, together with quoted equity shares is based on quoted prices or bid/offer quotations sourced from external securities dealers, where these are available on an active market. Where securities and equities are traded on an exchange, the fair value is based on prices from the exchange.

Derivative financial instruments

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

Counterparty Valuation Adjustment ("CVA") and Funding Valuation Adjustment ("FVA") are applied to all uncollateralised over the counter derivatives. CVA is calculated as: (Option replacement cost x probability of default ("PD") x loss given default ("LGD")). PDs are derived from market based Credit Default Swap ("CDS") information. As most counterparties do not have a quoted CDS, PDs are derived by mapping each counterparty to an index CDS by industry sector and credit grade. LGDs are based on the specific circumstances of the counterparty and take into account valuation of offsetting security where applicable. For unsecured counterparties, an LGD of 60% is applied.

47 Fair value of financial instruments *(continued)*

Funding valuation adjustment

In line with market practice which continues to evolve, AIB applies a FVA for calculating the fair value of uncollateralised derivative contracts. The application of the FVA in the valuation of uncollateralised derivative contracts, introduces the use of a funding curve for discounting of cash flows where market participants consider that this cost is included in market pricing. The funding curve used is the average funding curve implied by the Credit Default Swaps ("CDS") of the Group's most active external derivative counterparties. The logic in applying this curve is to best estimate the FVA which a counterparty would apply in a transaction to close out the Group's existing positions. The application of FVA, while an overall negative adjustment, contains within it the benefit of own credit which can be applied by Debit Valuation Adjustment ("DVA") and accordingly, DVA, which had been applied in 2013, is no longer applied to the Group's derivatives valuations to avoid duplication.

Within the range of estimates and fair value sensitivity measurements, a favourable and an adverse scenario have been selected for PDs and LGDs for CVA. The favourable/adverse scenario for customer PDs are (i) a single rating upgrade and (ii) a single rating downgrade respectively. Customer LGDs are shifted according to estimates of improvement in value of security compared with potential derivatives market values. Within the combination of LGD and PD, both are shifted together yielding positive and negative valuations which are disclosed as potential alternative valuations on page 303 For FVA, a favourable scenario is the use of the bond yields of the Group's most active derivative counterparties while an adverse scenario is the use of the Group's own estimated senior unsecured bond yields.

Financial investments available for sale

The fair value of available for sale debt securities and equities has been estimated based on expected sale proceeds. The expected sale proceeds are based on screen bid prices which have been analysed and compared across multiple sources for reliability. Where screen prices are unavailable, fair values are estimated using valuation techniques using observable market data for similar instruments. Where there is no market data for a directly comparable instrument, management judgement, on an appropriate credit spread to similar or related instruments with market data available, is used within the valuation technique. This is supported by cross referencing other similar or related instruments.

Financial instruments not measured at fair value but with fair value information presented separately in the notes to the financial statements

Loans and receivables to banks

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

Loans and receivables to customers

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

In addition to the assumptions set out above under valuation techniques regarding cash flows and discount rates, a key assumption for loans and receivables is that the carrying amount of variable rate loans (excluding mortgage products) approximates to market value where there is no significant credit risk of the borrower. The fair value of variable rate mortgage products including tracker mortgages is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in the portfolio. For fixed rate loans, the fair value is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in that portfolio.

For the overall loan portfolio, an adjustment is made for credit risk which at 31 December 2014 took account of the Group's expectations on credit losses over the life of the loans.

NAMA senior bonds

The Group's holding of NAMA Senior Bonds is classified as loans and receivables measured at amortised cost. For disclosure purposes, the fair value of the NAMA senior bonds has been estimated using a valuation technique since there in no active market for these bonds. The valuation technique requires an increased use of management judgement which includes, but is not limited to, evaluating available market information, determining the amount and timing of cash flows generated by the instruments, identifying a risk free discount rate and applying an appropriate credit spread.

47 Fair value of financial instruments *(continued)*

Deposits by central banks and banks and customer accounts

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

Debt securities in issue

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

Other financial assets and other financial liabilities

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

Commitments pertaining to credit-related instruments

Details of the various credit-related commitments and other off-balance sheet financial guarantees entered into by the Group are included in note 44. Fees for these instruments may be billed in advance or in arrears on an annual, quarterly or monthly basis. In addition, the fees charged vary on the basis of instrument type and associated credit risk. As a result, it is not considered practicable to estimate the fair value of these instruments because each customer relationship would have to be separately evaluated.

The tables on the following pages set out the carrying amount and fair value of financial instruments across the three levels of the fair value hierarchy at 31 December 2014 and 31 December 2013:

47 Fair value of financial instruments *(continued)*

	Carrying amount in statement of financial position							Fair value hierarchy			
	At fair value through profit and loss		At fair value through equity		At amortised cost		Total				2014
	Held for trading	Fair value hedge derivatives	Cashflow hedge derivatives	Available for sale securities	Loans and receivables	Other		Level 1	Level 2	Level 3	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets measured at fair value											
Trading portfolio financial assets											
Equity securities	1						1	–	1	–	1
Derivative financial instruments											
Interest rate derivatives	838	500	514				1,852	–	1,295	557	1,852
Exchange rate derivatives	48						48	–	48	–	48
Equity derivatives	138						138	–	53	85	138
Financial investments available for sale											
Government securities				12,920			12,920	12,538	382	–	12,920
Supranational banks and government agencies				2,852			2,852	2,852	–	–	2,852
Asset backed securities				100			100	99	1	–	100
Bank securities				3,897			3,897	3,897	–	–	3,897
Corporate securities				3			3	–	–	3	3
Equity securities				413			413	–	2	411	413
	1,025	500	514	20,185			22,224	19,386	1,782	1,056	22,224
Financial assets not measured at fair value											
Cash and balances at central banks					4,879	514[1]	5,393	514	4,879	–	5,393
Items in the course of collection					146		146	–	–	146	146
Loans and receivables to banks					1,865		1,865	–	664	1,201	1,865
Loans and receivables to customers											
Mortgages[2]					35,973		35,973	–	–	31,845	31,845
Non-mortgages					27,389		27,389	–	–	27,319	27,319
Total loans and receivables to customers					63,362		63,362	–	–	59,194	59,194
NAMA senior bonds					9,423		9,423	–	–	9,479	9,479
Other financial assets						499	499	–	–	499	499
					79,675	1,013	80,688	514	5,543	70,489	76,546

[1]Comprises cash on hand.

[2]Includes residential and commercial mortgages.

47 Fair value of financial instruments *(continued)*

2014

	Carrying amount in statement of financial position					Fair value hierarchy			
	At fair value through profit and loss		At fair value through equity	At amortised cost	Total				
	Held for trading	Fair value hedge derivatives	Cashflow hedge derivatives	Other		Level 1	Level 2	Level 3	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Financial liabilities measured at fair value									
Derivative financial instruments									
Interest rate derivatives	952	587	597		2,136	–	1,897	239	2,136
Exchange rate derivatives	73				73	–	73	–	73
Equity derivatives	117				117	–	56	61	117
Credit derivatives	8				8	–	8	–	8
	1,150	587	597		2,334	–	2,034	300	2,334
Financial liabilities not measured at fair value									
Deposits by central banks and banks									
Other borrowings				715	715	–	–	715	715
Securities sold under agreements to repurchase				16,053	16,053	–	3,400	12,653	16,053
Customer accounts									
Current accounts				21,665	21,665	–	–	21,665	21,665
Demand deposits				10,004	10,004	–	–	10,004	10,004
Time deposits				30,196	30,196	–	–	30,613	30,613
Securities sold under agreements to repurchase				2,153	2,153	–	–	2,153	2,153
Debt securities in issue									
Bonds and medium term notes				7,811	7,811	7,214	965	–	8,179
Other debt securities in issue				50	50	–	50	–	50
Subordinated liabilities and other capital instruments				1,451	1,451	–	1,831	–	1,831
Other financial liabilities				446	446	–	–	446	446
				90,544	90,544	7,214	6,246	78,249	91,709

47 Fair value of financial instruments *(continued)*

2013

	Carrying amount in statement of financial position							Fair value hierarchy			
	At fair value through profit and loss		At fair value through equity		At amortised cost		Total				
	Held for trading €m	Fair value hedge derivatives €m	Cashflow hedge derivatives €m	Available for sale securities €m	Loans and receivables €m	Other €m	€m	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets measured at fair value											
Trading portfolio financial assets											
Debt securities	1						1	1	–	–	1
Equity securities	1						1	–	1	–	1
Derivative financial instruments											
Interest rate derivatives	815	532	96				1,443	–	1,024	419	1,443
Exchange rate derivatives	35	–	–				35	–	35	–	35
Equity derivatives	151	–	–				151	–	151	–	151
Financial investments available for sale											
Government securities				12,904			12,904	12,690	214	–	12,904
Supranational banks and government agencies				3,092			3,092	3,092	–	–	3,092
Asset backed securities				535			535	535	–	–	535
Bank securities				3,705			3,705	3,705	–	–	3,705
Corporate securities				3			3	–	3	–	3
Other investments				12			12	–	–	12	12
Equity securities				117			117	12	1	104	117
	1,003	532	96	20,368			21,999	20,035	1,429	535	21,999
Financial assets not measured at fair value											
Cash and balances at central banks					3,536	596[1]	4,132	596	3,536	–	4,132
Items in the course of collection					164		164	–	–	164	164
Disposal groups and non-current assets held for sale											
Loans and receivables					28		28	–	–	28	28
Loans and receivables to banks					2,048		2,048	–	656	1,392	2,048
Loans and receivables to customers											
Mortgages[2]					37,144		37,144	–	–	31,976	31,976
Non-mortgages					28,569		28,569	–	–	28,114	28,114
Total loans and receivables to customers					65,713		65,713			60,090	60,090
NAMA senior bonds					15,598		15,598	–	–	15,767	15,767
Other financial assets					–	559	559	–	–	559	559
					87,087	1,155	88,242	596	4,192	78,000	82,788

[1]Comprises cash on hand.

[2]Includes residential and commercial mortgages.

47 Fair value of financial instruments *(continued)*

2013

	Carrying amount in statement of financial position					Fair value hierarchy			
	At fair value through profit and loss		At fair value through equity	At amortised cost	Total				
	Held for trading €m	Fair value hedge derivatives €m	Cashflow hedge derivatives €m	Other €m	€m	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial liabilities measured at fair value									
Derivative financial instruments									
Interest rate derivatives	810	590	447		1,847	–	1,722	125	1,847
Exchange rate derivatives	34	–	–		34	–	34	–	34
Equity derivatives	79	–	–		79	–	79	–	79
Credit derivatives	–	–	–		–	–	–	–	–
	923	590	447		1,960	–	1,835	125	1,960
Financial liabilities not measured at fair value									
Deposits by central banks and banks									
Other borrowings				1,260	1,260	–	–	1,260	1,260
Securities sold under agreements to repurchase				21,861	21,861	–	12,725	9,136	21,861
Customer accounts									
Current accounts				18,274	18,274	–	–	18,274	18,274
Demand deposits				9,372	9,372	–	–	9,372	9,372
Time deposits				32,238	32,238	–	–	32,878	32,878
Securities sold under agreements to repurchase				5,783	5,783	–	–	5,783	5,783
Debt securities in issue									
Bonds and medium term notes				8,680	8,680	8,571	74	269	8,914
Other debt securities in issue				79	79	79	–	–	79
Subordinated liabilities and other capital instruments				1,352	1,352	–	1,775	–	1,775
Other financial liabilities				528	528	–	–	528	528
				99,427	99,427	8,650	14,574	77,500	100,724

47 Fair value of financial instruments *(continued)*

Significant transfers between Level 1 and Level 2 of the fair value hierarchy

The following table shows significant transfers between Level 1 and Level 2 of the fair value hierarchy for the years ended 31 December 2014 and 31 December 2013:

	2014			2013		
	Financial assets			Financial assets		
Group	Trading portfolio € m	Debt securities € m	Total € m	Trading portfolio € m	Debt securities € m	Total € m
Transfer into Level 1 from Level 2	–	–	–	–	13	13
Transfer into Level 2 from Level 1	–	1	1	–	3	3

Transfers into Level 1 from Level 2 occurred due to increased availability of reliable quoted market prices which were not previously available.

Transfers into Level 2 from Level 1 occurred due to reduced availability of reliable quoted market prices.

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy for 2014 and 2013:

						2014
	Financial assets				Financial liabilities	
	Derivatives	Available for sale		Total	Derivatives	Total
Group	€ m	Debt securities € m	Equity securities € m	€ m	€ m	€ m
At 1 January 2014	419	12	104	535	125	125
Transfers into Level 3[1]	114	3	–	117	119	119
Total gains or (losses) in:						
Profit or loss						
– Net trading gain	107	–	–	107	26	26
Other comprehensive income						
– Net change in fair value of financial investments available for sale	–	–	307	307	–	–
– Net change in fair value of cash flow hedges	2	–	–	2	30	30
	2	–	307	309	30	30
Purchases	–	–	12	12	–	–
Sales	–	(12)	(12)	(24)	–	–
At 31 December 2014	642	3	411	1,056	300	300

47 Fair value of financial instruments *(continued)*

							31 December 2013
	Financial assets					Financial liabilities	
	Disposal groups and non-current assets held for sale	Derivatives	Available for sale		Total	Derivatives	Total
			Debt securities	Equity securities			
Group	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2013	196	–	12	84	292	20	20
Transfers into Level 3[(1)]	–	630	–	–	630	161	161
Total gains or (losses) in:							
Profit or loss							
– Net trading loss	(6)	(211)	–	–	(217)	(36)	(36)
– Provisions for impairment on financial investments available for sale	–	–	–	(9)	(9)	–	–
– Other operating loss	–	–	–	–	–	–	–
	(6)	(211)	–	(9)	(226)	(36)	(36)
Other comprehensive income							
– Net change in fair value of financial investments available for sale	–	–	–	27	27	–	–
Purchases	–	–	–	6	6	–	–
Sales	(190)	–	–	(4)	(194)	(20)	(20)
At 31 December 2013	–	419	12	104	535	125	125

(1)Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

Transfers into Level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these instruments.

Reconciliation of balances in Level 3 of the fair value hierarchy

Total gains or losses included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at 31 December 2014 and 31 December 2013:

	2014 **€ m**	2013 € m
Net trading income/(loss)	**193**	(34)
Provisions for impairment on financial investments available for sale	**–**	(9)
Total	**193**	(43)

47 Fair value of financial instruments *(continued)*

Significant unobservable inputs

The table below sets out information about significant unobservable inputs used for the years ended 31 December 2014 and 31 December 2013 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

Financial instrument		Fair Value 2014 € m	Fair Value 2013 € m	Valuation technique	Significant unobservable input	Range of estimates 2014	Range of estimates 2013
Uncollaterised customer derivatives	Asset	642	419	CVA	LGD	46% – 82% (Base 55%)	45% – 80% (Base 59%)
	Liability	300	125				
					PD	0.9% – 1.4% (Base 1.1% 1 yr PD)	0.8% – 2.0% (Base 1.5% 1 yr PD)
					Combination LGD and PD[(1)]	As above with greater unfavourable impact due to combination of PD and LGD changes	As above with greater unfavourable impact due to combination of PD and LGD changes
				FVA[(2)]	Funding spreads	(0.3%) – 0.8%	n/a
				DVA	PD	n/a	The PD is shifted from 2.1% to 0.4% in the unfavourable scenario. In the favourable scenario the capping of DVA at CVA level is removed.
NAMA subordinated bonds	Asset	374	73	Discounted cash flows	NAMA profitability i.e. ability to generate cash flow for repayment	Discount rate of 12% applicable to base asset price. The estimates range from: (a) NAMA making 50% of full 5.26% coupon payments; to (b) an early full repayment of coupons plus capital (March 2018) at a reduced discount rate.	The estimates range from: (a) NAMA making a single payment only under the bonds i.e. 5.26% of nominal; to (b) a full repayment of the bonds at maturity.

[(1)]The fair value measurement sensitivity to unobservable inputs ranges from negative € 53 million to positive € 25 million (2013: negative € 27 million to positive € 21 million).

[(2)]As already noted, FVA incorporates an element of own credit which had been applied through DVA in 2013.

A number of other derivatives are subject to valuation methodologies which use unobservable inputs. As the variability of the valuation is not greater that € 1 million in any individual case or collectively, the detail is not disclosed here.

47 Fair value of financial instruments *(continued)*

Sensitivity of Level 3 measurements

The implementation of valuation techniques involves a considerable degree of judgement. While the Group believes its estimates of fair value are appropriate, the use of different measurements or assumptions could lead to different fair values. The following table sets out the impact of using reasonably possible alternative assumptions in the valuation methodology:

	2014			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Derivative financial instruments	61	(77)	–	–
Financial investments available for sale – equity securities	–	–	59	(56)
Total	61	(77)	59	(56)
Classes of financial liabilities				
Derivative financial instruments	10	(37)	–	–
Total	10	(37)	–	–

	2013			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Derivative financial instruments	23	(39)	–	–
Financial investments available for sale – equity securities	–	(48)	111	–
Total	23	(87)	111	–
Classes of financial liabilities				
Derivative financial instruments	17	(9)	–	–
Total	17	(9)	–	–

Day 1 gain or loss:

No difference existed between the fair value at initial recognition of financial instruments and the amount that was determined at that date using a valuation technique incorporating significant unobservable data.

48 Interest rate sensitivity

The net interest rate sensitivity of the Group at 31 December 2014 and 31 December 2013 is illustrated in the following tables. The tables set out details of those assets and liabilities whose values are subject to change as interest rates change within each contractual repricing time period. Details regarding assets and liabilities which are not sensitive to interest rate movements are included within non-interest bearing or trading captions. The tables show the sensitivity of the statement of financial position at one point in time and are not necessarily indicative of positions at other dates. In developing the classifications used in the tables, it has been necessary to make certain assumptions and approximations in assigning assets and liabilities to different repricing categories.

The fair value of derivative financial instruments is included within other assets and other liabilities as interest rate insensitive. However, some derivative instruments are derived from interest sensitive financial instruments, and are shown separately below in each year's table.

48 Interest rate sensitivity *(continued)*

	0<1 Month € m	1<3 Months € m	3<12 Months € m	1<2 Years € m	2<3 Years € m	3<4 Years € m	4<5 Years € m	5 years + € m	Non-interest bearing € m	Trading € m	2014 Total € m
Assets											
Disposal groups and non-current assets held for sale	–	–	–	–	–	–	–	–	14	–	14
Trading portfolio financial assets	–	–	–	–	–	–	–	–	–	1	1
Loans and receivables to banks	1,400	8	–	3	–	–	–	–	454	–	1,865
Loans and receivables to customers	63,398	6,806	1,898	947	691	214	434	1,380	(12,406)	–	63,362
NAMA senior bonds	–	9,423	–	–	–	–	–	–	–	–	9,423
Financial investments available for sale	538	625	296	1,350	2,747	2,693	4,192	7,329	415	–	20,185
Other assets	4,879	–	–	–	–	–	–	–	6,702	1,024	12,605
Total assets	70,215	16,862	2,194	2,300	3,438	2,907	4,626	8,709	(4,821)	1,025	107,455
Liabilities											
Deposits by central banks and banks	10,109	4,714	–	1,900	1	–	–	–	44	–	16,768
Customer accounts	25,612	4,585	10,900	2,387	1,559	601	113	1	18,260	–	64,018
Debt securities in issue	605	2,470	521	1,000	1,675	500	565	525	–	–	7,861
Subordinated liabilities and other capital instruments	–	–	–	1,411	–	–	–	40	–	–	1,451
Other liabilities	–	–	–	–	–	–	–	–	4,635	1,150	5,785
Shareholders' equity	–	–	–	–	–	–	–	–	11,572	–	11,572
Total liabilities and shareholders' equity	36,326	11,769	11,421	6,698	3,235	1,101	678	566	34,511	1,150	107,455
Derivatives affecting interest rate sensitivity	10,260	(4,659)	(2,126)	649	(2,601)	(800)	1,179	(1,902)	–	–	
Interest sensitivity gap	23,629	9,752	(7,101)	(5,047)	2,804	2,606	2,769	10,045	(39,332)	(125)	
Cumulative interest sensitivity gap	23,629	33,381	26,280	21,233	24,037	26,643	29,412	39,457	125	–	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	19,087	7,383	(6,495)	(4,949)	2,767	2,553	2,709	10,116	(31,474)	(114)	
Cumulative interest sensitivity gap	19,087	26,470	19,975	15,026	17,793	20,346	23,055	33,171	1,697	1,583	
($ in euro equivalents)	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	
Interest sensitivity gap	447	762	21	2	4	–	(6)	(41)	(554)	(11)	
Cumulative interest sensitivity gap	447	1,209	1,230	1,232	1,236	1,236	1,230	1,189	635	624	
(£ in euro equivalents)	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	
Interest sensitivity gap	4,115	1,608	(641)	(100)	33	53	66	(30)	(7,803)	(7)	
Cumulative interest sensitivity gap	4,115	5,723	5,082	4,982	5,015	5,068	5,134	5,104	(2,699)	(2,706)	
(Other currencies in euro equivalents)	Other m	Other m	Other m	Other m	Other m	Other m	Other m	Other m	Other m	Other m	
Interest sensitivity gap	(20)	(1)	14	–	–	–	–	–	499	7	
Cumulative interest sensitivity gap	(20)	(21)	(7)	(7)	(7)	(7)	(7)	(7)	492	499	

48 Interest rate sensitivity *(continued)*

	0<1 Month € m	1<3 Months € m	3<12 Months € m	1<2 Years € m	2<3 Years € m	3<4 Years € m	4<5 Years € m	5 years + € m	Non-interest bearing € m	Trading € m	2013 Total € m
Assets											
Disposal groups and non-current assets held for sale	–	–	28	–	–	–	–	–	2,754	–	2,782
Trading portfolio financial assets	–	–	–	–	–	–	–	–	–	2	2
Loans and receivables to banks	1,616	5	2	–	–	–	–	–	425	–	2,048
Loans and receivables to customers	68,166	6,716	1,877	1,150	890	367	279	3,351	(17,083)	–	65,713
NAMA senior bonds	–	15,598	–	–	–	–	–	–	–	–	15,598
Financial investments available for sale	986	947	798	2,749	2,611	2,797	2,462	6,911	107	–	20,368
Other assets	3,469	–	–	–	–	–	–	–	6,753	1,001	11,223
Total assets	74,237	23,266	2,705	3,899	3,501	3,164	2,741	10,262	(7,044)	1,003	117,734
Liabilities											
Deposits by central banks and banks	19,182	3,390	43	–	500	–	–	–	6	–	23,121
Customer accounts	28,122	8,406	9,498	1,676	1,236	1,052	291	2	15,384	–	65,667
Debt securities in issue	908	406	774	3,406	1,000	1,675	500	90	–	–	8,759
Subordinated liabilities and other capital instruments	–	–	–	–	1,316	–	–	36	–	–	1,352
Other liabilities	–	–	–	–	–	–	–	–	7,418	923	8,341
Shareholders' equity	–	–	–	–	–	–	–	–	10,494	–	10,494
Total liabilities and shareholders' equity	48,212	12,202	10,315	5,082	4,052	2,727	791	128	33,302	923	117,734
Derivatives affecting interest rate sensitivity	6,122	7,731	(12,040)	(2,901)	(1,157)	313	1,262	670	–	–	–
Interest sensitivity gap	19,903	3,333	4,430	1,718	606	124	688	9,464	(40,346)	80	
Cumulative interest sensitivity gap	19,903	23,236	27,666	29,384	29,990	30,114	30,802	40,266	(80)	–	

(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Interest sensitivity gap	19,582	1,694	3,097	1,365	484	32	623	7,215	(29,387)	61
Cumulative interest sensitivity gap	19,582	21,276	24,373	25,738	26,222	26,254	26,877	34,092	4,705	4,766
($ in euro equivalents)	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m
Interest sensitivity gap	408	432	(51)	–	–	–	–	–	(521)	2
Cumulative interest sensitivity gap	408	840	789	789	789	789	789	789	268	270
(£ in euro equivalents)	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m
Interest sensitivity gap	(24)	1,207	1,327	353	122	92	65	2,249	(10,973)	17
Cumulative interest sensitivity gap	(24)	1,183	2,510	2,863	2,985	3,077	3,142	5,391	(5,582)	(5,565)
(Other currencies in euro equivalents)	Other m	Other m	Other m	Other m	Other m	Other m	Other m	Other m	Other m	Other m
Interest sensitivity gap	(63)	–	57	–	–	–	–	–	535	–
Cumulative interest sensitivity gap	(63)	(63)	(6)	(6)	(6)	(6)	(6)	(6)	529	529

49 Statement of cash flows

Analysis of cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents comprise the following balances with less than three months maturity from the date of acquisition:

	2014 € m	2013 € m	2012 € m
Cash and balances at central banks	5,393	4,132	4,047
Loans and receivables to banks	991	1,598	1,879
	6,384	5,730	5,926

The Group is required to maintain balances with the Central Bank of Ireland which at 31 December 2014 amounted to € 120 million (2013: € 115 million; 2012: € 107 million).

The Group is required by law to maintain reserve balances with the Bank of England. At 31 December 2014, these amounted to € 544 million (2013: € 542 million; 2012: € 586 million).

There are certain regulatory restrictions on the ability of subsidiaries to transfer funds to the parent company in the form of cash dividends, loans or advances. The impact of such restrictions is not expected to have a material effect on the Group's ability to meet its cash obligations.

50 Related party transactions

Related parties of the Group and Allied Irish Banks, p.l.c. ("AIB") include subsidiary undertakings, associate undertakings and joint arrangements, post-employment benefits, Key Management Personnel and connected parties. The Irish Government is also considered a related party by virtue of its effective control of AIB.

(a) Transactions with subsidiary undertakings

AIB is the ultimate parent company of the Group. Banking transactions are entered into by AIB with its subsidiaries in the normal course of business. These include loans, deposits, provision of derivative contracts, foreign currency transactions and the provision of guarantees on an 'arms length' basis. Balances between AIB and its subsidiaries are detailed in notes f, g, j, l, p and q to the parent company financial statements. In accordance with IFRS10 *Consolidated Financial Statements*, transactions with subsidiaries have been eliminated on consolidation.

(b) Associated undertakings and joint arrangements

From time to time, the Group provides certain banking and financial services for associated undertakings. These transactions are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than the normal risk of collectability or present other unfavourable features. Details of loans to associates are set out in note g to the parent company financial statements, while deposits from associates are set out in note q.

(c) Provision of banking and related services and funding to Group Pension schemes

The Group provides certain banking and financial services including money transmission services for the AIB Group Pension schemes. Such services are provided in the ordinary course of business, on substantially the same terms, including interest rates, as those prevailing at the time for comparable transactions with other persons.

During 2013, the Group established a pension funding partnership, AIB PFP Scottish Limited Partnership ("SLP") in the UK. Following this, a subsidiary of AIB transferred loans to the SLP for the purpose of ring-fencing the repayments of these loans to fund future deficit payments of the AIB UK Defined Benefit Pension Scheme (note 46).

During 2012, AIB agreed to make certain contributions to the pension scheme which were settled through the transfer to the AIB Group Irish Pension Scheme of interests in a Special Purpose Vehicle ("SPV") owning loans and receivables previously transferred at fair value from the Group. A subsidiary of AIB was appointed as a service provider for the loans and receivables transferred in return for a servicing fee at a market rate (note 46).

(d) Compensation of Key Management Personnel

The following disclosures are made in accordance with the provisions of IAS 24 *Related Party Disclosures*, in respect of the compensation of Key Management Personnel. Under IAS 24, Key Management Personnel are defined as comprising Executive and Non-Executive Directors together with Senior Executive Officers, namely, the members of the Leadership Team (see pages 158 to 160). The figures shown below include the figures separately reported in respect of Directors' remuneration in the Remuneration report on pages 179 to 184.

	Group		Allied Irish Banks, p.l.c.	
	2014 € m	2013 € m	**2014 € m**	2013 € m
Short-term compensation[1]	**6.6**	5.8	**6.0**	5.5
Post-employment benefits[2]	**0.7**	0.5	**0.7**	0.5
Termination benefits	**–**	0.4	**–**	0.4
Total	**7.3**	6.7	**6.7**	6.4

[1]Comprises (a) in the case of Executive Directors and Senior Executive Officers: salary and a non-pensionable cash allowance in lieu of company car, medical insurance and other contractual benefits following the internal review of pay and benefits in 2012 and (b) in the case of Non-Executive Directors: Directors' fees and travel and subsistence expenses incurred in the performance of the duties of their office, which are paid by the Company.

[2]Comprises payments to defined benefit or defined contribution pension schemes, in accordance with actuarial advice, to provide post-retirement pensions. The defined benefit schemes closed for future accrual with effect from 31 December 2013 and all future employee pension benefits now accrue under the defined contribution scheme.

50 Related party transactions *(continued)*

(e) Transactions with Key Management Personnel

At 31 December 2014, deposit and other credit balances held by Key Management Personnel, namely Executive and Non-Executive Directors and Senior Executive Officers, in office during the year amounted to € 4.56 million (2013: € 5.04 million).

Loans to Key Management Personnel are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons of similar standing not connected with the Group, and do not involve more than the normal risk of collectability or present other unfavourable features. Loans to Executive Directors and Senior Executive Officers are also made in the ordinary course of business, on terms available to other employees in the Group generally, in accordance with established policy, within limits set on a case by case basis.

Details of transactions with Key Management Personnel, and connected parties where indicated, for the years ended 31 December 2014 and 2013 are as follows:

(i) Current Directors

		2014
	Balance at 31 December 2013 € 000	Balance at 31 December 2014 € 000
Mark Bourke:		
Loans	622	611
Overdraft/Credit card	–	–
Total	622	611
Interest charged during 2014		8
Maximum debit balance during 2014*		622
David Duffy:		
Loans	1,261	1,171
Overdraft/Credit card	12	4
Total	1,273	1,175
Interest charged during 2014		10
Maximum debit balance during 2014*		1,301
Tom Foley:		
Loans	–	–
Overdraft/Credit card	–	–
Total	–	–
Interest charged during 2014		–
Maximum debit balance during 2014*		1
Jim O'Hara:		
Loans	–	–
Overdraft/Credit card	–	–
Total	–	–
Interest charged during 2014		–
Maximum debit balance during 2014*		13
Dr Michael Somers:		
Loans	–	–
Overdraft/Credit card	–	3
Total	–	3
Interest charged during 2014		–
Maximum debit balance during 2014*		6

*The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year,

50 Related party transactions *(continued)*
(e) Transactions with Key Management Personnel
(i) Current Directors

		2014
	Balance at 31 December 2013 € 000	Balance at 31 December 2014 € 000
Catherine Woods:		
Loans	88	79
Overdraft/Credit card	–	–
Total	88	79
Interest charged during 2014		1
Maximum debit balance during 2014*		88

As at 31 December 2014, guarantees entered into by Catherine Woods in favour of the Group amounted to € 0.1 million.

Simon Ball, Bernard Byrne and Peter Hagan had no facilities with the Group during 2014.

(ii) Former Directors who were in office during the year

		2014
	Balance at 31 December 2013 € 000	Balance at 31 December 2014 € 000
Dick Spring:		
Loans	–	–
Overdraft/Credit card	4	5
Total	4	5
Interest charged during 2014		–
Maximum debit balance during 2014*		12

David Hodgkinson and Tom Wacker had no facilities with the Group during 2014.

(iii) Senior Executive Officers in office during the year
(Aggregate of 7 persons (2013: 7)):

		2014
	Balance at 31 December 2013 € 000	Balance at 31 December 2014 € 000
Loans	1,399	1,343
Overdraft/Credit card	13	5
Total	1,412	1,348
Interest charged during 2014		42
Maximum debit balance during 2014*		1,431

(iv) Aggregate amounts outstanding at year-end

	Loans, overdrafts/credit cards	
	31 December 2013 € 000	31 December 2014 € 000
Directors (2014:7 persons; 2013: 6 persons)	1,988	1,873
Senior Executive Officers (2014:7 persons; 2013: 7 persons)	1,412	1,348
	3,400	3,221

As at 31 December 2014, guarantees entered into by 1 Director in favour of the Group amounted to € 0.1 million in aggregate (2013: € 0.72 million by 1 Director and 1 Senior Executive Officer). As at 31 December 2014, no Senior Executive Officer held guarantees in favour of the Group.

*The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

50 Related party transactions *(continued)*

(e) Transactions with Key Management Personnel

(v) Connected persons

The aggregate of loans to connected persons of Directors in office as at 31 December 2014, as defined in Section 26 of the Companies Act 1990, are as follows (aggregate of 19 persons; 2013: 18 persons):

		2014
	Balance at 31 December 2013 € 000	**Balance at 31 December 2014 € 000**
Loans	**1,957**	**1,608**
Overdraft/Credit card	**86**	**52**
Total	**2,043**	**1,660**
Interest charged during 2014		**40**
Maximum debit balance during 2014*		**2,265**

No impairment charges or provisions have been recognised during the year in respect of any of the above loans or facilities detailed in (i) to (v) and all interest that has fallen due on all of these loans or facilities has been paid.

(i) Directors in office during 2013

		2013
	Balance at 31 December 2012 € 000	Balance at 31 December 2013 € 000
David Duffy:		
Loans	1,348	1,261
Overdraft/Credit card	3	12
Total	1,351	1,273
Interest charged during 2013		16
Maximum debit balance during 2013*		1,382
Tom Foley:		
Loans	–	–
Overdraft/Credit card	–	–
Total	–	–
Interest charged during 2013		–
Maximum debit balance during 2013*		6
Jim O’Hara:		
Loans	–	–
Overdraft/Credit card	–	–
Total	–	–
Interest charged during 2013		–
Maximum debit balance during 2013*		12
Dr Michael Somers:		
Loans	–	–
Overdraft/Credit card	1	–
Total	1	–
Interest charged during 2013		–
Maximum debit balance during 2013*		4
Dick Spring:		
Loans	–	–
Overdraft/Credit card	9	4
Total	9	4
Interest charged during 2013		–
Maximum debit balance during 2013*		17

*The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

50 Related party transactions *(continued)*

(e) Transactions with Key Management Personnel

(i) Directors in office during 2013

		2013
	Balance at 31 December 2012 € 000	Balance at 31 December 2013 € 000
Catherine Woods:		
Loans	97	88
Overdraft/Credit card	–	–
Total	97	88
Interest charged during 2013		1
Maximum debit balance during 2013*		97

As at 31 December 2013, guarantees entered into by Catherine Woods in favour of the Group amounted to € 0.1 million.

Simon Ball, Bernard Byrne, Peter Hagan, David Hodgkinson and **Tom Wacker** had no facilities with the Group during 2013.

(ii) Former Directors who were in office during 2013

There were no changes to the Board during the year

(iii) Senior Executive Officers in office during 2013

(Aggregate of 7 persons (2012: 14))**:**

		2013
	Balance at 31 December 2012 € 000	Balance at 31 December 2013 € 000
Loans	1,841	1,604
Overdraft/Credit card	17	27
Total	1,858	1,631
Interest charged during 2013		51
Maximum debit balance during 2013*		1,885

(iv) Aggregate amounts outstanding at year-end

	Loans, overdrafts/credit cards	
	31 December 2012 € 000	31 December 2013 € 000
Directors (2013: 6 persons; 2012: 6 persons)	1,458	1,365
Senior Executive Officers (2013: 7; 2012: 9 persons)	1,858	1,631
	3,316	2,996

As at 31 December 2013, guarantees entered into by 1 Director and 1 Senior Executive Officer in favour of the Group amounted to € 0.7 million in aggregate (2012: € 1.4 million by 1 Director and 2 Senior Executive Officers).

(v) Connected persons

The aggregate of loans to connected persons of Directors in office as at 31 December 2013, as defined in Section 26 of the Companies Act 1990, are as follows (aggregate of 18 persons):

		2013
	Balance at 31 December 2012 € 000	Balance at 31 December 2013 € 000
Loans	831	836
Overdraft/Credit card	22	62
Total	853	898
Interest charged during 2013		33
Maximum debit balance during 2013*		981

No impairment charges or provisions have been recognised during the year in respect of any of the above loans or facilities detailed in (i) to (v) and all interest that has fallen due on all of these loans or facilities has been paid.

*The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

50 Related party transactions *(continued)*

(f) Summary of relationship with the Irish Government

The Irish Government, as a result of both its investment in AIB's 2009 Preference shares and AIB's participation in Government guarantee schemes, became a related party of AIB in 2009. Following the various ordinary/CNV share issues to NPRFC[1] during 2010 and 2011, AIB is under the control of the Irish Government.

AIB enters into normal banking transactions with the Irish Government and many of its controlled bodies on an arm's length basis. In addition, other transactions include the payment of taxes, pay related social insurance, local authority rates, and the payment of regulatory fees, as appropriate.

Following the crisis in the Irish banking sector and the stabilisation measures adopted since 2008, the involvement of the Irish Government in AIB and in other Irish banks has been and continues to be considerable. This involvement is outlined below.

Rights and powers of the Irish Government and the Central Bank of Ireland

The Irish Minister for Finance ('the Minister') and the Central Bank of Ireland ("the Central Bank") have significant rights and powers over the operations of AIB (and other financial institutions) arising from the various stabilisation measures. These rights and powers relate to, inter alia:

- The acquisition of shares in other institutions;
- Maintenance of solvency ratios and compliance with any liquidity and capital ratios that the Central Bank, following consultation with the Minister, may direct;
- The appointment of non-executive directors and board changes;
- The appointment of persons to attend meetings of various committees;
- Restructuring of executive management responsibilities, strengthening of management capacity and improvement of governance;
- Declaration and payment of dividends;
- Restrictions on various types of remuneration;
- Buy-backs or redemptions by the Group of its shares;
- The manner in which the Group extends credit to certain customer groups; and
- Conditions regulating the commercial conduct of AIB, having regard to capital ratios, market share and the Group's balance sheet growth.

In addition, various other initiatives such as strategies/codes of conduct for dealing with mortgage and other consumer/business loan arrears are set out in the Risk section of this report.

The relationship of the Irish Government with AIB is outlined under the following headings:

- Capital investments;
- Guarantee schemes;
- NAMA;
- Funding support;
- PCAR/PLAR;
- Credit Institutions (Stabilisation) Act 2010:
  (i) Direction Order;
  (ii) Transfer Order;
  (iii) Subordinated Liabilities Order;
- Central Bank and Credit Institutions (Resolution) Act 2011; and
- Relationship framework which was signed in March 2012.

In addition, the European Commission, in approving AIB's restructuring plan on 7 May 2014, found that restructuring aid granted by Ireland to AIB is in line with EU state aid rules.

[1]National Treasury Management Agency as controller and manager of the Ireland Strategic Investment Fund (NTMA / ISIF with effect 22 December 2014).

50 Related party transactions *(continued)*

(f) Summary of relationship with the Irish Government

– ***Capital investments***

National Treasury Management Agency ("NTMA")

The Ireland Strategic Investment Fund (the "ISIF") was established on 22 December 2014 by the National Treasury Management (Amendment) Act 2014. The ISIF is controlled and managed by the NTMA. Pursuant to this Act, all property held by the National Pensions Reserve Fund Commission (the "NPRFC"), including its holding of ordinary shares and the 2009 Preference Shares in AIB transferred to the NTMA on 22 December 2014.

Ordinary shares

At 31 December 2014, the Irish Government, through the NTMA, held 522.6 billion (31 December 2013: 520.4 billion) ordinary shares in AIB representing 99.8% of the issued ordinary share capital (2013: 99.8%). During 2014, the number of ordinary shares held by the NPRFC increased by 2.2 billion following the non-payment of the cash dividend on the 2009 Preference Shares as noted below. See note 39 for details of the Government's investment in the ordinary shares of AIB.

2009 Preference Shares

At 31 December 2014, the Irish Government, through the NTMA, held € 3.5 billion capital (2013: € 3.5 billion) in the form of non-cumulative preference shares ("2009 Preference Shares"). The annual cash dividend amounting to € 280 million was not paid in either 2014 or 2013, however, the dividend entitlement was satisfied by way of a bonus issue of 2.2 billion ordinary shares (2013: 4.1 billion). The terms and conditions attaching to the 2009 Preference Shares are outlined in note 39.

Contingent capital notes

On 27 July 2011, AIB issued € 1.6 billion of contingent capital notes at par to the Minister. Details of this transaction are set out in note 38.

Capital contributions

On 28 July 2011, capital contributions totalling € 6.054 billion were made by the Irish State to AIB for nil consideration.
For further details, see note 42.

– ***Guarantee schemes***

The European Communities (Deposit Guarantee Schemes) Regulations 1995 have been in operation since 1995. These regulations guarantee certain retail deposits up to a maximum of € 100,000. In addition, since September 2008, the Irish Government has guaranteed relevant deposits and debt securities of AIB through the Credit Institutions (Financial Support) Scheme 2008 ("the CIFS scheme") which expired in September 2010 and the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 ("ELG Scheme") which expired on 28 March 2013 for all new liabilities.

In January 2010, Allied Irish Banks, p.l.c., and certain of its subsidiaries, became participating institutions for the purposes of the ELG Scheme. The total liabilities guaranteed under the ELG Scheme at 31 December 2014 amounted to € 4.6 billion (31 December 2013: € 7.8 billion). Participating institutions must pay a fee to the Minister in respect of each liability guaranteed under the ELG Scheme. Details of the total charge for 2014, 2013 and 2012 are set out in note 3. Participating institutions are also required to indemnify the Minister for any costs and expenses of the Minister and for any payments made by the Minister under the ELG Scheme which relate to the participating institution's guarantee under the ELG Scheme.

50 Related party transactions *(continued)*

(f) Summary of relationship with the Irish Government

– ***NAMA***

AIB was designated a participating institution under the NAMA Act in February 2010. Under this Act, AIB transferred financial assets to NAMA for which it received consideration from NAMA in the form of NAMA senior bonds and NAMA subordinated bonds which are detailed in notes 7, 27 and 28. In addition, AIB acquired NAMA senior bonds in 2011 as part of the Anglo transaction (€ 11,854 million fair value at acquisition date) and the EBS transaction (€ 301 million carrying value at acquisition date). AIB also acquired € 6 million in subordinated NAMA bonds, as part of the EBS transaction. The NAMA senior bonds are guaranteed by the Irish Government.

Following on the transfer of financial assets to NAMA, a contingent liability/contingent asset arises in relation to:
- final settlement amounts with NAMA on assets transferred;
- a series of indemnities which AIB has provided to NAMA on transferred assets;
- a possible requirement for AIB to share NAMA losses on dissolution of NAMA.

Details of the contingent liability/asset are set out in note 44.

Investment in National Asset Management Agency Investment Ltd ("NAMAIL")

In March 2010, a then subsidiary of Allied Irish Banks, p.l.c. made an equity investment in 17 million "B" shares of NAMAIL, a special purpose entity established by NAMA. The total investment amounted to € 17 million, of which € 12 million was invested on behalf of the AIB Group pension scheme (fair value at 31 December 2014 of € 10 million), with the remainder invested on behalf of clients.

– ***Funding support***

Throughout the financial crisis, the Irish Government provided guarantees under the CIFS (expired September 2010) and ELG schemes as outlined above. In addition, through the Central Bank, the Irish Government provided direct funding as follows:
- AIB has borrowings from the Central Bank as part of Eurosystem. These borrowings are under ECB Monetary Policy Operation Sale and Repurchase Agreements and amount to € 3.4 billion (2013: € 12.7 billion). At 31 December 2014, AIB had no borrowings from the Central Bank under non-standard liquidity facilities (2013: Nil).

The interest rate on the facilities above is set by the Central Bank and advised to AIB on each rollover date and at 31 December 2014 was 0.05 %, being the current ECB refinancing rate. The facilities were for maturities of between 7 days and 3 months, apart from the € 1.9 billion (2013: € 11.25 billion in Long Term Refinancing Operation) in the Targeted Long Term Refinancing Operation (note 33) which will mature between September 2016 and September 2018 depending on eligible lending activities in excess of specific benchmarks. At 31 December 2014, the amounts outstanding, totalling € 3.4 billion (2013: € 12.7 billion) are included within Deposits by central banks and banks in the table below. See note 33 for details of collateral.

These facilities, together with other assets and liabilities with Irish Government entity counterparties, are set out below.

– ***PCAR/PLAR***

On 31 March 2011, the Central Bank published the 'Financial Measures Programme Report' which detailed the outcome of its review of the capital (PCAR) and funding requirements (PLAR) of the domestic Irish banks. The PCAR/PLAR assessments followed the announcement of the EU-IMF Programme for Ireland in November 2010, in which the provision of an overall amount of € 85 billion in financial support for the sovereign was agreed in principle. Up to € 35 billion of this support was earmarked for the banking system, € 10 billion of which was for immediate recapitalisation of the banks with the remaining € 25 billion to be provided on a contingency basis. Arising from the 2011 PCAR and PLAR assessments, AIB, including EBS, was required to raise € 14.8 billion in total capital (including €1.6 billion in contingent capital), all of which was subsequently raised.

50 Related party transactions *(continued)*

(f) Summary of relationship with the Irish Government

– ***Credit Institutions (Stabilisation) Act 2010***

The Credit Institutions (Stabilisation) Act 2010, which was enacted in December 2010, ceased to have effect on 31 December 2014. During the period when the Act was effective, the Minister invoked certain of his powers under the Act in relation to AIB as follows:

– a Direction Order in December 2010;
– a Transfer Order in February 2011;
– a Subordinated Liabilities Order in April 2011; and
– Acquisition of EBS Limited ("EBS").

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

– ***Central Bank and Credit Institutions (Resolution) Act 2011***

The Central Bank and Credit Institutions (Resolution) Act 2011 became effective on 28 October 2011. This legislation provides the Central Bank with additional powers to achieve an effective and efficient resolution regime for credit institutions that are failing or likely to fail and that is effective in protecting the Exchequer and the stability of the financial system and the economy.

The Act gives the Central Bank power to take control of banks, appoint managers to run them and remove directors, staff and consultants, and to move their deposits and loans to other banks. On 28 September 2012, the Minister made the Credit institutions Resolution Fund Levy Regulations, 2012 providing for contributions, by authorised credit institutions, to a Credit Institutions Resolution Fund pursuant to Section 15 of the Central Bank and Credit Institutions (Resolution) Act 2011. This Resolution Fund has been designed to provide a source of funding for the resolution of financial instability in, or of an imminent serious threat to the financial stability of an authorised credit institution.

The Act provides for the establishment of "Bridge-Banks" for the purpose of holding assets or liabilities which have been transferred under a transfer order. Bridge-Banks are only intended to hold such assets or liabilities on a temporary basis pending onward transfer as soon as possible.

The Central Bank is empowered to make special management orders in relation to an authorised credit institution, or in relation to a subsidiary or holding company of the authorised credit institution in certain circumstances. The Act also provides powers to the Central Bank regarding the liquidation of authorised credit institutions. Authorised credit institutions may also be directed to prepare a recovery plan setting out actions that could be taken to facilitate the continuation or secure the business or part of the business of that institution.

– ***Relationship Framework***

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

– ***Approval of AIB Restructuring Plan***

On 7 May 2014, the European Commission approved under state aid rules AIB's Restructuring Plan. In arriving at its final decision, the European Commission acknowledged the significant number of restructuring measures previously implemented by AIB, comprising business divestments, asset deleveraging, Liability Management exercises and significant cost reduction actions. The Commission concluded that the Restructuring Plan sets out the path to restoring long term viability. The plan covers the period from 2014 to 2017.

– ***Restructuring Plan commitments***

AIB has committed to a range of measures relating to customers in difficulty: cost caps and reductions; acquisitions and exposures; coupon payments; promoting competition; and the repayment of aid to the State. All of the commitments are aligned to AIB's operational plans and are supportive of AIB's return to viability.

50 Related party transactions *(continued)*

(f) Summary of relationship with the Irish Government

Balances held with the Irish Government and related entities

The following table outlines the balances held with Irish Government entities[1] at 31 December 2014 and 31 December 2013, together with the highest balances held at any point during the year.

		2014		2013	
	Note	Balance € m	Highest[2] balance held € m	Balance € m	Highest[2] balance held € m
Assets					
Cash and balances at central banks	a	**560**	**2,496**	258	2,143
Derivative financial instruments		**3**	**10**	10	111
Loans and receivables to banks	b	**120**	**122**	115	116
Loans and receivables to customers		**73**	**86**	29	31
NAMA senior bonds	c	**9,423**	**15,605**	15,598	17,406
Financial investments available for sale	d	**9,481**	**10,715**	10,401	10,660
Total assets		**19,660**		26,411	

		2014		2013	
		Balance € m	Highest[2] balance held € m	Balance € m	Highest[2] balance held € m
Liabilities					
Deposits by central banks and banks	e	**3,400**	**13,480**	12,725	23,230
Customer accounts	f	**3,349**	**8,993**	6,818	6,884
Derivative financial instruments		**93**	**93**	34	34
Subordinated liabilities and other capital instruments	g	**1,411**	**1,411**	1,316	1,316
Total liabilities		**8,253**		20,893	

[1]Includes all departments of the Irish Government located in the State and embassies, consulates and other institutions of the Irish Government located outside the State. The Post Office Savings Bank ("POSB") and the National Treasury Management Agency ("NTMA") are included.

[2]The highest balance during the year, together with the outstanding balance at the end of each year, is considered the most meaningful way of representing the amount of transactions that have occurred between AIB and the Irish Government.

Substantially all of the above balances relate to Allied Irish Banks, p.l.c..

a Cash and balances at the central banks represent the minimum reserve requirements which AIB is required to hold with the Central Bank. Balances on this account can fluctuate significantly due to the reserve requirement being determined on the basis of the institution's average daily reserve holdings over a one month maintenance period. The Group is required to maintain a monthly average Primary Liquidity balance which at 31 December 2014 was € 511 million (31 December 2013: € 515 million).

b The balances on loans and receivables to banks include statutory balances with the Central Bank as well as overnight funds placed.

c NAMA senior bonds were received as consideration for loans transferred to NAMA and as part of the Anglo and EBS transactions.

d Financial investments available for sale comprise € 9,107 million (2013: € 10,328 million) in Irish Government securities held in the normal course of business and NAMA subordinated bonds which have a fair value at 31 December 2014 of € 374 million (31 December 2013: € 73 million) detailed above under 'NAMA'.

e This relates to funding received from the Central Bank which is detailed under 'Funding Support' above.

f Includes € 1,575 million (2013: € 5,117 million) received from an Irish Government body under a repurchase agreement (note 34). The Group has pledged Irish Government securities with a fair value of € 1,619 million (2013: € 5,405 million) for this borrowing.

g On 27 July 2011, AIB issued € 1.6 billion of contingent capital notes at par to the Minister for Finance, the fair value of these notes at initial recognition was € 1,153 million (note 38).

All other balances, both assets and liabilities are carried out in the ordinary course of banking business on normal terms and conditions.

50 Related party transactions *(continued)*

(f) Summary of relationship with the Irish Government

Local government[(1)]

During 2014 and 2013, AIB entered into banking transactions in the normal course of business with local government bodies. These transactions include the granting of loans and the acceptance of deposits, and clearing transactions.

Commercial semi-state bodies[(2)]

During 2014 and 2013, AIB entered into banking transactions in the normal course of business with semi-state bodies. These transactions principally include the granting of loans and the acceptance of deposits as well as derivative transactions and clearing transactions.

[(1)]This category includes local authorities, borough corporations, county borough councils, county councils, boards of town commissioners, urban district councils, non-commercial public sector entities, public voluntary hospitals and schools.

[(2)]Semi-state bodies is the name given to organisations within the public sector operating with some autonomy. They include commercial organisations or companies in which the State is the sole or main shareholder.

Financial institutions under Irish Government control/significant influence

Certain financial institutions are related parties to AIB by virtue of the Government either controlling or having a significant influence over these institutions. The following institution is controlled by the Irish Government:

– Permanent tsb plc

The Government controlled entity, Irish Bank Resolution Corporation Limited (In Special Liquidation) which went into special liquidation during 2013, remains a related party for the purpose of this disclosure.

In addition, the Irish Government is deemed to have significant influence over Bank of Ireland.

Transactions with these institutions are normal banking transactions entered into in the ordinary course of cash management business under normal business terms. The transactions constitute the short-term placing and acceptance of deposits, derivative transactions, investment in available for sale debt securities and repurchase agreements.

At 31 December 2014 and 31 December 2013, the following balances were outstanding in total to these financial institutions:

	2014 Balance € m	2013 Balance € m
Assets		
Derivative financial instruments	**20**	48
Loans and receivables to banks[(1)]	**4**	–
Financial investments available for sale	**267**	413
Liabilities		
Deposits by central banks and banks[(2)]	**9**	172
Derivative financial instruments	**17**	23
Customer deposits[(3)]	**19**	39

[(1)]The highest balance in loans and receivables to banks amounted to € 108 million in respect of funds placed during the year (2013: € 77 million).

[(2)]The highest balance in deposits by central banks and banks amounted to € 509 million in respect of funds received during the year (2013: € 872 million).

[(3)]The highest balance in customer deposits amounted to € 48 million in respect of funds received during the year (2013: € 331 million).

In connection with the acquisition by AIB Group of certain assets and liabilities of the former Anglo Irish Bank Corporation Limited (now Irish Bank Resolution Corporation Limited (in Special Liquidation)) "IBRC", IBRC had indemnified AIB Group for certain liabilities pursuant to a Transfer Support Agreement dated 23 February 2011. AIB Group had made a number of claims on IBRC pursuant to the indemnity prior to IBRC's Special Liquidation on 7 February 2013.

AIB Group has since served notice of claim and set-off on the Joint Special Liquidators of IBRC in relation to the amounts claimed pursuant to the indemnity and certain other amounts that were owing to AIB by IBRC as at the date of the Special Liquidation (c. € 81.3 million in aggregate). Given AIB's aggregate liability to IBRC at the date of Special Liquidation exceeded these claims, no financial loss is expected to occur.

50 Related party transactions *(continued)*

(g) Indemnities

Allied Irish Banks, p.l.c. has indemnified the Directors of Allied Irish Banks Pensions Limited and AIB DC Pensions (Ireland) Limited, the trustees of the Group's Republic of Ireland defined benefit pension scheme and defined contribution pension scheme, respectively, against any actions, claims or demands arising out of their actions as Directors of the trustee companies, other than by reason of wilful default.

51 Commitments

Capital expenditure	2014 € m	2013 € m
Estimated outstanding commitments for capital expenditure not provided for in the financial statements	17	25
Capital expenditure authorised but not yet contracted for	35	26

Operating lease rentals

The total of future minimum lease payments under non-cancellable operating leases are set out in the following table:

	2014 € m	2013 € m
One year	57	66
One to two years	61	62
Two to three years	58	61
Three to four years	56	58
Four to five years	55	60
Over five years	394	451
Total	681	758

The Group holds a number of significant operating lease arrangements in respect of branches and the headquarter locations. AIB Group leases the Bankcentre campus in Ballsbridge, Dublin 4 under two separate lease arrangements.

The minimum lease terms remaining on the most significant leases vary from 1 year to 15 years. The average lease length outstanding until a break clause in the lease arrangements is approximately 7 years with the final contractual remaining terms ranging from 1 year to 23 years.

There are no contingent rents payable and all lease payments are at market rates.

The total of future minimum sublease payments expected to be received under non-cancellable subleases at the reporting date were € 2 million (2013: € 3 million).

Operating lease payments recognised as an expense for the year were € 67 million (2013: € 80 million). Sublease income amounted to € 4 million (2013: € 4 million).

52 Employees

The following table shows the geographical analysis of average employees for 2014 and 2013 as follows:

	2014	2013
Republic of Ireland	9,689	10,559
United Kingdom	1,641	2,034
United States of America	54	55
Total	**11,384**	12,648

Analysed by segment as follows:

	2014	2013
DCB	5,339	6,085
AIB UK	1,266	1,490
FSG	1,534	1,512
Group	3,245	3,561
Total	**11,384**	12,648

The average number of employees by segment for 2014 and 2013 is set out above (excluding employees on career breaks and other unpaid long term leaves and Ark Life[1] employees). The figures for Group segment include the following centralised functions: Chief Financial Office; Chief Risk Office; Corporate Affairs and Strategy; Office of the Group General Counsel; Office of Group Internal Audit; and Operations and Technology.

The 12 month average of 11,384 employees is lower than the average figure for 2013 of 12,648 due to the impact of voluntary severance and early retirements. Actual FTEs fell to the 31 December 2014 level of 11,047 from 11,431 at 31 December 2013, reflecting the impact of voluntary severance and selective outsourcing of some back-office and support functions in the period.

[1]Acquired in 2013 with a view to its subsequent disposal. The sale was completed in May 2014 (note 17).

53 Regulatory compliance

During 2014, AIB Group, and Allied Irish Banks, p.l.c. and its regulated subsidiaries complied with their externally imposed capital ratios.

Notes to the consolidated financial statements

54 Financial and other information

	2014	2013	2012
Operating ratios			
Operating expenses/operating income	**64.7%**	86.7%	295.7%
Operating expenses/operating income before exceptional items	**55.5%**	76.4%	122.8%
Other income/(loss)/operating income	**33.4%**	21.2%	(78.1%)
Other income/operating income before exceptional items	**33.3%**	30.1%	22.3%
Performance measures			
Return on average total assets	**0.8%**	(1.3%)	(2.7%)
Return on average ordinary shareholders' equity	**8.0%**[1]	(21.8%)	(36.0%)

[1]Profit attributable to ordinary shareholders after deduction of the annual dividend on the 2009 Preference Shares as a percentage of average ordinary shareholders' equity which excludes the € 3.5 billion in 2009 Preference Shares.

	2014	2013	2012
Rates of exchange			
€ /$*			
Closing	**1.2141**	1.3791	1.3194
Average	**1.3286**	1.3282	1.2850
€ /£*			
Closing	**0.7789**	0.8337	0.8161
Average	**0.8062**	0.8494	0.8110

*Throughout this report, Pound sterling is denoted by £ and US dollar by $.

	Assets		Liabilities and equity	
Currency information	**2014 € m**	2013 € m	**2014 € m**	2013 € m
Euro	**86,771**	97,292	**88,395**	99,597
Other	**20,684**	20,442	**19,060**	18,137
	107,455	117,734	**107,455**	117,734

55 Average balance sheets and interest rates[1]

The following table shows interest rates prevailing at 31 December 2014 and 31 December 2013 together with average prevailing interest rates, gross yields, spreads and margins for the years ended 31 December 2014, 2013 and 2012:

	As at 31 December		Average interest rates for years ended 31 December		
Interest rates	**2014 %**	2013 %	**2014 %**	2013 %	2012 %
Ireland					
AIB Group's prime lending rate	**0.50**	0.75	**0.64**	0.63	0.85
European inter-bank offered rate					
One month euro	**0.02**	0.23	**0.13**	0.13	0.33
Three month euro	**0.08**	0.29	**0.21**	0.22	0.58
United Kingdom					
AIB Group's base lending rate	**0.50**	0.50	**0.50**	0.50	0.50
London inter-bank offered rate					
One month sterling	**0.50**	0.49	**0.49**	0.49	0.62
Three month sterling	**0.56**	0.53	**0.54**	0.51	0.83
Gross yields, spreads and margins[2]					
Gross yields[3]			**2.81**	2.82	2.98
Interest rate spread[4]			**1.13**	0.75	0.25
Net interest margin[5]			**1.63**	1.21	0.91

[1]The average balance sheet and gross yields, spreads and margins are presented on a continuing operations basis.

[2]The gross yields, spreads and margins presented in this table are extracted from the average balance sheets and interest rates on the following page.

[3]Gross yield represents the average interest rate earned on interest earning assets.

[4]Interest rate spread represents the difference between the average interest rate earned on interest earning assets and the average interest rate paid on interest bearing liabilities.

[5]Net interest margin represents net interest income as a percentage of average interest earning assets.

55 Average balance sheets and interest rates *(continued)*

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities for the years ended 31 December 2014, 2013 and 2012. The calculation of average balances include daily and monthly averages for reporting units. The average balances used are considered to be representative of the operations of the Group.

	Year ended 31 December 2014			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 %	Average €m	Interest €m	Average rate %
Trading portfolio financial assets	**–**	**–**	**1.4**	14	–	2.9	37	1	2.7
Loans and receivables to banks	**5,966**	**22**	**0.4**	5,724	19	0.3	7,693	31	0.4
Loans and receivables to customers	**65,391**	**2,237**	**3.4**	70,018	2,329	3.3	81,003	2,701	3.3
NAMA senior bonds	**12,569**	**80**	**0.6**	16,743	130	0.8	18,957	329	1.7
Financial investments available for sale	**19,444**	**567**	**2.9**	18,621	652	3.5	14,510	579	4.0
Average interest earning assets	**103,370**	**2,906**	**2.8**	111,120	3,130	2.8	122,200	3,641	3.0
Net interest on swaps		**91**			36			130	
Total average interest earning assets	**103,370**	**2,997**	**2.9**	111,120	3,166	2.9	122,200	3,771	3.1
Non-interest earning assets	**8,237**			9,635			9,767		
Total average assets	**111,607**	**2,997**	**2.7**	120,755	3,166	2.6	131,967	3,771	2.9
Liabilities and shareholders' equity									
Due to central banks and banks	**18,515**	**46**	**0.3**	26,242	123	0.5	33,522	252	0.8
Due to customers	**48,944**	**673**	**1.4**	51,728	1,110	2.1	50,634	1,678	3.3
Other debt issued	**8,921**	**335**	**3.8**	8,623	344	4.0	12,294	512	4.2
Subordinated liabilities	**1,401**	**256**	**18.3**	1,311	241	18.4	1,240	223	18.0
Average interest earning liabilities	**77,781**	**1,310**	**1.7**	87,904	1,818	2.1	97,690	2,665	2.7
Non-interest earning liabilities	**22,426**			22,031			20,899		
Total average liabilities	**100,207**	**1,310**	**1.3**	109,935	1,818	1.7	118,589	2,665	2.2
Shareholders' equity	**11,400**			10,820			13,378		
Total average liabilities and shareholders' equity	**111,607**	**1,310**	**1.2**	120,755	1,818	1.5	131,967	2,665	2.0

56 Non-adjusting events after the reporting period

On 4 March 2015, the Board approved that the annual dividend on the 2009 Preference Shares be paid in cash. This payment, amounting to € 280 million, will be made on 13 May 2015.

57 Dividends

No final dividend on ordinary shares will be paid in respect of the year ended 31 December 2014.

58 Approval of financial statements

The financial statements were approved by the Board of Directors on 4 March 2015.

Allied Irish Banks, p.l.c.
Parent company financial statements and notes

Parent company statement of financial position

as at 31 December 2014

	Notes	2014 € m	2013 € m
Assets			
Cash and balances at central banks	ac	1,396	1,215
Items in course of collection		66	79
Disposal groups and non-current assets held for sale	c	13	336
Trading portfolio financial assets	d	1	2
Derivative financial instruments	e	2,062	1,653
Loans and receivables to banks	f	23,111	23,856
Loans and receivables to customers	g	29,658	31,603
NAMA senior bonds	j	9,423	15,598
Financial investments available for sale	k	20,980	20,129
Interests in associated undertakings		3	3
Investments in Group undertakings	l	5,106	4,859
Intangible assets	m	158	159
Property, plant and equipment	n	248	252
Other assets		152	145
Current taxation		2	1
Deferred taxation	o	2,756	2,839
Prepayments and accrued income		450	533
Total assets		95,585	103,262
Liabilities			
Deposits by central banks and banks	p	23,137	29,112
Customer accounts	q	50,169	53,112
Derivative financial instruments	e	2,686	2,404
Debt securities in issue	r	2,622	3,271
Current taxation		17	17
Other liabilities	s	317	380
Accruals and deferred income		468	635
Retirement benefit liabilities	b	1,143	141
Provisions for liabilities and commitments	t	222	215
Subordinated liabilities and other capital instruments	u	1,451	1,352
Total liabilities		82,232	90,639
Shareholders' equity			
Share capital	v	1,344	5,248
Share premium	v	1,752	2,848
Reserves		10,257	4,527
Total shareholders' equity		13,353	12,623
Total liabilities and shareholders' equity		95,585	103,262

Richard Pym	David Duffy	Catherine Woods	David O'Callaghan
Chairman	Chief Executive Officer	Director	Company Secretary

4 March 2015

Parent company statement of cash flows

for the year ended 31 December 2014

	Notes	**2014 € m**	2013 € m	2012 € m
Reconciliation of profit/(loss) before taxation to net cash outflow from operating activities				
Profit/(loss) for the year before taxation from continuing operations		**745**	497	(1,590)
Adjustments for:				
Profit on disposal of businesses		**–**	–	(1)
Profit on disposal of property, plant and equipment		**(3)**	(1)	(2)
(Profit)/loss on disposal/transfer of loans and receivables		**(52)**	197	209
Dividends received from associated undertakings, subsidiaries and equity securities		**(30)**	(9)	(280)
Associated undertakings income		**–**	2	5
Writeback of impairment of subsidiary undertakings	l	**(292)**	(1,351)	(136)
Gain on designation of associate as an equity investment at fair value through profit or loss		**–**	–	(184)
(Writeback)/provisions for impairment on loans and receivables	i	**(149)**	1,005	1,353
(Writeback)/provisions for liabilities and commitments		**(4)**	17	9
Provisions/(writeback) for impairment on financial investments available for sale		**8**	(18)	79
Change in other provisions		**28**	5	88
Retirement benefits – defined benefit expense/(credit)	b	**6**	(98)	(137)
Termination benefits		**(3)**	(2)	94
Contributions to defined benefit pension schemes	b	**(84)**	(194)	(187)
Depreciation, amortisation and impairment		**97**	104	95
Interest on subordinated liabilities and other capital instruments		**256**	241	223
Net loss on buy back of debt securities in issue		**9**	–	–
(Profit)/loss on disposal of financial investments available for sale		**(352)**	(38)	74
Loss on termination of fair value hedging swaps		**208**	10	7
Remeasurement of NAMA senior bonds		**(132)**	(62)	–
Amortisation of premiums and discounts		**38**	(48)	(125)
Change in prepayments and accrued income		**85**	(65)	103
Change in accruals and deferred income		**(170)**	(192)	81
Net cash inflow/(outflow) from operating activities before changes in operating assets and liabilities		**209**	–	(222)
Change in deposits by central banks and banks		**(6,388)**	(10,067)	(6,993)
Change in customer accounts		**(3,420)**	4,547	1,871
Change in loans and receivables to customers[(1)]		**3,038**	4,450	4,224
Change in NAMA senior bonds		**6,343**	1,611	2,395
Change in loans and receivables to banks		**1,069**	6,740	4,707
Change in trading portfolio financial assets/liabilities		**1**	21	33
Change in derivative financial instruments		**(305)**	247	(662)
Change in items in course of collection		**13**	16	4
Change in debt securities in issue		**(649)**	(1,846)	(4,765)
Change in other assets		**(6)**	(35)	186
Change in other liabilities		**(83)**	(186)	(49)
Dividends received from equity securities		**24**	–	–
Effect of exchange translation and other adjustments		**(53)**	71	(651)
Net cash (outflow)/inflow from operating assets and liabilities		**(416)**	5,569	300
Net cash (outflow)/inflow from operating activities before taxation		**(207)**	5,569	78
Taxation refund		**–**	21	42
Net cash (outflow)/inflow from operating activities		**(207)**	5,590	120
Investing activities *(note a)*		**537**	(5,773)	(617)
Financing activities *(note b)*		**(205)**	(160)	(160)
Change in cash and cash equivalents		**125**	(343)	(657)
Opening cash and cash equivalents		**2,066**	2,434	3,092
Effect of exchange translation adjustments		**51**	(25)	(1)
Closing cash and cash equivalents		**2,242**	2,066	2,434

[(1)]Includes loans and receivables to customers within disposal groups and non-current assets held for sale.

Parent company statement of cash flows *(continued)*

for the year ended 31 December 2014

	Notes	**2014 € m**	2013 € m	2012 € m
(a) Investing activities				
Net cash outflow on acquisition of business combinations		**–**	(325)	–
Purchase of financial investments available for sale	k	**(8,474)**	(7,367)	(4,522)
Proceeds from sales and maturity of financial investments available for sale	k	**8,771**	2,556	4,320
Additions to property, plant and equipment	n	**(45)**	(30)	(32)
Disposal of property, plant and equipment		**1**	15	2
Additions to intangible assets	m	**(58)**	(57)	(68)
Disposal of investment in associated undertakings		**–**	10	–
Investment in Group undertakings	l	**–**	(773)	(600)
Dividends received from subsidiary companies		**1**	6	264
Disposal/redemption of investment in businesses and subsidiaries		**336**	190	10
Dividends received from associated undertakings		**5**	2	9
Cash flows from investing activities		**537**	(5,773)	(617)
(b) Financing activities				
Repayment of preference shares		**(45)**	–	–
Interest paid on subordinated liabilities and other capital instruments		**(160)**	(160)	(160)
Cash flows from financing activities		**(205)**	(160)	(160)

Parent company statement of changes in equity

for the year ended 31 December 2014

	Share capital € m	Share premium € m	Capital reserves € m	Capital redemption reserves € m	Revaluation reserves € m	Available for sale securities reserves € m	Cash flow hedging reserves € m	Revenue reserves € m	Foreign currency translation reserves € m	Treasury shares € m	Share based payments reserves € m	Total € m
At 1 January 2014	5,248	2,848	1,545	–	12	754	(31)	2,843	(73)	(549)	26	12,623
Total comprehensive income for the year												
Profit for the year	–	–	–	–	–	–	–	698	–	–	–	698
Other comprehensive income	–	–	–	–	(1)	625	358	(942)	(8)	–	–	32
Total comprehensive income for the year	–	–	–	–	(1)	625	358	(244)	(8)	–	–	730
Transactions with owners, recorded directly in equity												
Contributions by and distributions to owners												
Capital contributions *(note x)*	–	–	(564)	–	–	–	–	564	–	–	–	–
Ordinary shares issued in lieu of dividend *(note v)*	22	(22)	–	–	–	–	–	–	–	–	–	–
Cancellation of deferred shares *(notes v and w)*	(3,926)	–	–	3,926	–	–	–	–	–	–	–	–
Reduction of capital *(notes v and w)*	–	(1,074)	–	(3,926)	–	–	–	5,000	–	–	–	–
Share based payments	–	–	–	–	–	–	–	8	–	–	(8)	–
Total contributions by and distributions to owners	(3,904)	(1,096)	(564)	–	–	–	–	5,572	–	–	(8)	–
At 31 December 2014	1,344	1,752	981	–	11	1,379	327	8,171	(81)	(549)	18	13,353

Parent company statement of changes in equity

for the year ended 31 December 2013

	Share capital € m	Share premium € m	Capital reserves € m	Revaluation reserves € m	Available for sale securities reserves € m	Cash flow hedging reserves € m	Revenue reserves € m	Foreign currency translation reserves € m	Treasury shares € m	Share based payments reserves € m	Total € m
At 1 January 2013 as reported	5,206	2,890	1,764	13	269	(35)	1,799	(70)	(549)	36	11,323
Change in accounting policy	–	–	–	–	–	–	88	–	–	–	88
As restated	5,206	2,890	1,764	13	269	(35)	1,887	(70)	(549)	36	11,411
Total comprehensive income for the year											
Profit for the year	–	–	–	–	–	–	529	–	–	–	529
Other comprehensive income	–	–	–	(1)	485	4	198	(3)	–	–	683
Total comprehensive income for the year	–	–	–	(1)	485	4	727	(3)	–	–	1,212
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners											
Capital contributions *(note x)*	–	–	(219)	–	–	–	219	–	–	–	–
Ordinary shares issued in lieu of dividend *(note v)*	42	(42)	–	–	–	–	–	–	–	–	–
Share based payments	–	–	–	–	–	–	10	–	–	(10)	–
Total contributions by and distributions to owners	42	(42)	(219)	–	–	–	229	–	–	(10)	–
At 31 December 2013	5,248	2,848	1,545	12	754	(31)	2,843	(73)	(549)	26	12,623

Notes to the parent company financial statements

Accounting policies

Where applicable, the accounting policies adopted by Allied Irish Banks, p.l.c. are the same as those of AIB Group as set out on pages 194 to 217.

a Administrative expenses

	2014 € m	2013 € m	2012 € m
Personnel expenses:			
Wages and salaries	**515**	535	630
Termination benefits[1]	**19**	65	129
Retirement benefits[2]	**85**	(85)	(123)
Social security costs	**56**	58	68
Other personnel expenses	**(80)**	(57)	7
Total personnel expenses	**595**	516	711
General and administrative expenses:			
Irish banking levy	**45**	–	–
Other general and administrative expenses	**443**	381	424
Total general and administrative expenses	**488**	381	424
	1,083	897	1,135

[1]At 31 December 2014, a charge of € 19 million (2013: € 65 million) has been recognised in the income statement in respect of termination benefits arising from the voluntary severance programme. This amount comprises Nil (2013: € 20 million) in respect of past service costs relating to the early retirement scheme, € 19 million (2013: € 69 million) relating to the voluntary severance scheme (notes b and t) and Nil (2013: a credit of € 24 million) in respect of a pension curtailment gain.

[2]Comprises a charge of € 6 million relating to defined benefit expense (2013: a credit of € 98 million; 2012: a credit of € 137 million), a defined contribution expense of € 71 million (2013: € 7 million; 2012: € 7 million) and a long term disability payments expense of € 8 million (2013: € 6 million; 2012: € 7 million) (see note b).

b Retirement benefits

Allied Irish Banks, p.l.c. operates a number of defined contribution and defined benefit schemes for employees. All defined benefit schemes are closed to future accrual.

Defined contribution schemes

Allied Irish Banks, p.l.c. operates a defined contribution ("DC") scheme, further details of which are provided in the Group's retirement benefits note (note 11). The total cost in respect of the DC scheme for 2014 was € 71 million (2013: € 7 million; 2012: € 7 million). The cost in respect of defined contributions is included in administrative expenses (note a).

Defined benefit schemes

The most significant defined benefit scheme operated by Allied Irish Banks, p.l.c. is the AIB Group Irish Pension Scheme ('the Irish scheme'), further details of which are provided in the Group's retirement benefits note (note 11).

Financial and mortality assumptions

The financial and mortality assumptions adopted in the preparation of these financial statements are the same as those adopted in the preparation of the Group's financial statements. See note 11 for further details.

Sensitivity analysis for principal assumptions used to measure scheme liabilities

There are inherent uncertainties surrounding the financial assumptions adopted in calculating the actuarial valuation of the Allied Irish Banks, p.l.c. pension schemes. A sensitivity analysis of the key assumptions for the Irish scheme is set out in the Group's retirement benefits note (note 11).

Movement in defined benefit obligation and scheme assets

The following table sets out the movement in the defined benefit obligation and scheme assets during 2014 and 2013:

			2014			2013
	Defined benefit obligation € m	Fair value of scheme assets € m	Net defined benefit liability (asset) € m	Defined benefit obligation € m	Fair value of scheme assets € m	Net defined benefit liability (asset) € m
At 1 January	4,071	(3,930)	141	4,179	(3,512)	667
Included in profit or loss						
Current service cost	–	–	–	64	–	64
Past service cost:						
– Termination benefits	–	–	–	(4)	–	(4)
– Other	3	–	3	(184)	–	(184)
Interest cost (income)	156	(153)	3	164	(142)	22
	159	(153)	6	40	(142)	(102)
Included in other comprehensive income						
Remeasurements loss (gain):						
– Actuarial loss (gain) arising from:						
– Experience adjustments	(21)	–	(21)	54	–	54
– Changes in demographic assumptions	–	–	–	(115)	–	(115)
– Changes in financial assumptions	1,392	–	1,392	79	–	79
– Return on scheme assets excluding interest income[(1)]	–	(293)	(293)	–	(247)	(247)
Translation adjustment on non-euro schemes	4	(2)	2	(1)	1	–
	1,375	(295)	1,080	17	(246)	(229)
Other						
Contributions by employer	–	(84)	(84)	–	(194)	(194)
Contributions by employees	–	–	–	14	(14)	–
Benefits paid	(132)	132	–	(179)	178	(1)
	(132)	48	(84)	(165)	(30)	(195)
At 31 December	5,473	(4,330)	1,143	4,071	(3,930)	141

(1)Includes payment of pension levy.

b Retirement benefits *(continued)*

Scheme assets

The following table sets out an analysis of the schemes assets at 31 December 2014 and 2013:

	2014 € m	2013 € m
Cash and cash equivalents	175	257
Equity instruments		
Quoted equity instruments:		
Basic materials	70	81
Consumer goods	180	181
Consumer services	148	144
Energy	106	125
Financials	312	306
Healthcare	147	128
Industrials	169	172
Technology	150	134
Telecoms	49	55
Utilities	48	44
Total quoted equity instruments	1,379	1,370
Unquoted equity instruments	10	6
Total equity instruments	1,389	1,376
Debt instruments		
Quoted debt instruments		
Corporate bonds	169	152
Government bonds	869	541
Total quoted debt instruments	1,038	693
Unquoted debt instruments		
Corporate bonds	49	49
Government bonds	28	28
Total unquoted debt instruments	77	77
Total debt instruments	1,115	770
Real estate(1)(2)	230	187
Derivatives(2)	5	7
Investment funds		
Quoted investment funds		
Bonds	420	288
Equity	44	159
Fixed interest	10	–
Forestry	34	33
Multi asset	422	320
Total quoted investment funds	930	800
Unquoted investment funds	–	5
Total investment funds	930	805
Mortgage backed securities(2)	486	528
Fair value of schemes assets at 31 December	4,330	3,930

(1)Located in Europe.

(2)A quoted market price in an active market is not available.

Long-term disability payments

Allied Irish Banks, p.l.c. provides an additional benefit to employees who suffer prolonged periods of sickness, subject to qualifying terms of the insurer. It provides for the partial replacement of income in event of illness or injury resulting in the employee's long term absence from work. In 2014, Allied Irish Banks, p.l.c. contributed € 8 million (2013: € 6 million; 2012: € 7 million) towards insuring this benefit. This amount is included in administrative expenses (note a).

c Disposal groups and non-current assets held for sale

At 31 December 2014, disposal groups and non-current assets held for sale include property surplus to requirements. Disposal groups and non-current assets/liabilities are shown as single line items in the statement of financial position with no re-presentation of comparatives. An analysis of the components of these single line items is set out below:

	2014		2013	
	Assets € m	**Liabilities € m**	Assets € m	Liabilities € m
Loans and receivables to customers	–	–	28[1]	–
Other	13	–	6	–
Discontinued operations:				
Ark Life	–	–	302[2]	–
Total disposal groups and non-current assets held for sale	**13**	–	336	–

[1] Loans and receivables held for sale are net of provisions of Nil (note i).

[2] Ark Life which had been classified as held for sale as a discontinued operation at 31 December 2013, was disposed of in May 2014 (note 17 to the consolidated financial statements).

d Trading portfolio financial assets

	2014 € m	2013 € m
Debt securities	–	1
Equity securities	1	1
	1	2

	2014 € m	2013 € m
Of which listed:		
Debt securities	–	1
Of which unlisted:		
Equity securities	1	1
	1	2

Notes to the parent company financial statements

e Derivative financial instruments

Details of derivative transactions entered into and their purpose are described in note 22 to the consolidated financial statements.

The following table presents the notional principal amount together with the positive and negative fair values attaching to those contracts:

	2014 € m	2013 € m
Interest rate contracts[(1)]		
Notional principal amount	**104,693**	137,851
Positive fair value	**1,876**	1,447
Negative fair value	**(2,487)**	(2,195)
Exchange rate contracts[(1)]		
Notional principal amount	**4,834**	4,328
Positive fair value	**48**	35
Negative fair value	**(74)**	(35)
Equity contracts[(1)]		
Notional principal amount	**3,010**	3,611
Positive fair value	**138**	171
Negative fair value	**(117)**	(174)
Credit derivatives[(1)]		
Notional principal amount	**340**	–
Positive fair value	**–**	–
Negative fair value	**(8)**	–
Total notional principal amount	**112,877**	145,790
Positive fair value	**2,062**	1,653
Negative fair value	**(2,686)**	(2,404)

[(1)]Interest rate, exchange rate and credit derivative contracts are entered into for both hedging and trading purposes. Equity contracts are entered into for trading purposes only.

The following table analyses the notional principal amount and positive fair value of interest rate, exchange rate, equity and credit derivative contracts by residual maturity together with the positive fair value attaching to these contracts where relevant:

	2014				2013			
	< 1 year € m	1 < 5 years € m	5 years + € m	Total € m	< 1 year € m	1 < 5 years € m	5 years + € m	Total € m
Residual maturity								
Notional principal amount	**35,196**	**38,737**	**38,944**	**112,877**	57,300	52,679	35,811	145,790
Positive fair value	**125**	**837**	**1,100**	**2,062**	218	945	490	1,653

Allied Irish Banks, p.l.c. has the following concentration of exposures in respect of notional principal amount and positive fair value of interest rate, exchange rate, equity and credit derivative contracts. The concentrations are based primarily on the location of the office recording the transaction.

	Notional principal amount		Positive fair value	
	2014 € m	2013 € m	2014 € m	2013 € m
Republic of Ireland	**110,487**	143,795	**1,714**	1,399
United Kingdom	**1,915**	1,609	**321**	236
United States of America	**475**	386	**27**	18
	112,877	145,790	**2,062**	1,653

e Derivative financial instruments *(continued)*

The following table shows the notional principal amount and the fair value of derivative financial instruments analysed by product and purpose as at 31 December 2014 and 31 December 2013. A description of how the fair values of derivatives are determined is set out in note 47 to the consolidated financial statements.

	2014			2013		
	Notional principal amount	Fair values		Notional principal amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
	€ m	€ m	€ m	€ m	€ m	€ m
Derivatives held for trading						
Interest rate derivatives – over the counter ("OTC")						
Interest rate swaps	46,657	1,134	(1,225)	44,194	1,047	(1,089)
Cross-currency interest rate swaps	629	46	(42)	720	47	(43)
Interest rate options	692	3	(4)	800	6	(6)
Total interest rate derivatives – OTC	47,978	1,183	(1,271)	45,714	1,100	(1,138)
Interest rate derivatives – exchange trade						
Interest rate futures	1,706	–	–	121	–	–
Total interest rate derivatives -exchange traded	1,706	–	–	121	–	–
Total interest rate derivatives	49,684	1,183	(1,271)	45,835	1,100	(1,138)
Foreign exchange derivatives – OTC						
Foreign exchange contracts	4,668	46	(71)	4,143	32	(33)
Currency options bought and sold	166	2	(3)	185	3	(2)
Total foreign exchange derivatives	4,834	48	(74)	4,328	35	(35)
Equity derivatives – OTC						
Equity warrants	23	23	–	–	–	–
Equity index options	2,987	115	(117)	3,611	171	(174)
Total equity derivatives	3,010	138	(117)	3,611	171	(174)
Credit derivatives – OTC						
Credit derivatives	340	–	(8)	–	–	–
Total credit derivatives	340	–	(8)	–	–	–
Total derivatives held for trading	57,868	1,369	(1,470)	53,774	1,306	(1,347)
Derivatives held for hedging						
Derivatives designated as fair value hedges – OTC						
Interest rate swaps	12,724	151	(587)	13,110	222	(588)
Total derivatives designated as fair value hedges	12,724	151	(587)	13,110	222	(588)
Derivatives designated as cash flow hedges – OTC						
Interest rate swaps	39,171	539	(412)	75,751	110	(389)
Cross currency interest rate swaps	3,114	3	(217)	3,155	15	(80)
Total derivatives designated as cash flow hedges	42,285	542	(629)	78,906	125	(469)
Total derivatives held for hedging	55,009	693	(1,216)	92,016	347	(1,057)
Total derivative financial instruments	112,877	2,062[1]	(2,686)[2]	145,790	1,653[1]	(2,404)[2]

[1] Includes exposure to subsidiary undertakings of € 202 million (2013: € 163 million).

[2] Includes amounts due to subsidiary undertakings of € 388 million (2013: € 403 million)

Notes to the parent company financial statements

e Derivative financial instruments *(continued)*

Cash flow hedges

The table below sets out the hedged cash flows which are expected to occur in the following periods:

2014	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	Total € m
Forecast receivable cash flows	**27**	**17**	**85**	**117**	**246**
Forecast payable cash flows	**9**	**11**	**53**	**80**	**153**

2013	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	Total € m
Forecast receivable cash flows	91	73	232	240	636
Forecast payable cash flows	31	38	95	111	275

The table below sets out the hedged cash flows, including amortisation of terminated cashflow hedges, which are expected to impact the income statement in the following periods:

2014	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	Total € m
Forecast receivable cash flows	**27**	**17**	**85**	**117**	**246**
Forecast payable cash flows	**34**	**32**	**98**	**99**	**263**

2013	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	Total € m
Forecast receivable cash flows	91	73	232	240	636
Forecast payable cash flows	56	56	134	116	362

f Loans and receivables to banks

	2014 € m	2013 € m
Funds placed with central banks	101	95
Funds placed with other banks	23,010	23,768
Provision for impairment *(note i)*	–	(7)
	23,111	23,856
Of which:		
Due from third parties	950	1,008
Due from subsidiary undertakings[1]	22,161	22,848
	23,111	23,856
Amounts include:		
Reverse repurchase agreements	3,376	16

Loans and receivables to banks by geographical area[2]	2014 € m	2013 € m
Republic of Ireland	22,238	22,949
United Kingdom	871	903
United States of America	2	4
	23,111	23,856

[1]Amounts due from subsidiary undertakings may include repurchase agreements.

[2]The classification of loans and receivables to banks by geographical area is based primarily on the location of the office recording the transaction.

Loans and receivables to banks include cash collateral of € 1,206 million (2013: € 795 million) placed with derivative counterparties in relation to net derivative positions (note e).

Under reverse repurchase agreements with external and subsidiary counterparties, AIB has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. The collateral received consisted exclusively of non-government securities (bank bonds) with a fair value of € 3,494 million (2013: € 16 million). The fair value of collateral sold or repledged amounted to € 3,192 million (2013: € 15 million). These transactions were conducted under terms that are usual and customary to standard reverse repurchase agreements.

g Loans and receivables to customers

	2014 € m	2013 € m
Loans and receivables to customers	36,558	42,292
Reverse repurchase agreements	110	–
Amounts receivable under finance leases and hire purchase contracts *(note h)*	423	438
Unquoted debt securities	131	137
Provisions for impairment *(note i)*	(7,564)	(11,264)
	29,658	31,603
Of which:		
Due from third parties	19,880	21,428
Due from subsidiary undertakings[1]	9,778	10,175
	29,658	31,603
Of which repayable on demand or at short notice	23,273	29,126
Amounts include:		
Due from associated undertakings	–	–

[1]Amounts due from subsidiary undertakings may include repurchase agreements.

Under reverse repurchase agreements, AIB has accepted collateral with a fair value of € 107 million (2013: Nil) that it is permitted to sell or repledge in the absence of default by the owner of the collateral.

h Amounts receivable under finance leases and hire purchase contracts

The following balances principally comprise of leasing arrangements involving vehicles, plant, machinery and equipment.

	2014 € m	2013 € m
Gross receivables		
Not later than 1 year	123	133
Later than one year and not later than 5 years	334	336
Later than 5 years	12	11
	469	480
Unearned future finance income	(49)	(45)
Deferred costs incurred on origination	3	3
Total	423	438
Present value of minimum payments analysed by residual maturity		
Not later than 1 year	123	133
Later than one year and not later than 5 years	291	296
Later than 5 years	9	9
Present value of minimum payments	423	438
Provision for uncollectible minimum payments receivable[1]	45	98
Net investment in new business	219	182

[1]Included in the provisions for impairment on loans and receivables to customers (note i).

i Provisions for impairment on loans and receivables

The following table shows provisions for impairment on loans and receivables (both to banks and customers) and also includes loans and receivables within disposal groups and non-current assets held for sale. The classification of loans and receivables below aligns to the asset classes disclosed in the 'Risk management' section.

	Residential mortgages € m	Other personal € m	Property and construction € m	SME/Other commercial € m	Corporate € m	2014 Total € m
At 1 January 2014	221	1,089	6,943	2,711	307	11,271
Exchange translation adjustments	–	1	25	–	10	36
(Credit to)/charge against income statement – customers	3	7	(257)	59	46	(142)
Credit to income statements – banks	–	–	–	(7)	–	(7)
Amounts written off	(26)	(384)	(2,253)	(819)	(114)	(3,596)
Recoveries of amounts written off in previous years	–	–	–	–	2	2
At 31 December 2014	198	713	4,458	1,944	251	7,564
Total provisions are split as follows:						
Specific	173	663	4,331	1,709	190	7,066
IBNR	25	50	127	235	61	498
	198	713	4,458	1,944	251	7,564
Amounts include:						
Loans and receivables to customers *(note g)*						7,564

	Residential mortgages € m	Other personal € m	Property and construction € m	SME/Other commercial € m	Corporate € m	2013 Total € m
At 1 January 2013	146	1,066	6,534	2,811	574	11,131
Exchange translation adjustments	–	(3)	(4)	(12)	(5)	(24)
Transfers[(1)]	–	–	(33)	–	–	(33)
Charge against income statement – customers	84	134	545	209	30	1,002
Charge against income statement – banks	–	–	–	3	–	3
Amounts written off	(9)	(109)	(92)	(300)	(172)	(682)
Disposals	–	–	(7)	–	(120)	(127)
Recoveries of amounts written off in previous years	–	1	–	–	–	1
At 31 December 2013	221	1,089	6,943	2,711	307	11,271
Total provisions are split as follows:						
Specific	194	1,038	6,751	2,626	228	10,837
IBNR	27	51	192	85	79	434
	221	1,089	6,943	2,711	307	11,271
Amounts include:						
Loans and receivables to banks *(note f)*						7
Loans and receivables to customers *(note g)*						11,264
						11,271

[(1)]Includes transfers (to)/from provisions for liabilities and commitments.

j NAMA senior bonds

During 2010 and 2011, AIB received NAMA senior bonds and NAMA subordinated bonds as consideration for loans and receivables transferred to NAMA.

The following table provides a movement analysis of the NAMA senior bonds:

	2014 € m	2013 € m
At 1 January	15,598	17,082
Additions[1]	–	279
Amortisation of discount	36	65
Repayments	(6,343)	(1,890)
Effect of re-estimating the timing of cash flows	132	62
At 31 December	**9,423**	15,598

[1]Acquired from a subsidiary company.

k Financial investments available for sale

The following table sets out at 31 December 2014 and 31 December 2013, the carrying value (fair value) of financial investments available for sale by major classifications together with the unrealised gains and losses:

						2014
	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	8,870	1,291	–	1,291	(161)	1,130
Euro government securities	3,631	170	–	170	(21)	149
Non Euro government securities	182	9	–	9	(1)	8
Supranational banks and government agencies	2,852	119	–	119	(15)	104
Collateralised mortgage obligations	99	–	(1)	(1)	–	(1)
Other asset backed securities	1	–	–	–	–	–
Euro bank securities	4,982[1]	105	(66)	39	(5)	34
Non Euro corporate securities	3	–	(1)	(1)	–	(1)
Total debt securities	**20,620**	**1,694**	**(68)**	**1,626**	**(203)**	**1,423**
Equity securities						
Equity securities – NAMA subordinated bonds	358	313	–	313	(39)	274
Equity securities – other	2	1	–	1	–	1
Total equity securities	**360**	**314**	**–**	**314**	**(39)**	**275**
Total financial investments available for sale	**20,980**	**2,008**	**(68)**	**1,940**	**(242)**	**1,698**

[1]Includes € 1,085 million in respect of subsidiary undertakings.

k Financial investments available for sale *(continued)*

	Fair value € m	Unrealised gross gains € m	Unrealised gross losses € m	Net unrealised gains/(losses) € m	Tax effect € m	2013 Net after tax € m
Debt securities						
Irish Government securities	10,114	902	–	902	(113)	789
Euro government securities	1,968	110	(1)	109	(14)	95
Non Euro government securities	608	54	–	54	(6)	48
Supranational banks and government agencies	3,092	29	(6)	23	(3)	20
Other asset backed securities	535	1	(54)	(53)	7	(46)
Euro bank securities	3,683	42	(10)	32	(4)	28
Non Euro bank securities	34	–	–	–	–	–
Non Euro corporate securities	3	–	–	–	–	–
Other investments	12	–	–	–	–	–
Total debt securities	20,049	1,138	(71)	1,067	(133)	934
Equity securities						
Equity securities – NAMA subordinated bonds	70	25	–	25	(3)	22
Equity securities – other	10	1	(7)	(6)	2	(4)
Total equity securities	80	26	(7)	19	(1)	18
Total financial investments available for sale	20,129	1,164	(78)	1,086	(134)	952

Available for sale financial investments with unrealised losses have been assessed for impairment based on the credit risk profile of the counterparties involved. Impairment losses on debt securities of € 1 million (2013: Nil) and € 7 million (2013: Nil) on equity securities have been recognised.

Analysis of movements in financial investments available for sale

	2014 Debt securities € m	**Equity securities € m**	**Total € m**	2013 Debt securities € m	Equity securities € m	Total € m
At 1 January	**20,049**	**80**	**20,129**	14,829	101	14,930
Exchange translation adjustments	**14**	**–**	**14**	(44)	(1)	(45)
Purchases	**8,474**	**–**	**8,474**	7,346	21	7,367
Sales	**(8,035)**	**(15)**	**(8,050)**	(1,758)	(75)	(1,833)
Maturities	**(721)**	**–**	**(721)**	(681)	–	(681)
(Provisions)/writeback for impairment	**(1)**	**(7)**	**(8)**	18	–	18
Amortisation of discounts net of premiums	**(74)**	**–**	**(74)**	(17)	–	(17)
Movement in unrealised gains	**914**	**302**	**1,216**	356	34	390
At 31 December	**20,620**	**360**	**20,980**	20,049	80	20,129
Of which:						
Listed	**20,620**	**–**	**20,620**	20,037	7	20,044
Unlisted	**–**	**360**	**360**	12	73	85
	20,620	**360**	**20,980**	20,049	80	20,129

Debt securities analysed by remaining contractual maturity	**2014 € m**	2013 € m
Due within one year	**507**	1,186
After one year, but within five years	**12,150**	11,357
After five years, but within ten years	**7,531**	6,606
After ten years	**432**	900
	20,620	20,049

Notes to the parent company financial statements

I Investments in Group undertakings	2014 € m	2013 € m
Equity		
At 1 January	**4,559**	2,435
Additions	**–**	773[1]
Liquidations	**(45)**[2]	–
Reversal of impairment	**292**	1,351
At 31 December	**4,806**	4,559
Subordinated debt		
At 1 January and 31 December	**300**	300
Total	**5,106**	4,859
Of which:		
Credit institutions	**4,397**	4,105
Other	**709**	754
Total – all unquoted	**5,106**	4,859

[1]Additions in 2013 include € 330 million investment in EBS Limited; € 200 million in AIB Mortgage Bank and € 243 million in AIB Holdings (N.I.) Limited.

[2]AIB International Finance preference shares € 45 million were fully repaid during 2014.

The investments in Group undertakings are included in the financial statements on an historical cost basis.

Principal subsidiary undertakings incorporated in the Republic of Ireland

	Nature of business
AIB Mortgage Bank*	Issue of Mortgage Covered Securities
EBS Limited*	Mortgages and savings

*Group interest is held directly by Allied Irish Banks, p.l.c.

The above subsidiary undertakings are incorporated in the Republic of Ireland and are wholly-owned unless otherwise stated. The issued share capital of each undertaking is denominated in ordinary shares.

All regulated banking entities are subject to regulations which require them to maintain capital ratios at agreed levels and so govern the availability of funds available for distribution.

AIB Mortgage Bank

AIB Mortgage Bank is a wholly owned subsidiary of Allied Irish Banks, p.l.c. regulated by the Central Bank of Ireland/Single Supervisory Mechanism. AIB Mortgage Bank is a designated mortgage credit institution for the purposes of the Asset Covered Securities Acts 2001 and 2007 (as amended) and holds a banking authorisation. Its principal purpose is to issue mortgage covered securities for the purpose of financing loans secured on residential property in accordance with the Asset Covered Securities Acts 2001 and 2007.

On 13 February 2006, Allied Irish Banks, p.l.c. transferred to AIB Mortgage Bank its Irish branch originated residential mortgage business, amounting to € 13.6 billion in mortgage loans. In March 2006, AIB Mortgage Bank launched a € 15 billion Mortgage Covered Securities Programme. The Programme was subsequently increased to € 20 billion in 2009.

On 25 February 2011, Allied Irish Banks, p.l.c. transferred substantially all of its mortgage intermediary originated Irish residential loans, related security and related business of approximately € 4.2 billion to AIB Mortgage Bank. The transfer was effected pursuant to the statutory transfer mechanism provided for in the Asset Covered Securities Acts.

Under an Outsourcing and Agency Agreement dated 8 February 2006, Allied Irish Banks, p.l.c., as Service Agent for AIB Mortgage Bank, originates residential mortgage loans through its retail branch network and intermediary channels in the Republic of Ireland, services the mortgage loans and provides treasury services in connection with financing, as well as a range of other support services.

As at 31 December 2014, the total amount of principal outstanding in respect of mortgage covered securities issued by AIB Mortgage Bank was € 7.7 billion (2013: € 8.0 billion) of which € 3.8 billion was held by external debt investors (2013: € 3.3 billion), € 1.1 billion by Allied Irish Banks, p.l.c. (2013: Nil) and € 2.8 billion was self-issued to AIB Mortgage Bank (2013: € 4.8 billion). The mortgage covered securities issued to Allied Irish Banks, p.l.c. and to AIB Mortgage Bank were held by the Central Bank of Ireland under sale and repurchase agreements. As at 31 December 2014, the total amount of principal outstanding of mortgage loans (mortgage credit assets) and cash comprised in AIB Mortgage Bank's cover assets pool was € 15.1 billion (2013: € 15.7 billion).

I Investments in Group undertakings *(continued)*

Principal subsidiary undertakings incorporated in the Republic of Ireland *(continued)*

EBS Limited ("EBS")

EBS (previously EBS Building Society), which is regulated by the Central Bank of Ireland/Single Supervisory Mechanism, became a wholly owned subsidiary of Allied Irish Banks, p.l.c. on 1 July 2011. AIB operates EBS as a standalone, separately branded subsidiary with its own branch network which continues to offer mortgage and savings products.

EBS Group had consolidated total assets of € 14 billion as at 31 December 2014. EBS operates in the Republic of Ireland and has a countrywide network of 71 offices and a direct telephone based distribution division, EBS Direct. EBS offers residential mortgages and savings products, together with life and property insurance on an agency basis. EBS also distributes mortgages through Haven Mortgages Limited ('Haven'), a wholly owned subsidiary, to independent mortgage intermediaries. At 31 December 2014, the CET 1 ratio and total capital ratio for EBS were 13.0% and 13.9%, respectively.

In December 2007, EBS established Haven, a wholly owned subsidiary focused on mortgage distribution through the intermediary market which, prior to 2005, had not been part of its target market. Haven is authorised by the Central Bank of Ireland/Single Supervisory Mechanism as a retail credit firm under Part V of the Central Bank Act 1997 (as amended). Haven has its own board of directors and the autonomy to grow and establish its business around the needs of its customer (the intermediary). Haven offers a full range of prime mortgages.

In December 2008, EBS established EBS Mortgage Finance, a wholly owned subsidiary which is regulated by the Central Bank of Ireland/Single Supervisory Mechanism. EBS Mortgage Finance is a designated mortgage credit institution for the purposes of the Asset Covered Securities Acts, 2001 and 2007 (as amended) and also holds a banking authorisation. Its purpose is to issue Mortgage Covered Securities for the financing of loans secured on residential property in accordance with the Asset Covered Securities legislation. Such loans may be made directly by EBS Mortgage Finance or may be purchased from EBS and other members of the EBS Group or third parties. On 1 December 2008, 1 June 2009, 1 May 2010 and 1 November 2011, EBS transferred to EBS Mortgage Finance certain Irish residential loans and related security held by it and certain of its Irish residential loan business related to such loans and security. The aggregate book value of the Irish residential loans transferred was approximately € 3.41 billion in respect of the transfer on 1 December 2008; € 1.74 billion in respect of the transfer on 1 June 2009; € 803 million in respect of the transfer on 1 May 2010; and € 2.49 billion in respect of the transfer on 1 November 2011. As at 31 December 2014, the total amount of principal outstanding of mortgage loans (mortgage credit assets) and cash comprised in EBS Mortgage Finance's cover assets pool was € 4.7 billion (2013: € 5.4 billion).

In December 2008, EBS Mortgage Finance launched a € 6 billion Mortgage Covered Securities Programme. As at 31 December 2014, the total amount of principal outstanding in respect of mortgage covered securities issued by EBS Mortgage Finance was € 1.85 billion (2013: € 2.8 billion) of which Nil (2013: € 0.05 billion) was held by external debt investors. EBS held € 1.85 billion (2013: € 2.75 billion).

EBS had set up a number of special purpose entities ("SPEs") prior to its acquisition by AIB, namely, Emerald Mortgages No. 4 Public Limited Company; Emerald Mortgages No. 5 Limited; and Mespil 1 RMBS Limited. Loans and receivables which were transferred to these securitisation entities are included in the Group's consolidated loans and receivables and amount to € 3,120 million (2013: € 3,434 million). For further details on these SPEs, see note 46 to the consolidated financial statements.

Principal subsidiary undertaking incorporated outside the Republic of Ireland

	Nature of business
AIB Group (UK) p.l.c. trading as First Trust Bank in Northern Ireland trading as Allied Irish Bank (GB) in Great Britain *Registered office:* 92 Ann Street, Belfast BT1 3AY	Banking and financial services

The above subsidiary undertaking is a wholly-owned subsidiary of Allied Irish Banks, p.l.c.. The registered office is located in the principal country of operation. The issued share capital is denominated in ordinary shares.

AIB Group (UK) p.l.c., a bank registered in the UK and regulated by the Financial Conduct Authority and the Prudential Regulation Authority had consolidated total assets of £13.7 billion at 31 December 2014. It operates in two distinct markets, Great Britain (GB) and Northern Ireland (NI), each with different economies and operating environments. It is the primary legal entity within the segment AIB UK.

Notes to the parent company financial statements

I Investments in Group undertakings *(continued)*

Principal subsidiary undertaking incorporated outside the Republic of Ireland

Great Britain (GB)

In this market, the segment operates under the trading name Allied Irish Bank (GB) from 16 locations in major business centres in GB. 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 (NI)

In this market, the segment operates under the trading name First Trust Bank from 30 branches and outlets throughout NI. 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 the range of customer segments, including professionals, high net worth individuals, SMEs, as well as the public and corporate sectors.

Guarantees given to subsidiaries by Allied Irish Banks, p.l.c.

Each of the companies listed below, and consolidated into AIB Group's financial statements, have availed of the exemption from filing its individual accounts as set out in Section 17 of the Companies (Amendment) Act, 1986. In accordance with the Act, Allied Irish Banks, p.l.c. has irrevocably guaranteed the liabilities of these subsidiaries.

AIB Capital Markets plc
AIB Corporate Banking Limited
AIB Corporate Finance Limited
AIB Holdings (Ireland) Limited
AIB Finance Limited
Allied Irish Leasing Limited
AIB International Leasing Limited
AIB Leasing Limited
AIB Services Limited
Allied Irish Banks (Holdings & Investments) Limited
Allied Irish Finance Limited
Allied Irish Nominees Limited
Eyke Limited
Hengram Limited
The Hire Purchase Company of Ireland Limited
Blogram Limited
Sanditon Limited
S. & M. (Limerick) Limited
AIB International Finance
General Estates and Trust Company Limited
AIB Limited
Commdec Limited
Dohcar Limited
Dohhen Limited
Kavwall Limited
Traprop Limited
Jonent Downs Limited
Skonac
Skobar
Skodell
Skovale
Skopek
Wallkav Limited
Marro Properties Limited
Ammonite Limited
AIB Capital Exchange Offering 2009 Limited
AIB European Investments Limited
P B Nominees Limited
Alibank Nominees Limited
AIB Combined Leasing Limited
Radstock Limited
Rushwood Holdings Limited
The Royal Bank of Ireland Limited
The Munster and Leinster Bank Limited
Mezzanine Management Limited
Fullplex Management Company Limited
AIB Investment Services Limited
AIB Financial Services Limited
AIB Insurance Services Limited
AIB 24 Hour Services Limited
AIB Telephone Services Limited
AIB Commercial Finance Limited
AIB Debt Management Limited

In presenting details of the principal subsidiary undertakings, the exemption permitted by the European Communities (Credit Institutions: Accounts) Regulations, 1992, has been availed of and, in accordance with the regulations, Allied Irish Banks, p.l.c. will annex a full listing of subsidiary undertakings to its annual return to the Companies Registration Office.

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I Investments in Group undertakings *(continued)*

Letters of financial support given to subsidiaries by Allied Irish Banks, p.l.c.

Allied Irish Banks, p.l.c. has provided letters of financial support to the Board of Directors of the following subsidiaries:

AIB Mortgage Bank;
AIB Group (UK) p.l.c.;
AIB UK Loan Management Limited.
EBS Limited;
AIB Holdings (NI) Limited and

Impairment losses reversed in Group undertakings

Allied Irish Banks, p.l.c.'s ('the parent company') investments in Group undertakings are reviewed for impairment at the end of each reporting period if there are indications that impairment may have occurred. In addition, an assessment is carried out where there are indications that impairment losses recognised in prior periods may no longer exist or may have decreased.

The impairment testing for possible impairment involves comparing the recoverable amount of the individual investments with their carrying amount. Where the recoverable amount is less than the carrying amount, the difference is recognised as an impairment charge in the parent company's financial statements.

For previously impaired investments, where the assessment indicates an increase in the recoverable amount, the impairment loss recognised in earlier periods is reversed. However, the carrying amount will only be increased up to the amount that it would have been had the original impairment not been recognised.

At 31 December 2014, the carrying value of investments in the following subsidiary undertakings of the parent company were reviewed for impairment/reversal of impairment:

- EBS Limited;
- AIB Holdings (N.I.) Limited; and
- AIB UK Loan Management Limited.

In respect of each of the subsidiaries, an impairment reversal/impairment loss was calculated by comparing its carrying value to the recoverable amount based on value-in-use calculations. Each subsidiary was determined to be a cash generating unit. In determining value-in-use, the expected pre-tax cash flows are discounted at an appropriate risk adjusted interest rate, both of which require the exercise of judgement. The discounted cash flows model calculates the present value of estimated future earnings attributable to Allied Irish Banks, p.l.c. as the shareholder. The estimation of pre-tax cash flows is sensitive to the periods for which forecasts are available and to assumptions as to long term growth rates.

In recent years, AIB Group undertook a number of initiatives to improve its funding costs which had a direct impact on the profit projections of certain subsidiaries. In addition, the cost of retail deposits in Ireland reduced significantly. Furthermore, the expectations as regards future loan impairments in these subsidiaries also improved. Following the most recent planning exercise approved by the Board in December 2014, forecasts for certain AIB's principal subsidiaries indicated higher levels of profitability. Given that there were indications that the previous impairment provisions may have reversed, a review was undertaken at 31 December 2014 of the assumptions underpinning the previous impairment and to determine the recoverable amount of these subsidiaries. Following this review, the remaining impairment provision of € 292 million on the EBS investment was written back. The basis used for determining any impairment writeback is set out below:

EBS Limited ("EBS")

AIB carried out an impairment reversal assessment of its investment in EBS at 31 December 2014. Prior to this assessment, the investment was carried at € 1,480 million. In 2013, € 600 million in impairment provisions were written back following an impairment reversal assessment leaving an impairment provision of € 292 million on this investment.

Following the recent planning exercise covering the period 2015 to 2017, the forecast profits for EBS increased in line with the improved outlook for both AIB Group and the Irish economy. The key drivers for EBS's forecast improved profitability were: reduced margins on funding; impairment provision writebacks; and increased mortgage income.

Arising from the recent actual performance and the planning outturn of EBS, AIB reviewed its investment given that there were strong indications that the previous impairment had reversed in full. The recoverable amount of the investment was determined using cash flow projections based on financial plans approved by the Board and covering the period 2015 to 2017 and a growth rate of 2% from 2018 into perpetuity. The forecast cash flows were discounted at a rate of 10%. Based on these assumptions, the net present value of the investment was determined to be in excess of the carrying value of € 1,480 million. Accordingly, it was considered that a reversal of the impairment provision was appropriate.

I Investments in Group undertakings *(continued)*

Impairment losses reversed in Group undertakings

EBS Limited ("EBS")

However, in accordance with IAS 36 *Impairment of Assets,* the impairment reversal was limited to the previous impairment amount of € 292 million. The resultant carrying value at € 1,772 million is approximately 23% lower than the value-in-use valuation.

The results of this value-in-use valuation are sensitive to changes in the growth and discount rates. Increasing the discount rate to 12% and reducing the growth rate to 1% from 2018 into perpetuity would reduce the impairment reversal by € 43 million.

AIB Holdings (N.I.) Limited

The investment by Allied Irish Banks, p.l.c. in AIB Holdings (N.I.) Limited amounting to € 767 million was written down to Nil in 2011, driven by the negative asset value in this subsidiary. There was no change to the carrying value arising from the impairment review in 2012. In 2013, AIB provided a further capital injection of € 243 million (£ 205 million) to AIB Holdings (N.I.) Limited and at 31 December 2013 this was fully impaired following an impairment assessment as there remains significant negative shareholder reserves in this company. Following an impairment reversal review in 2014, it was considered that there were not sufficient grounds for reversing previous impairment amounts.

AIB UK Loan Management Limited

The carrying value of the investment in AIB UK Loan Management Limited was written down to Nil in 2011 as it was expected that all assets would be disposed of at a loss and the business would cease, with no residual value. However, the full planned deleveraging did not transpire and the remaining assets continue to run down in line with their repayment profile.

Against this backdrop, an impairment reversal review at 31 December 2014, was carried out. However, it was considered that there was uncertainty with regard to sufficient indicators that the impairment loss previously recognised may no longer exist. Accordingly, this investment continues to be carried at Nil value.

m Intangible assets

	2014 Software € m	2014 Other € m	2014 Total € m	2013 Software € m	2013 Other € m	2013 Total € m
Cost						
At 1 January	**656**	**3**	**659**	600	3	603
Additions – internally generated	**46**	**–**	**46**	47	–	47
– externally purchased	**12**	**–**	**12**	10	–	10
Amounts written off[(1)]	**–**	**–**	**–**	(1)	–	(1)
At 31 December	**714**	**3**	**717**	656	3	659
Amortisation/impairment						
At 1 January	**497**	**3**	**500**	432	3	435
Amortisation for the year	**43**	**–**	**43**	51	–	51
Impairment for the year	**16**	**–**	**16**	15	–	15
Amounts written off[(1)]	**–**	**–**	**–**	(1)	–	(1)
At 31 December	**556**	**3**	**559**	497	3	500
Net book value at 31 December	**158**	**–**	**158**	159	–	159

[(1)]Relates to assets which are no longer in use with a nil carrying value.

Internally generated intangible assets under construction amounted to: € 40 million (31 December 2013: € 32 million).

The cost of internally generated software amounted to: € 396 million (31 December 2013: € 357 million).

n Property, plant and equipment

	Property			Equipment	2014 Total
	Freehold	Long leasehold	Leasehold under 50 years		
	€ m	€ m	€ m	€ m	€ m
Cost					
At 1 January 2014	114	81	93	421	709
Reclassification to disposal groups and non-current assets held for sale	(2)	(8)	–	–	(10)
Additions	9	1	8	27	45
Disposals	–	–	–	(3)	(3)
Amounts written off	–	(1)	(9)	(11)	(21)
At 31 December 2014	121	73	92	434	720
Depreciation/impairment					
At 1 January 2014	36	23	50	348	457
Depreciation charge for the year	3	3	6	20	32
Impairment charge for the year	1	1	3	3	8
Reversal of impairment	–	(2)	–	–	(2)
Disposals	–	–	–	(2)	(2)
Amounts written off	–	(1)	(9)	(11)	(21)
At 31 December 2014	40	24	50	358	472
Net book value at 31 December 2014	81	49	42	76	248

	Property			Equipment	2013 Total
	Freehold	Long leasehold	Leasehold under 50 years		
	€ m	€ m	€ m	€ m	€ m
Cost					
At 1 January 2013	126	84	81	415	706
Additions	1	–	13	16	30
Disposals	(13)	(3)	(1)	(10)	(27)
At 31 December 2013	114	81	93	421	709
Depreciation/impairment					
At 1 January 2013	37	22	46	334	439
Depreciation charge for the year	3	1	3	20	27
Impairment charge for the year	1	1	2	–	4
Disposals	(5)	(1)	(1)	(6)	(13)
At 31 December 2013	36	23	50	348	457
Net book value at 31 December 2013	78	58	43	73	252

The net book value of property occupied by Allied Irish Banks, p.l.c. for its own activities was € 162 million (2013: € 166 million).

Property and equipment includes € 7 million for items in the course of construction (2013: € 10 million).

o Deferred taxation

	2014 € m	2013 € m
Deferred tax assets:		
Provision for impairment on loans and receivables	–	1
Retirement benefits	149	21
Cash flow hedges	–	6
Unutilised tax losses	2,807	2,848
Assets leased to customers	–	2
Other	54	81
Total gross deferred tax assets	**3,010**	2,959
Deferred tax liabilities:		
Cash flow hedges	(44)	–
Assets used in business	(13)	(15)
Available for sale securities	(197)	(105)
Total gross deferred tax liabilities	**(254)**	(120)
Net deferred tax assets	**2,756**	2,839
Represented on the balance sheet as follows:		
Deferred tax assets	**2,756**	2,839

For each of the years ended 31 December 2014 and 2013, full provision has been made for capital allowances and other temporary differences.

Analysis of movements in deferred taxation	2014 € m	2013 € m
At 1 January	2,839	2,919
Exchange translation and other adjustments	1	–
Deferred tax through other comprehensive income	(4)	(96)
Income statement	(80)	16
At 31 December	**2,756**	2,839

Comments on the basis of recognition of deferred tax assets on unused tax losses are included in 'Critical accounting judgements and estimates' on pages 218 to 222. Information on the regulatory capital treatment of deferred tax assets is included in 'Principal risks and uncertainties' on page 55.

At 31 December 2014, recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled € 2,756 million (2013: € 2,839 million). The most significant tax losses arise in the Irish tax jurisdiction and their utilisation is dependent on future taxable profits.

Temporary differences recognised in other comprehensive income consist of deferred tax on available for sale securities, cash flow hedges and actuarial gains/losses on retirement benefit schemes. Temporary differences recognised in the income statement consist of provision for impairment on loans and receivables, amortised income, assets leased to customers, and assets used in the course of business.

p Deposits by central banks and banks

	2014 € m	2013 € m
Central banks		
Securities sold under agreements to repurchase	3,400	11,750
Other borrowings	–	–
	3,400	11,750
Banks		
Securities sold under agreements to repurchase	12,733	9,136
Other borrowings	7,004	8,226
	19,737	17,362
	23,137	29,112
Of which:		
Due to third parties	16,560	21,640
Due to subsidiary undertakings[1]	6,577	7,472
	23,137	29,112
Amounts include:		
Due to related party	–	–

[1]Amounts due to subsidiary undertakings may include repurchase agreements.

Details of AIB's sale and repurchase activity are set out in note 46 to the consolidated financial statements.

Allied Irish Banks, p.l.c. has granted a floating charge over certain residential mortgage pools, the drawings against which were Nil at 31 December 2014 (2013: Nil).

Financial assets pledged under existing agreements to repurchase, and providing access to future funding facilities with central banks and banks are detailed in the following table:

	2014			2013		
	Central banks € m	Banks € m	Total € m	Central banks € m	Banks € m	Total € m
Total carrying value of financial assets pledged	5,257	13,937	19,194	13,523	9,938	23,461
Of which:						
Government securities[1]	1,004	9,559	10,563	11,980	6,441	18,421
Other securities	4,253	4,378	8,631	1,543	3,497	5,040

[1]Includes NAMA senior bonds.

q Customer accounts

	2014 € m	2013 € m
Current accounts	16,191	13,674
Demand deposits	6,589	6,230
Time deposits	25,198	27,425
Securities sold under agreements to repurchase[1]	2,191	5,783
	50,169	53,112
Of which:		
Non-interest bearing current accounts	15,847	13,375
Interest bearing deposits, current accounts and short-term borrowings	34,322	39,737
	50,169	53,112
Of which:		
Due to third parties	45,562	47,456
Due to subsidiary undertakings[2]	4,607	5,656
	50,169	53,112
Amounts include:		
Due to associated undertakings	75	150

[1]AIB pledged government available for sale securities with a fair value of € 2,941 million (2013: € 5,814 million) and non-government available for sale securities with a fair value of € 53 million (2013: € 284 million) as collateral for these facilities and providing access to future funding facilities.

[2]Amounts due to subsidiary undertakings may include repurchase agreements.

r Debt securities in issue

	2014 € m	2013 € m
Bonds and medium term notes		
European medium term note programme	2,572	3,192
Other debt securities in issue		
Commercial paper	50	79
	2,622	3,271

Debt securities issued during the year amounted to € 2,697 million (31 December 2013: € 2,510 million) of which € 500 million relates to an EMTN issuance (31 December 2013: € 500 million) with the balance relating to issuances under the short-term commercial paper programme. Debt securities matured or repurchased amounted to € 3,348 million (31 December 2013: € 4,390 million) of which € 370 million (31 December 2013: Nil) related to securities repurchased as part of a debt buyback programme.

s Other liabilities

	2014 € m	2013 € m
Items in transit	9	49
Creditors	7	7
Fair value of hedged liability positions	55	86
Other	246	238
	317	380

t Provisions for liabilities and commitments

	Liabilities and charges € m	NAMA[1] provisions € m	Onerous[2] contracts € m	Legal claims € m	Other[3] provisions € m	Voluntary severance scheme € m	2014 Total € m
At 1 January	72	35	22	5	78	3	215
Exchange translation adjustments	(1)	–	–	–	5	–	4
Amounts charged to income statement	1[4]	6[1]	3	20	12	–	42
Amounts released to income statement	(5)[4]	(8)[1]	(4)	(1)	(2)	–	(20)
Provisions utilised	(7)	–	(5)	(1)	(3)	(3)	(19)
At 31 December	**60**	**33**	**16**	**23**	**90[5]**	**–**	**222**

	Liabilities and charges € m	NAMA[1] provisions € m	Onerous[2] contracts € m	Legal claims € m	Other[3] provisions € m	Voluntary severance scheme* € m	2013 Total € m
At 1 January	21	21	10	5	142	–	199
Transfers in	34	–	–	–	1	–	35
Transfers out	–	–	(2)	–	–	–	(2)
Exchange translation adjustments	–	–	–	–	(4)	–	(4)
Amounts charged to income statement	28[4]	18[1]	18	2	8	3	77
Amounts released to income statement	(11)[4]	(4)[1]	–	(2)	(24)	–	(41)
Provisions utilised	–	–	(4)	–	(45)	–	(49)
At 31 December	72	35	22	5	78[5]	3	215

[1]NAMA income statement charge/(credit) relates to valuation adjustments in relation to loans previously transferred to NAMA.

[2]Provisions for the unavoidable costs expected to arise from the closure of properties surplus to requirements.

[3]Includes provisions for refunds to customers in respect of payment protection insurance, restructuring and reorganisation costs.

[4]Included in charge/(writeback) of provisions for liabilities and commitments in income statement.

[5]Includes € 76 million (2013: € 72 million) due to a subsidiary undertaking.

The total provisions for liabilities and commitments expected to be settled within one year amount to € 72 million (31 December 2013: € 92 million).

u Subordinated liabilities and other capital instruments

All outstanding subordinated liabilities and other capital instruments of AIB Group are issued by Allied Irish Banks, p.l.c. and are detailed in note 38 to the consolidated financial statements.

v Share capital

The share capital and share premium of Allied Irish Banks, p.l.c. are detailed in note 39 to the consolidated financial statements, all of which relates to Allied Irish Banks, p.l.c..

w Capital reserves and capital redemption reserves

	2014			2013		
Capital reserves	**Capital contribution reserves € m**	**Other capital reserves € m**	**Total € m**	Capital contribution reserves € m	Other capital reserves € m	Total € m
At 1 January	**1,389**	**156**	**1,545**	1,608	156	1,764
Transfer to revenue reserves:						
Anglo business transfer	**(470)**	**–**	**(470)**	(140)	–	(140)
CCNs issuance *(note v)*	**(94)**	**–**	**(94)**	(79)	–	(79)
	(564)	**–**	**(564)**	(219)	–	(219)
At 31 December	**825**	**156**	**981**	1,389	156	1,545

The capital contributions were initially non-distributable but may become distributable as outlined in accounting policy number 28. The transfers to revenue reserves relate to the capital contributions being deemed distributable.

Capital redemption reserves

All capital redemption reserves are held in Allied Irish Banks p.l.c. and are detailed in note 41 to the consolidated financial statements.

x Capital contributions

Capital contributions from the Minister for Finance and the NPRFC[1] to Allied Irish Banks p.l.c. are detailed in note 42 to the consolidated financial statements.

[1] National Treasury Management Agency as controller and manager of the Ireland Strategic Investment Fund (NTMA / ISIF with effect 22 December 2014).

y Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

– are offset in Allied Irish Banks, p.l.c.'s statement of financial position; or
– are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Details of these transactions are set out in note 43 to the consolidated financial statements and apply equally to Allied Irish Banks, p.l.c..

The following tables show financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements at 31 December 2014:

							2014
					Related amounts not offset in the statement of financial position		
Financial assets	Note	Gross amounts of recognised financial assets € m	Gross amounts of recognised financial liabilities offset in the statement of financial position € m	Net amounts of financial assets presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) received € m	Net amount € m
Derivative financial instruments	e	1,665	–	1,665	(1,221)	(450)	(6)
Loans and receivables to banks –							
Reverse repurchase agreements	f	3,376	–	3,376	(3,494)	–	(118)
Loans and receivables to customers –							
Reverse repurchase agreements	g	110	–	110	(107)	–	3
Total		5,151	–	5,151	(4,822)	(450)	(121)

							2014
					Related amounts not offset in the statement of financial position		
Financial liabilities	Note	Gross amounts of recognised financial liabilities € m	Gross amounts of recognised financial assets offset in the statement of financial position € m	Net amounts of financial liabilities presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) pledged € m	Net amount € m
Deposits by central banks and banks –							
Securities sold under agreements to repurchase	p	16,133	–	16,133	(16,942)	51	(758)
Customer accounts –							
Securities sold under agreements to repurchase	q	2,191	–	2,191	(2,259)	2	(66)
Derivative financial instruments	e	2,475	–	2,475	(1,221)	(1,276)	(22)
Total		20,799	–	20,799	(20,422)	(1,223)	(846)

y Offsetting financial assets and financial liabilities *(continued)*

The following tables show financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements at 31 December 2013:

							2013
			Gross amounts of recognised	Net amounts of financial	Related amounts not offset in the statement of financial position		
Financial assets	Note	Gross amounts of recognised financial assets € m	financial liabilities offset in the statement of financial position € m	assets presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) received € m	Net amount € m
Derivative financial instruments	e	1,177	–	1,177	(957)	(188)	32
Loans and receivables to banks –							
Reverse repurchase agreements	f	16	–	16	(16)	–	–
Total		1,193	–	1,193	(973)	(188)	32

							2013
			Gross amounts of recognised	Net amounts of financial	Related amounts not offset in the statement of financial position		
Financial liabilities	Note	Gross amounts of recognised financial liabilities € m	financial assets offset in the statement of financial position € m	liabilities presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) pledged € m	Net amount € m
Deposits by central banks and banks –							
Securities sold under agreements to repurchase	p	20,886	–	20,886	(21,711)	8	(817)
Customer accounts –							
Securities sold under agreements to repurchase	q	5,783	–	5,783	(6,098)	(1)	(316)
Derivative financial instruments	e	1,819	–	1,819	(957)	(820)	42
Total		28,488	–	28,488	(28,766)	(813)	(1,091)

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured on the following bases:

- derivative assets and liabilities – fair value;
- loans and receivables to banks – amortised cost;
- loans and receivables to customers – amortised cost;
- deposits by central banks and banks – amortised cost; and
- customer accounts – amortised cost.

The amounts in the above tables that are offset in the statement of financial position are measured on the same basis.

y Offsetting financial assets and financial liabilities *(continued)*

The following tables reconcile the 'Net amounts of financial assets and financial liabilities presented in the statement of financial position', as set out in the previous pages, to the line items presented in the statement of financial position at 31 December 2014 and 31 December 2013:

Financial assets	Net amounts of financial assets presented in the statement of financial position € m	Line item in statement of financial position	Carrying amount in statement of financial position € m	2014 Financial assets not in scope of offsetting disclosures € m
Derivative financial instruments	1,665	Derivative financial instruments	2,062	397
Loans and receivables to banks –				
Reverse repurchase agreements	3,376	Loans and receivables to banks	23,111	19,735
Loans and receivables to customers –				
Reverse repurchase agreements	110	Loans and receivables to customers	29,658	29,548

Financial liabilities	Net amounts of financial liabilities presented in the statement of financial position € m	Line item in statement of financial position	Carrying amount in statement of financial position € m	2014 Financial liabilities not in scope of offsetting disclosures € m
Deposits by central banks and banks –				
Securities sold under agreements				
to repurchase	16,133	Deposits by central banks and banks	23,137	7,004
Customer accounts –				
Securities sold under agreements				
to repurchase	2,191	Customer accounts	50,169	47,978
Derivative financial instruments	2,475	Derivative financial instruments	2,686	211

Financial assets	Net amounts of financial assets presented in the statement of financial position € m	Line item in statement of financial position	Carrying amount in statement of financial position € m	2013 Financial assets not in scope of offsetting disclosures € m
Derivative financial instruments	1,177	Derivative financial instruments	1,653	476
Loans and receivables to banks –				
Reverse repurchase agreements	16	Loans and receivables to banks	23,856	23,840

Financial liabilities	Net amounts of financial liabilities presented in the statement of financial position € m	Line item in statement of financial position	Carrying amount in statement of financial position € m	2013 Financial liabilities not in scope of offsetting disclosures € m
Deposits by central banks and banks –				
Securities sold under agreements				
to repurchase	20,886	Deposits by central banks and banks	29,112	8,226
Customer accounts –				
Securities sold under agreements				
to repurchase	5,783	Customer accounts	53,112	47,329
Derivative financial instruments	1,819	Derivative financial instruments	2,404	585

z Memorandum items: contingent liabilities and commitments, and contingent assets

Allied Irish Banks, p.l.c. has given guarantees in respect of the liabilities of certain of its subsidiaries and has also given guarantees to the satisfaction of the relevant regulatory authorities for the protection of the depositors of certain of its banking subsidiaries in the various jurisdictions in which such subsidiaries operate (note l).

Details of contingent liabilities and commitments entered into by AIB Group are set out in note 44 to the consolidated financial statements.

The commentary on Legal proceedings, Contingent liability/contingent assets and Participation in TARGET 2 – Ireland, as set out in note 44 to the consolidated financial statements, applies also to Allied Irish Banks, p.l.c..

The following tables give the nominal or contract amounts of contingent liabilities and commitments for Allied Irish Banks, p.l.c.:

	Contract amount	
	2014 € m	2013 € m
Contingent liabilities - credit related		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	**475**	567
Other contingent liabilities	**292**	357
	767	924
Commitments		
Documentary credits and short-term trade-related transactions	**11**	15
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year[1]	**6,023**	5,907
1 year and over[2]	**1,210**	1,232
	7,244	7,154
	8,011[3]	8,078

[1]An original maturity of up to and including 1 year or which may be cancelled at any time without notice.

[2]With an original maturity of more than 1 year.

[3]Included in exposures are amounts relating to Group subsidiaries of € 265 million (2013: Nil).

	Contingent liabilities		Commitments	
	2014 € m	2013 € m	**2014 € m**	2013 € m
Concentration of exposure				
Republic of Ireland	**629**	745	**7,160**	7,011
United Kingdom	**1**	–	**62**	116
United States of America	**137**	179	**22**	27
Total	**767**	924	**7,244**	7,154

Credit ratings

The credit ratings of contingent liabilities and commitments as at 31 December 2014 and 31 December 2013 are set out in the following table.

	2014 € m	2013 € m
Good upper	**3,150**	2,427
Good lower	**3,635**	3,916
Watch	**134**	121
Vulnerable	**161**	233
Impaired	**422**	659
Unrated	**509**	722
Total	**8,011**	8,078

Notes to the parent company financial statements

aa Transferred financial assets

Allied Irish Banks, p.l.c. enters into transactions in the normal course of business in which it transfers previously recognised financial assets. Transferred financial assets may, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement:*

(i) continue to be recognised in their entirety; or

(ii) be derecognised in their entirety but Allied Irish Banks, p.l.c. retains some continuing involvement.

The most common transactions where the transferred assets are not derecognised in their entirety are sale and repurchase agreements and securitisations. Details of these transactions are set out in note 46 to the consolidated financial statements and apply equally to Allied Irish Banks, p.l.c..

(i) Transferred financial assets not derecognised in their entirety

The following table sets out the carrying value of financial assets which did not qualify for derecognition and their associated financial liabilities:

							2014
	Carrying amount of transferred assets €m	**Carrying amount of associated liabilities held by third parties €m**	**Carrying amount of associated liabilities held by Group companies €m**	**Fair value of transferred assets €m**	**Fair value of associated liabilities held by third parties €m**	**Fair value of associated liabilities held by Group companies €m**	**Net fair value position €m**
Sale and repurchase agreements	**22,188**	**18,324**[1]	**–**	**22,199**	**18,324**	**–**	**3,875**
Securitisations:							
Credit card receivables	**297**	**200**	**97**	**297**	**200**	**97**	**–**

							2013
	Carrying amount of transferred assets €m	Carrying amount of associated liabilities held by third parties €m	Carrying amount of associated liabilities held by Group companies €m	Fair value of transferred assets €m	Fair value of associated liabilities held by third parties €m	Fair value of associated liabilities held by Group companies €m	Net fair value position €m
Sale and repurchase agreements	29,559	26,669[1]	–	29,694	26,669	–	3,025
Securitisations:							
Credit card receivables	675	500	175	675	500	175	–

[1] See notes p and q.

(ii) Transferred financial assets derecognised in their entirety but Allied Irish Banks, p.l.c. retains some continuing involvement

Allied Irish Banks, p.l.c. has a continuing involvement in transferred financial assets where it retains any of the risks and rewards of ownership of the transferred financial assets. Set out below are transactions in which Allied Irish Banks p.l.c. has a continuing involvement in financial assets transferred.

NAMA

Details in relation to the continuing involvement of assets transferred to NAMA by Allied Irish Banks, p.l.c. are set out in note 46 to the consolidated financial statements. The carrying value of assets transferred during 2010 and 2011 amounted to € 13,483 million, all of which were derecognised.

In 2014, Allied Irish Banks, p.l.c. recognised € 16 million (cumulative € 69 million) (2013: € 16 million (cumulative € 53 million)) in the income statement for the servicing of all financial assets transferred to NAMA by the Group.

AIB Mortgage Bank

In 2011, Allied Irish Banks, p.l.c. transferred substantially all of its mortgage intermediary originated Irish residential loans, related security and related business of approximately € 4.2 billion to AIB Mortgage Bank.

Under an Outsourcing and Agency Agreement dated 8 February 2006, Allied Irish Banks, p.l.c., as Service Agent for AIB Mortgage Bank, originates residential mortgage loans through its retail branch network and intermediary channels in the Republic of Ireland, services the mortgage loans and provides treasury services in connection with financing, as well as a range of other support services. In 2014, Allied Irish Banks, p.l.c. recognised € 58 million (cumulative € 396 million) (2013: € 58 million (cumulative € 338 million)) in the income statement for the provision of services under this agreement.

ab Fair value of financial instruments

The tables on the following pages set out the carrying amount in the statement of financial position of financial assets and financial liabilities distinguishing between those measured at fair value and those measured at amortised cost. In addition, the fair value of all financial assets and financial liabilities is shown setting out the fair value hierarchy as described below into which the fair value measurement is categorised:

Level 1 – financial assets and liabilities measured using quoted market prices from an active market (unadjusted).

Level 2 – financial assets and liabilities measured using valuation techniques which use quoted market prices from an active market or measured using quoted market prices unadjusted from an inactive market.

Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable market data.

Readers of these financial statements are advised to use caution when using the data in the following tables to evaluate the financial position of Allied Irish Banks, p.l.c. or to make comparisons with other institutions. Fair value information is not provided for items that do not meet the definition of a financial instrument. These items include intangible assets such as the value of the branch network and the long-term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the Company as a going concern at 31 December 2014.

ab Fair value of financial instruments *(continued)*

	Carrying amount in statement of financial position							Fair value hierarchy			
	At fair value through profit and loss		At fair value through equity		At amortised cost		Total				2014
	Held for trading	Fair value hedge derivatives	Cashflow hedge derivatives	Available for sale securities	Loans and receivables	Other		Level 1	Level 2	Level 3	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets measured at fair value											
Trading portfolio financial assets											
Equity securities	1						1	–	1	–	1
Derivative financial instruments(1)											
Interest rate derivatives	1,183	151	542				1,876	–	1,501	375	1,876
Exchange rate derivatives	48						48	–	48	–	48
Equity derivatives	138						138	–	53	85	138
Financial investments available for sale											
Government securities				12,683			12,683	12,537	146	–	12,683
Supranational banks and government agencies				2,852			2,852	2,852	–	–	2,852
Asset backed securities				100			100	99	1	–	100
Bank securities				4,982			4,982	3,898	1,084	–	4,982
Corporate securities				3			3	–	–	3	3
Other investments								–	–	–	–
Equity securities				360			360	–	1	359	360
	1,370	151	542	20,980			23,043	19,386	2,835	822	23,043
Financial assets not measured at fair value											
Cash and balances at central banks					928	468(2)	1,396	468	928	–	1,396
Items in the course of collection					66		66	–	–	66	66
Loans and receivables to banks(3)					23,111		23,111	–	101	23,010	23,111
Loans and receivables to customers(4)					29,658		29,658	–	–	29,586	29,586
NAMA senior bonds					9,423		9,423	–	–	9,479	9,479
Other financial assets						412	412	–	–	412	412
					63,186	880	64,066	468	1,029	62,553	64,050

ab Fair value of financial instruments *(continued)*

	Carrying amount in statement of financial position					Fair value hierarchy			2014
	At fair value through profit and loss		At fair value through equity	At amortised cost	Total				
	Held for trading € m	Fair value hedge derivatives € m	Cashflow hedge derivatives € m	Other € m	€ m	Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value									
Derivative financial instruments[5]									
Interest rate derivatives	1,271	587	629		2,487	–	2,277	210	2,487
Exchange rate derivatives	74				74	–	74	–	74
Equity derivatives	117				117	–	56	61	117
Credit derivatives	8				8	–	8	–	8
	1,470	587	629		2,686	–	2,415	271	2,686
Financial liabilities not measured at fair value									
Deposits by central banks and banks[6]									
Other borrowings				7,004	7,004	–	–	7,004	7,004
Securities sold under agreements to repurchase				16,133	16,133	–	3,400	12,733	16,133
Customer accounts[7]									
Current accounts				16,191	16,191	–	–	16,191	16,191
Demand deposits				6,589	6,589	–	–	6,589	6,589
Time deposits				25,198	25,198	–	–	25,412	25,412
Securities sold under agreements to repurchase				2,191	2,191	–	–	2,191	2,191
Debt securities in issue[8]									
Bonds and medium term notes				2,572	2,572	2,600	24	–	2,624
Other debt securities in issue				50	50	–	50	–	50
Subordinated liabilities and other capital instruments				1,451	1,451	–	1,831	–	1,831
Other financial liabilities				244	244	–	–	244	244
				77,623	77,623	2,600	5,305	70,364	78,269

(1)Includes exposure to subsidiary undertakings of € 202 million.

(2)Comprises cash on hand.

(3)Includes exposure to subsidiary undertakings of € 22,161 million.

(4)Includes exposure to subsidiary undertakings of € 9,778 million.

(5)Includes amounts due to subsidiary undertakings of € 388 million.

(6)Includes amounts due to subsidiary undertakings of € 6,577 million.

(7)Includes amounts due to subsidiary undertakings of € 4,607 million.

(8)Includes amounts due to subsidiary undertakings of Nil.

ab Fair value of financial instruments *(continued)*

2013

	Carrying amount in statement of financial position							Fair value hierarchy			
	At fair value through profit and loss		At fair value through equity		At amortised cost		Total				
	Held for trading	Fair value hedge derivatives	Cashflow hedge derivatives	Available for sale securities	Loans and receivables	Other		Level 1	Level 2	Level 3	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets measured at fair value											
Trading portfolio financial assets											
Debt securities	1						1	1	–	–	1
Equity securities	1						1	–	1	–	1
Derivative financial instruments[1]											
Interest rate derivatives	1,100	222	125				1,447	–	1,168	279	1,447
Exchange rate derivatives	35	–	–				35	–	35	–	35
Equity derivatives	171	–	–				171	–	171	–	171
Financial investments available for sale											
Government securities				12,690			12,690	12,690	–	–	12,690
Supranational banks and government agencies				3,092			3,092	3,092	–	–	3,092
Asset backed securities				535			535	535	–	–	535
Bank securities				3,717			3,717	3,717	–	–	3,717
Corporate securities				3			3	–	3	–	3
Other investments				12			12	–	–	12	12
Equity securities				80			80	7	3	70	80
	1,308	222	125	20,129			21,784	20,042	1,381	361	21,784
Financial assets not measured at fair value											
Cash and balances at central banks					659	556[2]	1,215	556	659	–	1,215
Items in the course of collection					79		79	–	–	79	79
Disposal groups and non-current assets held for sale											
Loans and receivables					28		28	–	–	28	28
Loans and receivables to banks[3]					23,856		23,856	–	95	23,761	23,856
Loans and receivables to customers[4]					31,603		31,603	–	–	31,387	31,387
NAMA senior bonds					15,598		15,598	–	–	15,767	15,767
Other financial assets						473	473	–	–	473	473
					71,823	1,029	72,852	556	754	71,495	72,805

ab Fair value of financial instruments *(continued)*

	Carrying amount in statement of financial position					Fair value hierarchy			2013
	At fair value through profit and loss		At fair value through equity	At amortised cost	Total				
	Held for trading € m	Fair value hedge derivatives € m	Cashflow hedge derivatives € m	Other € m	€ m	Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value									
Derivative financial instruments[5]									
Interest rate derivatives	1,138	588	469		2,195	–	2,111	84	2,195
Exchange rate derivatives	35	–	–		35	–	35	–	35
Equity derivatives	174	–	–		174	–	174	–	174
	1,347	588	469		2,404	–	2,320	84	2,404
Financial liabilities not measured at fair value									
Deposits by central banks and banks[6]									
Other borrowings				8,226	8.226	–	–	8,226	8,226
Securities sold under agreements to repurchase				20,886	20,886	–	11,750	9,136	20,886
Customer accounts[7]									
Current accounts				13,674	13,674	–	–	13,674	13,674
Demand deposits				6,230	6,230	–	–	6,230	6,230
Time deposits				27,425	27,425	–	–	27,676	27,676
Securities sold under agreements to repurchase				5,783	5,783	–	–	6,034	6,034
Debt securities in issue[8]									
Bonds and medium term notes				3,192	3,192	3,283	–	–	3,283
Other debt securities in issue				79	79	79	–	–	79
Subordinated liabilities and other capital instruments				1,352	1,352	–	1,775	–	1,775
Other financial liabilities				279	279	–	–	279	279
				87,126	87,126	3,362	13,525	71,255	88,142

(1)Includes exposure to subsidiary undertakings of € 163 million.

(2)Comprises cash on hand.

(3)Includes exposure to subsidiary undertakings of € 22,848 million.

(4)Includes exposure to subsidiary undertakings of € 10,175 million.

(5)Includes amounts due to subsidiary undertakings of € 403 million.

(6)Includes amounts due to subsidiary undertakings of € 7,472 million.

(7)Includes amounts due to subsidiary undertakings of € 5,656 million.

(8)Includes amounts due to subsidiary undertakings of Nil.

ab Fair value of financial instruments *(continued)*

Significant transfers between Level 1 and Level 2 of the fair value hierarchy

The following table shows significant transfers between Level 1 and Level 2 of the fair value hierarchy for the years ended 31 December 2014 and 31 December 2013:

			2014			2013
Financial assets	**Trading portfolio € m**	**Debt securities € m**	**Total € m**	Trading portfolio € m	Debt securities € m	Total € m
Transfer into Level 1 from Level 2	**–**	**–**	**–**	–	13	13
Transfer into Level 2 from Level 1	**–**	**1**	**1**	–	3	3

Transfers into Level 1 from Level 2 occurred due to increased availability of reliable quoted market prices which were not previously available.

Transfers into Level 2 from Level 1 occurred due to reduced availability of reliable quoted market prices.

ab Fair value of financial instruments *(continued)*

Reconciliation of balances in Level 3 of the fair value hierarchy

The following tables show a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy for 2014 and 2013:

2014

	Financial assets				Financial liabilities	
	Derivatives	Available for sale		Total	Derivatives	Total
		Debt securities	Equity securities			
	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2014	279	12	70	361	84	84
Transfers into Level 3[1]	104	3	–	107	119	119
Total gains or (losses) in:						
Profit or loss						
– Net trading gain	75	–	–	75	38	38
Other comprehensive income						
– Net change in fair value of financial investments available for sale	–	–	294	294	–	–
– Net change in fair value of cashflow hedges	2	–	–	2	30	30
Sales	–	(12)	(5)	(17)	–	–
At 31 December 2014	**460**	**3**	**359**	**822**	**271**	**271**

2013

	Financial assets				Financial liabilities	
	Derivatives	Available for sale		Total	Derivatives	Total
		Debt securities	Equity securities			
	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2013	–	12	243	255	20	20
Transfers into Level 3[1]	460	–	–	460	116	116
Total gains or (losses) in:						
Profit or loss						
– Net trading loss	(181)	–	–	(181)	(32)	(32)
Other comprehensive income						
– Net change in fair value of financial investments available for sale	–	–	24	24	–	–
Sales	–	–	(197)	(197)	(20)	(20)
At 31 December 2013	279	12	70	361	84	84

[1]Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

Transfers out of Level 3 occurred because of increased observability in the market prices of these instruments. Transfers into Level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these instruments.

Reconciliation of balances in Level 3 of the fair value hierarchy

Total gains or losses included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at 31 December 2014 and 31 December 2013:

	2014	2013
	€ m	€ m
Net trading income/(loss)	**124**	(25)
Provisions for impairment on financial investments available for sale	**–**	–
Total	**124**	(25)

ab Fair value of financial instruments *(continued)*

Significant unobservable inputs

The table below sets out information about significant unobservable inputs used at the year ended 31 December 2014 and 31 December 2013 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

	Fair Value					Range of estimates	
Financial instrument		2014 € m	2013 € m	Valuation technique	Significant unobservable input	2014	2013
Uncollaterised customer derivatives	Asset	460	279	CVA	LGD	46% – 73% (Base 55%)	45% – 80% (Base 59%)
	Liability	271	84				
					PD	0.9% – 1.4% (Base 1.1% 1 yr PD)	0.8% – 2.0% (Base 1.5% 1 yr PD)
					Combination LGD and PD[(1)]	As above with greater unfavourable impact due to combination of PD and LGD changes	As above with greater unfavourable impact due to combination of PD and LGD changes
				FVA[(2)]	Funding spreads	(0.3%) – 0.8%	n/a
				DVA	PD	n/a	The PD is shifted from 2.1% to 0.4% in the unfavourable scenario. In the favourable scenario the capping of DVA at CVA level is removed.
NAMA subordinated bonds	Asset	358	70	Discounted cash flows	NAMA profitability i.e. ability to generate cash flow for repayment	Discount rate of 12% applicable to base asset price. The estimates range from: (a) NAMA making 50% of full 5.26% coupon payments; to (b) an early full repayment of coupons plus capital (March 2018) at a reduced discount rate.	The estimates range from: (a) NAMA making a single payment only under the bonds i.e. 5.26% of nominal; to (b) repayment of the bonds at maturity.

(1)The fair value measurement sensitivity to unobservable inputs ranges from negative € 37 million to positive € 21 million (2013: negative € 20 million to positive € 19 million).

(2)As detailed in note 47 to the consolidated financial statements, FVA incorporates an element of own credit which had been applied through DVA in 2013.

A number of other derivatives are subject to valuation methodologies which use unobservable inputs. As the variability of the valuation is not greater that € 1 million in any individual case or collectively, the detail is not disclosed here.

ab Fair value of financial instruments *(continued)*

Sensitivity of Level 3 measurements

The implementation of valuation techniques involves a considerable degree of judgement. While the Company believes its estimates of fair value are appropriate, the use of different measurements or assumptions could lead to different fair values. The following table sets out the impact of using reasonably possible alternative assumptions in the valuation methodology:

	2014			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Derivative financial instruments	25	(46)	–	–
Financial investments available for sale – equity securities	–	–	57	(53)
Total	25	(46)	57	(53)
Classes of financial liabilities				
Derivative financial instruments	2	(7)	–	–
Total	2	(7)	–	–

	2013			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Derivative financial instruments	14	(22)	–	–
Financial investments available for sale – equity securities	–	(46)	106	–
Total	14	(68)	106	–
Classes of financial liabilities				
Derivative financial instruments	5	(2)	–	–
Total	5	(2)	–	–

Day 1 gain or loss:

No difference existed between the fair value at initial recognition of financial instruments and the amount that was determined at that date using a valuation technique incorporating significant unobservable data.

Notes to the parent company financial statements

ac Statement of cash flows

Analysis of cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents comprise the following balances with less than three months maturity from the date of acquisition:

	2014 € m	2013 € m	2012 € m
Cash and balances at central banks	**1,396**	1,215	1,076
Loans and receivables to banks	**846**	851	1,358
	2,242	2,066	2,434

ad Related party transactions

Related parties of Allied Irish Banks, p.l.c. (“AIB”) include subsidiary undertakings, associate undertakings and joint undertakings, post-employment benefits, Key Management Personnel and connected parties. The Irish Government is also considered a related party by virtue of its effective control of AIB. Related party transactions are detailed in note 50 to the consolidated financial statements.

ae Commitments

Capital expenditure	2014 € m	2013 € m
Estimated outstanding commitments for capital expenditure not provided for in the financial statements	**16**	25
Capital expenditure authorised but not yet contracted for	**33**	26

Operating lease rentals

The total of future minimum lease payments under non-cancellable operating leases are set out in the following table.

	2014 € m	2013 € m
One year	**49**	62
One to two years	**45**	58
Two to three years	**31**	52
Three to four years	**17**	34
Four to five years	**16**	16
Over five years	**130**	140
Total	**288**	362

Operating lease payments recognised as an expense for the year were € 46 million (2013: € 62 million). Sublease income amounted to Nil (2013: Nil). Included in the lease payments to other Group subsidiaries is € 35 million (2013: € 37 million). Future minimum lease payments due to subsidiaries of Allied Irish Banks, p.l.c. amount to € 77 million excluding VAT (2013: € 137 million excluding VAT) and are included in the total of € 288 million in 2014 (2013: € 362 million).

af Credit risk information

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 2014 and 31 December 2013:

	2014			2013		
Maximum exposure to credit risk	**Amortised cost[10] € m**	**Fair value[11] € m**	**Total € m**	Amortised cost[10] € m	Fair value[11] € m	Total € m
Balances at central banks[1]	**928**	**–**	**928**	659	–	659
Items in course of collection	**66**	**–**	**66**	79	–	79
Disposal groups and non-current assets held for sale[2]	**–**	**–**	**–**	28[3]	–	28
Trading portfolio financial assets[4]	**–**	**–**	**–**	–	1	1
Derivative financial instruments[5]	**–**	**2,062**	**2,062**	–	1,653	1,653
Loans and receivables to banks[6]	**23,111**	**–**	**23,111**	23,856	–	23,856
Loans and receivables to customers[7]	**29,658**	**–**	**29,658**	31,603	–	31,603
NAMA senior bonds	**9,423**	**–**	**9,423**	15,598	–	15,598
Financial investments available for sale[8]	**–**	**20,620**	**20,620**	–	20,049	20,049
Other assets:						
Trade receivables	**46**	**–**	**46**	23	–	23
Accrued interest[9]	**366**	**–**	**366**	450	–	450
	63,598	**22,682**	**86,280**	72,296	21,703	93,999
Financial guarantees	**767**	**–**	**767**	924	–	924
Loan commitments and other credit related commitments	**7,244**	**–**	**7,244**	7,154	–	7,154
	8,011	**–**	**8,011**	8,078	–	8,078
Total	**71,609**	**22,682**	**94,291**	80,374	21,703	102,077

(1)Included within cash and balances at central banks of € 1,396 million (2013: € 1,215 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 (2013: € 1 million).

(5)Exposures to subsidiary undertakings of € 202 million (2013: € 163 million) have been included.

(6)Exposures to subsidiary undertakings of € 22,161 million (2013: € 22,848 million) have been included.

(7)Exposures to subsidiary undertakings of € 9,778 million (2013: € 10,175 million) have been included.

(8)Excluding equity shares of € 360 million (2013: € 80 million).

(9)Exposures to subsidiary undertakings of € 8 million (2013: € 8 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'.

af Credit risk information *(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 66.

Set out below is the fair value of collateral accepted by Allied Irish Banks p.l.c. at 31 December 2014 and 31 December 2013 in relation to financial assets detailed in the maximum exposure to credit risk table on page 371:

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 2014, Allied Irish Banks p.l.c. had received collateral with a fair value of Nil on loans with a carrying value of Nil (2013: € 16 million and € 16 million respectively).

Loans and receivables to customers

The following table shows the fair value of collateral held for residential mortgages at 31 December 2014 and 31 December 2013:

				2014				2013
	Neither past due nor impaired € m	Past due but not impaired € m	Impaired € m	Total € m	Neither past due nor impaired € m	Past due but not impaired € m	Impaired € m	Total € m
Fully collateralised[1]								
Loan-to-value ratio:								
Less than 50%	167	7	11	185	132	4	9	145
50% - 70%	165	5	18	188	122	6	14	142
71% - 80%	92	3	21	116	85	3	13	101
81% - 90%	121	3	29	153	88	2	13	103
91% - 100%	138	11	88	237	109	7	69	185
	683	29	167	879	536	22	118	676
Partially collateralised								
Collateral value relating to loans over 100% loan-to-value	540	16	172	728	688	20	247	955
Total collateral value	1,223	45	339	1,607	1,224	42	365	1,631
Gross residential mortgages	1,357	47	397	1,801	1,455	50	447	1,952
Statement of financial position specific provisions			(173)	(173)			(194)	(194)
Statement of financial position IBNR provisions				(25)				(28)
Net residential mortgages			224	1,603			253	1,730

[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 2014 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 page 68..

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 2014 have a carrying value of € 9,423 million (2013: € 15,598 million).

Financial investments available for sale

At 31 December 2014, government guaranteed senior bank debt amounting to € 120 million (2013: € 381 million) was held within the available for sale portfolio.

af Credit risk information *(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 2014 and 31 December 2013

						2014
					Included on statement of financial position as	
	Republic of Ireland	United Kingdom	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
Agriculture	1,700	–	–	1,700	1,700	–
Energy	203	17	1	221	221	–
Manufacturing	740	19	–	759	759	–
Property and construction	10,943	224	–	11,167	11,167	–
Distribution	4,708	116	–	4,824	4,824	–
Transport	538	36	–	574	574	–
Financial	514	91	3	608	608	–
Other services	2,343	66	43	2,452	2,452	–
Personal						
Residential mortgages	1,801	–	–	1,801	1,801	–
Other	3,423	–	–	3,423	3,423	–
	26,913	569	47	27,529	27,529	–
Unearned income	(84)	(3)	(1)	(88)	(88)	–
Deferred costs	3	–	–	3	3	–
Provisions	(7,453)	(111)	–	(7,564)	(7,564)	–
Total	19,379	455	46	19,880	19,880[(1)]	–

						2013
					Included on statement of financial position as	
	Republic of Ireland	United Kingdom	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
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

[(1)] Excludes intercompany balances of € 9,778 million (2013: € 10,175 million).

af Credit risk information *(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 2014 and 31 December 2013 is as follows:

	Residential mortgages € m	Other personal € m	Property and construction € m	SME/other commercial € m	Corporate € m	2014 Total € m
Neither past due nor impaired						
Good upper	**569**	**181**	**79**	**46**	**640**	**1,515**
Good lower	**537**	**1,733**	**2,141**	**3,205**	**2,096**	**9,712**
Watch	**127**	**148**	**460**	**630**	**77**	**1,442**
Vulnerable	**124**	**195**	**1,184**	**778**	**17**	**2,298**
Total	**1,357**	**2,257**	**3,864**	**4,659**	**2,830**	**14,967**
Past due but not impaired						
Good upper	**–**	**1**	**–**	**8**	**2**	**11**
Good lower	**3**	**51**	**43**	**104**	**16**	**217**
Watch	**6**	**29**	**37**	**66**	**–**	**138**
Vulnerable	**38**	**112**	**287**	**268**	**2**	**707**
Total	**47**	**193**	**367**	**446**	**20**	**1,073**
Total impaired	**397**	**973**	**6,936**	**2,805**	**378**	**11,489**
Total gross loans and receivables	**1,801**	**3,423**	**11,167**	**7,910**	**3,228**	**27,529**
Unearned income						**(88)**
Deferred costs						**3**
Impairment provisions						**(7,564)**
Total						**19,880**

	Residential mortgages € m	Other personal € m	Property and construction € m	SME/other commercial € m	Corporate € m	2013 Total € 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

Details of the rating profiles and lending classifications are set out on page 123.

af Credit risk information *(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 2014 and 31 December 2013.

						2014
					Included on statement of financial position as	
	Republic of Ireland	United Kingdom	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
Agriculture	**291**	**–**	**–**	**291**	**291**	**–**
Energy	**80**	**–**	**–**	**80**	**80**	**–**
Manufacturing	**176**	**–**	**–**	**176**	**176**	**–**
Property and construction	**6,795**	**141**	**–**	**6,936**	**6,936**	**–**
Distribution	**1,816**	**–**	**–**	**1,816**	**1,816**	**–**
Transport	**66**	**24**	**–**	**90**	**90**	**–**
Financial	**168**	**–**	**–**	**168**	**168**	**–**
Other services	**562**	**–**	**–**	**562**	**562**	**–**
Personal:						
Residential mortgages	**397**	**–**	**–**	**397**	**397**	**–**
Other	**973**	**–**	**–**	**973**	**973**	**–**
Total	**11,324**	**165**	**–**	**11,489**	**11,489**	**–**

						2013
					Included on statement of financial position as	
	Republic of Ireland	United Kingdom	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
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	–

af Credit risk information *(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 2014 and 31 December 2013:

							2014
	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	48	8	3	9	15	40	123
Energy	–	–	–	–	–	3	3
Manufacturing	19	4	–	1	1	8	33
Property and construction	84	22	19	43	52	147	367
Distribution	55	16	7	27	31	30	166
Transport	5	1	–	–	–	3	9
Financial	2	–	–	–	–	–	2
Other services	58	24	3	10	11	24	130
Personal:							
Residential mortgages	11	6	8	7	9	6	47
Credit cards	29	7	4	3	1	–	44
Other	44	14	12	17	14	48	149
Total	355	102	56	117	134	309	1,073
As a percentage of total loans[(1)]	1.3%	0.4%	0.2%	0.4%	0.5%	1.1%	3.9%

							2013
	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	61	13	17	15	9	34	149
Energy	1	1	–	1	–	1	4
Manufacturing	18	4	1	5	4	20	52
Property and construction	133	37	21	45	108	138	482
Distribution	58	11	12	19	36	32	168
Transport	6	1	–	2	1	3	13
Financial	1	1	–	1	–	1	4
Other services	69	10	11	13	12	20	135
Personal:							
Residential mortgages	19	7	6	7	7	4	50
Credit cards	32	9	6	4	1	–	52
Other	109	21	17	30	26	46	249
Total	507	115	91	142	204	299	1,358
As a percentage of total loans[(1)]	1.55%	0.35%	0.28%	0.43%	0.62%	0.91%	4.14%

[(1)]Total loans (excluding intercompany) are gross of impairment provisions and unearned income.

af Credit risk information *(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 2014 and 31 December 2013.

2014	Republic of Ireland	United Kingdom	Rest of the World	Total	Included on statement of financial position as: Loans and receivables to customers	Included on statement of financial position as: Disposal groups and non-current assets held for sale
	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	176	–	–	176	176	–
Energy	37	–	–	37	37	–
Manufacturing	108	–	–	108	108	–
Property and construction	4,243	88	–	4,331	4,331	–
Distribution	1,058	–	–	1,058	1,058	–
Transport	39	23	–	62	62	–
Financial	90	–	–	90	90	–
Other services	368	–	–	368	368	–
Personal:						
Residential mortgages	173	–	–	173	173	–
Other	663	–	–	663	663	–
Specific	6,955	111	–	7,066	7,066	–
IBNR	498	–	–	498	498	–
Total	7,453	111	–	7,564	7,564	–

2013	Republic of Ireland	United Kingdom	Rest of the World	Total	Included on statement of financial position as: Loans and receivables to customers	Included on statement of financial position as: Disposal groups and non-current assets held for sale
	€ 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	–

af Credit risk information *(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 2014 and 31 December 2013 is as follows:

					2014
	Bank[1] € m	**Corporate € m**	**Sovereign € m**	**Other € m**	**Total € m**
AAA/AA	**3,632**	**–**	**4,114**	**99**	**7,845**
A/A-	**1,059**	**–**	**18,382[2]**	**–**	**19,441**
BBB+/BBB/BBB-	**7**	**–**	**2,462**	**–**	**2,469**
Sub investment	**149**	**–**	**–**	**1**	**150**
Unrated	**–**	**3**	**–**	**–**	**3**
Total	**4,847**	**3**	**24,958[3]**	**100**	**29,908**

					2013
	Bank[1] € m	Corporate € m	Sovereign € m	Other € m	Total € 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

[1]Excludes balances with subsidiaries of € 23,246 million (2013: € 22,848 million).

[2]Includes NAMA senior bonds which do not have an external credit rating and to which the Group has attributed a rating of A- (2013: BBB+) i.e. the external rating of the Sovereign.

[3]Includes supranational banks and government agencies.

ag Liquidity risk information

Financial assets and financial liabilities by contractual residual maturity

2014

	Repayable on demand € m	3 months or less but not repayable on demand € m	1 year or less but over 3 months € m	5 years or less but over 1 year € m	Over 5 years € m	Total € m
Financial assets						
Derivative financial instruments[(2)]	–	50	75	837	1,100	2,062
Loans and receivables to banks[(3)]	23,100	11	–	–	–	23,111
Loans and receivables to customers[(3)]	23,273	552	2,585	5,462	5,435	37,307
NAMA senior bonds[(4)]	–	9,423	–	–	–	9,423
Financial investments available for sale[(1)]	3	226	278	12,150	7,963	20,620
Other financial assets	–	412	–	–	–	412
	46,376	10,674	2,938	18,449	14,498	92,935
Financial liabilities						
Deposits by central banks and banks	6,931	14,155	–	2,051	–	23,137
Customer accounts	27,331	13,885	6,927	2,025	1	50,169
Derivative financial instruments[(2)]	–	153	159	1,121	1,253	2,686
Debt securities in issue	–	1,599	24	999	–	2,622
Subordinated liabilities and other capital instruments	–	–	–	1,411	40	1,451
Other financial liabilities	244	–	–	–	–	244
	34,506	29,792	7,110	7,607	1,294	80,309

2013

	Repayable on demand € m	3 months or less but not repayable on demand € m	1 year or less but over 3 months € m	5 years or less but over 1 year € m	Over 5 years € m	Total € m
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	–	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

[(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 2 March 2015. Upon maturity, the issuer has the option to settle in cash or issue new notes and to date has issued new notes.

The balances shown above include exposures to/by subsidiary undertakings.

Notes to the parent company financial statements

ag Liquidity risk information *(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.

						2014
	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	**767**	**–**	**–**	**–**	**–**	**767**
Commitments	**7,244**	**–**	**–**	**–**	**–**	**7,244**
	8,011[(1)]	**–**	**–**	**–**	**–**	**8,011**

						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[(1)]	–	–	–	–	8,078

[(1)]Includes € 265 million (2013: Nil) relating to Group subsidiaries.

ah Market risk information

Market risk profile

The following table sets out the VaR for Allied Irish Banks, p.l.c. at 31 December 2014 and 31 December 2013:

	VaR (trading book)		**VaR (banking book)**		**Total VaR**	
	2014 € m	2013 € m	**2014 € m**	2013 € m	**2014 € m**	2013 € m
Interest rate risk						
1 day holding period:						
Average	**0.1**	0.1	**3.5**	1.4	**3.5**	1.4
High	**0.5**	0.6	**5.6**	3.8	**5.6**	3.8
Low	**–**	–	**1.2**	1.0	**1.2**	0.9
31 December	**0.1**	0.2	**1.5**	2.9	**1.5**	2.7

The following table sets out the VaR for foreign exchange rate and equity risk for the years ended 31 December 2014 and 31 December 2013:

	Foreign exchange rate risk		**Equity risk**	
	VaR (trading book)		**VaR (trading book)**	
	2014 € m	2013 € m	**2014 € m**	2013 € m
1 day holding period:				
Average	**–**	–	**0.1**	0.4
High	**0.1**	0.3	**0.1**	0.7
Low	**–**	–	**–**	–
31 December	**–**	–	**–**	–

General information

Shareholder information

Internet-based Shareholder Services

Ordinary Shareholders with access to the internet may:

- register for electronic communications on the following link, www.computershare.com/register/ie;
- check their shareholdings on the Company's Share Register;
- check past dividend payment details;
- update your information online on the following link: www.investorcentre.com/ie/changeaddress; and
- download standard forms required to initiate changes in details held by the Registrar, by accessing AIB's website at www.aibgroup.com, clicking on the Investor Relations, Shareholder Information and Personal Shareholder Details option, and following the on-screen instructions. When prompted, the Shareholder Reference Number (shown on the shareholder's share certificate, dividend counterfoil and personalised circulars) should be entered. These services may also be accessed via the Registrar's website at www.computershare.com.

  Shareholders may also use AIB's website to access the Company's Annual Financial Report.

Stock Exchange Listings

Allied Irish Banks, p.l.c. is an Irish-registered company. Its ordinary shares are traded on the Enterprise Securities Market ("ESM") of the Irish Stock Exchange.

AIB had previously listed its ordinary shares, in the form of American Depository Shares ("ADS"), evidenced by an American Depository Receipt ("ADR") on the New York Stock Exchange ("NYSE"). Following the decision in 2011 to delist, ADSs were no longer traded on the NYSE. The ADR Depository, The Bank of New York Mellon, advised that the sale of ordinary shares underlying the ADSs, commenced in 2012, had been completed in 2014 and they had initiated the process of remitting the cash from the proceeds to the ADS holders. AIB filed a Form 15F with the United States Securities and Exchange Commission ("SEC") on 9 December 2014 to terminate the registration of AIB's Securities and to cease its reporting requirements.

Registrar

The Company's Registrar is:

Computershare Investor Services (Ireland) Ltd.,
Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.
Telephone: +353-1-247 5411. Facsimile: +353-1-216 3151.
Website: **www.computershare.com** or **www.investorcentre.com/ie/contactus**

Shareholding analysis

The National Pensions Reserve Fund Commission[(1)] hold 522,558,712,910 ordinary shares of € 0.0025 each in the share capital of Allied Irish Banks, p.l.c..

Financial calendar

Annual General Meeting: 28 April 2015, at the Company's Head office at Bankcentre, Ballsbridge, Dublin 4.

Interim results

The unaudited Half-Yearly Financial Report 2015 will be announced towards the end of July/early August 2015 and will be available on the Company's website – **www.aibgroup.com**.

Shareholder's enquires regarding Ordinary Shares should be addressed to:

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Telephone: +353 1 247 5411
Facsimile: +353 1 216 3151
Website: **www.computershare.com**
or
www.investorcentre.com/ie/contactus
or
www.aibgroup.com

[(1)]National Treasury Management Agency as controller and manager of the Ireland Strategic Investment Fund (NTMA / ISIF with effect 22 December 2014).

Glossary of terms

ABS	Asset backed securities are securities that represent an interest in an underlying pool of referenced assets. They are typically structured in tranches of differing credit qualities. Some common types of asset backed securities are those backed by credit card receivables, home equity loans and car loans. Within this report, ABS which are backed by an underlying pool of residential mortgage loans are referred to as "RMBS" – see below.
Arrears	Arrears relates to any interest or principal on a loan which was due for payment, but where payment has not been received. Customers are said to be in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan is unpaid or overdue.
Banking book	A regulatory classification to support the regulatory capital treatment that applies to all exposures which are not in the trading book. Banking book positions tend to be structural in nature and, typically, arise as a consequence of the size and composition of a bank's balance sheet. Examples include the need to manage the interest rate risk on fixed rate mortgages or rate insensitive current account balances. The banking book portfolio will also include all transactions/positions which are accounted for on an interest accruals basis or, in the case of financial instruments, on an available for sale or hold to maturity basis (e.g. AFS Securities portfolios).
Basis point	One hundredth of a per cent (0.01%), so 100 basis points is 1%. Used in quoting movements in interest rates or yields on securities.
Basis risk	A type of market risk that refers to the possibility that the change in the price of an instrument (e.g. asset, liability, derivative, etc) may not match the change in price of the associated hedge, resulting in losses arising in the Group's portfolio of financial instruments.
Buy-to-let	A residential mortgage loan approved for the purpose of purchasing a residential investment property to rent out.
CBOs/CDOs	A collateralised bond obligation ("CBO")/collateralised debt obligation ("CDO") is an investment vehicle (generally an SPE) which allows third party investors to make debt and/or equity investments in a vehicle containing a portfolio of loans and bonds with certain common features. In the case of synthetic CBOs/CDOs, the risk is backed by credit derivatives instead of the sale of assets (cash CBOs/CDOs).
CET 1 ratio	Common equity tier 1 – A measurement of a bank's core equity capital compared with its total risk-weighted assets.
Collectively assessed impairment	Impairment assessment on a collective basis for portfolios of impaired loans that are not considered individually significant for specific provisioning. In addition, portfolios of performing loans are assessed on a collective basis to estimate the amount of losses incurred, but which have yet to be individually identified (IBNR provisions).
Commercial paper	Commercial paper is similar to a deposit and is a relatively low-risk, short-term, unsecured promissory note traded on money markets issued by companies or other entities to finance their short-term expenses. In the USA, commercial paper matures within 270 days maximum, while in Europe, it may have a maturity period of up to 365 days; although maturity is commonly 30 days in the USA and 90 days in Europe.
Commercial property	Commercial property lending focuses primarily on the following property segments: a) Apartment complexes; b) Develop to sell; c) Office projects; d) Retail projects; e) Hotels; and f) Selective mixed-use projects and special purpose properties.
Concentration risk	Concentration risk is the risk of loss from lack of diversification, investing too heavily in one industry, one geographic area or one type of security.
Contractual maturity	The period when a scheduled payment is due and payable in accordance with the terms of a financial instrument.
Core tier 1 capital	Called-up share capital, share premium and eligible reserves plus equity non-controlling interests, less goodwill, intangible assets and supervisory deductions as specified by the Central Bank of Ireland.
CRD	Capital requirements directives ('CRD'): Capital adequacy legislation implemented by the European Union and adopted by member states. They are designed to ensure the financial soundness of credit institutions and certain investment firms.
Credit default swaps	An agreement between two parties whereby one party pays the other a fixed coupon over a specified term. The other party makes no payment unless a specified credit event, such as a default, occurs, at which time a payment is made and the swap terminates. Credit default swaps are typically used by the purchaser to provide credit protection in the event of default by a counterparty.
Credit derivatives	Financial instruments where credit risk connected with loans, bonds or other risk-weighted assets or market risk positions is transferred to counterparties providing credit protection. The credit risk might be the exposure inherent in a financial asset such as a loan or might be generic credit risk such as the bankruptcy risk of an entity.

Credit risk	The risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.
Credit risk mitigation	Techniques by lenders used to reduce the credit risk associated with an exposure by the application of credit risk mitigants. Examples include: collateral; guarantee; and credit protection.
Credit risk spread	Credit spread can be defined as the difference in yield between a given security and a comparable benchmark government security, or the difference in value of two securities with comparable maturity and yield but different credit qualities. It gives an indication of the issuer's or borrower's credit quality.
Criticised loans	Loans requiring additional management attention over and above that normally required for the loan type.
Customer accounts	A liability of the Group where the counterparty to the financial contract is typically a personal customer, a corporation (other than a financial institution) or the government. This caption includes various types of deposits and credit current accounts, all of which are unsecured.
Debt restructuring	This is the process whereby customers in arrears, facing cash flow or financial distress, renegotiate the terms of their loan agreements in order to improve the likelihood of repayment. Restructuring may involve altering the terms of a loan agreement including a partial write down of the balance. In certain circumstances, the loan balance may be swapped for equity in the counterparty.
Debt securities	Assets on the Group's balance sheet representing certificates of indebtedness of credit institutions, public bodies and other undertakings.
Debt securities in issue	Liabilities of the Group which are represented by transferable certificates of indebtedness of the Group to the bearer of the certificates.
Default	When a customer breaches a term and/or condition of a loan agreement, a loan is deemed to be in default for case management purposes. Depending on the materiality of the default, if left unmanaged it can lead to loan impairment. Default is also used in Basel II context when a loan is either 91+ days past due or impaired, and may require additional capital to be set aside.
Economic capital	The amount of capital which the Group needs to protect against extreme losses from a material risk it is running (e.g. credit risk, market risk). It is based on internally developed calculation methodologies and estimates, as opposed to regulatory capital, which uses a methodology determined by the Basel Accord and imposed by the Regulator.
Eurozone	The eurozone consists of the following eighteen European Union countries that have adopted the euro as their common currency: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia and Spain. In addition, Lithuania became a member of the Eurozone on 1 January 2015.
Exposure at default	Exposure at default ("EAD") is the expected or actual amount of exposure to the borrower at the time of default.
First/second lien	Where a property or other security is taken as collateral for a loan, first lien holders are paid before all other claims on the property. Second lien holders are subordinate to the rights of first lien holders to a property security.
Forbearance	Forbearance is the term that is used when repayment terms of a loan contract have been renegotiated in order to make repayment terms more manageable for borrowers. Forbearance techniques have the common characteristic of rescheduling principal or interest repayments, rather than reducing them. Standard forbearance techniques employed by the Group include: - interest only; a reduction in the payment amount; a temporary deferral of payment (a moratorium); extending the term of the mortgage; and capitalising arrears amounts and related interest.
Funded/ unfunded exposures	Funded: Loans, advances and debt securities where funds have been given to a debtor with an obligation to repay at some future date and on specific terms. Unfunded: Unfunded exposures are those where funds have not yet been advanced to a debtor, but where a commitment exists to do so at a future date or event.
Guarantee	An undertaking by the Group/other party to pay a creditor should a debtor fail to do so.
Home loan	A loan secured by a mortgage on the primary residence or second home of a borrower.
ICAAP	Internal Capital Adequacy Assessment Process ("ICAAP"): The Group's own assessment, through an examination of its risk profile from regulatory and economic capital perspectives, of the levels of capital that it needs to hold.

Glossary of terms

Impaired loans	Loans are typically reported as impaired when interest thereon is 91 days or more past due or where a provision exists in anticipation of loss, except: (i) where there is sufficient evidence that repayment in full, including all interest up to the time of repayment (including costs) will be made within a reasonable and identifiable time period, either from realisation of security, refinancing commitment or other sources; or (ii) where there is independent evidence that the balance due, including interest, is adequately secured. Upon impairment the accrual of interest income based on the original terms of the claim is discontinued but the increase of the present value of impaired claims due to the passage of time is reported as interest income.
IRBA	The Internal Ratings Based Approach ("IRBA") allows banks, subject to regulatory approval, to use their own estimates of certain risk components to derive regulatory capital requirements for credit risk across different asset classes. The relevant risk components are: Probability of Default ("PD"); Loss Given Default ("LGD"); and Exposure at Default ("EAD").
ISDA Master Agreements	Standardised contracts, developed by the International Swaps and Derivatives Association ("ISDA"), used as an umbrella under which bilateral derivatives contracts are entered into.
LCR	Liquidity Coverage Ratio: The ratio of the stock of high quality liquid assets to expected net cash outflows over the next 30 days under a stress scenario. CRD IV requires that this ratio exceed 60% on 1 January 2015 and 100% on 1 January 2018.
Leveraged lending	Leveraged lending involves lending to entities by leveraging off their equity structures having considered the cash generating capacity of the business and its capacity to repay any associated debt. Leveraging structures are typically used in management and private equity buy-outs, mergers and acquisitions. Leverage lending typically is to non-investment grade borrowers and carries commensurate rates of return.
Leverage ratio	To prevent an excessive build-up of leverage on institutions' balance sheets, Basel III introduces a non-risk-based leverage ratio to supplement the risk-based capital framework of Basel II. It is defined as the ratio of tier 1 capital to total exposures. Total exposures include on-balance sheet items, off-balance sheet items and derivatives, and should generally follow the accounting measure of exposure.
LGD	Loss Given Default ("LGD") is the expected or actual loss in the event of default, expressed as a percentage of 'exposure at default'.
Liquidity risk	The risk that Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.
Loans past due	When a borrower fails to make a contractually due payment, a loan is deemed to be past due. 'Past due days' is a term used to describe the cumulative number 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 amount outstanding; 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.
Loan to deposit ratio	This is the ratio of loans and receivables compared to customer accounts as presented in the statement of financial position.
Loan workout	Loan workout is the process whereby once a loan is deemed to be criticised (i.e. 'Watch', 'Vulnerable' or 'Impaired'), the Group monitors and reviews it regularly with the objective of working with the customer to resolve their financial difficulties, which may include restructuring, in order to maximise the level of recovery by the Group.
LTV	Loan to value ("LTV") is an arithmetic calculation that expresses the amount of the loan as a percentage of the value of security/collateral. A high LTV indicates that there is less of a cushion to protect the lender against collateral price decreases or increases in the loan carrying amount if repayments are not made and interest is capitalised onto the outstanding loan balance.
Medium term notes	Medium term notes ("MTNs") are notes issued by the Group across a range of maturities under the European Medium Term Note Programme.
NAMA	National Asset Management Agency ("NAMA") was established in 2009 as one of a number of initiatives taken by the Irish Government to address the serious problems which arose in Ireland's banking sector as the result of excessive property lending.
Net interest income	The amount of interest received or receivable on assets net of interest paid or payable on liabilities.
Net interest margin	Net interest margin ("NIM") is a measure of the difference between the interest income generated on average interest earning financial assets (lendings) and the amount of interest paid on average interest bearing financial liabilities (borrowings) relative to the amount of interest-earning assets.
NSFR	Net Stable Funding Ratio: The ratio of available stable funding to required stable funding over a 1 year time horizon.

Optionality risk A type of market risk associated with option features that are embedded within assets and liabilities on the Group's balance sheet. The embedded option features can significantly change the cash flows (and/or redemption) of the contract and can, therefore, effect its duration, yield and pricing. Examples include bonds with early call provisions or prepayment risk on a mortgage portfolio. Where these risks are left unhedged, it can result in losses arising in the Group's portfolio.

OUBBs Own-use bank bonds ("OUBBs"): Banks issue government-guaranteed bonds to themselves and use these bonds as collateral to procure funding from the European Central Bank.

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

PD Probability of Default ("PD") is the likelihood that a borrower will default on an obligation to repay.

Prime loan A loan in which both the criteria used to grant the loan (loan-to-value, debt-to-income, etc.) and to assess the borrower's history (no past due reimbursements of loans, no bankruptcy, etc.) are sufficiently conservative to rank the loan as high quality and low-risk.

Re-pricing risk Re-pricing risk is a form of interest rate risk (i.e. a type of market risk) that occurs when asset and liability positions are mismatched in terms of re-pricing (as opposed to final contractual) maturity. Where these interest rate gaps are left unhedged, it can result in losses arising in the Group's portfolio of financial instruments.

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

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

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

Securitisation Securitisation is the process of aggregation and repackaging of non-tradable financial instruments such as loans and receivables, or company cash flow into securities that can be issued and traded in the capital markets.

SLO On 14 April 2011, following an application by the Irish Minister for Finance under section 29 of the Credit Institutions (Stabilisation) Act 2010, the Irish High Court issued a Subordinated Liabilities Order (the "SLO") in relation to all outstanding subordinated liabilities and other capital instruments, with the consent of AIB. The Irish High Court declared the SLO effective as of 22 April 2011. The effect of the SLO was to amend the terms of cetain subordinated liabilities and other capital instruments.

SSM The Single Supervisory Mechanism ("SSM") is a system of financial supervision comprising the European Central Bank ("ECB") and the national competent authorities of participating EU countries whichin Ireland is the Central Bank of Ireland ("CBI"). The main aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe.

Glossary of terms

SME Small and medium enterprises

SPE/SPV Special purpose entity ("SPE") is a legal entity which can be a limited company or a limited partnership created to fulfil narrow or specific objectives. A company will transfer assets to the SPE for management or use by the SPE to finance a large project thereby achieving a narrow set of goals without putting the entire firm at risk. This term is used interchangeably with SPV (special purpose vehicle).

Structured securities This involves non-standard lending arrangements through the structuring of assets or debt issues in accordance with customer and/or market requirements. The requirements may be concerned with funding, liquidity, risk transfer or other needs that cannot be met by an existing off the shelf product or instrument. To meet this requirement, existing products and techniques must be engineered into a tailor-made product or process.

Sub-prime Extension of credit to borrowers who, at the time of the loans' origination, exhibit characteristics indicating a significantly higher risk of default than traditional bank lending customers.

Tier 1 capital A measure of a bank's financial strength defined by the Basel Accord. It captures core tier 1 capital plus other tier 1 securities in issue, but is subject to deductions relating to the excess of expected loss on the IRBA portfolios over the IFRS provision on the IRBA portfolios, securitisation positions and material holdings in financial companies.

Tier 2 capital Broadly includes qualifying subordinated debt and other tier 2 securities in issue, eligible collective impairment provisions, unrealised available for sale equity gains and revaluation reserves. It is subject to deductions relating to the excess of expected loss on the IRBA portfolios over the accounting impairment provisions on the IRBA portfolios, securitisation positions and material holdings in financial companies.

Tracker mortgage A mortgage with a variable interest rate which tracks the European Central Bank ("ECB") rate, at an agreed margin above the ECB rate and will increase or decrease within five days of an ECB rate movement.

VaR The Group's core risk measurement methodology is based on an historical simulation application of the industry standard Value at Risk ("VaR") technique. The methodology incorporates the portfolio diversification effect within each standard risk factor (interest rate, credit spread, foreign exchange, equity, as applicable). The resulting VaR figures, calculated at the close of business each day, are an estimate of the probable maximum loss in fair value over a one day holding period that would arise from an adverse movement in market rates. This VaR metric is derived from an observation of historical prices over a period of one year and assessed at a 95% statistical confidence level (i.e. the VaR metric may be exceeded at least 5% of the time).

Vulnerable loans Loans where repayment is in jeopardy from normal cash flow and may be dependent on other sources for repayment.

Watch loan Loans exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cash flow.

Yield curve risk A type of market risk that refers to the possibility that an interest rate yield curve changes its shape unexpectedly (e.g. flattening, steepening, non-parallel shift), resulting in losses arising in the Group's portfolio of interest rate instruments.

Principal addresses

Ireland & Britain

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All numbers are listed with international codes. To dial a location from within the same jurisdiction, drop the country code after the + sign and place a 0 before the area code. This does not apply to calls to First Trust from Ireland (Republic).

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