Annual Financial Report 2012

Allied Irish Banks, p.l.c

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Forward-looking information

This document contains certain forward-looking statements within the meaning of Section 27A of the US Securities Act of 1933 and Section 21E of the US Securities Exchange Act of 1934, with respect to the financial condition, results of operations and business of the Group and certain of the plans and objectives of the Group. In particular, among other statements in this Annual Financial Report, with regard to management objectives, trends in results of operations, margins, risk management, competition and the impact of changes in International Financial Reporting Standards are forward-looking in nature. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as 'aim', 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'may', 'could', 'will', 'seek', 'continue', 'should', 'assume', or other words of similar meaning. Examples of forward-looking statements include among others, statements regarding the Group's future financial position, income growth, loan losses, business strategy, projected costs, capital ratios, estimates of capital expenditures, and plans and objectives for future operations. Because such statements are inherently subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking information. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These are set out in 'Risk factors' on pages 58 to 64. These factors include, but are not limited to the Group's access to funding and liquidity which is adversely affected by the financial instability within the Eurozone, contagion risks disrupting the financial markets, and the potential for one or more countries exiting the euro, constraints on liquidity and market reaction to factors affecting Ireland and the Irish economy, the Group's markets, particularly for retail deposits, at risk from more intense competition, the Group's business being adversely affected by a further deterioration in economic and market conditions, general economic conditions being very challenging for our mortgage and other lending customers and increase the risk of payment default, including the risks associated with large scale forbearance strategies, the depressed Irish property prices may give rise to increased losses experienced by the Group, the Group faces market risks, including non-trading interest rate risk, the Group is subject to rigorous and demanding Government supervision and oversight, the Group may be subject to the risk of having insufficient capital to meet increased regulatory requirements, the Group's business activities must comply with increasing levels of regulation, the Group's participation in the NAMA Programme gives rise to certain residual financial risks, the Group may be adversely affected by further austerity and budget measures introduced by the Irish Government, the value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgements and estimates that may change over time, or may ultimately not turn out to be accurate, the Group's deferred tax assets depend substantially on the generation of future profits over an extended number of years, adverse changes to tax legislation, regulatory requirements or accounting standards could impact capital ratios, the Group is subject to inherent credit risks in respect of customers, the Group faces heightened operational and reputational risks, the restructuring of the Group entails risk, the Group's risk management strategies and techniques may be unsuccessful, risk of litigation arising from the Group's activities. Any forward-looking statements made by or on behalf of the Group speak only as of the date they are made. AIB cautions that the foregoing list of important factors is not exhaustive. Investors and others should carefully consider the foregoing factors and other uncertainties and events when making an investment decision based on any forward-looking statement. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Annual Financial Report may not occur. The Group does not undertake to release publicly any revision to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date hereof.

Financial highlights

	2012 € m	2011 € m
Results		
Total operating income	**621**	4,340
Operating loss	**(3,845)**	(5,108)
Loss before taxation from continuing operations before exceptional items[1]	**(2,829)**	(8,060)
Loss before taxation from continuing operations (including exceptional items)	**(3,830)**	(5,108)
Profit after taxation from discontinued operations	**–**	1,628
Loss attributable to owners of the parent	**(3,647)**	(2,312)
Per ordinary share		
Loss – basic from continuing operations	**(0.7c)**	(1.6c)
Loss – diluted from continuing operations	**(0.7c)**	(1.6c)
Earnings – basic from discontinued operations	**–**	0.7c
Earnings - diluted from discontinued operations	**–**	0.7c
Dividend	**–**	–
Dividend payout	**–**	–
Net assets	**€ 0.02**	€ 0.05
Performance measures		
Return on average total assets	**(2.76%)**	(1.66%)
Return on average ordinary shareholders' equity	**(37.0%)**	(48.8%)
Statement of financial position		
Total assets	**122,516**	136,651
Ordinary shareholders' equity	**7,741**	10,963
Shareholders' equity	**11,241**	14,463
Loans and receivables to customers including held for sale	**73,325**	83,724
Customer accounts	**63,610**	60,674
Capital ratios		
Core tier 1 capital	**15.1%**	17.9%
Total capital	**17.6%**	20.5%

[1]Exceptional items are detailed on page 21 of the Management report.

Chairman's statement

The re-establishment of AIB as a stable, soundly functioning bank progressed throughout 2012. Rebuilding its foundations as an institution capable of serving our customers and the Irish economy to the highest standard involved significant adjustment, resolve and sound management.

But, unprecedented times require unprecedented change and in the past number of years, and specifically in 2012, AIB has undergone major restructuring, established a new leadership team, implemented a new customer-focused strategy and begun a deep cost-cutting programme. This was achieved while assisting customers in financial difficulty and exceeding targets for SME and mortgage lending.

Against a challenging global economic backdrop, in 2012 AIB showed encouraging signs of returning to normalised banking operation. We increased our market share in key product areas, progressed non-core deleveraging and returned to the bond markets. We saw a major reduction in our operating loss, on a pre-exceptional basis, and a 70% reduction in bad debt provisions year on year.

Culturally, the customer and the community lies at the core of AIB's business and the entire focus of the bank's strategy is to regain stability and return to sustainable profitability within a reasonable timeframe – while looking after our c. 2 million customers. We again acknowledge the very significant contribution that the Irish taxpayer has made to this bank and recognise the need to return capital to the State.

The capacity to deal with customers in financial difficulty was expanded in 2012. Approximately two thousand staff have been trained specifically to engage with, and assist, customers dealing with financial stress. The Financial Solutions Group was set up, in part to manage customers in difficulty across the bank. In October, the Mortgages Arrears Resolution ("MARS") programme completed the development of tailored forbearance options. The bank's Arrears Support Unit launched the first phase of its outreach programme, work that will continue to gain momentum throughout 2013. In addition, the bank is closely engaged with our SME customers in difficulty in seeking to return them to viability where possible.

The process of rebuilding a more effective commercial capability has also progressed well, as the separation of those responsible for dealing with customers in financial difficulty now allows front line staff to focus more on other clients and their needs.

With c.800,000 AIB customers now using on-line banking, the bank is accelerating investment in our digital banking capability allowing a higher level of self-service and automation of transactions.

This continuing investment in operational efficiency has allowed the implementation of a voluntary severance programme which is seeing a material reduction in the workforce, and from 2013 onwards, a consequent reduction in operating costs will be evident.

Throughout AIB the need to engage with and regain the trust of our customers is well understood. This can only be achieved and demonstrated by actions rather than words, and this is a primary objective at all levels throughout the organisation.

The support that we have received from our customers and stakeholders through these challenging times continues to be deeply appreciated. We have growing confidence in Ireland's economic progress and we look forward to playing our part in it.

Leadership

Following the appointment of David Duffy as CEO in December 2011, comprehensive changes have been made to the Bank's Leadership Team, the composition of which has largely been refreshed with six appointments during 2012. The new appointments to this team were completed following rigorous selection processes and the Bank has been successful in attracting high quality individuals to the organisation with international finance experience.

The Leadership Team is supported by the Leadership Council, created in 2012, which comprises of senior management from across the bank. This Leadership Council works with the Leadership Team to further embed the bank's revised strategy and cultural change across the organisation. The creation of the Leadership Council is part of an overall talent identification and succession planning process across the senior levels of the bank which serves to strengthen and develop talent across the organisation. I believe this strong and diverse management team, ably led by David Duffy, is well placed to ensure the delivery of AIB's strategic priorities over the coming years.

Board Changes

Declan Collier retired from the Board in 2012 due to other business commitments. I wish to thank Declan for his commitment and support to AIB during his 3 years as an AIB Board member.

Peter Hagan and Tom Foley joined the Board during the year as Non-Executive Directors and bring with them numerous years of experience in the banking industry. I welcome both Peter and Tom to the Board.

A short biography and background of all our Directors is set out on pages 168 to 170.

Summary

We have made progress in 2012 as we seek to return AIB to a customer centric, sustainable business model but there is a lot more to do.

I am satisfied that AIB is moving in the right direction as we implement our strategic priorities and I want to sincerely thank our supportive and loyal staff who will continue to play a critical role in the target of returning AIB to sustainable profitability

during 2014.

To our customers and the Irish public, I also say thank you for your immense support.

I also want to acknowledge the assistance that the Department of Finance and the Central Bank of Ireland continued to give AIB throughout 2012. I am confident that together we can meet the considerable challenges that lie ahead and find workable solutions.

David Hodgkinson
Chairman

26 March 2013

Chief Executive's review

AIB has now largely completed the restructuring phase of its strategic plan as the bank targets a return to sustainable profitability and growth during 2014. While 2012 was another very challenging year for the Group, a number of important steps were taken to position the bank for recovery over the longer term. We continued to make progress on restructuring our balance sheet, undertook a number of strategic initiatives which will reduce the bank's cost base over time, improved funding costs and took steps to increase margins on income earning assets. Progress was also made in reorienting the organisation to be better aligned with the needs of our customers.

A key strategic objective of the bank is to improve operating performance through significant cost reductions by 2014. We have made progress in 2012 in delivering this objective as a result of the commencement of the Voluntary Severance Programme and other measures including pay and benefit reductions. We will see the positive impact of our cost initiatives in the operating performance of the bank going forward. Management actions on the repricing of assets and liabilities throughout 2012 have seen a stabilisation in the bank's net interest margin with positive quarter on quarter growth in the fourth quarter of 2012. This, coupled with the Minister for Finance's recent announcement that the Eligible Liabilities Guarantee ("ELG") is to end for new liabilities at the end of March 2013, are important milestones in the bank's recovery.

Customers

A focus on customer service is central to our revised strategy and during 2012 we took further steps to enhance our distribution capability through increased online services, mobile banks and self-service lobbies. Through our expanded agreement with An Post, we are providing additional banking services to our customers in locations where branches have recently closed. We have continued to invest in technology across our distribution network in order to enhance customer service and increase efficiency over time. Our overall distribution network will continue to be reviewed in future periods to ensure the appropriate balance between customer and commercial requirements with investment in technology being a key component of our differentiated customer proposition.

AIB will continue to ensure, as part of its overall strategic goals, that it supports economic recovery in Ireland through its lending to personal, business and corporate customers.

Supporting SMEs

AIB exceeded the Irish Government's € 3.5 billion SME lending target by € 1.3 billion in 2012 by approving credit to almost 32,000 customers, including new, refinanced and restructured facilities. The bank continued to promote the availability of credit finance for SMEs throughout 2012 through initiatives launched under the 'Big Drive for Small Business' campaign, including funds participation and advertising campaigns highlighting our "open for business" agenda. We supported customers at a local level through the provision of seminars attended by over 4,000 SME customers and a 90-day coaching programme for c.3,000 micro-enterprises.

The bank also participated in a number of Government supported initiatives including the Micro Finance Ireland Fund and the Temporary Partial Loan Guarantee Scheme as well as participation in other joint funds with Enterprise Ireland. In November 2012, AIB entered into a Risk Sharing Initiative ("RSI") with the European Investment Fund to provide financing for innovative companies in emerging markets.

We revised our lending standards in an effort to reduce complexity and launched an initiative aimed at allowing SME loans for existing customers of up to € 25,000 to be approved within 48 hours at branch level. We will continue to engage with our SME customers and enhance our products and service offerings in 2013 with a view to achieving our Government SME lending target of € 4 billion.

Supporting mortgage customers

AIB remains committed to the mortgage market in Ireland and surpassed its 2012 lending target of € 1 billion by approving € 1.5 billion in mortgages. In volume terms, we approved c.60% more mortgages in 2012 versus 2011, and management estimates that AIB's share of the mortgage market in Ireland was c.46% in 2012. We approved c. 70% of mortgage applications received from customers in 2012 and AIB (including EBS) has set a target of € 2 billion in mortgage approvals in 2013.

Customers in financial difficulty

The Financial Solutions Group was created in the latter part of 2012 as part of the overall restructuring of the bank to ensure that all customers in financial difficulty are managed within one dedicated unit.

The Mortgage Arrears Resolution Strategy ("MARS") Programme completed the development of tailored forbearance options for Irish customers in arrears in October and these are now being offered in the Arrears Support Unit ("ASU") and will continue to be refined throughout 2013. The first phase of our 'Outreach Programme' was launched to encourage pro-active and early customer engagement. Our strategy is to keep people in their homes, wherever possible, where mortgage payments are being prioritised and customers are co-operating with the bank.

Over 80% of our mortgage cases in the ASU are engaged with the bank and AIB intends to meet/exceed the recently announced Central Bank of Ireland 2013 sustainable mortgage solution targets as part of its ongoing efforts to deal effectively and quickly with these customers.

The restructure of our Irish SME customers in financial difficulty is also underway with a stabilisation, sustain and resolve approach being applied. Our priority is to support viable businesses and to protect jobs where possible. We have defined a 'One Customer Debt Management Strategy' which is designed to resolve debt obligations across multiple asset categories including medium to long term solutions. A significant majority of customers are actively engaged with the bank. The implementation of treatment strategies for both our mortgage and SME customers remains a critical strategic imperative for the bank in 2013. How AIB treats its customers throughout this difficult period will have a defining impact on AIB's successful recovery over time and as an organisation we must strive to deliver best in class customer service in every engagement with our customers.

Relationship with the Irish Government

Without the support provided by the Irish Government over the last number of years AIB would not exist today. As an organisation we are focused on ensuring the bank targets a return to sustainable profitability during 2014, so that the Irish Government can recover its investment in AIB over time.

Staff

As a result of the Voluntary Severance Programme launched in May 2012, a large number of staff left the bank throughout 2012 and further departures are expected in 2013. I wish to offer my thanks and appreciation to those people for their contribution to AIB over the years. Secondly, I wish to thank my colleagues who remain in the organisation for their loyalty and flexibility through this long period of restructuring and change and for their continued focus on and commitment to our customers' requirements. Our success in meeting our goal of returning to sustainable profitability is dependent in part on the hard work and commitment of our staff.

Economic commentary

Growth in the Irish economy in 2012 was driven by continued strength in the export sector, while the domestic economy continued to contract due to lower consumer and government spending. Credit demand and growth remained weak, however, we have seen some signs of stabilisation in the housing market with an improvement in the level of housing transactions, albeit off a low base.

Fiscal adjustments, although negatively affecting affordability, have stabilised budget deficits and improved market sentiment towards Ireland. As a result, both the Sovereign and AIB were able to successfully enter the international funding markets in 2012.

We believe that domestic demand will remain constrained in 2013, however, there are signs that economic activity is continuing to stabilise. AIB has grown its market share in key product segments throughout 2012 and is positioning its business to fully support economic recovery.

Financial performance

AIB's underlying loss before tax, excluding exceptionals, reduced from € 8.1 billion in 2011 to € 2.8 billion in 2012. This reduction was predominantly driven by a 70% reduction in provisions from € 8.2 billion in 2011 to € 2.5 billion in 2012. The reported operating loss before provisions of € 315 million in 2012 compares to an operating profit of € 101 million in 2011. The reduction in operating profit is due predominantly to lower levels of income, down by € 364 million, or 20% due to lower loan balances, lower customer transactions and higher funding costs.

Underlying 2012 operating expenses, excluding the full year impact of the acquired EBS business, were broadly flat year on year. The material benefit from cost initiatives taken in 2012 and ongoing management actions are expected to reduce overall costs in 2013 and beyond. These costs will be further reduced by the elimination of the ELG cost which amounted to € 388 million in 2012.

Capital

The Group's core tier 1 capital ratio remains robust at 15.1% at December 2012 compared to 17.9% at the end of 2011. Risk Weighted Asset reduction of € 12.9 billion from € 84.3 billion to € 71.4 billion reflects the overall significant deleveraging achieved in 2012. Our total capital ratio at the end of 2012 was 17.6% compared to 20.5% at the end of 2011. We continue to assess the impact of Basel III on the Group 's capital ratios and are actively evaluating and developing a number of mitigating actions to protect regulatory capital. Our pro forma Basel III fully loaded Common Equity Tier 1 ratio was 9.7% at 31 December 2012 (including the 2009 Government preference shares).

Funding & liquidity

The strong momentum achieved in customer deposit growth in the second half of 2011 continued into 2012 with deposit growth of € 2.9 billion during 2012. Total customer deposit balances were € 64 billion at the end of 2012, an increase of 5% on 2011, with growth evident across all our continuing franchises. This deposit growth includes the impact of the closures of offshore businesses. These deposits represent the largest funding source for the bank at 55% of total funding. The bank's net loan funding gap decreased to € 9.8 billion at the end of 2012 compared to € 21.9 billion at the end of 2011 due to progress in deleveraging. Reliance on monetary authorities decreased by € 9 billion, or 29%, during 2012 to € 22 billion.

AIB re-entered the public funding markets in 2012 with the completion of a sterling equivalent of € 395 million UK RMBS issuance, and a € 500 million 3 year Asset Covered Security issuance, the first of its type for the bank since June 2007. Both issuances were well supported by the market and reflected improved sentiment from external investors in AIB in 2012.

Chief Executive's review

We issued a further 3.5 year € 500 million Asset Covered Security in January 2013 and plan to continue to access funding markets in a measured and balanced manner in 2013, subject to market conditions.

The Group's loan to deposit ratio was 115% at the end of 2012, down from 138% at December 2012.

Loans and Asset Quality

AIB's gross loan book reduced by € 9 billion to € 90 billion in 2012, reflecting non-core deleveraging, amortisation and continued muted loan demand. The ongoing difficult economic environment, particularly in Ireland, continued to impact credit quality.

Mortgages remain the largest portfolio at 47% of total loans. Arrears on the Irish mortgage portfolio increased in 2012 although the pace of increase in arrears slowed when compared with 2011.

The € 15.3 billion total SME/Commercial portfolio, of which close to 67% is Irish exposure, remained challenged during 2012. Our priority is to support viable business and protect jobs and a significant amount of refinancing and restructuring of existing facilities occurred to sustain these businesses during the year.

There have been recent indications that although asset prices in the Irish commercial property sector continue to fall, prime yields have stabilised. Of the total € 22 billion Property and Construction portfolio, c. 62% was impaired at December 2012, with 56% provision cover on these impaired loans.

AIB held specific balance sheet provisions of € 15.2 billion at end 2012 against impaired loans of € 29.4 billion, providing cover of 52% with a further € 1.3 billion set aside for losses which we believe are incurred but not yet reported within our loan book, with balance sheet provisions to total loans at 18% at December 2012.

Deleveraging

Significant progress has been made in deleveraging non-core assets with € 18.2 billion, including contracted sales, in total achieved since December 2010. As of 31 December 2012, we had achieved 89% of the PLAR non-core deleveraging target of € 20.5 billion by December 2013 as set by the Central Bank of Ireland, including these contracted sales. The overall cumulative discounts on non-core deleveraging are within assumptions contained in the Central Bank of Ireland's March 2011 Financial Measures Programme. This has been achieved through disciplined disposal execution despite challenging market conditions and the bank is well placed for achievement of 100% of the total non-core deleveraging plan in 2013.

Closing comments

Our strategic plan to achieve a return to sustainable profitability during 2014, remains on target. While 2012 was another difficult year for the bank, we have taken a number of important steps to position ourselves for recovery. During 2013, the bank will continue to focus on improving our overall operating performance including net interest margin expansion; delivery of our cost initiatives; implementing work out strategies for our customers in financial difficulties; focus on balance sheet and capital optimisation strategies and delivery of improved customer service. We will also initiate a broad sectoral research programme supported by a customer contact initiative to support existing SMEs and future growth sector.

I would like to thank our customers, staff and the Irish State for their continued support in this process.

David Duffy
Chief Executive Officer

26 March 2013

Corporate Social Responsibility

The customer and the community have always been at the very heart of AIB's operations. In spite of the financial turbulence of recent years, the bank continues to support organisations and activities at cultural, sporting, farming and business level. It is of the utmost importance to AIB that it maintains this focus on its Corporate Social Responsibility ("CSR") activities while adjusting to the rapidly changing market environment.

Marketplace

Small and Medium Enterprises ("SMEs")

AIB's focus for Ireland's SME community during 2012 was twofold: supporting business recovery by working with customers in difficulty and supporting growth in jobs by increasing the supply of credit to business. These two key business objectives were underpinned in 2012 by a highly visible campaign - 'The Big Drive for Small Business'.

Credit to support SME growth remained a key business priority throughout 2012 with the launch of a number of new funds and initiatives to encourage new investment in both traditional and emerging sectors. Some of the highlights included the re-launch of the AIB Start Up Package, the Job Creation Loan Fund and the establishment of an Emerging Sectors team to work exclusively with export-oriented businesses in the technology sector.

AIB has also collaborated with the Government on a number of initiatives including; the development of a Micro Finance customer offering and support for the Government sponsored Temporary Partial Loan Guarantee Scheme that provides guarantees to viable businesses having problems obtaining credit.

AIB also supported a number of national SME & Agricultural events in 2012 including the national Small Firms Association Awards, the National Ploughing Championships, the Business and Finance Awards and the annual Dublin Chamber and Small Firms Association business lunches. Support was also given to the Tullamore Show and AIB National Livestock Show where 12 AIB Agri Food customers availed of the opportunity to showcase their products as part of AIB's exhibition stand.

In Northern Ireland, First Trust Bank continued its support of the Business Finance Taskforce – a group of major banks, co-ordinated by the British Bankers Association, working to help the economy return to sustainable growth. An ongoing practical element of this initiative is the bank's partnership with the Northern Ireland Chamber of Commerce's SME Mentoring Scheme; where the bank has provided four experienced business banking mentors to help and guide SMEs who wish to access start-up finance, or develop and grow their exports.

Mortgages

AIB continued to actively support mortgage customers who found themselves in financial difficulty during 2012. In line with AIB's Mortgage Arrears Resolution Strategy, a broader range of forbearance solutions have been developed to provide further support to customers with longer term difficulties, where appropriate. These are in addition to the short-term forbearance solutions already in place for customers since 2011. AIB intends to meet/exceed the recently announced Central Bank of Ireland 2013 sustainable mortgage solution targets as part of its ongoing efforts to deal effectively and quickly with these customers.

2012 also saw the establishment of a new Mortgage Support Team in First Trust Bank in order to provide mortgage customers experiencing repayment difficulties with a centralised point of contact. EBS also continued to help customers manage their mortgages and support customers in financial difficulty.

Full disclosures in relation to mortgage arrears are contained within the credit risk section of the 2012 Annual Financial Report.

People

AIB employees experienced another year of significant change in 2012 engaging fully in the strategy to return AIB to profitability. Largely driven by the imperative to cut the bank's cost base, the bank launched a Voluntary Severance Programme in May 2012 that will facilitate a reduction of at least 2,500 in overall staff numbers by March 2014.

Following a review of AIB's retail operations, carried out as part of the Group's overall transformation programme, AIB announced the closure of a total of 67 branches across the Republic of Ireland , to be completed by June 2013. A further 12 branches in Northern Ireland and Great Britain are part of the closure programme. In 2012, the bank also announced that its operations in Jersey and the Isle of Man would be wound down and cease operating by the end of 2013. AIB continues to engage with its employee representatives, in particular, the Irish Bank Officials Association ("IBOA") on a range of issues. Discussions during the year principally focussed on the Severance Programmes and the ongoing Transformation Programme.

Employee information AIB Group

Total staff[1]:	13,429
Average age of employees (years):	39
Average Length of Service (years):	13
Voluntary Attrition[2]:	5.7%
Total Voluntary Attrition[3]:	17.9%
Permanent/Temporary staff mix:	84% Permanent, 16% Temporary
Full-time/ Part-time mix:	91% Full-time 9% Part-time
Gender mix:	41% Male 59% Female

[1]Reflects the Full Time Equivalent ("FTE") of Staff in Payment (after attrition in the month of December) and includes staff on paid leave arrangements as at 31 December 2012.

[2]Excludes retirements and voluntary severance programme leavers.

[3]Includes retirement and voluntary severance programme leavers.

Corporate Social Responsibility

Community

AIB announced the renewal of its AIB GAA Club Championships Sponsorship for a further 5 years with the 2012/2013 season marking the 21st anniversary of this sponsorship. The bank continued its support of the arts and sponsored the Irish Photojournalism Awards for the tenth year. These annual awards, run in conjunction with the Press Photographers Association of Ireland recognise, reward and showcase excellence in press photography. The AIB Photojournalism Exhibition travelled to 24 AIB branches around the country giving access to the exhibition to a wide audience.

Supporting a range of causes across the country, AIB's corporate hospitality boxes in Croke Park and the Aviva Stadium were offered to registered charities in Ireland for their use during the 2011/2012 GAA and rugby seasons. More than 100 charities from around the country availed of the opportunity to attend the fixtures in 2012, including the Jack & Jill Foundation, Temple Street Children's Hospital, the Hospice Foundation, St. Vincent de Paul and Share a Dream.

During 2012, AIB also donated 39 key artworks from the AIB Art Collection to the State which are now displayed at the Crawford Art Gallery in Cork. In addition to this donation, up to a further one thousand pieces are to be made available to the State, for loan to museums and art galleries throughout Ireland.
Allied Irish Bank (GB) has supported the London Irish Rugby Football Club Academy for over ten years in its community programme. The programme promotes education, social inclusion, teamwork and active lifestyles through the creation of rugby related programmes. In 2012 it delivered approximately 1,000 hours of coaching across 100 schools and provided 750 hours of coaching to amateur clubs.

First Trust Bank in Northern Ireland had a highlight to their ongoing support of the Young Enterprise Award Scheme, when the team coached by the Lisburn branch won the NI Young Enterprise Company of the Year Award, going on to represent the province at a UK level.

EBS was also very active in the community and supported a number of initiatives during 2012. Key amongst these were the EBS Community Fund, which continues to make a community fund available for community groups, clubs and projects that are active in their local communities. 2012 also marked the twentieth year of EBS involvement in the EBS INTO Handwriting competition. All national schools throughout Ireland were invited to enter the competition which saw over 100,000 entries received.

Environment

AIB remains committed to sustainability, striving to reduce carbon output across all aspects of its business, with an aim to achieve a 33 % improvement in energy efficiency by 2020. This is in accordance with obligations under the National Energy Efficiency Action Plan (2009 – 2020).

In 2012, AIB sought to implement a performance contract for energy reduction across its Head Office estate through a partnership with an Energy Service Company (ESCo). A grant from the Sustainable Energy Authority of Ireland, through the Better Energy Workplaces scheme, was proposed but not drawn-down. 2013 will see AIB pursue alternative partnering strategies in this arena.

AIB implemented a number of other energy management projects during 2012 to reduce energy consumption and to improve energy efficiency, including the procurement of green energy wherever feasible. In this regard AIB engaged a new electricity supplier, Energia, to commence the provision of 100% green electricity for all AIB locations in the Republic of Ireland.

During 2012 AIB also made its annual return to the Carbon Disclosure Project, achieving an overall score of 79%. This is an improvement from the 41% scored on the 2011 submission and means that AIB qualified for the first time as a 'Carbon Leader', exceeding the requisite score of 75%.

Financial review

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Financial review -1. Business description

1.1 History

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

In December 1983, AIB acquired 43% of the outstanding shares of First Maryland Bankcorp ("FMB"). In 1989, AIB completed the acquisition of 100% of the outstanding shares of common stock of FMB. During the 1990s, there were a number of 'bolt-on' acquisitions, the most notable being Dauphin Deposit Bank and Trust Company, a Pennsylvania chartered commercial bank which was acquired in 1997. Subsequently, all banking operations were merged into Allfirst Bank. In 2003, Allfirst was integrated with M&T Bank Corporation ("M&T"). Under the terms of the agreement AIB received 26.7 million shares in M&T, representing a stake of approximately 22.5%. in the enlarged M&T, together with US$ 886.1 million cash, of which US$ 865 million was received by way of a pre-sale dividend from Allfirst Bank.

AIB entered the Polish market in 1995, when it acquired a non-controlling interest in Wielkopolski Bank Kredytowy S.A. ("WBK"). In September 1999, it completed the acquisition of an 80%. shareholding in Bank Zachodni S.A. ('Bank Zachodni') from the State Treasury. In June 2001, WBK merged with Bank Zachodni to form BZWBK, following which the Group held a 70.5%. interest in the newly-merged entity. The Group's interest in BZWBK decreased to approximately 70.36%. when BZWBK's share capital was increased in 2009.

In October 1996, AIB's retail operations in the United Kingdom were integrated and the enlarged entity was renamed AIB Group (UK) p.l.c. with two distinct trading names, First Trust Bank in Northern Ireland and Allied Irish Bank (GB) in Great Britain.

In January 2006, Aviva Life & Pensions Ireland Limited and AIB's life assurance subsidiary, Ark Life, were brought together under a holding company Aviva Life Holdings Ireland Limited ("ALH"), formerly Hibernian Life Holdings Limited. This resulted in AIB owning an interest of 24.99% in ALH. Following this, AIB entered into an exclusive agreement to distribute the life and pensions products of the venture.

1.2 Developments in Recent Years

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

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

Global financial market conditions triggered a substantial deterioration in domestic economic conditions and property values. In 2008, as the Irish economy started to decline and as interest rates continued to increase, housing oversupply persisted and mortgage delinquencies increased. Declining residential and commercial property prices also led to a significant slowdown in the construction sector in Ireland. As a result, loan impairments in the Irish construction and property and residential mortgage sectors, to which AIB was heavily exposed, increased substantially. These dynamics began to present funding and liquidity issues for AIB as well as a rapid deterioration in the Group's capital base.

The Irish Government recognised the pressing need to stabilise Irish financial institutions and to create greater certainty for all stakeholders. A number of measures were implemented by the Irish Government in response to the continuing crisis. These measures were taken to enhance the availability of liquidity and improve access to funding for AIB and other systemically important financial institutions in Ireland. The first action was the establishment of the Credit Institutions (Financial Support) ("CIFS") Scheme on 30 September 2008, by which the Minister for Finance guaranteed certain liabilities of covered institutions, including AIB, until 29 September 2010. This was followed by the € 3.5 billion subscription by the National Pension Reserve Fund Commission ("NPRFC") on 13 May 2009 for the 2009 Preference Shares and 2009 Warrants. Subsequently, the Minister for Finance established the Credit Institutions (Eligible Liabilities Guarantee) ("ELG") Scheme in December 2009 which facilitates participating institutions issuing debt securities and taking deposits during an issuance window and with a maximum maturity of 5 years.

AIB joined the ELG Scheme on 21 January 2010. However, on 26 February 2013, the Minister for Finance announced that the ELG Scheme will end for all new liabilities with effect from midnight on 28 March 2013. After this date, no new liabilities will be guaranteed under this Scheme. In December 2009 the Irish Government established the National Asset Management Agency ("NAMA") which has acquired certain performing and non-performing land and development and associated loans from participating banks, with the aim of freeing up banks' balance sheets and facilitating the easier flow of credit throughout the Irish economy. AIB has transferred approximately € 20 billion of assets to NAMA.

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

Following the results of the original PCAR exercise, AIB disposed of its stake in M&T on 4 November 2010, a transaction which generated core tier 1 capital of € 0.9 billion. AIB announced, on 10 September 2010, the sale of its Polish interests to Banco Santander S.A. for a total cash consideration of € 3.1 billion. This transaction completed on 1 April 2011 and AIB generated core tier 1 capital of approximately € 2.3 billion as a result of the disposal. AIB also disposed of Goodbody Holdings Limited; AIB International Financial Services Limited; AIB Jerseytrust Limited; and its 49.99% shareholding in Bulgarian-American Credit Bank ; AIB Asset Management Holdings (Ireland) Limited, including AIB Investment Managers.

On 23 December 2010, a direction order under the Credit Institutions (Stabilisation) Act 2010 with the consent of AIB, directed AIB to issue € 3.8 billion of new equity capital to the NPRFC. This also resulted in the delisting of AIB's ordinary shares from both the Main Securities Market of the Irish Stock Exchange and from the Official List maintained by the UK Financial Services Authority. AIB's ordinary shares were subsequently admitted, in January 2011, to the Enterprise Securities Market of the Irish Stock Exchange. Furthermore, AIB announced in August 2011 that its American Depository Shares ("ADSs") were delisted and have ceased to be traded on the New York Stock Exchange.

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

On 1 July 2011, as part of the restructuring of the Irish banking system, AIB completed the acquisition of EBS for a nominal cash payment of € 1.00. EBS had € 19.2 billion of total assets, approximately € 16.0 billion of customer loans and € 10.1 billion of customer deposits at this date. This transaction represented a significant consolidation within the Irish banking sector, resulting in the formation of one of two pillar banks in Ireland. On 31 March 2011, the Central Bank published its 'Financial Measures Programme Report', which detailed the outcome of PCAR 2011 and Prudential Liquidity Assessment Review ("PLAR") 2011 for certain Irish credit institutions, including AIB and EBS.

On this date, the Central Bank stated that it had set a new capital target for AIB and EBS, ultimately requiring AIB and EBS to generate a total of € 14.8 billion of additional capital. This additional capital requirement was satisfied through AIB's placing of € 5.0 billion of new ordinary shares with the NPRFC, capital contributions totalling € 6.1 billion from the Minister for Finance and the NPRFC, the issue of € 1.6 billion of contingent capital notes at par to the Minister (which completed on 27 July 2011), and further burden-sharing measures undertaken with the Group's subordinated debt-holders. Following these actions, the State, through the NPRFC, now owns 99.8% of the ordinary shares of AIB.

1.3 The businesses of AIB Group

During 2012, the business of AIB Group was conducted through four major operating market segments namely: Personal and Business Banking ("PBB"), Corporate Institutional and Commercial Banking ("CICB"), EBS and AIB UK which are described below. In addition, the Group also operated a Non-Core unit.

Personal & Business Banking

AIB's Personal and Business Banking ("PBB") segment was created in 2011 to service the personal and small business customers of AIB, in addition to including wealth management and credit card services. PBB commanded a strong presence in all key sectors including SME, mortgages and personal banking. It provided:

– A range of delivery channels consisting of approximately 200 branches/outlets, c. 740 ATMs and AIB Phone and Internet Banking as well as an alliance with An Post which provides AIB customers with banking services at over 1,000 post offices nationwide.
– A wide range of banking services
– A choice of payment methods including cheques, debit and credit cards, self service and automated domestic and international payments.

AIB is the principal banker to many leading public and private companies and government bodies, and plays an important role in Ireland's economic and social development. AIB is a founding member of the Irish Payments Services Organisation ("IPSO") and is a member of the Irish Clearing Systems for paper, electronic and real-time gross settlement ("RTGS"). During 2012, the main distribution channel for PBB was an extensive branch network, structured around meeting personal and business banking needs.

Complementing the AIB Branch channel is the AIB Direct Channels operation (leading Irish online banking service), offering self service capability through telephone, internet, mobile, ATM, self service kiosks and automated payments.

The Wealth Management unit delivers wealth propositions to AIB customers, tailored to the needs of specific customer segments.

AIB Card Services provides credit and debit card products to all AIB customers, supporting payment and consumer credit requirements. The products are delivered across all channels. AIB has a joint venture with Firs Data International, trading as AIB Merchant Services, which provides access for merchant and partners in the merchant acquiring business.

Corporate, Institutional & Commercial Banking

Corporate, Institutional and Commercial Banking ("CICB"), was created in 2011 to service large and medium-sized enterprises in the Republic of Ireland, United Kingdom, and the United States in addition to Treasury Services, Corporate Finance and Asset Finance.

During 2012, CICB supported the business customer through Corporate and Institutional banking ("C&I") and Commercial Banking.

C&I provided a fully integrated relationship-based banking service to top-tier companies, both domestic and international, including financial institutions, Irish Commercial State companies and large multinationals. C&I's activities also included participating in, developing and arranging acquisition, project and property finance primarily in Ireland.

Commercial Banking provided a fully integrated relationship banking service to medium sized enterprises in Ireland. Commercial Banking operated out of 14 commercial centres across the republic and had a strong presence in all key SME sectors.

AIB Finance and Leasing and AIB Commercial Services are the asset finance arm of AIB. Services include leasing, hire purchase and invoice discounting delivered via the branch network, direct sales force, broker intermediaries, relationship managers or the internet.

Customer Treasury Services provided a wide range of treasury, risk management, payments and import and export related financial services to corporate, commercial and retail customers of the Group.

EBS

On 1 July 2011, EBS Building Society converted into EBS Limited ("EBS") and became part of the AIB Group. While the two institutions together form one of the two pillar banks in Ireland, EBS operates as a separately branded subsidiary of AIB with its own banking licence.

EBS operates in the Republic of Ireland and has a countrywide network of 82 branches - 68 agency branches and 14 owned branches.

EBS's network gives it a physical presence in communities across Ireland which is important in allowing it to provide a high quality personal service to its customers. EBS also has an

online distribution capability through 'EBS Direct', a direct telephone channel and 'www.ebs.ie'.

EBS offers residential mortgages and savings products, bancassurance, personal banking and general insurance products on an agency basis.

AIB UK

The AIB UK market segment operates in two distinct markets, Great Britain and Northern Ireland, with different economies and operating environments. The market segment's activities are carried out primarily through AIB Group (UK) p.l.c., a bank registered in the UK and regulated by the Financial Services Authority ("FSA").

Great Britain

In this market, the segment operates under the trading name Allied Irish Bank (GB) from 22 full service branches. The head office is located in Mayfair, London with a processing centre based in Belfast. A full service is offered to business customers, professionals, and high net worth individuals.

Allied Irish Bank (GB) is positioned as a specialist business bank, providing a relationship focused alternative to UK high street banks. The bank offers a full range of banking services, including daily banking, deposits solutions, corporate banking and international management and personal banking offerings, delivered through the traditional branch network and online banking systems. Allied Irish Bank (GB)'s relationship approach has been supported by external research in 2012. This included winning Best Business Fixed Account Provider from the Business Moneyfacts Awards 2012. The bank's commitment to staff development has consistently achieved the recognition of the Investors in People ("IiP") standard since 1995.

Northern Ireland

In this market, the segment operates under the trading name First Trust Bank from 43 branches and outlets in Northern Ireland. The First Trust Bank head office is located in Belfast, together with a processing centre.

A full service, including internet and telephone banking is offered to business and personal customers across the range of customer segments, including professionals and high net worth individuals, small and medium enterprises, as well as the public and corporate sectors.

Specialist services, including mortgages, credit cards, invoice discounting and asset finance are based in Belfast and delivered throughout the market segment.

First Trust Bank is strongly rooted in the communities which it serves and supports a wide range of business, community and charitable initiatives, with strong links to the education sector in Northern Ireland.

Non-Core – Transaction and Asset Management teams

During 2012, the key responsibility of the Non-Core unit was to implement the deleveraging plan, which is to deliver the deleveraging of €20.5 billion of assets identified by AIB as non-core by year end 2013.

1.4 Strategy

AIB is continuing its focus of returning to sustainable profitability during 2014 and in ensuring it meaningfully contributes to the recovery of the Irish economy. As part of these goals, AIB made significant progress in 2012 in setting out a revised strategy aimed at materially reducing operating costs while enhancing income generation aligned to prudent and risk adjusted lending practices. The overall Group strategy is comprised of the following key elements:

Customer focus

AIB began to organise its internal structure in the latter half of 2012 to a more customer centric model. AIB will operate in 2013 around three key segments – the Domestic Core Bank, AIB UK comprising the businesses in Great Britain (" AIB GB") and Northern Ireland ("FTB"), and the newly created Financial Solutions Group.

The Domestic Core Bank is organised around Personal, Business and Corporate Banking and an integrated Products area. Key areas of focus for the Domestic Core Bank include mortgage, SME, Personal and Corporate lending, appropriately

aligned to the Group's deposit platform. EBS will continue to operate as a separate brand within the Domestic Core Bank and will maintain its own distribution network focused most particularly on deposit products and mortgage lending. The process of streamlining EBS operations to remove duplication with AIB's systems is ongoing with progress to date. The customer proposition at First Trust Bank is being aligned with the approach in the Core Domestic Bank. AIB GB continues to focus on SMEs, owner managed businesses, and professional firms with a significant emphasis on facilitating trade in both directions between Ireland and Britain. Each of the segments is underpinned by an integrated set of support and control functions to drive efficiencies across the organisation.

AIB's distribution capability is being enhanced to ensure the Group is meeting the requirements of customers across the full spectrum of its business. In addition to the increase of services available through AIB's online and mobile platform, the Group has introduced mobile community banks, a number of self service banking lobbies and is continuing to increase the number of Intelligent Deposit Devices in branches which are designed to reduce waiting times for everyday banking transactions. In locations in the Republic of Ireland, where AIB has recently closed branches, an enhanced agreement with An Post (the Irish postal service) is providing additional banking services for affected customers. AIB will continue to adjust the size and scope of its physical distribution network as appropriate.

AIB is fully committed to supporting customers in financial difficulty and fully recognises the critical imperative to deliver timely solutions for customers. The creation of the Financial Solutions Group means that the Group has a unit dedicated to the overall management of this critical area. The Group continues to stress the need for early, open engagement from customers as it is mutually beneficial for both the Group and customers to manage these issues in a constructive way. For SME customers in financial difficulty, the approach is to restore immediate customer stability, restructure loans where required and establish a path back to viability. For mortgage customers in financial difficulty, the strategy is to work to ensure that homeowners who are co-operating with the bank and prioritising mortgage repayments can remain in their home, where possible. As part of the Group's Mortgage Arrears Resolution Strategy ("MARS"), AIB is providing both short term and long term solutions for customers.

A return to sustainable profitability during 2014

A renewed focus on income growth coupled with cost management measures will help AIB to achieve the goal of a return to sustainable profitability during 2014. As part of an overall cost reduction agenda, AIB is well advanced in the implementation of a Voluntary Severance Programme which will reduce the number of staff at AIB by at least 2,500 by 2014. Among other measures, the bank has also made changes to staff pay and benefits including pay cuts at senior levels and it is proposed that all employees who are members of a defined benefit pension scheme will be transferred to a defined contribution pension model. Changes to the Group's operating cost base are ongoing, the positive effects of which will be more evident in the Group's 2013 and 2014 financial statements. In addition to cost reductions, the Group is taking necessary decisions to drive income growth including focus on funding costs and adjusting the pricing and number of lending products to be more in line with cost of funding. The Group is focused on ensuring it plays a critical role in Ireland's economic recovery and in maintaining market share in key target markets namely, mortgages, SME and corporates and will focus more closely on balance sheet management and capital allocation. AIB is also fully prepared for the removal of ELG which will have a positive impact on operating performance over time.

Emphasising technology and innovation

AIB is using technology to better meet the evolving needs of customers. Through the development of an integrated online, phone and physical branch distribution network, AIB's systems will deliver high quality services to customers. AIB has made significant progress in the implementation of these processes already and customers will continue to see greater flexibility in the future in the range of products available to them online, over the phone and in their local branch.

Focus on leadership, governance and risk control environment

AIB has implemented changes to its overall governance and risk control environment across both the main business and support functions. As part of this AIB has recruited several new members to its Leadership team, comprising individuals who bring experience and external knowledge to the Group. This team is supported by a Leadership Council comprised of senior management individuals from all areas of the Group.

Maintaining strong relationships with key stakeholders

AIB is a functioning bank today because of the support provided by the State and by extension the Irish taxpayer. AIB fully recognises the critical role the Group has in contributing to economic recovery and as such AIB is in constant dialogue with the Department of Finance, the Central Bank of Ireland and the EU/IMF/ECB ("Troika") as it seeks to rebuild the reputation of the Group and return to sustainable profitability. The Minister for Finance specified a Relationship Framework Document in March 2012 which ensures the Board and Leadership Team are in a position to manage the Group on a commercial basis. Additionally, AIB is committed to engaging with debt and equity investors in a transparent, measured and balanced manner over time as the Group emerges from its financial difficulties.

1.5 The restructured business of AIB Group

In 2013, a new operating structure will better align the organisation to the Group's revised strategy. The key segments of the new structure are as follows:

Domestic Core Bank comprising:

(i) Personal, Business and Corporate Banking

AIB's Personal, Business and Corporate Banking (PBCB) area will service the Irish personal, business and corporate customers of AIB in addition to including wealth management services. This segment now reflects the amalgamation of the customers and distribution aspects of Personal & Business Banking, EBS and Corporate, Institutional and Commercial Banking segments.

(ii) Products

AIB's products segment was created as part of the new operating structure. The Products segment will seek to provide a portfolio of banking products that are appropriately priced, striking a balance between customer value and an appropriate return for the Bank

Financial Solutions Group

The Financial Solutions Group ('FSG'), is a unit dedicated to supporting business and personal customers in financial difficulties.

The unit's emphasis is on early, open engagement as it is mutually beneficial for the Group and customers to manage issues in a constructive way. The key component of the FSG strategy is to return customers in difficulty to regular banking coverage over time.

AIB UK

The structure of the AIB UK business remains unchanged.

Group Support Functions

The support functions of AIB Group are Risk, Chief Operating Office, Finance, Legal, Audit, Human Resources and Corporate Affairs and Strategy.

1.6 Competition

Republic of Ireland

Competition in the retail banking sector in the Republic of Ireland has undergone a significant transformation in light of the recent economic crisis with a resultant change in both operating models and behaviours. The economic crisis and resultant banking crisis has led to both Government and European intervention through Government sponsored bank guarantee schemes, the recapitalisation of many banks operating in Ireland (both domestic and foreign), the provision of substantial Government financial support across the majority of domestic institutions as well as the transfer of property related assets to the National Asset Management Agency.

There continues to be a limited demand for banking products and services in both the personal and business markets due to muted domestic demand. Activity in the mortgage market continues to be limited although 2012 activity was ahead of 2011 market levels. In addition, consumers continue to pay down debt and focus on saving disposable income.

The focus of retail banking continues to be to provide credit to customers, in particular SMEs and mortgages to support stimulation of economic turnaround, as well as retention and gathering of deposits. Deposits pricing continues to be competitive although market pricing levels have declined from unsustainable rates.

UK

The UK economy has had limited growth over the past two years, as it has battled amidst a global economic crisis and a sharp squeeze in domestic spending power. Concerns over Ireland and Irish banks have had an adverse impact on Irish banks operating in the UK market.

While public concern in the UK regarding the stability of the Irish banking system continued in 2012, there was also increased focus on Europe and on those countries which have required financial support. The euro and speculation around its longevity also remained in focus.

Ireland's state authorities prolonged the ELG Scheme, which was put in place to safeguard all eligible deposits with Ireland's guaranteed banks (including their UK operations). During 2011, the positive impact of this guarantee was evident as the level of withdrawals from Irish banks operating in the UK market was less evident than in 2010. As the market returned to a level of normality AIB Group (UK) p.l.c. decided, with the approval of the Irish Government and agreement from the Financial Services Authority ("FSA"), to withdraw from the ELG Scheme in August 2012.

The focus of activity in a very competitive UK retail market continues to be on maintaining close customer relationships so as to retain existing and attract new deposits and more recently to increase levels of lending as the Group strives towards recovery

1.7. Economic conditions affecting the Group

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

The world economy went into deep recession in early 2008. It has been recovering since around the middle of 2009, but at a moderate and uneven pace. Indeed, some economies lapsed back into recession last year, most notably the Eurozone and UK. World GDP is estimated by the International Monetary Fund in its latest World Economic Update (January 2013) to have expanded by 3.2% in 2012, down from 3.9% in 2011. This compares to average GDP growth of 5% in the period 2004-2007 (Source: IMF World Economic Outlook, October 2012, Table A1).

The United States, the United Kingdom and the Eurozone are Ireland's three most important trading partners. A moderate recovery in activity had been underway in all three economies, but while modest growth has continued in the US, the UK and Eurozone fell back into mild recession last year.

US GDP is estimated by the IMF to have grown by 2.3% in 2012 following growth of 1.8% in 2011, with the IMF forecasting growth of 2.1% for 2013. Similar growth forecasts for the US were published in November by the OECD in its Economic Outlook. Meanwhile, GDP in the United Kingdom rose by 0.2% last year after growth of 0.8% in 2011, and the OECD is forecasting UK GDP growth of 0.9% for 2013. For the Eurozone, GDP is estimated by Eurostat to have fallen by 0.5% last year after growth of 1.5% in 2011. Another decline in GDP is expected in 2013, with the ECB predicting in its March 2013 Economic Forecasts that eurozone GDP will contract by 0.5% again this year.

According to Ireland's CSO's National Income and Expenditure ("NIE") 2011 publication, real GDP in Ireland rose by 1.4% in 2011. This followed three years of declines in GDP of 0.8% in 2010, 5.5% in 2009 and 2.1% in 2008. The pick up in growth in 2011 was largely due to exports as domestic demand continued to contract in that year. National Accounts data published by the CSO (21 March 2013) for 2012 show that GDP rose by 0.9% last year. The pace of contraction in the domestic sector of the economy eased considerably during 2012. While exports continued to grow last year, it was at a slower pace than in 2011, largely due to the weakness of external demand.

Another modest rise in GDP of around 1.0-1.5% is expected in 2013, helped by continued modest growth in exports. GDP growth is forecast to pick up thereafter to a 2.5% - 3% range (Source: Department of Finance Budget 2013).

The recovery in exports has led to a marked turnaround in the balance of payments. According to CSO data, Ireland recorded a balance of payments surplus on the current account of € 1.78 billion in both 2010 and 2011, the first such surpluses since 1999. This compares with current account deficits of over €10 billion in 2007 and 2008 and € 3.7 billion in 2009. CSO data for 2012 show a marked rise in the current account surplus last year (Source: CSO Balance of Payments 2012). The current account surplus rose to over € 8 billion in 2012, or 5% of GDP.

Credit growth remained weak in Ireland in 2012. Total household loans outstanding were down 3.9% year-on-year at end December 2012, while lending for house purchase fell by 1.6% in the same period (Source: Central Bank of Ireland, Money and Banking Statistics December 2012). House prices were down by 4.5% year-on-year at end December according to the CSO house price index, although house prices did rise modestly in the second half of the year (Source: CSO Residential Property Price Index, December 2012). Overall, the housing market showed signs of stabilising last year, albeit at low activity levels, with increases in mortgage approvals and transactions, as well as more stable prices.

Given the deep recession, labour market conditions have weakened significantly in Ireland since 2007. Employment fell sharply in the period 2008-2011 according to CSO data, but there were signs of stabilisation in 2012. Employment fell 0.6% last year but, by the final quarter, employment was showing a slight rise of 0.1% year-on-year (Source: CSO Quarterly National Household Survey Q4 2012). The labour force continued to contract, while CSO data also show that the unemployment rate edged down last year, declining from 15% in Q1 to 14.2% by Q4 2012 (Source: CSO Quarterly National Household Survey Q4 2012).

The European Central Bank, which has responsibility for monetary policy in the Euro area as a whole, cut the official refinancing rate to 1% in May 2009 from a peak of 4.25% in July 2008. It then raised rates by 25bps points in both April and July 2011 in response to rising inflationary pressures. However, it reversed these two rates hikes in the final two months of 2011, bringing the refi rate back down to 1%. It reduced the refi rate by a further 25bps to 0.75% in July 2012.

The Irish public finances deteriorated sharply during the recession, moving into large deficit due to the very sharp fall in tax revenues largely associated with the downturn in the Irish housing market. The budget in 2010 stabilised the underlying deficit at some 11% of GDP. In 2011 the deficit fell to just over 9% of GDP, with the budget deficit declining further in 2012 to around 8%. Further fiscal tightening is being implemented in 2013 with the budget deficit forecast to fall to 7.5% of GDP. Further corrective actions will be necessary to reduce the deficit to below 3% of GDP by 2015 (Source: Dept of Finance, Budget 2013).

The Irish General Government debt/GDP ratio fell steadily from over 95% in 1991 to 25% by 2007 (Source: NTMA, Ireland Information Memorandum March 2008). However, as a result of higher budget deficits and falling levels of GDP, Ireland's General Government debt/GDP ratio is estimated by the Department of Finance (Budget 2013) to have climbed to 118% of GDP at end 2012, up from 106% in 2011 and 93% in 2010. As highlighted by the Department of Finance, allowing for the high Exchequer cash balances and deposits, it would bring down the debt ratio to 106% at end 2012.

There has been a marked improvement in market sentiment towards Ireland since the middle of 2011, with a consequent sharp drop in yields on Irish government bonds. Yields on the Irish 5 year bond, which peaked at close to 20% in July 2011, fell to close on 3% in the second half of 2012. Meanwhile, the yield on the 5% 2020 bond fell from 14% to some 4.5% over the same period. (Source: Thomson Datastream). Despite, these developments, Ireland's long-term sovereign credit ratings remain low, standing at BBB+ from S&P and Fitch, and Ba1 by Moody's at end 2012. Both S&P and Fitch, though, have raised the outlook on their BBB+ rating for Ireland from negative to stable.

Financial review - 2. Financial data

The financial information in the tables below for the years ended 31 December 2012, 2011, 2010, 2009 and 2008 has been derived from the audited consolidated financial statements of AIB Group for those periods. AIB Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and IFRS as adopted by the European Union ("EU"). The EU adopted version of IAS 39 currently relaxes some of the hedge accounting rules in IAS 39 *'Financial Instruments: Recognition and Measurement'.* The Group has not availed of these, therefore, these financial statements comply with both IFRS as issued by the IASB and IFRS as adopted by the EU. This information should be read in conjunction with, and is qualified by reference to, the accounting policies adopted, the consolidated financial statements of AIB Group and notes therein for the years ended 31 December 2012, 2011 and 2010 included in this Annual Financial Report. The summary of consolidated income statement represents the results of continuing operations, where the results of Bank Zachodni WBK S.A. ("BZWBK"), M&T Bank Corporation and Bulgarian American Credit Bank AD as applicable, are accounted for as discontinued operations net of taxation for all relevant years.

Summary of consolidated income statement

	Years ended 31 December				
	2012	2011	2010	2009	2008
	€ m	€ m	€ m	€ m	€ m
Net interest income	**1,106**	1,350	1,844	2,872	3,392
Other (loss)/income	**(485)**	2,990	(5,201)	1,234	749
Total operating income/(loss)	**621**	4,340	(3,357)	4,106	4,141
Total operating expenses	**(1,937)**	(1,720)	(1,649)	(1,522)	(1,885)
Operating (loss)/profit before provisions	**(1,316)**	2,620	(5,006)	2,584	2,256
Provisions	**(2,529)**	(7,728)	(7,118)	(5,267)	(1,749)
Operating (loss)/profit	**(3,845)**	(5,108)	(12,124)	(2,683)	507
Associated undertakings	**10**	(37)	18	(3)	2
Profit/(loss) on disposal of property	**2**	(1)	46	23	10
Construction contract income	**–**	–	–	1	12
Profit/(loss) on disposal of businesses[1]	**3**	38	(11)	–	106
(Loss)/profit before taxation from continuing operations	**(3,830)**	(5,108)	(12,071)	(2,662)	637
Income tax credit/(expense) from continuing operations	**183**	1,188	1,710	373	(69)
(Loss)/profit after taxation from continuing operations	**(3,647)**	(3,920)	(10,361)	(2,289)	568
Discontinued operations, net of taxation	**–**	1,628	199	(45)	322
(Loss)/profit for the year	**(3,647)**	(2,292)	(10,162)	(2,334)	890
Non-controlling interests from discontinued operations	**–**	(20)	(70)	(79)	(118)
Distributions to RCI holders[2]	**–**	–	–	(44)	(38)
(Loss)/profit for the year attributable to owners of the parent	**(3,647)**	(2,312)	(10,232)	(2,457)	734
Basic (loss)/earnings per ordinary/CNV share[3]					
Continuing operations	**(0.7c)**	(1.6c)	(571.1c)	(203.5c)	54.8c
Discontinued operations	**–**	0.7c	7.1c	(11.7c)	28.6c
	(0.7c)	(0.9c)	(564.0c)	(215.2c)	83.4c
Diluted (loss)/earnings per ordinary/CNV share[3]					
Continuing operations	**(0.7c)**	(1.6c)	(571.1c)	(203.5c)	54.7c
Discontinued operations	**–**	0.7c	7.1c	(11.7c)	28.6c
	(0.7c)	(0.9c)	(564.0c)	(215.2c)	83.3c
Dividends	**–**	–	–	–	81.8c

Selected consolidated statement of financial position data

	Years ended 31 December				
	2012	2011	2010	2009	2008
	€ m	€ m	€ m	€ m	€ m
Total assets	**122,516**	136,651	145,222	174,314	182,174
Loans and receivables to banks and customers[4]	**75,886**	88,258	91,212	131,464	135,755
Deposits by central banks and banks, customer accounts and debt securities in issue	**102,718**	113,218	117,922	147,940	155,996
€ 1.6bn Contingent Capital Tier 2 Notes due 2016[5]	**1,237**	1,177	–	–	–
Dated loan capital	**34**	32	3,996	4,261	2,970
Undated loan capital	**–**	–	197	189	692
Other capital instruments	**–**	–	138	136	864
Non-controlling interests in subsidiaries	**–**	–	690	626	1,344
Shareholders' funds: other equity interests	**–**	–	239	389	497
Shareholders' equity[6]	**11,241**	14,463	3,420	10,320	8,472
Total capital resources	**12,512**	15,672	8,680	15,921	14,839

	Years ended 31 December				
	2012	2011	2010	2009	2008
	m	m	m	m	m
Share capital - ordinary shares					
Number of shares outstanding	**517,152.8**	513,528.8	1,791.6	918.4	918.4
Nominal value of € 0.01 per share (2010: € 0.32 per share)	**€ 5,171**	€ 5,135	€ 573	€ 294	€ 294
Share capital - convertible non-voting shares[3]					
Number of shares outstanding	**–**	–	10,489.9	–	–
Nominal value of € 0.32 per share	**–**	–	€ 3,357	–	–
2009 Preference shares[7]					
Number of shares outstanding	**3,500**	3,500	3,500	3,500	–
Nominal value of € 0.01 per share	**€ 35**	€ 35	€ 35	€ 35	–

Selected consolidated statement of financial position data (continued)

Other financial data[8]

	Years ended 31 December				
	2012	2011	2010	2009	2008
	%	%	%	%	%
Return on average total assets	**(2.76)**	(1.66)	(6.21)	(1.29)	0.47
Return on average ordinary shareholders' equity	**(37.0)**	(48.8)	(222.5)	(24.8)	8.2
Dividend payout ratio	**–**	–	–	–	36.8
Average ordinary shareholders' equity as a percentage of average total assets	**7.5**	5.8	2.8	4.3	4.8
Year end impairment provisions as a percentage of total loans to customers:[4]					
Total Group	**18.4**	15.1	7.1	5.5	1.7
Continuing operations	**18.4**	15.1	7.4	5.5	1.7
Net interest margin[9]	**0.91**	1.03	1.49	1.92	2.21
Core tier 1 capital ratio[10][11]	**15.1**	17.9	4.0	7.9	5.8
Total capital ratio[10][11]	**17.6**	20.5	9.2	10.2	10.5

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

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

The loss on disposal of businesses in 2010 of € 11 million relates to the sale of AIB's investment in Goodbody Holdings Limited and related companies (note 15).

The profit on disposal of businesses in 2008 of € 106 million relates to a joint venture with First Data Corporation.

[2]The distributions in 2009 and 2008 relate to the Reserve Capital Instruments (note 48).

[3]Convertible non-voting shares issued to the NPRFC on 23 December 2010 ranked equally with ordinary shares and were convertible into ordinary shares on a one to one basis. These converted to ordinary shares in April 2011 (note 45).

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

[5]Relates to the issue of € 1.6 billion in Contingent Capital Notes to the NPRFC during 2011 (note 44).

[6]Includes ordinary shareholders' equity (in July 2011, 500 billion ordinary shares were issued to the NPRFC at a subscription price of € 0.01 per share) (note 45), the 3,500 million 2009 Preference Shares issued to the NPRFC in May 2009 (note 45) and the convertible non-voting shares issued to the NPRFC on the 23 December 2010 which converted to ordinary shares in April 2011 (note 45).

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

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

[9]Net interest margin represents net interest income as a percentage of average interest earning assets. The net interest margin is presented on a continuing basis for 2012, 2011, 2010 and 2009 and presented on a total Group basis for 2008.

[10]The minimum regulatory capital requirements set by the Central Bank, which reflect the requirements of the Capital Requirements Directive ("CRD"), establish a floor of 4% under which the core tier 1 capital ratio must not fall (8% for total capital ratio). These ratios were the capital adequacy requirements effective as at 31 December 2010. Following the Prudential Capital Assessment Review ("PCAR") in March 2011, the Central Bank announced a new minimum capital target for AIB of 10.5% core tier 1 in a base scenario and 6% core tier 1 in a stressed scenario. These target ratios form the basis of the Group's capital management policy and are capital adequacy requirements effective as at 31 December 2012.

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

Summary income statement	2012 € m	2011 € m	2010 € m
Net interest income	**1,106**	1,350	1,844
Other income	**318**	438	463
Total operating income	**1,424**	1,788	2,307
Personnel expenses	**(1,013)**	(935)	(921)
General and administrative expenses	**(607)**	(637)	(528)
Depreciation[1], impairment and amortisation[2]	**(119)**	(115)	(180)
Total operating expenses	**(1,739)**	(1,687)	(1,629)
Operating(loss)/profit before provisions	**(315)**	101	678
Provisions for impairment on loans and receivables	**(2,434)**	(7,861)	(6,015)
Provisions for liabilities and commitments	**(9)**	(17)	–
Provisions for impairment on financial investments available for sale	**(86)**	(283)	(74)
Total provisions	**(2,529)**	(8,161)	(6,089)
Operating loss	**(2,844)**	(8,060)	(5,411)
Associated undertakings	**10**	(37)	18
Profit/(loss) on disposal of property	**2**	(1)	46
Profit/(loss) on disposal of businesses	**3**	38	(11)
Loss from continuing operations before exceptional items	**(2,829)**	(8,060)	(5,358)
Loss on disposal of loans	**(962)**	(322)	(54)
Profit/(loss) on transfer of financial instruments to NAMA	**159**	(364)	(5,969)
Gain on redemption of subordinated debt and other capital instruments	**–**	3,277	372
Interest rate hedge volatility	**–**	(39)	(13)
Retirement benefits curtailment	**204**	–	–
Restructuring and restitution expenses	**(402)**	(33)	(20)
Writeback/(charge) of contingent provisions for NAMA loans	**–**	433	(1,029)
Total exceptional items	**(1,001)**	2,952	(6,713)
Loss before taxation from continuing operations	**(3,830)**	(5,108)	(12,071)
Income tax credit from continuing operations	**183**	1,188	1,710
Loss after taxation from continuing operations	**(3,647)**	(3,920)	(10,361)
Profit after taxation from discontinued operations	**–**	1,628	199
Loss for the year	**(3,647)**	(2,292)	(10,162)

	2012 %	2011 %	2010 %
Cost income ratio[3]	**122.1**	94.4	70.6

[1]Depreciation of property, plant and equipment.

[2]Impairment and amortisation of intangible assets.

[3]Excluding exceptional items.

Overview of results

The Group recorded a loss before taxation from continuing operations of € 3.8 billion in 2012 compared to a loss of € 5.1 billion in 2011. When exceptional items of € 1.0 billion in 2012 are excluded the loss from continuing operations was € 2.8 billion in 2012 compared to € 8.1 billion in 2011. The performance reflected a material reduction in provisions, lower levels of income on reduced business volumes and additional costs primarily associated with the ongoing restructuring of the Group. Provisions for impairment on loans and receivables were € 2.4 billion in 2012, a reduction of € 5.4 billion from 2011. The level of provisions in 2012 continues to reflect the continued weak economic environment.

The Group recorded an operating loss before provisions and excluding exceptional items of € 315 million in 2012 compared to € 101 million profit in 2011. Net interest income reduced by 18% compared to 2011, reflecting lower loan balances following deleveraging, higher volumes of impaired loans and an increase in the cost of funds for the bank. Other income was 27% lower as fee and commission income reduced in 2012 reflecting subdued demand, lower business volumes and weak economic conditions. Total operating expenses were 3% higher compared to 2011, and 1% higher when the impact of EBS for the full twelve months in 2012 is

taken into account. This increase in costs mainly related to additional external provider fees on Group restructuring, deleveraging transactions and credit management improvement, partially offset by the impact of staff exits in 2012.

At 31 December 2012, the Group remains well capitalised with a core tier 1 capital ratio of 15.1%, comfortably above the 10.5% minimum target level as prescribed by the Central Bank of Ireland.

Exceptional items

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

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

Income statement commentary

Net interest income	2012 € m	2011 € m	2010 € m
Net interest income	**1,106**	1,350	1,844

Average interest earning assets	2012 € m	2011 € m	2010 € m
Average interest earning assets	**122,200**	131,038	141,093

Net interest margin	2012 %	2011 %	2010 %
Group net interest margin	**0.91**	1.03	1.31
Group net interest margin excluding eligible liabilities guarantee ("ELG")	**1.22**	1.40	1.52

2012 v 2011

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

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

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

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

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

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

2011 v 2010

Net interest income was € 1,350 million in 2011 compared with € 1,844 million in 2010, a decrease of € 494 million or 27%. Excluding EBS net interest income of € 158 million in the second half of 2011, net interest income decreased by € 652 million or 35%. Net interest income for 2011 and 2010 included charges for the ELG scheme of € 488 million and € 306[(1)] million respectively excluding which net interest income reduced by € 312 million or 15%. The ELG scheme replaced the CIFS scheme in January 2010, the cost of which was recorded in other income.

The decrease in net interest income excluding the ELG cost mainly reflected margin compression arising from the higher cost of deposits, reduced interest-earning loan volumes due to higher impairments, sales of non-core assets and net repayments within the core loan portfolio.

Excluding the cost of the ELG scheme, the net interest margin for 2011 was 1.40% compared with 1.52% in 2010. The estimated[(2)] factors contributing to the decline in the margin of 12 basis points were: -10bps due to lower loan margin income, -4bps due to an increase in the cost of customer deposits and -7bps due to lower treasury/other net interest income. This was partly offset by +6bps due to lower cost of wholesale funding following recapitalisation and +3bps due to higher income on capital and the benefit following the liability management exercises.

[(1)]The total government guarantee charge was € 357 million in 2010 including Credit Institutions (Financial Support) scheme ("CIFS") charge of € 51 million which is included in other income and € 306 million ELG charge in net interest income.

[(2)]Management estimate

Other income

Other income	2012 € m	2011 € m	2010 € m
Dividend income	**1**	4	1
Banking fees and commissions	***382***	*412*	*486*
Investment banking and asset management fees	***14***	*58*	*99*
Fee and commission income	**396**	470	585
Irish Government guarantee scheme expense (CIFS)	**–**	*–*	*(51)*
Other fee and commission expense	***(29)***	*(29)*	*(37)*
Less: Fee and commission expense	**(29)**	(29)	(88)
Trading income[1]	**(100)**	(74)	(188)
Other operating income	**50**	67	153
Other income before exceptional items	**318**	438	463

[1]Trading income includes foreign exchange contracts, debt securities and interest rate contracts, credit derivative contracts, equity securities and index contracts.

2012 v 2011

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

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

Negative trading income was € 100 million in 2012 compared to € 74 million in 2011. Increase in negative income reflects a further fair value movement on the options relating to transactions on the expected disposal of Aviva Life Holdings (see note 35 to the financial statements) and loan breakage and associated costs relating to deleveraging.

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

Other income for EBS was € 14 million for the full year in 2012 compared with € 5 million from 1 July 2011, the date of EBS acquisition.

2011 v 2010

Other income before exceptional items was € 438 million in 2011 (of which EBS contributed € 5 million), compared with € 463 million in 2010. This represents a decrease of € 25 million or 5%, or € 76 million (15%) excluding the cost of the Irish Government guarantee scheme expense (CIFS) of € 51 million in 2010. The weaker economic conditions, challenging trading markets in which AIB operates and the disposal of businesses resulted in lower business volumes and lower revenues.

Banking fees and commissions decreased by 15% reflecting lower business volumes and activity. Investment banking and asset management fees were down 41% in 2011 mainly reflecting lower income following the sale of Goodbody Stockbrokers in December 2010. Fee and commission expense in 2010 included the cost of the CIFS scheme of € 51 million.

Trading loss was € 74 million in 2011 compared to a loss of € 188 million in 2010. Trading loss excludes interest payable and receivable arising from hedging and the funding of trading activities, these are included in interest income. As a result the trend in trading loss within other income cannot be considered in isolation. On a total income basis (net interest income and other income), income from trading activities was lower in 2011. The reduction in the trading loss in other income compared to 2010 mainly related to higher trading foreign exchange income and higher income from interest rate swaps partly offset by losses on credit derivative contracts.

Other operating income in 2011 was € 67 million compared with € 153 million in 2010, a reduction of € 86 million. In 2011 there was € 61 million from litigation settlements, € 40 million in foreign exchange gains and € 8 million income from the disposal of available for sale equity shares, partially offset by a loss of € 36 million from the disposal of available for sale debt securities which primarily related to bonds in peripheral Eurozone countries. In 2010 there was € 75 million profit from the disposal of available for sale debt securities, € 13 million profit from the disposal of available for sale equity shares and € 8 million in foreign exchange gains.

Total operating expenses

Operating expenses	**2012 € m**	2011 € m	2010 € m
Personnel expenses	**1,013**	935	921
General and administrative expenses	**607**	637	528
Depreciation,[1] impairment and amortisation[2]	**119**	115	180
Total operating expenses	**1,739**	1,687	1,629

[1]Depreciation of property, plant and equipment.

[2]Impairment and amortisation of intangible assets.

2012 v 2011

2012 operating expenses of € 1,739 million includes EBS costs of € 80 million for a full twelve months compared to € 46 million for six months in 2011 (date of acquisition 1 July 2011). Adjusting for the acquired EBS business, operating costs of € 1,659 million are € 18 million higher than 2011.

Personnel expenses in 2012 were € 1,013 million, an increase of € 78 million or 8% compared with € 935 million in 2011, and include the full year impact of EBS of € 36 million compared to the six month impact of € 21 million in 2011. The higher costs reflected the higher pension costs and an increase in the number of fixed term contract staff, particularly in credit management areas. The implementation of the early retirement/voluntary severance scheme in 2012 included the departure of 1,744 staff from AIB resulting in an overall net decrease in FTE of 1,072 compared to 2011. The majority of the early retirement/voluntary severance scheme exits occurred in the latter part of 2012.

General and administrative expenses of € 607 million in 2012 were € 30 million or 5% lower than 2011 and reflect lower external provider fees compared to 2011. External provider fees in both periods were associated with business outsourcing, restructuring and transformation, deleveraging and credit management. Additionally, external provider fees in 2011 were incurred on capital raising initiatives.

Depreciation, impairment and amortisation expense of € 119 million in 2012 was € 4 million or 3% higher when compared to 2011 and include impairment on branches being closed.

2011 v 2010

Total operating expenses were € 1,687 million in 2011, an increase of € 58 million or 4% compared to € 1,629 million in 2010. EBS operating costs of € 46 million are included from 1 July 2011, excluding which costs increased by € 12 million or 1%. The cost increase of € 12 million in 2011 included higher external provider fees and higher fees to statutory bodies partly offset by lower pension costs and lower NAMA related costs. In 2010 there was a writedown in the value of intangible assets in relation to projects discontinued during the year partly offset by the reversal of an accrual for personnel expenses which was no longer required. When these amounts are excluded, costs in 2011 reduced by 4% compared to 2010.

Personnel expenses in 2011 were € 935 million, an increase of € 14 million or 2% compared with € 921 million in 2010. Excluding EBS personnel expenses of € 21 million in the second half of 2011, personnel expenses were 1% lower than 2010, notwithstanding the inclusion of c. 200 staff from the acquisition of Anglo deposits in February 2011 and increased staff numbers in credit management areas. Adjusting for the one-off items mentioned in the previous paragraph, personnel expenses were 5% lower than 2010.

General and administrative expenses of € 637 million in 2011 were € 109 million or 21% higher than € 528 million in 2010. The increase mainly related to external provider fees associated with restructuring and transformation, deleveraging, capital raising and credit management. There was also increased reimbursement of fees to statutory bodies, particularly in relation to capital raising. Excluding these items and EBS expenses of € 20 million in the second half of 2011, general and administrative expenses were down 5% when compared to 2010.

Depreciation, impairment and amortisation of € 115 million in 2011 was € 65 million or 36% lower when compared to € 180 million in 2010. This reduction was mainly due to a writedown in 2010 in the value of intangible assets of € 59 million in relation to projects discontinued.

Asset quality

See Risk Management section commencing on page 57. Commentary on AIB's asset quality is detailed on pages 68 to 166 with commentary on provision charge on pages 89 to 91.

Associated undertakings

2012 v 2011

Income from associated undertakings in 2012 was € 10 million compared with a loss of € 37 million in 2011, 2012 income includes Aviva Health Insurance Ireland Limited and AIB's share in the joint venture with First Data International trading as AIB Merchant Services. On 1 July 2012, AIB re-designated its investment in Aviva Life Holdings as an equity investment at fair value through the income statement (see note 35 to the financial statements).

2011 v 2010

Loss from associated undertakings in 2011 was € 37 million compared with a profit of € 18 million in 2010. The results for 2011 include an impairment of the investment in Aviva Life Holdings of € 36 million (see note 35 to the financial statements). Associated undertakings also includes Aviva Health Insurance Ireland Limited and AIB's share in the joint venture with First Data International trading as AIB Merchant Services.

Income tax

2012 v 2011

The taxation credit for 2012 was € 183 million (being a € 183 million credit relating to deferred taxation), compared with a taxation credit of € 1,188 million in 2011 (including a credit of € 1,148 million relating to deferred taxation). The credit is influenced by the geographic mix of profits and losses, which are taxed at the rates applicable in the jurisdictions where the Group operates. With specific exceptions as set out in note 38 to the financial statements, the largest of which relates to UK tax losses, deferred tax credit continues to be recognised in full for the value of tax losses arising in Group companies, as it is expected that the tax losses will be utilised in full against future profits.

2011 v 2010

The taxation credit for 2011 was € 1,188 million (including a € 1,148 million credit relating to deferred taxation), compared with a taxation credit of € 1,710 million in 2010 (including a credit of € 1,714 million relating to deferred taxation). The taxation credits exclude taxation on share of results of associated undertakings. Associated undertakings are reported net of taxation in the Group loss before taxation. The credit is influenced by the geographic mix of profits and losses, which are taxed at the rates applicable in the jurisdictions where the Group operates. With specific exceptions as set out in note 38 to the financial statements, deferred tax credit continues to be recognised in full for the value of tax losses arising in Group companies, as it is expected that the tax losses will be utilised in full against future profits.

Discontinued operations

The results for 2011 included the consolidated results of BZWBK for the quarter to 31 March 2011 and the profit on sale of BZWBK.

Profit from discontinued operations	**2012 € m**	2011 € m	2010 € m
BZWBK	**–**	99	329
M&T	**–**	–	5
BACB	**–**	–	(60)
Profit before taxation	**–**	99	274
Income tax expense	**–**	(17)	(72)
Profit after taxation	**–**	82	202
Profit on disposal of business	**–**	1,546	–
Loss recognised on the remeasurement to fair value less costs to sell[(1)]	**–**	–	(3)
Profit for the period from discontinued operations	**–**	1,628	199

[(1)]Relates to impairment of intangible assets.

2011 v 2010

Discontinued operations recorded a profit after taxation of € 1,628 million in 2011 compared to € 199 million in 2010. Discontinued operations in 2010 were impacted by investment reviews which resulted in a € 62 million writedown with regard to the investment in BACB and by the completion of the disposal of the M&T investment on 4 November 2010. See note 18 to the financial statements for further details.

BZWBK recorded a profit before taxation of € 99 million in the three months to March 2011, compared with € 329 million in the full year 2010 and there was a profit on disposal of the business of € 1,546 million, following completion of the sale on 1 April 2011.

Balance sheet commentary

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

Gross loans[1]	**31 December 2012 € bn**	31 December 2011 € bn	31 December 2010 € bn
Personal & Business Banking	**30.0**	29.2	30.6
Corporate, Institutional & Commercial Banking	**22.4**	24.7	25.2
AIB UK	**8.9**	9.4	9.4
EBS	**13.0**	13.6	–
Group	**–**	–	0.1
Total Core	**74.3**	76.9	65.3
Non-Core	**15.0**	20.5	28.3
Total gross customer loans	**89.3**	97.4	93.6
Gross loans held for sale to NAMA	**–**	–	2.2
Other gross loans held for sale (Non-Core)	**0.6**	1.2	0.1
Total gross loans	**89.9**	98.6	95.9

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

2012 v 2011

Total gross loans were down € 8.7 billion or 9% since 31 December 2011. This reduction reflected deleveraging measures and continued weak demand for credit from certain sectors in 2012. Total Core loans are down € 2.6 billion which reflects lower demand from larger businesses and corporates, partially offset by new lending to personal and small businesses. Additionally € 0.8 billion of loans were transferred from Core to Non-Core in 2012. Non-Core loans reduced by € 6.1 billion or 28% and is in line with the Group's commitments to the Financial Measures Programme in 2011. Excluding currency factors, AIB UK gross loans decreased by 8%.

2011 v 2010

While the headline gross customer loans are up € 2.7 billion in 2011, gross loans were down 14% or € 13.6 billion since 31 December 2010 excluding EBS gross loans of € 16.3 billion (including EBS loans classified as Non-Core of € 2.7 billion) at 31 December 2011. This reduction reflected significant ongoing deleveraging measures and continued weak demand for credit in 2011. Excluding currency factors, AIB UK gross loans decreased by 2%.

Net loans[1]	**31 December 2012 € bn**	31 December 2011 € bn	31 December 2010 € bn
Personal & Business Banking	**26.8**	27.0	29.4
Corporate, Institutional & Commercial Banking	**16.3**	19.6	22.8
AIB UK	**8.3**	9.0	9.1
EBS	**12.3**	13.1	–
Group	**–**	–	0.1
Total Core	**63.7**	68.7	61.4
Non-Core	**9.2**	13.8	25.0
Total net customer loans	**72.9**	82.5	86.4
Net loans held for sale to NAMA	**–**	–	1.9
Other net loans held for sale (Non-Core)	**0.4**	1.2	0.1
Total net loans	**73.3**	83.7	88.4

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

2012 v 2011

Total net loans decreased by € 10.4 billion or 12%, reflecting the movement of gross loans as set out above and additional impairment charge in the year. The identified pool of Non-Core assets including net customer loans classified as held for sale reduced from € 15.0 billion at 31 December 2011 to € 9.6 billion at 31 December 2012. Excluding currency factors, AIB UK net loans decreased by 9% in 2012.

2011 v 2010

Excluding EBS net loans of € 15.3 billion at 31 December 2011 (including EBS loans classified as Non-Core of € 2.2 billion), net loans decreased by € 20.0 billion or 23%. The identified pool of Non-Core assets including net customer loans classified as held for sale reduced from € 25.1 billion at 31 December 2010 to € 12.8 billion at 31 December 2011 (excluding EBS non-core loans of € 2.2 billion at the end of 2011). The reductions reflected the aforementioned significant ongoing deleveraging measures, weaker credit demand and loan loss provisions. Excluding currency factors, AIB UK net loans decreased by 4% in 2011.

Customer accounts	**31 December 2012 € bn**	31 December 2011 € bn	31 December 2010 € bn
Personal & Business Banking	**27.0**	28.2	28.0
Corporate, Institutional & Commercial Banking	**14.5**	13.8	15.4
AIB UK	**10.9**	10.2	9.0
EBS	**10.1**	8.5	–
Group	**1.1**	–	–
Total Core	**63.6**	60.7	52.4
Non-Core	**–**	–	–
Total customer accounts	**63.6**	60.7	52.4

2012 v 2011

Customer accounts of € 63.6 billion are up € 2.9 billion (5%) since 2011 and €11.2 billion (21%) since 2010. The increase in 2012 was achieved despite a range of deposit pricing actions taken in 2012 and generally reflects a return to more normalised market behaviour. Customer accounts are higher across all business areas with the exception of Personal and Business Banking ("PBB") which includes the impact of the ongoing wind-up of AIB's operations in Isle of Man and Channel Islands. Excluding this, PBB customer accounts were up € 0.6 billion (2%) year on year. Excluding currency factors, AIB UK customer accounts increased by 5% in 2012.

2011 v 2010

The increase in total customer accounts of € 8.3 billion includes the acquisition of EBS deposits and Anglo deposits of € 8.5 billion and € 5.3 billion respectively as at 31 December 2011. Excluding the EBS deposits and Anglo deposits, customer accounts were down € 5.5 billion. Bank and sovereign ratings downgrades contributed to an outflow in deposits in the first half of 2011, particularly from Non Bank Financial Institutions ("NBFIs") and international corporates during quarter 1 2011. In the second half of 2011 customer account balances were broadly stable. Excluding currency factors, AIB UK customer accounts increased by 10% in 2011.

Funding[1]

Sources of funds - total AIB Group basis	31 December 2012 € bn	31 December 2012 %	31 December 2011 € bn	31 December 2011 %	31 December 2010[2] € bn	31 December 2010[2] %
Customer accounts	**64**	**55**	61	47	63	45
Deposits by central banks and banks - secured	**28**	**24**	36	28	41	29
- unsecured	**1**	**1**	1	1	9	7
Certificates of deposit and commercial paper	**–**	**–**	–	–	1	1
Asset covered securities ("ACS")	**3**	**3**	4	3	3	2
Securitisation	**1**	**1**	1	1	–	–
Senior debt	**6**	**5**	11	8	12	9
Capital[3]	**13**	**11**	15	12	9	7
Total source of funds	**116**	**100**	129	100	138	100
Other[4]	**7**		8		7	
	123		137		145	

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

[2]Includes BZWBK at 31 December 2010.

[3]Includes total shareholders' equity, subordinated liabilities and other capital instruments.

[4]Non-funding liabilities including derivative financial instruments, other liabilities, retirement benefits and accruals and other deferred income.

2012 v 2011

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

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

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

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

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

2011 v 2010

The Group's balance sheet saw significant change in 2011, with the disposal of BZWBK, the acquisition of Anglo NAMA senior bonds and deposits, the acquisition of EBS, asset deleveraging in the Non-Core unit and the completion of AIB's capital raising measures.

The source of funds continued to show customer accounts as the largest funding source at 47% of total funding requirement at 31 December 2011, up from 45% at 31 December 2010. Excluding the NTMA deposit placed at 30 June 2011 of € 11 billion in advance of recapitalisation in July, customer accounts were broadly stable in the second half of 2011. This was a positive result following the € 5 billion decrease in customer deposits (excluding Anglo) in the first half of 2011. Customer deposits stabilised after the PCAR announcement and the resultant recapitalisation of the Group. Secured funding has decreased by € 5 billion (€ 9 billion excluding EBS repos) due to asset deleveraging and sale of securities held in AIB's available for sale ("AFS") portfolio. Unsecured interbank borrowings reduced by € 8 billion to € 1 billion in the full year reflecting the repayment of non standard facilities with the CBI in April 2011. At 31 December 2011 AIB availed of Central Bank funding of € 31 billion (including EBS of € 4 billion), down from € 37 billion at 31 December 2010. AIB extended the bank's debt maturity by participating in the 3-year Long Term Refinancing Operation, to the amount of € 3.0 billion at 31 December 2011. Reducing the reliance on ECB funding will continue to be a key objective of the bank. Senior debt as a percentage of funding sources decreased by 1% in 2011 to 8% at 31 December 2011 reflecting the repayment of € 2 billion in bonds, offset partially by € 1 billion of EBS bonds. ACS as a percentage of funding sources increased by 1% to 3% at 31 December 2011 due to the inclusion of EBS ACS.

The Group's loan deposit ratio decreased from 165% at 31 December 2010 to 136% at 31 December 2011 (138% including the aforementioned loans and receivables held for sale). The Group is managing to interim targets for the Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR") pending their formal introduction as regulatory standards in 2015 and 2018 respectively.

Access to wholesale funding markets continued to be restricted in 2011. This is a symptom of the continued negative sentiment towards the fiscal position which gave rise to the EU/ECB/IMF financial support package, the Europe-wide uncertainty in the second half of 2011 and the Group's credit rating. The terms of the restructuring plan agreed with the EU/ECB/IMF requires AIB to reduce its wholesale funding dependency and maintain its deposit franchise. The retention and gathering of stable customer accounts in a challenging and increasingly competitive market environment remains a key focus of the Group. Coupled with the action to deleverage Non-Core assets, this is paramount to increasing the bank's pool of available liquid assets and to the Group's overall funding/liquidity strategy.

Capital

See Capital Management section commencing on page 43.

Segment reporting

In this section, the Group's operations are reported under the Core banking segments and Group (which includes wholesale treasury activities). Non-Core, which comprises assets which AIB is committed to deleveraging together with related costs, is reported as a distinct portfolio.

The segments' performance statements include all income and direct costs relating to each segment but exclude certain overheads which are held centrally in the 'Group' segment. Funding and liquidity charges are based on actual wholesale funding costs incurred and a segment's net funding requirements. Wholesale funding costs include ELG charges relating to wholesale funds. Net interest income also includes ELG charges directly attaching to customer deposits within a segment. Income on capital is allocated to segments based on each segment's capital requirement. Surplus capital is held in the Group segment. The cost of services between segments and from central support functions to 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 financial statements.

Personal & Business Banking ("PBB") *comprises banking operations for personal customers and small enterprises within the Republic of Ireland. This segment also includes Channel Islands and the Isle of Man.*

PBB income statement	**2012 € m**	2011 € m	2010 € m
Net interest income before ELG	**672**	686	783
ELG	**(97)**	(103)	(64)
Net interest income	**575**	583	719
Other income	**259**	263	297
Total operating income	**834**	846	1,016
Personnel expenses	**(420)**	(441)	(443)
General and administrative expenses	**(217)**	(200)	(175)
Depreciation/amortisation	**(55)**	(57)	(65)
Total operating expenses	**(692)**	(698)	(683)
Operating profit before provisions	**142**	148	333
Provisions for impairment on loans and receivables	**(494)**	(1,177)	(736)
Provisions for impairment on financial investments available for sale	**–**	(2)	(2)
Total provisions	**(494)**	(1,179)	(738)
Operating loss	**(352)**	(1,031)	(405)
Associated undertakings	**13**	(39)	16
Loss on disposal of property	**–**	(1)	–
Loss before disposal of businesses	**(339)**	(1,071)	(389)
Profit on disposal of businesses	**1**	10	–
Loss before exceptional items	**(338)**	(1,061)	(389)

PBB balance sheet metrics	**31 December 2012 € bn**	31 December 2011 € bn	31 December 2010 € bn
Gross loans	**30.0**	29.2	30.6
Net loans	**26.8**	27.0	29.4
Customer accounts	**27.0**	28.2	28.0

2012 v 2011

PBB loss before exceptional items was € 338 million, an improvement of € 723 million on the 2011 loss of € 1,061 million. Operating profit before provisions of € 142 million was € 6 million (4%) lower than 2011 with income € 12 million (1%) lower and costs € 6 million (1%) lower. Income was lower as a result of the higher cost of deposits, lower level of customer transaction activity resulting in lower fee income partly offset by higher lending margins as a result of pricing actions taken in the year. Total operating expenses were € 6 million lower and include the benefit of ongoing cost management actions taken during the period. Excluding the realignment of costs between Group and segments, which was impacted by refinement to the organisation structure, total operating expenses were € 66 million higher reflecting higher transformation and restructuring costs in 2012. Provisions for impairment on loans and receivables reduced from € 1.2 billion in 2011 to € 0.5 billion in 2012.

Gross loans to customers increased € 0.8 billion (3%) in the year. This increase reflects an internal transfer of customer loans from Non-Core of € 1.4 billion, increased lending to personal customers as part of AIB's mortgage lending targets and to small businesses offset by customer loan repayments. In 2012, AIB met its lending commitments of € 3.5 billion to SMEs. There was a € 0.6 billion increase in customer accounts when AIB's operations in Isle of Man and Channel Islands are excluded, representing a return to more normalised deposit market conditions in the second half of 2012.

2011 v 2010

2011 was a particularly difficult year for PBB, as conditions in Ireland's economy remained very challenging. Competition for deposits further intensified against the background of a low interest rate environment. In addition, lower lending margins mainly reflected lower variable rate home mortgage margins partially offset by increased margins on other products. Higher unemployment and lower disposable incomes contributed to higher mortgage impairments.

For the year ended 31 December 2011, PBB recorded a loss before exceptional items of € 1,061 million with provisions for impairment on loans and receivables of € 1,177 million. This compares with a loss before exceptional items of € 389 million in 2010 with provisions for impairment on loans and receivables of € 736 million.

Operating profit before provisions was € 148 million. This was down 56% when compared to 2010, with total operating income of € 846 million down 17% and total operating expenses of € 698 million, an increase of 2%.

Net loans to customers reduced by 8% to € 27 billion at 31 December 2011. This decrease reflects increased loan impairment provisions, loan repayments and subdued demand for new lending, particularly for mortgage and consumer credit products as consumers continue to take a cautious approach to additional debt and in many cases are reducing their personal debt levels.

Total customer accounts remain broadly unchanged at € 28 billion as at 31 December 2011 when compared with 31 December 2010. Intense competition which existed in the Irish deposit market during 2011 coupled with Irish and European sovereign debt concerns impacted on the ability to raise retail deposits. This resulted in a 9% reduction to underlying customer accounts compared with 31 December 2010 when customer accounts received as part of the acquisition of the Anglo deposit business are excluded. Concerns about Ireland's fiscal position and the stability of the banking sector gave rise to significant outflow of deposits in the first half of 2011 and resulted in 8% reduction in deposit balances to 30 June. This decline stabilised in the second half of the year with deposits remaining relatively flat between 30 June and 31 December 2011 as fears subsided and with continued focus by PBB on both retention and gathering of deposits albeit at elevated pricing levels.

Net interest income for year ended 31 December 2011 of € 583 million was 19% lower than 2010. This reduction in net interest income was due to the cost of the Eligible Liabilities Guarantee (ELG) scheme together with the higher cost of wholesale funding. In addition, there was a reduction in the average earning loan volumes due to the migration of loans from earning to impaired and scheduled loan repayments during 2011. There was also a reduction in lending margins, due to variable rate home mortgage pricing as the April and July 25bps ECB rate increases were not passed on to customers. The effect of this was partly offset by some recovery in non mortgage lending margin during the year.

Other income for year ended 31 December 2011 of € 263 million was 11% lower than 2010 reflecting lower level of customer transaction activity with an adverse impact on fees and other income.

Total operating expenses for year ended 31 December 2011 of € 698 million were 2% higher than 2010. Rigorous cost management of the PBB cost base was offset by costs associated with increases in the number of personnel in credit management and compliance roles.

The provision charge for impairment on loans and receivables for year ended 31 December 2011 was € 1,177 million and represents a charge of 3.95% of average gross loans. Impairment charge on the PBB loan portfolio remains high but within expectations due to the economic downturn, which has resulted in high levels of unemployment and lower disposable incomes. These factors combined with high levels of personal debt have given rise to a significant increase in impaired loans. Impaired loans at 31 December 2011 were € 1.2 billion higher at € 2.7 billion when compared to 31 December 2010, driven principally by growth in home mortgage impaired loans of € 1 billion (owner occupier € 0.7 billion, buy to let € 0.3 billion).

Losses incurred on associated undertakings reflect an impairment charge of € 36 million in respect of the investment in Aviva Life Holdings Limited - see note 35 to the financial statements for further details.

Profit on disposal of business for the year ended 31 December 2011 of € 10 million represents the profit from sale of AIB Jerseytrust Limited, located in the Channel Islands.

Corporate, Institutional & Commercial Banking ("CICB") *comprises banking operations for mid-sized commercial and corporate enterprises. It also includes a Corporate Finance business and a Treasury customer services area which delivers treasury services to customers of the Group.*

CICB income statement	**2012 € m**	2011 € m	2010 € m
Net interest income before ELG	**102**	264	322
ELG	**(190)**	(185)	(154)
Net interest income	**(88)**	79	168
Other income	**75**	85	73
Total operating (loss)/income	**(13)**	164	241
Personnel expenses	**(173)**	(163)	(144)
General and administrative expenses	**(64)**	(86)	(79)
Depreciation/amortisation	**(12)**	(14)	(13)
Total operating expenses	**(249)**	(263)	(236)
Operating (loss)/profit before provisions	**(262)**	(99)	5
Provisions for impairment on loans and receivables	**(916)**	(2,933)	(1,557)
Provisions for liabilities and commitments	**(4)**	–	–
Provisions for impairment on financial investments available for sale	**–**	(5)	(7)
Total provisions	**(920)**	(2,938)	(1,564)
Operating loss	**(1,182)**	(3,037)	(1,559)
Loss before exceptional items	**(1,182)**	(3,037)	(1,559)

CICB balance sheet metrics	**31 December 2012 € bn**	31 December 2011 € bn	31 December 2010 € bn
Gross loans	**22.4**	24.7	25.2
Net loans	**16.3**	19.6	22.8
Customer accounts	**14.5**	13.8	15.4

2012 v 2011

CICB loss before exceptional items was € 1.2 billion in 2012 compared to a loss of € 3.0 billion in 2011. Operating loss before provisions was € 262 million in 2012 compared to € 99 million in 2011, with negative total operating income of € 13 million down € 177 million and total operating expenses of € 249 million down € 14 million.

Negative net interest income of € 88 million was € 167 million lower than 2011. The reduction related to a combination of higher non-performing loans and higher deposit funding costs driven by pricing pressure and a lower interest rate environment. Other income of € 75 million was 12% lower than 2011 reflecting lower fee and foreign exchange income and interest rate swap income. Total operating expenses of € 249 million were 5% lower than 2011. Excluding the realignment of costs between Group and segments, which was impacted by refinement to the organisation structure, total operating expenses were in line with 2011. Personnel expenses were 6% higher due to increased staff numbers which were mainly required to support more intensive credit management activity relating to distressed customers. General and administrative expenses of € 64 million in 2012 reduced by 26%, primarily driven by lower external provider fees associated with business transformation in 2011. Provisions for impairment on loans and receivables for 2012 were € 0.9 billion compared to € 2.9 billion in 2011. While the reduction in the credit provision charge is significant, the level of the charge remains elevated due to the difficult domestic economic environment and continued decline in property valuations.

Gross loans to customers decreased € 2.3 billion (9%) reflecting lower customer demand and an internal transfer of customer loans to Non-Core.

There was a € 0.7 billion (5%) increase in customer accounts representing a return to more normalised deposit market conditions in the second half of 2012.

2011 v 2010

CICB loss before exceptional items was € 3.0 billion in 2011 compared to € 1.6 billion in 2010. Operating loss before provisions of € 99 million in 2011 compared to an operating profit of € 5 million in 2010, with total operating income of € 164 million down by € 77 million and total operating expenses of € 263 million up € 27 million.

Net interest income of € 79 million was 53% lower than 2010. This reduction in net interest income was due to higher non-performing loan volumes, higher costs of deposits and increased ELG costs. Deposit pricing remained intensely competitive throughout the year.

Consumer sentiment in the Republic of Ireland remained subdued during 2011 with ongoing uncertainty in the Eurozone. CICB is fully committed to supporting customers facing difficulty and has a dedicated team in place to provide a range of supports to mid sized commercial enterprises.

Gross loans were down € 0.5 billion compared to 2010 and net loans were down by € 3.2 billion, mainly due to provision charges. Demand for business credit remained at subdued levels reflecting the uncertain economic outlook.

Other income of € 85 million was 16% higher due to lower mark to market writedowns in 2011. Excluding the writedowns, other income was lower than 2010 reflecting lower fee and foreign exchange income.

Personnel expenses were € 19 million higher due to increased staff numbers which were mainly required to support more intensive credit management activity and the reversal in 2010 related to personnel expenses not utilised. General and administrative expenses of € 86 million in 2011 increased by 9%, primarily driven by higher external provider fees associated with business transformation.

The provision charge for impairment on loans and receivables for 2011 was € 2.9 billion compared to € 1.6 billion in 2010. The increase in the impairment charge reflects the stressed economic environment and falling property values through 2011.

AIB UK *comprises retail and commercial banking operations in 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").*

AIB UK income statement		2012 £ m	2011 £ m	2010 £ m
Net interest income before ELG		**112**	167	241
ELG		**(29)**	(51)	(45)
Net interest income		**83**	116	196
Other income		**54**	61	77
Total operating income		**137**	177	273
Personnel expenses		**(88)**	(109)	(118)
General and administrative expenses		**(70)**	(54)	(39)
Depreciation/amortisation		**(9)**	(6)	(8)
Total operating expenses		**(167)**	(169)	(165)
Operating (loss)/profit before provisions		**(30)**	8	108
Provisions for impairment on loans and receivables		**(79)**	(194)	(104)
Operating (loss)/profit		**(109)**	(186)	4
Associated undertakings		**2**	2	2
(Loss)/profit before exceptional items		**(107)**	(184)	6
(Loss)/profit before exceptional items	€ m	**(131)**	(214)	7

AIB UK balance sheet metrics	31 December 2012 £ bn	31 December 2011 £ bn	31 December 2010 £ bn
Gross loans	**7.3**	7.9	8.1
Net loans	**6.8**	7.5	7.8
Customer accounts	**8.9**	8.5	7.7

2012 v 2011

AIB UK reported a loss before exceptional items of £ 107 million, an improvement of £ 77 million on 2011. The operating loss before provisions of £ 30 million, £ 38 million lower than 2011 was primarily driven by a reduction in net interest income. Other income fell by 11% due to lower business transactions. Total operating expenses of £ 167 million were 1% lower than the previous year. Excluding the realignment of costs between Group and segments, which was impacted by refinement to the organisation structure, total operating expenses were £11 million or 7% higher than the previous year. Personnel expenses declined by 19% in the year, but were offset by higher general and administrative expenses mainly due to restructuring costs for head office and branch amalgamations and closures in 2012. Provisions for impairment on loans and receivables for the year decreased by 59% to £ 79 million, compared to 2011.

Gross loans have fallen by 8% due to loan repayments and lower customer demand. Customer accounts have increased by 5% since December 2011, with increases occurring mainly through the Savings Direct channel[(1)] and also in the AIB GB branch network. AIB UK withdrew from the ELG scheme in August 2012.

[(1)]The Savings Direct channel was established following the transfer of deposits from Anglo Irish Bank in 2011.

2011 v 2010

AIB UK reported a loss before exceptional items of £ 184 million. Operating profit before provisions was £ 8 million in 2011 compared with a profit of £ 108 million in 2010, reflecting the reduction in loan volumes and continued competition for customer deposits.

The reduction in operating profit was primarily driven by a 41% reduction in net interest income. This reflects a reduction in income from lower lending volumes mainly as a result of asset transfers to NAMA and Non-Core combined with continued margin compression on customer deposits. Lending margins continued to improve during the year, while net customer loans fell since December 2010. Customer deposits increased by 10% since December 2010, which reflects the Anglo deposit business acquired in February 2011. While there was some reduction in the AIB originated UK book, this stabilised in the second half of 2011. As a result of the decrease in advances and increase in the deposit book, the loan deposit ratio improved to 88% at 31 December 2011.

Other income fell by 21%, as a result of the reduction in fee income due to lower business transactions than the previous year and a gain on disposal of available for sale debt securities in 2010 which was not repeated in 2011. Costs increased by 2% on the previous year, with lower staff costs as a result of reduced staff numbers and lower pension costs offset by higher operating expenses due to non recurring items.

Loan impairment charges for the year increased to £ 194 million, due to the continued economic downturn along with a higher IBNR charge in 2011.

EBS *was acquired by AIB on 1 July 2011 and therefore the 2011 results are for a six month period only. EBS is primarily a mortgage based lending operation located in the Republic of Ireland. The income statement presented below is prepared on a management reporting basis and it excludes non-core and treasury related activities which are reported under the Non-Core and Group segments respectively.*

EBS income statement	**2012 € m**	2011 € m
Net interest income before ELG	**122**	113
ELG	**(60)**	(27)
Net interest income	**62**	86
Other income	**11**	5
Total operating income	**73**	91
Personnel expenses	**(30)**	(18)
General and administrative expenses	**(32)**	(19)
Depreciation/amortisation	**(10)**	(5)
Total operating expenses	**(72)**	(42)
Operating profit before provisions	**1**	49
Provisions for impairment on loans and receivables	**(237)**	(201)
Operating loss	**(236)**	(152)
Loss before exceptional items	**(236)**	(152)

EBS balance sheet metrics	**31 December 2012 € bn**	31 December 2011 € bn
Gross loans	**13.0**	13.6
Net loans	**12.3**	13.1
Customer accounts	**10.1**	8.5

2012 v 2011

EBS reported a loss before exceptional items of € 236 million for the full year 2012 compared to € 152 million for the six months in 2011, which includes provisions for impairment on loans and receivables of € 237 million (€ 201 million in 2011). The operating profit before provisions for the period was € 1 million.

Net interest income for the period was € 62 million. The cost of deposits remained high during the year as competition for deposits remained intense against the background of a low interest rate environment. Total operating expenses in the period were € 72 million. Provisions for impairment on loans and receivables of € 237 million represents 1.8% of average loan balances and brings total provisions at 31 December 2012 to € 715 million or 5.5% of outstanding balances compared to € 461 million or 3.4% of outstanding balances at 31 December 2011.

EBS continues to support the residential mortgage market in Ireland through mortgages advanced to first time buyers and home movers. However, demand for new mortgages throughout 2012 was very low and gross loans reduced € 0.6 billion (4%).

EBS continues to have a strong franchise in the retail deposit market and at 31 December 2012 had total customer accounts of € 10.1 billion, an increase of € 1.6 billion or 19% since 31 December 2011.

2011 v 2010

EBS reported a loss before exceptional items of € 152 million for the period since acquisition by AIB on 1 July 2011. The loss of € 152 million included provisions for impairment on loans and receivables of € 201 million.

Net interest income for the period was € 86 million. The cost of retail and wholesale funding, including the cost of ELG remained high during the period. It was necessary to further increase customer lending rates in order to return loan margins to sustainable levels.

Total operating expenses in the period were € 42 million. The underlying costs of running the business are under constant review.

The impairment charge for loans and receivables of € 201 million on an annualised basis represented 2.94% of average loans. The economic conditions in the Republic of Ireland continue to be extremely challenging for customers and the impact of high unemployment, austerity measures and a stressed property market led to increased default levels and consequently higher impairment charges. EBS is fully committed to supporting customers in financial difficulty.

EBS continues to support the residential mortgage market in Ireland through mortgages advanced to first time buyers and home movers. At 31 December 2011, EBS had total gross mortgages of € 13.6 billion. The level of loans advanced in 2011 was lower than in previous years due to subdued demand and the introduction of tighter credit criteria.

EBS continues to have a strong franchise in the retail deposit market and at 31 December 2011 had total customer accounts of € 8.5 billion. The impact of successive corporate and sovereign downgrades in the Republic of Ireland resulted in pricing remaining intensely competitive but retail balances were maintained.

Group *includes wholesale treasury activities, central services costs and income on surplus capital.*

Group income statement	**2012 € m**	2011 € m	2010 € m
Net interest income before ELG	**364**	371	492
ELG	**4**	(51)	2
Net interest income	**368**	320	494
Other income	**(37)**	(22)	(112)
Total operating income	**331**	298	382
Personnel expenses	**(216)**	(117)	(94)
General and administrative expenses	**(167)**	(208)	(157)
Depreciation/amortisation	**(31)**	(30)	(90)
Total operating expenses	**(414)**	(355)	(341)
Operating (loss)/profit before provisions	**(83)**	(57)	41
Provisions for liabilities and commitments	**–**	(11)	–
Provisions for impairment on financial investments available for sale	**(84)**	(270)	(54)
Total provisions	**(84)**	(281)	(54)
Operating loss	**(167)**	(338)	(13)
Profit on disposal of property	**2**	–	46
(Loss)/profit before disposal of businesses	**(165)**	(338)	33
Profit/(loss) on disposal of businesses	**–**	28	(11)
(Loss)/profit before exceptional items	**(165)**	(310)	22

Group balance sheet metrics	**31 December 2012 € bn**	31 December 2011 € bn	31 December 2010 € bn
Gross loans	**–**	–	0.1
Net loans	**–**	–	0.1
Customer accounts	**1.1**	–	–

2012 v 2011

Group reported a loss before exceptional items for the year to December 2012 of € 165 million compared to € 310 million for the year to December 2011.

Total operating income of € 331 million in 2012 was € 33 million higher compared to € 298 million in 2011. The increase included higher income from Wholesale Treasury and net gains of € 31 million from the disposal of UK and Eurozone securities partially offset by lower income on surplus capital due to a lower interest rate environment. ELG costs reduced by € 55 million in the period primarily due to the reduction in deposits.

Total operating expenses in 2012 of € 414 million increased from € 355 million in 2011. Excluding the realignment of costs between Group and segments, which was impacted by refinement to the organisation structure, Group costs reduced by € 46 million mainly due to lower external provider fees. 2011 included external provider fees in relation to capital raising and transformation programme.

Total provisions reduced to € 84 million in 2012 from € 281 million in 2011. The charge in 2011 primarily related to bonds held in other financial institutions whilst the charge of € 84 million in 2012 related to an impairment of the NAMA subordinated bonds.

2011 v 2010

Group reported a loss before exceptional items of € 310 million compared to a profit of € 22 million in 2010. This out-turn reflected higher impairment on financial investments available for sale and lower profit from wholesale treasury activities.

The trends in net interest income and other income in Group were impacted by the reclassification of income between headings in relation to interest rate hedging. Consequently, it is more meaningful to analyse the trend in total operating income. Total operating income excluding exceptional items decreased from € 382 million in 2010 to € 298 million in 2011. This reflected lower income from wholesale treasury activities partly offset by higher capital income in 2011.

Total operating expenses of € 355 million in 2011 increased by € 14 million compared to 2010. This reflected significant expenditure on external engagement including external provider fees and regulatory fees. These increases were partly offset by lower depreciation/amortisation in 2011, mainly due to a writedown in 2010 in the value of intangible assets in relation to projects discontinued.

Total provisions increased from € 54 million in 2010 to € 281 million in 2011. The increase in provision for impairment on financial investments available for sale reflected the impairment of Eurozone bank and sovereign bonds and the impairment of subordinated bonds received on transfer of assets to NAMA.

The profit on disposal of business in 2011 mainly reflects the profit on sale of the investment in AIB International Financial Services and related companies of € 27 million.

Non-Core *comprises non strategic assets, assets which the bank is committed to deleveraging and activity relating to the transfer of loans to NAMA.*

Non-Core income statement	**2012 € m**	2011 € m	2010 € m
Net interest income before ELG	**96**	211	272
ELG	**(9)**	(63)	(38)
Net interest income	**87**	148	234
Other income	**(57)**	37	115
Total operating income	**30**	185	349
Personnel expenses	**(66)**	(70)	(102)
General and administrative expenses	**(41)**	(62)	(72)
Depreciation/amortisation	**–**	(2)	(2)
Total operating expenses	**(107)**	(134)	(176)
Operating (loss)/profit before provisions	**(77)**	51	173
Provisions for impairment on loans and receivables	**(690)**	(3,325)	(3,601)
Provisions for liabilities and commitments	**(5)**	(6)	–
Provisions for impairment on financial investments available for sale	**(2)**	(6)	(11)
Total provisions	**(697)**	(3,337)	(3,612)
Operating loss	**(774)**	(3,286)	(3,439)
Associated undertakings	**(5)**	–	–
Loss before disposal of businesses	**(779)**	(3,286)	(3,439)
Profit on disposal of businesses	**2**	–	–
Loss before exceptional items	**(777)**	(3,286)	(3,439)

Non-Core balance sheet metrics	**31 December 2012 € bn**	31 December 2011 € bn	31 December 2010 € bn
Gross loans[1]	**15.6**	21.7	28.4
Gross loans held for sale to NAMA	**–**	–	2.2
Net loans[2]	**9.6**	15.0	25.1
Net loans held for sale to NAMA	**–**	–	1.9

[1]Includes other gross loans held for sale, excludes gross loans held for sale to NAMA.

[2]Includes other net loans held for sale, excludes net loans held for sale to NAMA.

2012 v 2011

Non-Core loss before exceptional items amounted to € 777 million for 2012, a decrease of 76% on € 3,286 million in 2011. Net interest income declined by € 61 million (41%), principally due to reductions in Non-Core loan volumes arising from ongoing deleveraging, partly offset by reduced wholesale funding costs and lower ELG costs. Other income decreased by € 94 million following the sale of Non-Core businesses and loan breakage and associated costs relating to deleveraging. Total operating expenses for 2012 of € 107 million were 20% lower than 2011. Excluding the realignment of costs between Group and segments, which was impacted by refinement to the organisation structure, Non-Core costs reduced to € 107 million in 2012 from € 130 million in 2011 mainly due to lower legal and due diligence costs associated with loans transferred to NAMA and lower operating costs following the sale of Non-Core portfolios and businesses. Provisions for impairment on loans and receivables were € 0.7 billion in 2012, a reduction of € 2.6 billion from 2011 levels. Associated undertakings reflect an impairment charge in respect of a Non-Core held for sale investment.

Gross loans of € 15.6 billion reduced by € 6.1 billion in 2012 reflecting the ongoing deleveraging of Non-Core loans.

Total net loans reduced by € 15.5 billion since inception of the deleveraging programme. When EBS non core loans are included, the total loan deleveraging represents c. 89% of the three year deleveraging target of € 20.5 billion to be achieved by the end of 2013. The loss on disposal of loans is treated as an exceptional item and is set out on page 22. Losses incurred to date represent an overall cumulative discount of 10% on disposals/amortisation which were significantly less than the average discount set out in the Financial Measures Programme process.

2011 v 2010

Non-Core was established to formulate and implement AIB's strategy of deleveraging non-core assets through a combination of disposals, run-off, refinancing and other forms of deleveraging. Non-Core assets are managed as a distinct portfolio within the business by a dedicated management team. The team has an explicit performance mandate to realise optimum value from the portfolio while also preserving AIB's core customer franchise within the overall objective of meeting the defined deleveraging targets as agreed with the regulatory authorities.

To date, AIB has made significant progress in meeting its deleveraging targets. During 2011, Non-Core net loans reduced by € 10.1 billion, notwithstanding the inclusion of € 2.2 billion of EBS loans classified as Non-Core at 31 December 2011. This reduction was achieved through a combination of disposals, targeted non-refinancing of loans, redemptions, scheduled repayments and additional provisioning. This principally occurred in overseas property, project finance and other leveraged portfolios located in the United States, United Kingdom and Europe.

Losses before exceptional items of € 3.3 billion in 2011 compared to € 3.4 billion in 2010. Net interest income declined by 37% from € 234 million to € 148 million as loan volumes declined significantly in line with the bank's ongoing deleveraging strategy. Lower fee income following the sale of Non-Core businesses and losses on credit derivative contracts contributed to the fall in other income.

Total operating expenses fell by 24%, principally impacted by lower staff numbers, staff related costs and operating expenses following the sale of Non-Core businesses.

The reduction in credit provisions from € 3.6 billion in 2010 to € 3.3 billion in 2011 reflects lower NAMA loans in 2011. Excluding credit provisions on NAMA loans, credit provisions increased from € 2.1 billion in 2010 to € 3.2 billion in 2011. Continuing credit stresses, particularly in the property and development portfolios, contributed to this increase.

Financial review - 4. Capital management

Capital

The objectives of the Group's capital management policy are to at all times comply with regulatory capital requirements and to ensure that the Group has sufficient capital to cover the current and future risks inherent in its business and to support its future development. The Group does this through an Internal Capital Adequacy Assessment Process ("ICAAP"), which is subject to supervisory review and evaluation. The minimum regulatory capital requirements set by the Central Bank, which reflect the requirements of the Capital Requirements Directive ("CRD") established a floor of 4% under which the core tier 1 capital ratio must not fall (8% for total capital ratio). Following the Prudential Capital Assessment Review ("PCAR") in March 2011, the Central Bank announced a new minimum capital target for AIB of 10.5% core tier 1 capital ratio in a base scenario and 6% core tier 1 capital ratio in a stressed scenario. These target ratios form the basis of the Group's capital management policy and are the capital adequacy requirements effective as at 31 December 2012.

The Group's capital base underwent significant changes in 2011, the most significant of which was the recapitalisation of the Group by the Irish Government following the completion of the Central Banks' Financial Measures Programme. As a result of the PCAR 2011 exercise, AIB was required to raise capital of € 14.8 billion which was completed in July 2011 via the following:

- Liability management exercise € 2.1 billion
- Equity placing to NPRFC € 5.0 billion
- Contingent capital issue € 1.6 billion
- Capital contribution € 6.1 billion

In May 2012, following an Irish High Court order, € 5.9 billion was transferred into revenue reserves. € 2 billion of share premium was cancelled and € 3.9 billion was reduced from capital redemption reserves. This had no impact on the Group's capital base in 2012. The Group's core tier 1 capital ratio was 15.1% as at 31 December 2012, down from 17.9% as at 31 December 2011 (see commentary on page 44).

Capital Requirements Directive ("CRD")

The CRD, which came into force on 1 January 2007, is the EU directive that establishes the regulatory capital adequacy requirements for credit institutions. It is set out in three distinct 'pillars'. Pillar 1 is concerned with the calculation of the minimum capital requirements for credit risk, market risk and operational risk. It introduced greater granularity and sensitivity in risk weightings, including for certain portfolios risk weightings determined by regulatory approved internal rating models (known as the Internal Ratings Based approach). Under Pillar 2 banks are required to estimate their own internal capital requirements to cover all material risks (not limited to the pillar 1 risks) as part of their ICAAP which is then subject to supervisory review and evaluation (known as the "SREP"). Pillar 3 ('market discipline') involves the disclosure of a suite of qualitative and quantitative risk management information to the market. The Group issued its most recent pillar 3 disclosures in June 2012.

Since it first came into effect the CRD has been amended a number of times ("CRD II" and "CRD III"). These amendments reflected in the main; new requirements on hybrid tier one capital instruments; updates to the large exposures regime; improved risk management requirements for securitisations; and changes to trading book capital requirements. These amendments have not had a material impact on the capital position of the Group. In July 2011 a further amendment to the CRD was proposed by the European Commission to implement Basel 3 in Europe. This new directive, CRD IV, was due to be in place from 1 January 2013. The implementation of CRD IV has been delayed from its original target implementation date, as drafting of the underlying regulations and directive has not completed. Notwithstanding this it is still expected to come into effect on a phased basis in 2013, fully effective from 1st January 2018. It is based on the Basel 3 recommendations, which were developed in response to the recent banking crisis and aims to strengthen the capital adequacy of banks by increasing:

- the quality of eligible capital the banks can include in their capital base for capital adequacy purposes; and
- the quantity of capital held by setting significantly higher minimum capital ratios and identifying capital buffers that can be imposed by national supervisors according to their assessment of risk exposure.

Based on our current interpretation of the draft CRD IV regulations, the Group's pro forma Common Equity Tier 1 ("CET 1") ratio, including the 2009 Preference Shares (which will continue to be considered as CET 1 until 31 December 2017), is estimated at 9.7% as at 31 December 2012.

Financial review - 4. Capital management

The following table summarises the Group capital position as at 31 December 2012 and 2011:

Capital adequacy information*	2012 € m	2011 € m
Tier 1		
Paid up share capital and related share premium	**8,096**	10,096
Eligible reserves	**3,022**	5,313
Regulatory adjustments	**(312)**	(263)
Core tier 1 capital	**10,806**	15,146
Supervisory deductions from tier 1		
Unconsolidated financial investments	**(6)**	(2)
Securitisations	**(45)**	(79)
Total tier 1 capital (Core tier 1 capital including supervisory deductions)	**10,755**	15,065
Tier 2		
Eligible reserves	**125**	125
Credit provisions	**682**	795
Subordinated term loan capital	**1,154**	1,472
Supervisory deductions from tier 2 capital	**(51)**	(81)
Total tier 2 capital	**1,910**	2,311
Gross capital	**12,665**	17,376
Supervisory deductions	**(74)**	(74)
Total capital	**12,591**	17,302
Risk weighted assets (unaudited)		
Credit risk	**66,335**	77,863
Market risk	**616**	560
Operational risk	**4,466**	5,856
Total risk weighted assets	**71,417**	84,279
Capital ratios (unaudited)		
Core tier 1	**15.1%**	17.9%
Total	**17.6%**	20.5%

Risk weighted assets ("RWAs") reduced by € 12.9 billion in the year to 31 December 2012. The credit RWAs reduction of € 11.5 billion is primarily a result of deleveraging, amortisations and increased provisions, which were offset, to a degree, by deterioration in credit quality, particularly in the mortgage portfolio.The RWAs attached to Operational risk reduced by € 1.4 billion in 2012 reflecting the reduced levels of income in the annual calculation, arising, in the main, from disposals and the impact of the economic decline in the last three years.

Core tier 1 capital has reduced by € 4.3 billion in the period; this is primarily due to the attributable loss for the period. The impact of this movement together with the decrease in RWAs is a reduction in the core tier 1 capital ratio from 17.9% at 31 December 2011 to 15.1% at 31 December 2012.The core tier 1 ratio is in excess of the 10.5% target core tier 1 requirement as announced under the Financial Measures Programme in March 2011.

Total capital reduced by € 4.7 billion in the year to 31 December 2012, due to the € 4.3 billion movements in core tier 1 capital described above and a € 0.4 billion reduction in tier 2 capital. The reduction in tier 2 capital results from the continued amortisation of the contingent capital instrument that is within five years to maturity. The contingent capital instrument is due to mature in July 2016. The impact of this movement together with the decrease in RWAs is a reduction in the total capital ratio from 20.5% at 31 December 2011 to 17.6% at 31 December 2012.

*Forms an integral part of the audited financial statements.

Financial review - 5. Critical accounting policies and estimates

The Group's accounting policies are set out on pages 193 to 217 of this report.

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

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

Going concern*

The financial statements have been prepared on a going concern basis. In making its assessment of the Group's ability to continue as a going concern, the Board of Directors have taken into consideration the significant economic and market risks and uncertainties that continue to impact the Group. These include the ability to access Eurosystem funding and Central Bank liquidity facilities to meet liquidity requirements. In addition, the Directors have considered the current level of capital and the potential requirement for capital in the period of assessment. Furthermore, the Directors considered the risks and uncertainties impacting the Eurozone and have taken into account the developments taken at EU level which saw a marked easing of the Eurozone sovereign debt crisis and improvements in conditions in Eurozone financial markets during the second half of 2012.

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 2012 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 market segments assess and approve their provisions and provision adequacy on a quarterly basis. These provisions are in turn reviewed and approved by the AIB Group Credit Committee on a quarterly basis with ultimate Group levels being approved by the Audit Committee and the Board.

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

Specific provisions

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

The amount of specific provision required on an individually assessed loan is highly dependent on estimates of the amount of future cash flows and their timing. Individually insignificant impaired loans are collectively evaluated for impairment. 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.

Changes in the estimate of the value of security and the time it takes to receive those cash flows could have a significant effect on the amount of impairment provisions required and on the income statement expense and on the statement of financial position, for example, in assessing the value of residential property held as collateral for impaired mortgage loans in Ireland, AIB uses a 'peak to trough' house price decline of 55% as a base. In certain circumstances, realisation costs of 10% to 20% are also deducted.

*Forms an integral part of the audited financial statements.

Specific provisions (continued)

For larger impaired loans (individually significant) other factors such as recent transactional evidence and/or local knowledge are considered, which can result in higher discounts to collateral values. CSO statistics for December 2012 outline a 'peak to trough' decline of 49.6% for residential property, nationally. If prices were to decline by a further 5% from AIB's assumed values and this decline fell directly through to the collateral values of its impaired mortgage loans in Ireland, the additional impairment provision impact would be in the range of approximately € 240 million to € 280 million.

The construction and property loan portfolio continues to be adversely impacted by the downturn in both the Irish and UK economies. Collateral values have significantly reduced and, particularly in Ireland, market activity is very low in the sector. Accordingly, the estimation of cash flows likely to arise from the realisation of such collateral is subject to a very 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 earning portfolio and the period of time it takes following a loss event for an individual loan to be recognised as impaired ('emergence period') are subject to a greater element of estimation due to the speed of change in the economies in which the Group operates and the unprecedented market conditions.

The potential impact of an increase of one month in the emergence period could result in additional impairment provisions of c. € 40 million to € 50 million relating to the residential mortgage portfolio and c. € 80 million to € 90 million for the non-mortgage portfolios.

Forbearance

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

The Group has developed a number of forbearance strategies for both short-term and longer-term solutions to assist customers experiencing financial difficulties. The forbearance strategies involve modifications to contractual repayment terms in order to improve the collectability of outstanding debt, to avoid default, and where relevant, to avoid repossessions. The longer-term advanced forbearance strategies are currently in the process of being rolled out to relevant residential mortgage customers in Ireland. Accordingly, a higher level of judgement and estimation is 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 38.

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 by the Irish Government to AIB as agreed with the EU/IMF;
- 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;
- updated restructuring plan submitted to the European Commission in September 2012, targeting a return to profitability in 2014 and the ability to grow profits thereafter;
- financial support provided to the Irish State under the EU/IMF programme;
- absence of any expiry dates for Irish and UK tax losses;

*Forms an integral part of the audited financial statements.

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

– non-enduring nature of the loan impairments at levels which resulted in recent years' losses; and
– external forecasts for Ireland and the UK which indicate continued economic recovery through the period of the medium-term financial plan.

Against this, there are a number of uncertainties inherent in any long-term financial assumptions and projections and other negative evidence, including:

– continued funding and margin pressures;
– reduced size of the Group's operations following re-structuring;
– recent reductions in a number of external forecasts of near-term economic growth rates in Ireland and the UK; and
– instability in the Eurozone and in the Irish and global economies.

The Group's strategy and its medium term financial plan targets a return to profitability by 2014 and growth in profitability thereafter.

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. Assuming a sustainable market return on equity over the long term for future profitability levels in Ireland, it will take an extended time period, in excess of 20 years, to absorb such tax losses.

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

However, for certain other subsidiaries and branches, the Group has also concluded that it is more likely than not that there will be insufficient profits to support recognition of deferred tax assets.

The amount of recognised deferred tax assets arising from unused tax losses amounts to € 3,904 million of which € 3,270 million relates to Irish tax losses and € 634 million relates to United Kingdom tax losses.

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

Determination of fair value of financial instruments*

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

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

Valuation techniques that rely to a greater extent on non-observable data require a higher level of management judgement to calculate 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 take on was determined using a valuation technique.

*Forms an integral part of the audited financial statements.

NAMA senior bonds designation and valuation* ***(continued)***

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; 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.

NAMA senior bonds are subject to the same credit review processes and procedures as for loans and receivables (accounting policy number 17).

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. In relation to the defined benefit schemes, a full actuarial valuation is undertaken every three years and is updated to reflect current conditions in the intervening periods. Scheme assets are valued at fair value. Scheme liabilities are measured on an actuarial basis, using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

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

In June 2012, the Group announced a pay and benefits review which proposed amendments to the pay and benefits of staff. At 31 December 2012, certain elements of this review had already been implemented and their impact was recognised in the financial statements. In relation to the proposed closure of the defined benefit schemes to further accrual, whilst the Group had signalled its intentions in this regard, this had not occurred at 31 December 2012, therefore, its impact was not recognised in the financial statements.

Termination benefits provisions

The Group's accounting policy for termination benefits is set out in accounting policy number 11.

The Group announced a voluntary severance programme in May 2012 which included both an early retirement scheme and a voluntary severance scheme. The programme is scheduled to run until December 2013, however, a sizeable number of staff have already left the Group. The income statement has been charged for the expense relating to all staff expected to leave under this programme. The provisions at 31 December 2012 are based on management's best estimate of the cost for the expected level of staff leaving in 2013 based on currently known facts and expectations.

Basis of consolidation*

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

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

*Forms an integral part of the audited financial statements

Financial review - 6. Deposits and short term borrowings

Customer accounts

The following table analyses average deposits by customers based on the location of the offices in which the deposits are recorded for 2012, 2011 and 2010, with 2010 showing continuing and discontinued operations separately. The discontinued operations were disposed of on 1 April 2011.

	2012	2011		2010
	Total	Total	Continuing operations	Discontinued operations
	€ m	€ m	€ m	€ m
Domestic offices				
Current accounts	**11,251**	11,179	11,641	–
Deposits				
Demand	**7,311**	5,388	6,110	–
Time	**30,986**	31,068	30,984	–
	49,548	47,635	48,735	–
Foreign offices				
Current accounts	**4,326**	4,144	5,403	4,335
Deposits:				
Demand	**2,368**	1,920	2,611	–
Time	**6,646**	6,759	11,525	5,920
	13,340	12,823	19,539	10,255
Total	**62,888**	60,458	68,274	10,255

Current accounts are both interest bearing and non-interest bearing checking accounts raised through AIB Group's branch network in Ireland, Northern Ireland and Britain. Poland, which was presented as a discontinued operation in 2010, was disposed of on 1 April 2011.

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:

	2012	2011		2010
	Total	Total	Continuing operations	Discontinued operations
	€ m	€ m	€ m	€ m
Euro	**49,755**	46,376	38,715	908
US dollar	**1,145**	1,197	1,422	203
Sterling	**12,567**	12,974	11,869	57
Polish zloty	**2**	3	–	9,317
Other currencies	**141**	124	383	11
Total	**63,610**	60,674	52,389	10,496

Financial review - 6. Deposits and short term borrowings

Large time deposits and certificates of deposit

The following tables show details of the Group's large time deposits and certificates of deposit (US$ 100,000 and over or the equivalent in other currencies) by time remaining until maturity as at 31 December 2012, 2011 and 2010. The analysis for 2010 shows continuing operations and discontinued operations separately. The discontinued operations were disposed of on 1 April 2011.

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

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

Large time deposits and certificates of deposit

Continuing operations	3 months or less € m	After 3 months but within 6 months € m	After 6 months but within 12 months € m	After 12 months € m	2010 Total € m
Large time deposits					
Domestic offices	8,244	1,938	1,737	450	12,369
Foreign offices	3,301	1,126	902	883	6,212
Certificates of deposit					
Domestic offices	–	–	–	–	–
Foreign offices	38	–	10	206	254
Total	11,583	3,064	2,649	1,539	18,835

Discontinued operations	3 months or less € m	After 3 months but within 6 months € m	After 6 months but within 12 months € m	After 12 months € m	2010 Total € m
Large time deposits					
Domestic offices	–	–	–	–	–
Foreign offices	1,752	473	250	18	2,493
Certificates of deposit					
Domestic offices	–	–	–	–	–
Foreign offices	–	–	–	–	–
Total	1,752	473	250	18	2,493

Financial review - 6. Deposits and short term borrowings

Short-term borrowings

The following table shows details of short-term borrowings of AIB Group for the years ended 31 December 2012, 2011 and 2010. The analysis for 2010 shows continuing operations and discontinued operations separately. It is presented on a total Group basis for 2012 and 2011.

	2012	2011	2010	
	Total	Total	Continuing operations	Discontinued operations
	€ m	€ m	€ m	€ m
Commercial Paper:				
End of year outstandings	**–**	–	712	–
Highest month-end balance	**–**	423	4,092	–
Average balance	**–**	35	2,622	–
Average rate of interest				
At end of year	**–**	–	1.32%	–
During the year	**–**	1.25%	0.83%	–
Repurchase agreements:				
End of year outstandings	**16,700**	32,878	40,660	409
Highest month-end balance	**32,845**	49,088	43,441	1,314
Average balance	**21,891**	39,646	28,777	728
Average rate of interest				
At end of year	**0.58%**	0.98%	1.66%	3.19%
During year	**0.78%**	1.33%	0.96%	2.89%
Other short-term borrowings:				
End of year outstandings	**4,283**	6,752	11,326	47
Highest month-end balance	**8,499**	11,987	26,102	209
Average balance	**7,470**	7,363	17,807	132
Average rate of interest				
At end of year	**3.30%**	2.21%	2.09%	1.08%
During year	**3.51%**	1.99%	1.33%	1.71%

Average interest rates during the year are computed by dividing total interest expense by the average amount borrowed. Average interest rates at the year end are average rates for a single day and as such may reflect one-day market distortions which may not be indicative of generally prevailing rates. ‘Other short-term borrowings’ consist principally of borrowings in the inter-bank market included within ‘Deposits by central banks and banks’ and ‘Debt securities in issue’ in the consolidated financial statements and generally have remaining maturities of one year or less. The maturity profiles of the above outstandings are disclosed in note 60 of the consolidated financial statements.

Financial review - 7. Financial investments available for sale

Available for sale debt securities

The following tables categorise AIB Group's available-for-sale debt securities by contractual residual maturity and weighted average yield at 31 December 2012, 2011 and 2010 with the analysis for 2010 showing continuing operations and discontinued operations separately. There were no discontinued operations in either 2012 or 2011.

2012

	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	**–**	**–**	**3,563**	**5.7**	**3,784**	**5.0**	**241**	**5.3**
Euro government securities	**67**	**1.7**	**833**	**1.9**	**534**	**2.7**	**320**	**3.5**
Non Euro government securities	**56**	**0.4**	**344**	**1.5**	**150**	**3.5**	**162**	**3.9**
Supranational banks and government agencies	**83**	**0.9**	**1,491**	**1.7**	**98**	**2.0**	**10**	**0.6**
Collateralised mortgage obligations	**–**	**–**	**13**	**1.2**	**9**	**1.2**	**–**	**–**
Other asset backed securities	**–**	**–**	**53**	**0.4**	**3**	**0.3**	**864**	**0.4**
Euro bank securities	**932**	**3.5**	**2,048**	**3.1**	**90**	**2.7**	**–**	**–**
Non Euro bank securities	**35**	**4.0**	**126**	**2.8**	**–**	**–**	**–**	**–**
Euro corporate securities	**26**	**3.4**	**45**	**6.6**	**8**	**6.2**	**8**	**7.4**
Non Euro corporate securities	**44**	**4.1**	**82**	**4.1**	**39**	**6.4**	**28**	**6.0**
Other investments	**–**	**–**	**12**	**6.9**	**–**	**–**	**–**	**–**
Total	**1,243**	**3.1**	**8,610**	**3.8**	**4,715**	**4.6**	**1,633**	**2.2**

2011

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

Available for sale debt securities *(continued)*

2010

Continuing operations	Within 1 year € m	Within 1 year Yield %	After 1 but within 5 years € m	After 1 but within 5 years Yield %	After 5 but within 10 years € m	After 5 but within 10 years Yield %	After 10 years € m	After 10 years Yield %
Irish Government securities	908	3.1	1,471	4.2	1,930	6.1	–	–
Euro government securities	754	3.6	1,853	2.2	527	2.5	383	3.8
Non Euro government securities	589	4.7	208	2.7	538	2.3	358	4.8
Supranational banks and government agencies	271	5.0	883	2.2	163	2.2	–	–
U.S. Treasury & U.S. Government agencies	142	3.6	–	–	–	–	41	0.6
Collateralised mortgage obligations	–	–	33	1.7	11	2.7	841	0.6
Other asset backed securities	–	–	7	1.7	171	1.0	2,382	1.6
Euro bank securities	1,116	2.5	2,293	2.4	547	3.4	10	4.8
Non Euro bank securities	702	3.8	599	2.1	132	11.1	–	–
Euro corporate securities	17	1.9	152	6.0	11	8.1	7	8.0
Non Euro corporate securities	48	7.5	280	5.4	83	7.2	38	6.7
Other investments	–	–	12	6.9	–	–	–	–
Total	4,547	3.5	7,791	2.9	4,113	4.7	4,060	1.9

2010

Discontinued operations	Within 1 year € m	Within 1 year Yield %	After 1 but within 5 years € m	After 1 but within 5 years Yield %	After 5 but within 10 years € m	After 5 but within 10 years Yield %	After 10 years € m	After 10 years Yield %
Euro government securities	30	3.5	40	4.7	–	–	–	–
Non Euro government securities	341	2.6	897	3.6	388	4.7	–	–
U.S. Treasury & U.S. Government agencies	5	4.9	–	–	–	–	–	–
Euro bank securities	–	–	13	5.8	6	6.3	–	–
Total	376	2.7	950	3.6	394	4.8	–	–+

Financial investments available for sale unrealised gains/losses

The following table gives the fair value of financial investments available for sale by major classifications together with the gross unrealised gains and losses at 31 December 2010. See note 33 of the financial statements for this analysis for 2012 and 2011.

2010

Continuing operations	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	4,309	–	(632)	(632)	111	(521)
Euro government securities	3,517	44	(50)	(6)	1	(5)
Non Euro government securities	1,693	88	(3)	85	(17)	68
Supranational banks and government agencies	1,317	15	(8)	7	(1)	6
U.S. Treasury & U.S. Government agencies	183	2	–	2	–	2
Collateralised mortgage obligations	885	1	(22)	(21)	3	(18)
Other asset backed securities	2,560	1	(291)	(290)	36	(254)
Euro bank securities	3,966	25	(79)	(54)	7	(47)
Non Euro bank securities	1,433	6	(87)	(81)	10	(71)
Euro corporate securities	187	10	(3)	7	(2)	5
Non Euro corporate securities	449	27	(3)	24	(6)	18
Other investments	12	–	–	–	–	–
Total debt securities	20,511	219	(1,178)	(959)	142	(817)
Equity securities						
Equity securities - NAMA subordinated bonds	169	–	(51)	(51)	6	(45)
Equity securities - other	145	23	(11)	12	(2)	10
Total financial investments available for sale	20,825	242	(1,240)	(998)	146	(852)

Financial review - 8. Financial investments held to maturity

The following table categorises the Group's financial investments held to maturity, by maturity and weighted average yield at 31 December 2010, for discontinued operations (there were no financial investments held to maturity for continuing operations in 2010) and there were no financial investments held to maturity at either 31 December 2012 or 31 December 2011.

	2010							
	Within 1 year		After 1 but within 5 years		After 5 but within 10 years		After 10 years	
Discontinued operations	€ m	Yield %	€ m	Yield %	€ m	Yield %	€ m	Yield %
Non Euro government securities	283	4.3	901	5.2	227	5.6	–	–

Financial review - 9. Contractual obligations

Financial liabilities by undiscounted contractual cash flows are set out in note 61 to the consolidated financial statements. The tables in this section provide details of the contractual obligations of the Group as at 31 December 2012, 2011 and 2010 in respect of capital expenditure and operating lease commitments. The analysis for 2010 shows continuing operations and discontinued operations separately.

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

					2011
	Less than 1 year € m	1 to 3 years € m	3 to 5 years € m	After 5 years € m	Total € m
Contractual obligations					
Capital expenditure commitments	11	–	–	–	11
Operating leases	80	134	126	557	897
Total	91	134	126	557	908

					2010
Continuing operations	Less than 1 year € m	1 to 3 years € m	3 to 5 years € m	After 5 years € m	Total € m
Contractual obligations					
Capital expenditure commitments	20	–	–	–	20
Operating leases	73	127	107	546	853
Total	93	127	107	546	873

					2010
Discontinued operations	Less than 1 year € m	1 to 3 years € m	3 to 5 years € m	After 5 years € m	Total € m
Contractual obligations					
Capital expenditure commitments	9	–	–	–	9
Operating leases	37	63	49	77	226
Total	46	63	49	77	235

Risk management

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Risk management – 1. Risk factors

Introduction

The Group's approach to identifying and monitoring the principal risks and uncertainties it faces is informed by risk factors. All of the Group's activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risks which are assessed on a Group wide basis. Certain risks can be mitigated by the use of safeguards and appropriate systems and actions which form part of the Group's risk management framework. The principal risks and uncertainties facing the Group fall under the following broad categories:

- Macro-economic and geopolitical risk;
- Macro-prudential, regulatory and legal risks to the business model; and,
- Risks relating to business operations, governance and internal control systems.

The risks pertaining to each of these categories are set out in summary form in the box below and described in more detail in subsequent pages.

Macro-economic and geopolitical risk

- Ireland depends materially on financial support from the International Monetary Fund ("IMF"), the European Union ("EU") and the European Central Bank ("ECB") and may be adversely affected by the conditions attaching to the financial support provided by these institutions.
- The Group's access to funding and liquidity is adversely affected by the financial instability within the Eurozone.
- Contagion risks could disrupt the markets and adversely affect the Group's financial condition.
- Constraints on liquidity and market reaction to factors affecting Ireland and the Irish economy have created an exceptionally challenging environment for the management of the Group's liquidity.
- The Group's markets, particularly for retail deposits, are at risk from more intense competition.
- The Group's business may be adversely affected by a further deterioration in economic and market conditions.
- General economic conditions continue to be very challenging for mortgage and other lending to customers and increase the risk of payment default.
- The depressed Irish property prices may give rise to increased losses by the Group.
- The Group faces market risks, including non-trading interest rate risk.

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

- Extensive powers continue to be conferred on the Irish Minister for Finance.
- The Group is subject to rigorous and demanding Government supervision and oversight.
- The Group may be subject to the risk of having insufficient capital to meet increased minimum regulatory requirements.
- The Group's business activities must comply with increasing levels of regulation introduced as a result of failings in financial markets.
- The Group's participation in the National Asset Management Agency ("NAMA") Programme gives rise to certain residual financial risks.
- The Group may be adversely affected by further austerity and budget measures introduced by the Irish Government.
- The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgements and estimates that may change over time,or may ultimately not turn out to be accurate, and the value realised by the Group for these assets may be materially different from their current, or estimated, fair value.
- The recoverability of the Group's deferred tax assets depend substantially on the generation of future profits over an extended number of years. Changes in tax legislation, regulatory requirements or accounting standards could adversely affect the basis of recognition.

Risks related to our 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 further prospects.
- The Group faces heightened operational risks.
- The restructuring of the Group entails risks.
- The Group's risk management strategies and techniques may be unsuccessful.
- There is always a risk of litigation arising from the Group's activities.

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

Ireland depends materially on financial support from the International Monetary Fund ("IMF"), the European Union ("EU") and the European Central Bank ("ECB") and may be adversely affected by the conditions attaching to the financial support provided by these institutions

The IMF/EU/ECB Programme of Financial Support for Ireland provides financial assistance to the Irish State. The Programme includes a fundamental downsizing and reorganisation of the banking sector, complemented by the availability of capital to underpin bank solvency. The Irish State committed to 'ensure continued compliance with the minimum core tier 1 capital ratio of 10.5% for all PCAR

banks' (which includes AIB). In addition, the Irish State must report on a series of actions agreed with the EU /IMF on financial sector reforms in Ireland under headings such as deleveraging, funding and liquidity monitoring, asset quality, reorganisation and financial supervision. As part of a quarterly IMF/EU/ECB mission to Ireland, AIB is required to meet with representatives of the IMF, EU and ECB to discuss progress on the restructuring of AIB. In addition, AIB is required to submit a formal restructuring plan to the authorities which sets out the Group's path to viability and presents the Group's plans on deleveraging, funding and liquidity, asset quality, and reorganisation.

A failure to meet the specified conditions of the financial support and achieve the associated fiscal targets on time could lead to a termination of the financial support which could have a material adverse effect on the financial sector in Ireland and on the Group.

The Group's access to funding and liquidity is impacted by the financial instability within the Eurozone

Economic, monetary and political conditions, although improved, remain unstable within a number of the Eurozone members. There is a risk that certain EU/Eurozone members may not be able to support their debt burdens and meet future financial obligations, which may then be reflected in a further downgrade of sovereign credit ratings. This could adversely affect the cost and availability of funding to EU Member States and European banks. The Irish sovereign ratings have a direct impact on the Group's rating, which is a key factor in attracting and retaining deposits. Any future downgrade could threaten the Group's liquidity and funding including its deposit base and might also impede future access to wholesale funding markets. .

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

Contagion risk in the markets in which the Group operates and dislocations caused by the interdependency of financial market participants is an on-going material risk to the Group's financial condition. Any reductions in the perceived creditworthiness of one or more corporate borrowers or financial institutions could lead to market-wide liquidity problems, losses and defaults, which could adversely affect the Group's results, financial condition and future prospects. Another source of potential contagion risk relates to the Euro. The potential withdrawal of Greece from the Eurozone would have a significant adverse effect on the financial stability of Europe, and with it that of the Irish financial system and Irish banks. This scenario could lead to a loss of customers' deposits, as well as creating some immediate operational and business hurdles for the Group.

Constraints on liquidity and market reaction to factors affecting Ireland and the Irish economy have created an exceptionally challenging environment for the management of the Group's liquidity

AIB has been operating in an exceptionally challenging environment for the last four years. Wholesale market conditions have restricted the Group's funding access to short duration, mainly secured funding. However, there has been recent improvement in market sentiment towards Irish issuers and AIB plans to re-engage in a balanced and measured manner to ensure viable funding levels whilst building confidence with external investors.

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

To meet its funding requirements, the Group has accessed a range of central bank liquidity facilities, including certain additional liquidity schemes introduced by central banks for market participants during periods of dislocation in the funding markets. This has included a switch from short term ECB drawings into two 3-year Longer-Term Refinancing Operations ("LTROs") in December 2011 and March 2012. In accessing central bank and other secured lending facilities, the Group has relied significantly on its Qualifying Liquid Assets.

On-going deleveraging and an increase in customer deposits have reduced the Group's reliance on ECB funding and central bank liquidity facilities with the Group now preparing for the expiry of the Eligible Liabilities Guarantee ("ELG") Scheme. However, in the unlikely event that AIB exhausts its stock of available collateral, it would be necessary to seek alternative sources of funding, including continued support by the Irish Government.

The Financial Measures Programme, which requires each domestic Irish bank to meet liquidity requirements including targets set for Basel III ratios, Net Stable Funding Ratio ("NSFR") and Liquidity Coverage Ratio ("LCR") require continued deleveraging measures such as the run off and disposal of non-core assets.

The Group's markets, particularly for retail deposits, are at risk from more intense competition

The Group faces continuing competition for retail deposits across all of its markets. In the absence of available wholesale funding, the Group needs to retain and grow its retail deposits to support future growth. Deposit balances have increased across all business segments and AIB UK's withdrawal from the ELG Scheme has had a negligible impact on deposit balances. While the Group believes it is positioned to compete effectively, there can be no assurance that existing or increased competition will not adversely affect the Group in one or more of the markets in which it operates.

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

The deterioration of the Irish and UK economies has significantly adversely affected the Group's financial condition and performance in recent years. Although, following a very deep recession, economic activity had regained some momentum both in Ireland and internationally, global activity has weakened again.

A renewed downturn in the performance of the Irish economy or other relevant economies could further adversely affect the Group's financial condition and results. This could include further reductions in business activity, lower demand for the Group's products and services, reduced availability of credit, increased funding costs, decreased asset values, and additional write-downs and impairment charges. This would have a material adverse effect on the Group's plans for recovery and deleveraging. The Group's financial performance may also be affected by future recovery rates on assets and the historical assumptions underlying asset recovery rates may no longer be accurate, given the general economic instability.

General economic conditions continue to be very challenging for mortgage and other lending to customers and increases the risk of payment default

The Group remains heavily exposed to the Irish residential property market (€ 39.53 billion). The high level of unemployment, coupled with a general reduction in disposable income (including increased taxes and pay reductions) has had an adverse impact on borrowers' ability to repay loans which is evidenced by the increasing arrears on residential property mortgages.

Furthermore, since 2011 a number of initiatives and regulations were introduced following the Inter-Departmental Working Group on Mortgage Arrears, including the publication of the 'Keane Report', the Code of Conduct on Mortgage Arrears, the Consumer Protection Code 2012 and the 2012 Code of Conduct for Business Lending to Small and Medium Enterprises and the requirement for Mortgage Arrears Resolution Strategies. Collectively, these have led to a need for more sophisticated mortgage arrears management strategies, in particular, the application of forbearance measures which were introduced in 2012. The impact of these measures has yet to be seen, but it does increase the risk of potential loan losses which the Group would not otherwise incur as it may lead to a lack of willingness (as opposed to ability) to repay loans. Furthermore, there is a risk that the reforms of Irish bankruptcy law may result in more customers choosing this as a debt solution.

Overall, there is an increased risk of further impairment to the Group's residential mortgage and commercial property loan portfolios, leading to higher costs, additional write-downs and lower profitability for the Group.

The depressed Irish property prices may give rise to increased losses by the Group

Since the beginning of 2007, the Irish property market has undergone a material negative correction both in property prices and lending activity. AIB's exposure to credit risk is exacerbated when the collateral it holds cannot be realised or is liquidated at prices that are not sufficient to recover the full amount of the loan or other exposure due to AIB. This is most likely to occur during periods of illiquidity and depressed asset valuations, such as those currently being experienced. Any such losses could have a material adverse effect on AIB's future performance and results. In addition, exposure to particularly vulnerable sectors of the Irish and/or UK economies, in particular property and construction, could result in reduced valuations of the assets over which AIB has taken security and reduced recoverability. Furthermore, an increase in interest rates in AIB's main markets may lead, amongst other things, to further declines in collateral values, higher repayment costs and reduced recoverability. Together with the aforementioned risks this may adversely affect AIB's earnings or require an increase in the cumulative impairment charge for AIB.

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

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

Among the most significant market risks which AIB faces are interest rate, foreign exchange, bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin between lending and borrowing costs, the effect of which may be heightened during periods of liquidity stress, such as those experienced in recent times.

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

While AIB has implemented risk management methodologies to mitigate and control these and other market risks to which it is exposed, it is difficult, particularly in the current environment, to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on AIB's financial performance and results of operations.

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

Extensive powers continue to be conferred on the Irish Minister for Finance

The Credit Institutions (Stabilisation) Act 2010 conferred extensive powers on the Irish Minister for Finance to direct the affairs of and restructure credit institutions and reorganise their assets and liabilities. Pursuant to the Act, directors are required to act in a manner that is aligned to the interests of the State in the performance of their duties, having regard to public interest considerations specified in the Act. The provisions of the Act were to cease to have effect on 31 December 2012 unless otherwise extended. The Act was extended and remains in effect until the end of 2014, unless further extended in due course.

The Group is subject to rigorous and demanding Government supervision and oversight

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

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

The Group's target capital requirements as determined by the Central Bank of Ireland under its Prudential Capital Assessment Review ("PCAR") are currently a core tier 1 ratio of 10.5% in the base scenario and 6% in a stressed scenario (excluding a requirement for an additional protective buffer). As at 31 December 2012, the Group achieved a core tier 1 ratio of 15.1% which is above the required level. AIB carries out extensive forward-looking stress tests on its capital position on a quarterly basis and, over the course of 2012, these have confirmed that the Group does not require additional capital within the defined stress level. However, given the levels of uncertainty in the current economic environment, there is a possibility that the economic outturn over the capital planning period may be materially worse than the stress scenario envisaged and/or that losses on the Group's credit portfolio may be above forecast levels. Were such losses to be significantly greater than currently forecast, there is a risk that the Group's capital position could be eroded to the extent that it would have insufficient capital to meet its regulatory requirements.

The Group's business activities must comply with increasing levels of regulation introduced as a result of failings in financial markets

In 2012, the unprecedented level of new regulations, issued by both by the Central Bank of Ireland and the EU, continued through a number of new and revised Codes and Directives:

- The first compliance statement under the Corporate Governance Code for Credit Institutions and Insurance firms which was introduced in 2011 was required to be submitted. The Code sets out the minimum requirements an institution must meet to promote strong and effective governance;
- The revised Code of Conduct for Business Lending to Small and Medium Enterprises offers added protection to those in financial difficulties. This code came into effect on 1 January 2012 with consideration given until 30 June 2012 for its full implementation; and
- The revised Consumer Protection Code came into effect on 1 January 2012 with consideration given until 30 June 2012 for full compliance where system changes were required.

Major change programmes were initiated across the Group to implement these new requirements spanning all business areas, processes and systems and we are operating fully to these codes now.

The Personal Insolvency Act, which was signed into law in December 2012, provides for the introduction of new non-judicial debt settlement and for amendments to the Bankruptcy Act. It is expected that in quarter 1 of 2013 the newly established Insolvency Service of Ireland will issue relevant guidelines and publications and that in quarter 2 the Insolvency Service will begin to appoint Personal Insolvency Practitioners ("PIPs"). A key risk arises from potential changes in customer behaviour and attitude to debt obligations given that the new legislation allows for the agreed settlement of unsecured debt and the settlement/restructuring of secured debts up to a maximum of €3 million. The inclusion of secured debt in the non-judicial process is unprecedented, and therefore, it is difficult to gauge its impact. While the Personal Insolvency Arrangement ("PIA") requires prior co-operation and engagement by Private Dwelling House ("PDH") borrowers under the MARP process, this requirement does not apply to other secured debtors. These factors could impact on the potential number of customers applying through the insolvency process, with potential negative consequences for the Group in terms of resourcing, impairment provisions and capital adequacy, with ensuing adverse Government, media and consumer reactions. It is recognised that PIPs, who have yet to be authorised, will play a key role in the effective implementation of the legislation as will the guideline living standards for applicants. While the Insolvency Service has given indications as to its intended approach in relation to these factors, there remains uncertainty that the controls will be adequate to mitigate the downside risk of changes to customer behaviour.

A number of new legislative proposals are currently being considered by the Oireachtas (the Irish National Parliament) including the Central Bank (Supervision and Enforcement Bill) 2011 and the Credit Reporting Bill 2012. Together with the high level of existing

regulations, the challenge of managing regulatory compliance increased substantially in 2012. The changing regulatory standards have posed a concomitant demand on the Group in terms of the deployment of business and IT resources which are expected to continue in 2013. Delivering this level of change has placed and will continue to place added risk on the organisation, including the challenge to meet tight delivery timelines in the face of competing priorities and resource demands. The Group is subject to financial services laws, regulations and policies in each location in which it operates. Changes in supervision and regulation, in particular in or applying to Ireland has and will continue to have a material impact on the Group's business, products and services offered and the value of its assets.

Future changes in government policy, central bank monetary authority policy, EU/Eurozone policies, legislation or regulation or their interpretation relevant to the financial services industry in the markets in which the Group operates may adversely affect its product range, distribution channels, funding sources, capital requirements and consequently, reported results and financing requirements. Any changes in the regulation of selling practices and solvency, funding and capital requirements could have a significant adverse effect on the Group's results of operations, financial condition and future prospects. Furthermore, new regulatory obligations regarding functional and operational arrangements within the Group may also have an adverse impact on the Group's results, financial conditions and prospects.

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

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

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

Furthermore, Section 225 of the NAMA Act provides, that on the dissolution or restructuring of NAMA, that the Minister for Finance may require that a report and accounts be prepared. In the event that NAMA shows that an aggregate loss has been incurred during the period since its establishment, the Irish Minister for Finance may impose a surcharge on AIB, as a participating institution (under additional legislation which would be enacted). The surcharge is to be apportioned to each participating institution on the basis of the book value of the assets acquired from that participating institution and is not to exceed the amount of the underlying loss, if any, incurred by NAMA. Any surcharge due to be paid by a participating institution in accordance with the Act may not exceed 100 per cent. of the corporation tax, if any, due and payable by that participating institution for the accounting period(s). No surcharge will become payable until either (a) 10 years after the passing of the NAMA Act; or (b) NAMA is dissolved or restructured, or there is a material alteration of NAMA's functions, whichever is last to occur.

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

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

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

The current and future budgetary and taxation policy of Ireland and other measures adopted by Ireland to meet its obligations to the EU, the ECB or the IMF may have an adverse impact on borrowers' ability to repay their loans and, as a result, the Group's business.

The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgements, and estimates that may change over time, or may ultimately not turn out to be accurate, and the value realised by the Group for these assets may be materially different from their current, or estimated, fair value

Under IFRS, the Group recognises at fair value: (i) derivative financial instruments; (ii) financial instruments at fair value through profit or loss; (iii) certain hedged financial assets and financial liabilities; and (iv) financial assets classified as available for sale ("AFS"). The best evidence of fair value is quoted prices in an active market. Generally, to establish the fair value of these instruments, the Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, internal valuation models that use

observable market data. Where quoted prices on active markets are not available, the Group uses valuation techniques which require it to make assumptions, judgements and estimates to establish fair value. In common with other financial institutions, these internal valuation models are complex, and the assumptions, judgements and estimates the Group is required to make often relate to matters that are inherently uncertain, such as expected cash flows, the ability of borrowers to service debt, appropriate credit spreads, residential and commercial property price appreciation and depreciation, and relative levels of defaults. Such assumptions, judgements and estimates need to be updated to reflect changing facts, trends and market conditions. The resulting change in the fair values of the financial instruments has had, and could continue to have, an adverse effect on the Group's results and financial condition.

The financial markets have experienced stressed conditions, where steep falls in perceived or actual asset values have been accompanied by a severe reduction in market liquidity. These stress conditions resulted in the Group recording significant fair value write-downs in the preceding four years. Valuations in future periods, reflecting then-prevailing market conditions, may result in significant changes in the fair values of the Group's exposures, even in respect of exposures such as credit market exposures, for which it has previously recorded fair value write-downs. In addition, the value ultimately realised by the Group may be materially different from the current or estimated fair value. Any of these factors could require the Group to recognise further fair value write-downs or recognise impairment charges, any of which may adversely affect its results, financial condition and future prospects.

The recoverability of the Group's deferred tax assets depend substantially on the generation of future profits over an extended number of years. Changes in tax legislation, regulatory requirements or accounting standards could adversely affect the basis of recognition.

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 would lengthen the anticipated period over which the Group's Irish tax losses would be used. The value of the deferred tax assets relating to unused tax losses constitutes substantially all of the deferred tax assets recognised in the Group's statement of financial position. A significant reduction in anticipated profit, or changes in tax legislation, regulatory requirements, accounting standards or relevant practices, could adversely affect the basis for recognition of the value of these losses, which would adversely affect the Group's results and financial condition, including capital and future prospects.

New capital adequacy rules, consistent with Basel III principles, are proposed within the EU draft Capital Requirements Regulation (part of the Capital Requirements Directive IV package). Assuming implementation in substantially unchanged form, the new rules will, inter alia, require the Group to deduct from its common equity capital, the value of most of the Group's deferred tax assets, including all deferred tax assets arising from unused tax losses. The deduction is likely to be phased in evenly over 5 years (20% per annum) starting on 1 January 2014.

Risks relating to our 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, AFS portfolio and 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 faces heightened operational risks

The Group faces a heightened operational risk profile given the current economic environment and in the context of taking forward the significant organisational restructuring programme including the integration of EBS, Anglo Irish Bank Corporation Limited (now Irish Bank Resolution Corporation "IBRC") deposits and the impact of an ongoing organisational voluntary severance programme.

One of its key operational risks is people risk. The Group's efforts to restore and sustain the stability of its business on a long-term basis depend, in part, on the availability of skilled management and the continued service of key members of staff both at its head office and at each of its business units. Failure by the Group to staff its day-to-day operations appropriately, or the loss of one or more key Senior Executives, with a failure to replace them in a satisfactory and timely manner, could have an adverse effect on the Group's results, financial condition and prospects.

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

The restructuring of the Group entails risks

AIB's strategy is to establish a new domestic core bank with a restructured balance sheet. This will be achieved through the progressive disposal and winding down of non-core assets through its deleveraging plan with a target loan to deposit ratio of 122.5 per cent by December 2013.

In May 2011, the Group dismantled its former divisional structure which was replaced with a 'one bank' model comprising AIB customer facing units: Personal & Business Banking; Corporate, Institutional and Commercial Banking; and AIB UK, which continues to be managed as a separate unit. Following a further strategy review announced in July 2012, AIB has re-affirmed its commitment to a 'one bank' strategy. However, this strategy will be implemented via a further revised and simpler organisational structure. AIB will, in future, operate around three points of focus – the domestic core bank, AIB UK comprising in Great Britain: Allied Irish Bank ("GB"); and in Northern Ireland First Trust Bank ("FTB"), and the newly created Financial Solutions Group ("FSG"). This revised structure is currently being implemented.

In addition, AIB has continued the integration of EBS Limited and the former Anglo Irish Bank retail deposit book which were both acquired during 2011 (see notes 22 and 23 to the consolidated financial statements). AIB's business and organisational restructuring represents a significant change programme and brings with it a number of key execution risks, including impacting on: labour relations as a consequence of the introduction and implementation of a severance programme; employees as the organisation transitions to a significantly smaller and less diversified institution; and the implementation of a cost reduction and business rationalisation programme currently being developed to re-align its cost base and become a more focused and streamlined organisation. This may result in AIB incurring significant additional costs, including incremental redundancy costs. Any such programme will take time to implement and may negatively impact on the profitability of AIB.

Given the possibility of the imposition of conditions by the European Commission, in connection with the approval of AIB's European Union restructuring plan, there can be no assurance that AIB will be able to implement its cost reduction and business rationalisation programme in the way currently envisaged, which could adversely affect AIB's results, operations, financial condition and future prospects.

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

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

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

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

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

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

Risk management – 2. Framework

Introduction

The Group's risk profile remains at an elevated level, driven in tandem by both the on-going influencing challenges of the external environment and a number of internal factors, both legacy and reflecting the level of organisational transformation currently underway across the Group. The key risk factors to which the Group is exposed are set out in the previous section. The governance and organisation framework through which the Group manages and seeks, where possible, to mitigate these risks, are described below.

2.1 Risk management framework

The Group assumes a variety of risks in undertaking its business activities. Risk is defined as any event that could damage the core earnings capacity of the Group, increase earnings or cash-flow volatility, reduce capital, threaten business reputation or viability, and/or breach regulatory or legal obligations. AIB has adopted an Enterprise Risk Management approach to identifying, assessing and managing risks, the core elements of which are set out in a revised Enterprise Risk Management Framework which was approved by the Board in March 2012. This framework is in turn supported by a number of frameworks covering the management of specific risk categories (credit risk, operational risk, etc) which were reviewed and approved by the Board over the course of 2012. The core aspects of the Group's risk management approach are described below.

2.2 Risk appetite

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

The Group RAS and Risk Appetite Framework are Board approved and reviewed at least annually or more often if required in alignment with the annual business and financial budgeting process. The Group RAS has just undergone a review and update process for 2012 (previously approved in March 2012) during the period November 2012 – February 2013 in order to align both with the Group's revised strategy and its new organisational structure. The revised Group RAS will be presented for Board approval in March 2013.

All AIB licensed subsidiaries and Business Segments are required to document and align their own risk appetite statements with the Group statement. This work was initiated and is being facilitated in tandem with the review and update process of the Group RAS and will be complete in quarter 1 2013.

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

2.3 Risk governance and risk management organisation

The Board has ultimate responsibility for the governance of all risk taking activity in the Group. The Group has adopted a 'three lines of defence' framework in the delineation of accountabilities for risk governance. Under the three lines of defence model, primary responsibility for risk management lies with business line management. The Risk Management function provides the second line of defence, providing independent oversight and challenge to business line managers. The third line of defence is the Group Internal Audit function which provides independent assurance to the Audit Committee of the Board on the effectiveness of the system of internal control.

Risk governance - Committees

While the Board has ultimate responsibility for the governance of all risk taking activity within AIB, it has delegated a number of risk governance responsibilities to various committees or key officers. The diagram below summarises the current risk committee structure of the Group. The role of the Board, the Audit Committee, and the BRC is set out in the section on Corporate governance. The Leadership Team comprises the senior executive managers of the Group who manage the strategic business risks of the Group. It establishes the business strategy and risk appetite within which the risk management function operates. The ERC is the principal executive forum for the review and challenge of enterprise-wide risk management and control. The CRO chairs the ERC. The principal duties of the ERC are to:

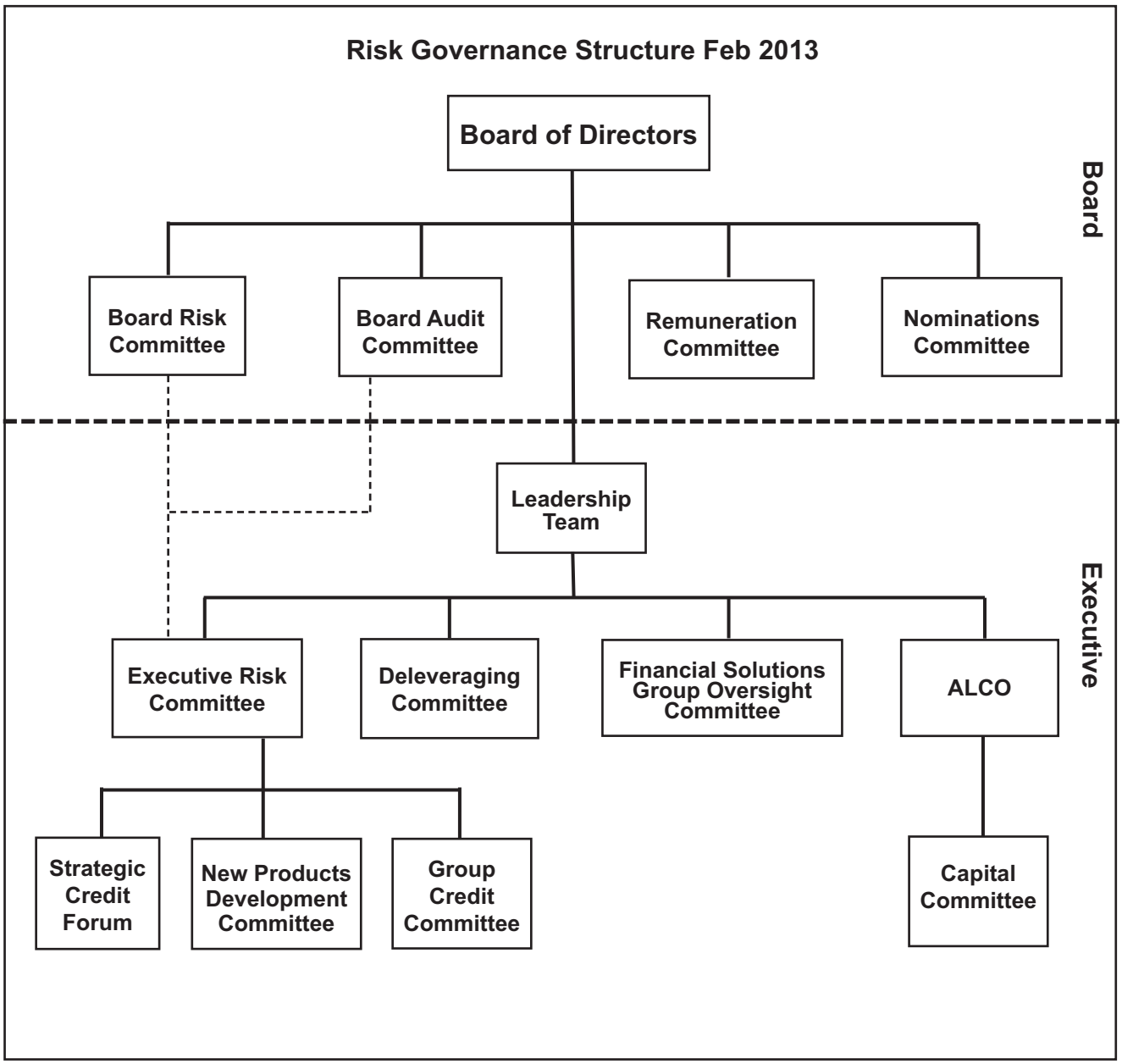
- Continuously review the effectiveness of the Group's risk frameworks and policies;
- Monitor and review the Group's risk profile, risk trends, risk concentrations and policy exceptions; and
- Review all breaches of Board or Leadership Team approved risk appetite and limits.

The ERC acts as the ultimate parent body of a number of other risk and control committees, namely the Group Credit Committee ("GCC"), the Strategic Credit Forum ("SCF") and the New Products Development Committee ("NPDC").The SCF is charged with responsibility for governance of Group credit risk strategy, risk appetite, quality and impairment provision adequacy. The NPDC approves all new products prior to implementation; ensuring that the Group's New Product policy has been fully adhered to in the design and roll out of new products.

Risk management – 2. Framework

During 2012, the Group had established a Compliance Committee and an Operational Risk Committee. These committees were chaired by the CRO, and reported to the ERC and oversaw the on-going management of compliance with regulations and the implementation of new regulations, and operational risk trends and controls across the organisation. In December 2012, these committees were amalgamated back into the ERC.

The Financial Solutions Group Oversight Committee is responsible for overseeing and challenging progress in relation to the implementation of AIB's Mortgage Arrears Resolution Strategy ("MARS") and for co-ordinating the mortgage arrears resolution activities across the Group. This committee evaluates proposals associated with plan implementation before forwarding them, when and as appropriate, to the Leadership Team and to the Board for approval. The committee is chaired by the Chief Executive Officer ("CEO") and the CRO and Chief Credit Officer ("CCO") are members of the committee. The Deleveraging Committee is responsible for the delivery of the Group deleveraging plan and the management of all deleveraging transactions involving non-core assets of the Group. Its principal objective is to oversee the deleveraging of the loan portfolio in a prudent and efficient manner.



Individuals and functions

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

Chief Risk Officer

The CRO has independent oversight of the Group's enterprise-wide risk management activities across all risk types. A new CRO was appointed to the Group and commenced in the role in May 2012. The CRO is a member of the Leadership Team and reports independently to the CEO and the Chairman of the Board Risk Committee. The CRO's responsibilities include:

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

Head of Internal Audit

Group Internal Audit ("GIA") is an independent evaluation and appraisal function reporting to the Board through the Audit Committee. A new Head of Internal Audit commenced in the role in May 2012. GIA acts as the third line of defence in the Group's risk governance organisation and provides assurance to the Audit Committee on the adequacy, effectiveness and sustainability of the governance, risk management and control framework throughout the Group, including the activities carried out by other control functions. The results of GIA audits are reported quarterly to the Audit Committee, which monitors both the resolution of audit issues and progress in the delivery of the audit plan.

2.4 Risk identification and assessment process

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

2.5 Stress and scenario testing

The Group's risk identification and assessment framework described above is supported by a framework of stress testing, scenario and sensitivity analysis and reverse stress testing that seeks to ensure that risk assessment is dynamic and forward looking and considers not only existing risks but also potential and emerging threats. The Group undertakes a regular programme of stress testing across all its material risks to meet internal and regulatory requirements. In addition, ad-hoc stress tests are undertaken, as required, to inform strategic decision making.

2.6 Future developments

The Group recognises the need to make further enhancements to its risk management arrangements given the heightened external risk environment, the increasing scope and intensity of the regulatory environment and the further operational transformation upon which the Group embarked in 2012. These further enhancements include:

– Completing the implementation and embedding of a revised risk management framework and policy architecture;
– On-going review of the nature and scale of the Group's risk governance arrangements as the Group pursues its deleveraging and strategic transformation agendas; and
– On-going improvements in the risk management and internal control environment in line with internal and external stakeholder requirements.

Risk management – 3. Individual risk types

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

3.1 Credit risk;

3.2 Liquidity risk;

3.3 Market risk;

3.4 Structural foreign exchange risk;

3.5 Operational risk;

3.6 Regulatory compliance risk;

3.7 Pension risk; and

3.8 Parent company risk information

3.1 Credit risk

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

Concentrations in particular portfolio sectors, such as property and construction can impact the overall level of credit risk.

The credit risk disclosures in this section are aligned with the Central Bank of Ireland ("CBI") guidelines issued in December 2011.

Percentages presented throughout the tables in this section are calculated on the absolute underlying figures and so may differ from the percentage variances calculated on rounded numbers presented.

Credit exposure

Maximum exposure to credit risk from 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 that 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:

	2012			2011		
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]	**3,481**	**–**	**3,481**	2,344	–	2,344
Items in course of collection	**192**	**–**	**192**	202	–	202
Disposal groups and non-current assets held for sale[4]	**353[5]**	**–**	**353**	1,191[5]	–	1,191
Trading portfolio financial assets[6]	**–**	**22**	**22**	–	54	54
Derivative financial instruments	**–**	**2,835**	**2,835**	–	3,046	3,046
Loans and receivables to banks	**2,914**	**–**	**2,914**	5,718	–	5,718
Loans and receivables to customers	**72,972**	**–**	**72,972**	82,540	–	82,540
NAMA senior bonds	**17,387**	**–**	**17,387**	19,856	–	19,856
Financial investments available for sale[7]	**–**	**16,201**	**16,201**	–	15,145	15,145
Included elsewhere:						
Sale of securities awaiting settlement	**5**	**–**	**5**	2	–	2
Trade receivables	**63**	**–**	**63**	150	–	150
Accrued interest	**454**	**–**	**454**	582	–	582
	97,821	**19,058**	**116,879**	112,585	18,245	130,830
Financial guarantees	**1,561**	**–**	**1,561**	2,009	–	2,009
Loan commitments and other credit related commitments	**8,974**	**–**	**8,974**	9,862	–	9,862
	10,535	**–**	**10,535**	11,871	–	11,871
Total	**108,356**	**19,058**	**127,414**	124,456	18,245	142,701

[1]All amortised cost items are 'loans and receivables' per IAS 39 definitions.

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

[3]Included within cash and balances at central banks of € 4,047 million (2011: € 2,934 million).

[4]Certain non-financial assets and equity investments within disposal groups and non-current assets held for sale of € 209 million (2011: € 231 million) are not included above (note 25).

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

[6]Excluding equity shares of € 2 million (2011: € 2 million).

[7]Excluding equity shares of € 143 million (2011: € 244 million).

*Forms an integral part of the audited financial statements

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.

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

The Group enters into master netting agreements 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.

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

The Group also has in place an interbank exposure policy which establishes the maximum exposure for each counterparty bank depending on credit grade. Each bank is assessed for the appropriate exposure limit within the policy. Risk generating business units in each market 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*

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

Mortgage portfolios*: 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 fair value at 31 December 2012 as outlined on page 71 is based on the property values at origination or date of latest valuation and applying the CSO (Ireland) and Nationwide (UK) indices to these values to take account of price movements in the interim.

Please also refer to additional information in relation to loan-to-value ("LTV") and Days Past Due profiles for residential mortgages in 3.1 Credit Risk – Credit profile of the loan portfolio.

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

Set out below is the fair value of collateral for financial assets (excluding non-mortgage portfolios) detailed in the maximum exposure to credit risk table on the previous page.

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 2012 amounted to € 2,835 million (2011: € 3,046 million) and those with a negative fair value are reported as liabilities which at 31 December 2012 amounted to € 3,256 million (2011: € 3,843 million).

The Group has a number of ISDA Master Agreements (netting agreements) in place which may 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 € 1,539 million (2011: € 1,369 million). The Group has Credit Support Annexes ("CSAs") in place which provide collateral for derivative contracts. At 31 December 2012, € 1,260 million (2011: € 1,904 million) of CSAs are included within financial assets and € 361 million (2011: € 612 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.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit exposure

Collateral* *(continued)*

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 2012, the Group has received collateral with a fair value of € 61 million on a loan with a carrying value of € 61 million (2011: € 55 million and € 59 million respectively).

Loans and receivable to customers*

The following table shows the fair value of collateral held for residential mortgages at 31 December 2012 and 31 December 2011:

	2012				2011			
	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%	**4,282**	**204**	**316**	**4,802**	4,919	196	300	5,415
50% - 70%	**4,083**	**218**	**419**	**4,720**	4,692	231	393	5,316
71% - 80%	**2,451**	**133**	**320**	**2,904**	2,655	136	262	3,053
81% - 90%	**2,771**	**156**	**369**	**3,296**	2,838	154	331	3,323
91% - 100%	**2,682**	**160**	**505**	**3,347**	3,065	180	426	3,671
	16,269	**871**	**1,929**	**19,069**	18,169	897	1,712	20,778
Partially collateralised								
Collateral value relating to loans over 100% loan-to-value	**12,011**	**866**	**4,254**	**17,131**	14,037	1,012	3,199	18,248
Total collateral value	**28,280**	**1,737**	**6,183**	**36,200**	32,206	1,909	4,911	39,026
Gross residential mortgages	**32,318**	**2,073**	**8,130**	**42,521**	36,466[2]	2,269	6,243[3]	44,978[4]
Statement of financial position specific provisions			**(2,699)**	**(2,699)**			(1,741)	(1,741)
Statement of financial position IBNR provisions				**(507)**				(895)
Net residential mortgages			**5,431**	**39,315**			4,502	42,342

[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.

[2]Excludes deferred costs of € 70 million and purchased residential mortgage loan pools of € 78 million in 2011. In 2012, the figures are inclusive of deferrred costs and the purchased residential mortgage loan pools are included within the 'Financial' sector.

[3]Excludes purchased residential mortgage loan pools of € 100 million in 2011. In 2012, these loans are shown in 'Financial' sector.

[4]Excludes deferred costs of € 70 million and purchased residential mortgage loan pools of € 178 million in 2011. In 2012, the figures are inclusive of deferred costs and the purchased residential mortgage loan pools are included within the 'Financial' sector.

NAMA senior bonds*

NAMA senior bonds, which at 31 December 2012 have a carrying value of € 17,387 million (2011: € 19,856 million), are guaranteed by the Irish Government as to principal and interest.

Financial investments available for sale*

At 31 December 2012, government guaranteed senior bank debt amounting to € 0.8 billion (2011: € 0.9 billion) was held within the available for sale portfolio.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Credit risk on lending activities to customers and banks*

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

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

Credit risk on derivatives*

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

Country risk*

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

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

Settlement risk*

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

Credit concentration risk*

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

Risk identification and assessment *

All customer requests for credit are subject to a credit assessment process.

AIB operates credit approval criteria which:

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

Knowledge of the customer and the customer's financial circumstances or business is the initial factor in assessing credit risk. Depending on the size and nature of the credit, the assessment process is assisted by standard application formats in order to aid the credit decision maker in making an informed credit decision. The credit approval authority is dependent on the size of the credit application and the grade of the borrower.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Risk identification and assessment* *(continued)*

Delegated authority is a key credit risk management tool. The Board determines the credit authority (i.e. limit) for the Group Credit Committee ("GCC") together with the authorities of the Chairman/Chief Executive Officer, the Chief Risk Officer and the Chief Credit Officer. The GCC approves the market segment delegated credit authorities and also considers, and where appropriate, approves credit exposures which are in excess of these credit authorities. Delegated authorities below market segment levels are clearly defined and are explicitly linked to levels of seniority and experience within the Group. With the exception of some individual delegated credit authorities, credit approval is exercised on a dual basis by a business person and a credit person jointly.

Another key tool used to assess credit risk is credit grading or credit scoring for each borrower or transaction, both prior to approval of the credit exposure and subsequently. The methodology used produces a quantitative estimate of probability of default ("PD") for the borrower, typically referred to as a 'grade'. This assessment is carried out at the individual borrower or transaction level.

In the retail consumer and small and medium sized enterprise portfolios, which are characterised by a large number of customers with small individual exposures, risk assessment is largely informed through statistically-based scoring techniques. The majority of mortgages are assessed centrally with particular reference to affordability which is assisted by scoring models. Both application scoring for new customers and behavioural scoring for existing customers are used to assess and measure risk as well as to facilitate the management of these portfolios.

In the commercial, corporate and interbank portfolios, the grading systems utilise a combination of objective information, essentially financial data (e.g. borrowings; Earnings before Interest, Tax, Depreciation & 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 concentration risk is identified and assessed at single name counterparty level and at portfolio level. The Board-approved Group Large Exposures Policy ("GLEP") sets the maximum limit by grade for exposures to individual counterparties or group of connected counterparties taking account of features such as security, default risk and term. Portfolio concentrations are identified and monitored by exposure and grade using internal sector codes.

Such measures facilitate the measurement of concentrations by balance sheet size and risk profile relative to other portfolios within the Group and in turn facilitate appropriate management action and decision making.

Risk management and mitigation*

To manage credit risk effectively, AIB has developed and implemented processes and information systems to monitor and report on individual credit and credit portfolios and to highlight issues such as policy exceptions for senior management attention.

The key monitoring process is the ongoing review of credits, including annual case and grade review, with more frequent review when required or as necessitated by the grade.

Credit grading and scoring systems facilitate the early identification and management of any deterioration in loan quality. Changes in the objective information (i.e. financial and business variables as described under risk identification and assessment) are reflected in the credit grade of the borrower with the resultant grade influencing the management of individual loans. Special attention is paid to lower quality graded loans or 'Criticised' loans. In AIB, criticised loans include 'Watch', 'Vulnerable' and 'Impaired' loans which are defined as follows:

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

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

Impaired: A loan is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (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.

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

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Risk management and mitigation* *(continued)*

The credit management process is underpinned by an independent system of credit review. Independent credit review teams assess the application of credit policies, processes and procedures across all areas of the Group. Credit policy and credit management standards are controlled and set centrally via the Credit Risk function.

The more significant credit policies are approved by the Board. Concentration levels are set by geography, sector and product through the Risk Appetite Statement which is required to be approved by the Board on an annual basis.

Forbearance strategies*

The Group considers requests from customers who are experiencing cash flow difficulties on a case by case basis against their current and likely future financial circumstances and their willingness to resolve these difficulties, taking into account legal and regulatory obligations.

The Group has implemented the standards for the Codes of Conduct in relation to customers in difficulty as set out by the Central Bank of Ireland ensuring these customers are dealt with in a professional and timely manner.

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

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, under which short term mortgage forbearance solutions (e.g. interest only; part capital and interest repayment; moratorium; capitalisation of arrears; term extension and deferred interest schemes) have been provided to customers in financial difficulty for the last number of years.

The strategy is built on three key factors:

i) Segmentation – identifying customers in difficulty;
ii) Sustainability – customer assessment; and
iii) Suitable Treatment – identifying solutions.

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

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

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

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

These new advanced forbearance options were introduced during the latter part of 2012 and will continue to be available to customers who meet certain criteria.

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

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

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Risk monitoring and reporting*

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

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

Provisioning for impairment*

The identification of loans for assessment as impaired is facilitated by the Group's rating systems. As described under the risk management and mitigation section, changes in the variables which drive the borrower's credit grade may result in the borrower being downgraded. This in turn influences the management of individual loans with special attention being paid to lower quality or criticised loans, i.e. in the Watch, Vulnerable or Impaired categories.

The grade of an exposure is one of the key factors used to determine if a case should be assessed for impairment. Loans are assessed for impairment, either individually or collectively, if they are past due typically for more than ninety days or the borrower exhibits, through lender assessment, an inability to meet his obligations to the Group based on objective evidence of loss events (i.e. impairment triggers). The types of loss events considered as triggers for an impairment assessment include:

General

- national or local economic conditions that correlate with defaults on the assets in the portfolio (e.g. an increase in the unemployment rate in the geographical area of the borrowers, a decrease in residential and/or commercial property prices in the relevant area, regulatory/government fiscal policy change or adverse changes in industry conditions that affect the borrowers in the group);
- significant financial difficulty of the issuer or obligor; and
- observable data indicating a measurable decrease in estimated cash flows.

Mortgages

- 90+ days past due;
- a request for a forbearance measure from the borrower.

Corporate and SME

- 90+ days past due;
- a request for a forbearance measure from the borrower;
- significant financial difficulty of the borrower such as trading losses, loss of business or major customers or change in the borrower's competitive landscape;
- a breach of contract, such as a default or delinquency in interest or principal payments; and
- a breach of covenant, e.g. interest cover, loan-to-value ("LTV") level, debt to equity ratio etc.

Commercial Real Estate ("CRE")

- 90+ days past due;
- significant financial difficulty of the borrower or obligor;
- a request for a forbearance measure from the borrower;
- the lack of an active market for the assets concerned;
- a material decrease in the estimated future cash flows or timing of receipt of these; and
- a breach of covenant, e.g. interest cover, LTV level, debt to equity ratio.

Where loans are deemed to be impaired, the Group raises specific impairment provisions in a timely and consistent manner across the credit portfolios. The Group makes use of two types of impairment provision:

- a) Specific; and
- b) Incurred but not reported ("IBNR") which represents a collective provision relating to the portfolio of performing loans.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Provisioning for impairment* *(continued)*

Specific impairment provisions

Specific impairment provisions arise when the recovery of a specific loan or group of loans is in doubt based on specific impairment triggers as described previously and 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 will reflect the financial position of the borrower and the net realisable value of any security held for the loan or group of loans. In practice, the specific impairment provision is the difference between the present value of expected future cash flows for the impaired loan(s) discounted at the original effective interest rate and the carrying value of the loan(s). When raising specific impairment provisions, AIB divides its impaired portfolio into two categories, namely individually significant and individually insignificant.

Impairment of individually significant exposures

Each market segment sets a threshold above which cases are assessed on an individual basis. The individually significant thresholds are as follows:

– PBB, CICB and AIB UK > € 500,000/£ 500,000
– EBS > € 750,000

For those loans identified as being impaired and which require assessment on an individual basis, the impairment provision is calculated by discounting the expected future cash flows at the loan's original effective interest rate and comparing the result (the estimated recoverable amount) to the carrying amount of the loan to determine the level of provision required. Specific impairments for larger loans (individually significant) are raised with reference to the individual characteristics of each credit including an assessment of the cash flows that may arise from foreclosure less costs to sell in respect of obtaining and selling any associated collateral. The time period likely to be required to realise the collateral and receive the cash flows is taken into account in estimating the future cash flows and discounting these back to present value.

As property loans represent a significant concentration within the Group's loan portfolio (25% at December 2012) property valuation guidelines have been issued by Credit Risk to aid lenders in valuing property assets in the current distressed and illiquid property markets, particularly in Ireland and the UK. For impaired property and construction exposures, cash flows will generally emanate from the development and/or disposal of the assets which comprise the collateral held by the Group. The Group's preference is to work with the obligor to progress the realisation of the collateral although in some cases the Group will foreclose its security to protect its position.

The methods used by the Group to assist in reaching appropriate valuations for collateral held include:

(a) use of professional valuations;
(b) the application of local market knowledge in respect of the property and its location;
(c) use of internal guidelines for deriving the valuation of investment property; and
(d) use of internally developed residual value methodologies. These are described below:

– Use of professional valuations represents circumstances where external firms are requested to provide formal written valuations in respect of the property. Up to date external professional valuations are sought in circumstances where it is believed that sufficient transactional evidence is available to support an expert objective view. Historic valuations are also used as benchmarks to compare against current market conditions and assess peak to trough reductions. Available market indices for relevant assets, i.e. residential 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 estimates the cost of developing the asset to determine the residual value for the Group, including covering the costs to complete and additional funding costs. The key factors considered include:
  (i) the development potential given the location of the asset;
  (ii) its current or likely near term planning status;
  (iii) levels of current and likely future demand;
  (iv) the relevant costs associated with the completion of the project; and
  (v) expected market prices of completed units.

  If, following internal considerations which may include consultations with valuers, it is concluded that the optimal value for the Group will be obtained through the development/completion of the project; a residual value methodology is used. When, in the opinion of AIB, the land is not likely to be developed or it is not commercial to do so, agricultural/'green field' values may be applied;
– Application of local market knowledge represent circumstances where the local bank management familiar with the property concerned, with local market conditions, and with knowledge of recently completed transactions provide indications of the likely realisable value and a potential timeline for realisation; and
– In valuing investment property, yields are applied to sustainable rental flows having considered current yields and estimated likely future yields for a more normal market environment for relevant asset classes.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Provisioning for impairment* *(continued)*

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

When assessing the level of provision required for property loans, apart from the value to be realised from the collateral, other cash flows if available, for example, recourse to other assets or sponsor support, are also considered.

The other key driver in determining the level of provision is the time it takes to receive the funds from the realisation of collateral. While it depends on the type of collateral and the stage of its development, the period of time to realisation is typically 2 to 7 years but sometimes this time period may be exceeded. These estimates are frequently reassessed on a case by case basis. In accordance with IAS 39, AIB discounts these cash flows at the asset's original effective interest rate to calculate the net present value and compares this with the carrying value of the asset, the difference being the level of provision required.

In assessing the value of collateral for impaired mortgage loans in Ireland, the Group uses a peak to trough price decline of 55% as a base. In certain circumstances, realisation costs of 10% to 20% are deducted. For individually significant loans, other factors, such as recent transactional evidence or local knowledge are considered, which can result in higher or lower discounts to collateral valuations.

AIB employs a dedicated approach to loan workout and to monitoring and proactively managing impaired loans. Enterprise Lending Services ("ELS") teams in the Republic of Ireland and Specialised Lending Services ("SLS") in AIB UK, focus on managing the majority of criticised loans. Ultimately, the loan workout manager will decide on the method(s) to be used based on his/her expert judgement. The loan workout manager then recommends the required impairment provision to the appropriate credit approval authority.

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

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

Impairment of individually insignificant exposures

The calculation of an impairment charge for credits below the 'significant' threshold is undertaken on a collective basis. Loans are grouped together in homogeneous pools sharing common characteristics, for example in PBB and CICB, exposures are split into the following pools: <€ 10,000; € 10,000 to € 30,000; and € 30,000 to € 500,000, home mortgages up to € 500,000; property and construction € 30,000 to € 500,000; and other commercial € 30,000 to € 500,000.

Recovery rates for non mortgages are established for each pool by assessing the Group's loss experience for these pools over the past four years and by examining the amount and timing of cash flows received (typically over four years) from the date the loan was identified as impaired. These recovery rates are updated at a minimum on a yearly basis. Impairment provisions are then raised on new impaired loans and updated on existing impaired loans, reflecting the Group's updated recovery experience. The individually insignificant provision process in the UK is similar to that in PBB, with loans grouped into pooled ranges: < £ 10,000; £ 10,000 to £ 25,000; £ 25,000 to £ 500,000 for the following sectors:

– Property and construction;
– Personal; and
– Other commercial.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Provisioning for impairment* *(continued)*

In the EBS market segment, all loans less than € 750,000 and > 90 days past due are assessed on a pooled basis. The methodology applies a probability of a loan going to repossession based on its individual characteristics e.g. time in arrears. Given the lack of repossession experience in the portfolio in recent years, the actual observed instances of loans going from > 90 days past due to less than 90 days past due is used as a proxy for the aforementioned probability of going to/not going to repossession. The provision applied, given the default to repossession, is arrived at following the application of a peak to trough price decline of 55% plus additional firesale/disposal costs (range 10% to 20%) and after applying a 3 year discount to the collateral value at the effective interest rate. This methodology is also applied to mortgage loans < € 500k and > 90 days past due in PBB and CICB market segments. For impaired mortgages < € 500k and < 90 days past due in PBB and CICB, provisions are applied using the aforementioned peak to trough house price decline, costs and discount period assumptions.

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

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

Incurred but not reported ("IBNR") impairment provisions

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

Evidence of impairment may arise where there is observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such evidence may include:

- National or local economic conditions that correlate with defaults on the assets in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers;
- a decrease in residential and/or commercial property prices in the relevant area;
- regulatory/ government fiscal policy change; or
- adverse changes in industry conditions that affect the borrowers in the group).

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

IBNR provisions are maintained at levels that are deemed appropriate by management having considered: credit grading profiles and grading movements; arrears profiles; forbearance activity; historic loan loss rates; recent loss experience; changes in credit management procedures, processes and policies; local and international economic climates; and near term future losses associated with portfolio sector profiles/industry conditions.

The appropriate level of IBNR is calculated based on:

(i) the likely provision rates for these portfolios through the emergence period by reference to the Group's near term provision plans/forecasts which are informed by the recent specific provision experience;

(ii) an assessment of higher risk portfolios, which include but are not limited to:

(a) the non-impaired forborne mortgages; and

(b) loans graded vulnerable which include loans in advanced arrears; and

(c) loans > 90 days past due but not impaired.

The approach used for the collective evaluation of impairment is to split the performing financial assets into pools on the basis of similar risk characteristics such as, residential mortgages (owner-occupier/buy-to-let), property and construction, SME/other commercial, other personal and corporate. The assessment of the level of likely incurred loss in these higher risk portfolios is informed, where appropriate, by independent credit reviews of these portfolios.

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

*Forms an integral part of the audited financial statements

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

The tables below show for the years ended 31 December 2012 and 31 December 2011 loans and receivables to customers by industry sector including loans and receivables within disposal groups and non-current assets held for sale:

(i) Total loans and receivables to customers;
(ii) Impaired loans and receivables to customers; and
(iii) Provisions for impairment on loans and receivables to customers.

			2012				2011
Loans and receivables to customers*	**Loans and receivables to customers**	**Disposal groups and non-current assets held for sale**	**Total**	**Total**	Loans and receivables to customers	Disposal groups and non-current assets held for sale	Total	Total
	€ m	**€ m**	**€ m**	**%**	€ m	€ m	€ m	%
Agriculture	**1,781**	**–**	**1,781**	**2.0**	1,862	6	1,868	1.9
Energy	**375**	**88**	**463**	**0.5**	665	231	896	0.9
Manufacturing	**1,625**	**–**	**1,625**	**1.8**	2,037	34	2,071	2.1
Property and construction	**22,251**	**–**	**22,251**	**24.8**	23,774	716	24,490	24.8
Distribution	**7,790**	**–**	**7,790**	**8.7**	8,476	73	8,549	8.7
Transport	**801**	**373**	**1,174**	**1.3**	1,287	42	1,329	1.3
Financial	**785**	**–**	**785**	**0.9**	1,362	6	1,368	1.4
Other services	**6,313**	**14**	**6,327**	**7.0**	7,010	15	7,025	7.1
Personal								
Residential mortgages	**42,521**	**–**	**42,521**	**47.3**	45,154	72	45,226	45.8
Other	**4,698**	**–**	**4,698**	**5.2**	5,321	–	5,321	5.4
Lease financing	**457**	**–**	**457**	**0.5**	544	–	544	0.6
Gross loans and receivables	**89,397**	**475**	**89,872**	**100.0**	97,492	1,195	98,687	100.0
Unearned income	**(108)**	**–**	**(108)**		(123)	(2)	(125)	
Deferred costs	**89**	**–**	**89**		103	–	103	
Provisions for impairment	**(16,406)**	**(122)**	**(16,528)**		(14,932)	(9)	(14,941)	
Total statement of financial position	**72,972**	**353**	**73,325**		82,540	1,184	83,724	
Gross loans and receivables analysed as to:								
Neither past due nor impaired	**56,179**	**238**	**56,417**		67,894	1,162	69,056	
Past due but not impaired	**4,039**	**–**	**4,039**		4,795	3	4,798	
Impaired - provisions held	**29,179**	**237**	**29,416**		24,803	30	24,833	
	89,397	**475**	**89,872**		97,492	1,195	98,687	

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio *(continued)*

	2012			2011		
Impaired loans and receivables to customers*	**Loans and receivables to customers € m**	**Disposal groups and non-current assets held for sale € m**	**Total € m**	Loans and receivables to customers € m	Disposal groups and non-current assets held for sale € m	Total € m
Agriculture	**334**	**–**	**334**	310	–	310
Energy	**36**	**–**	**36**	38	–	38
Manufacturing	**472**	**–**	**472**	436	–	436
Property and construction	**13,804**	**–**	**13,804**	11,899	–	11,899
Distribution	**3,442**	**–**	**3,442**	3,058	–	3,058
Transport	**120**	**237**	**357**	127	–	127
Financial	**245**	**–**	**245**	191	–	191
Other services	**1,026**	**–**	**1,026**	951	–	951
Personal						
Residential mortgages	**8,130**	**–**	**8,130**	6,313	30	6,343
Other	**1,431**	**–**	**1,431**	1,335	–	1,335
Lease financing	**139**	**–**	**139**	145	–	145
Total	**29,179**	**237**	**29,416**	24,803	30	24,833

	2012			2011		
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**	Loans and receivables to customers € m	Disposal groups and non-current assets held for sale € m	Total € m
Agriculture	**233**	**–**	**233**	199	–	199
Energy	**29**	**–**	**29**	28	–	28
Manufacturing	**300**	**–**	**300**	251	–	251
Property and construction	**7,681**	**–**	**7,681**	6,469	–	6,469
Distribution	**2,013**	**–**	**2,013**	1,698	–	1,698
Transport	**93**	**122**	**215**	90	–	90
Financial	**168**	**–**	**168**	142	–	142
Other services	**650**	**–**	**650**	567	–	567
Personal						
Residential mortgages	**2,699**	**–**	**2,699**	1,785	3	1,788
Other	**1,064**	**–**	**1,064**	904	–	904
Lease financing	**133**	**–**	**133**	121	–	121
Specific	**15,063**	**122**	**15,185**	12,254	3	12,257
IBNR	**1,343**	**–**	**1,343**	2,678	6	2,684
Total	**16,406**	**122**	**16,528**	14,932	9	14,941

The definitions below relate to the loans and receivables to customers profiled on the tables on pages 81 and 82.

(1)Satisfactory: credit which is not included in any of the criticised catergories of Watch, Vulnerable and Impaired loans.

Criticised loans include:

(2)Watch: credit exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cashflow.

(3)Vulnerable: credit where repayment is in jeopardy from normal cashflow and may be dependent on other sources.

(4)Impaired: a loan is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a 'loss event') and that loss event (or events) has an impact such that the present value of future cashflows is less than the gross carrying value of the financial asset or group of assets i.e. requiring a provision to be raised through the income statement.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

The following table analyses loans and receivables to customers by market segment showing asset quality and impairment provisions for the years ended 31 December 2012 and 31 December 2011:

	Core					Non-Core						2012 Total
Gross loans and receivables to customers*	PBB € m	CICB € m	AIB UK € m	EBS € m	Total Core € m	PBB € m	CICB € m	AIB UK € m	EBS € m	Group € m	Total Non-Core € m	€ m
Residential mortgages												
Owner occupier	18,536	30	2,482	13,018	34,066	–	–	101	–	–	101	34,167
Buy-to-let	4,195	2,780	324	–	7,299	24	341	83	607	–	1,055	8,354
	22,731	2,810	2,806	13,018	41,365	24	341	184	607	–	1,156	42,521
Other personal	2,857	988	396	–	4,241	3	384	70	–	–	457	4,698
Property and construction	1,335	8,287	2,477	–	12,099	4	6,912	2,958	278	–	10,152	22,251
SME/Other commercial	3,036	6,936	3,198	–	13,170	1	358	1,716	–	–	2,075	15,245
Corporate	–	3,371	–	–	3,371	–	1,786	–	–	–	1,786	5,157
Total	29,959	22,392	8,877	13,018	74,246	32	9,781	4,928	885	–	15,626	89,872
Analysed as to asset quality												
Satisfactory[1]	20,072	8,403	5,779	9,066	43,320	9	2,498	1,131	243	–	3,881	47,201
Watch[2]	2,552	1,458	1,282	1,000	6,292	1	430	152	145	–	728	7,020
Vulnerable[3]	2,209	1,590	976	403	5,178	5	358	644	50	–	1,057	6,235
Impaired[4]	5,126	10,941	840	2,549	19,456	17	6,495	3,001	447	–	9,960	29,416
Total criticised loans	9,887	13,989	3,098	3,952	30,926	23	7,283	3,797	642	–	11,745	42,671
Total loans percentage	%	%	%	%	%	%	%	%	%	%	%	%
Criticised loans/total loans	33	62	35	30	42	73	74	77	72	–	75	47
Impaired loans/total loans	17	49	9	20	26	53	66	61	51	–	64	33
Impairment provisions – statement of financial position												
Specific	2,811	5,711	385	563	9,470	8	3,979	1,574	154	–	5,715	15,185
IBNR	332	413	151	152	1,048	–	136	93	66	–	295	1,343
Total impairment provisions	3,143	6,124	536	715	10,518	8	4,115	1,667	220	–	6,010	16,528
Provision cover percentage	%	%	%	%	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	55	52	46	22	49	46	61	52	34	–	57	52
Total provisions/impaired loans	61	56	64	28	54	49	63	56	49	–	60	56
Total provisions/total loans	10	27	6	5	14	26	42	34	25	–	38	18
Impairment charge/average loans	1.68	3.83	1.03	1.79	2.29	6.01	4.00	4.31	(0.37)	–	3.67	2.57

*Forms an integral part of the audited financial statements

Risk management

3.1 Credit risk – Credit profile of the loan portfolio

	Core					Non-Core						2011
												Total
Gross loans and receivables to customers*	PBB	CICB	AIB UK	EBS	Total Core	PBB	CICB	AIB UK	EBS	Group	Total Non-Core	
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Residential mortgages												
Owner occupier	18,626	34	2,711	13,562	34,933	–	178	112	–	54	344	35,277
Buy-to-let	4,345	3,309	143	–	7,797	–	–	291	1,861	–	2,152	9,949
	22,971	3,343	2,854	13,562	42,730	–	178	403	1,861	54	2,496	45,226
Other personal	2,342	170	466	–	2,978	838	1,418	86	–	–	2,342	5,320
Property and construction	810	9,275	2,772	–	12,857	651	6,842	3,244	896	–	11,633	24,490
SME/Other commercial	3,129	7,721	3,350	–	14,200	15	20	2,052	–	–	2,087	16,287
Corporate	–	4,203	–	–	4,203	–	3,161	–	–	–	3,161	7,364
Total	29,252	24,712	9,442	13,562	76,968	1,504	11,619	5,785	2,757	54	21,719	98,687
Analysed as to asset quality												
Satisfactory[1]	21,539	12,490	6,669	9,929	50,627	564	4,725	1,777	978	42	8,086	58,713
Watch[2]	2,972	2,144	1,423	1,116	7,655	181	467	184	364	-	1,196	8,851
Vulnerable[3]	2,028	1,258	860	279	4,425	230	500	1,026	109	-	1,865	6,290
Impaired[4]	2,713	8,820	490	2,238	14,261	529	5,927	2,798	1,306	12	10,572	24,833
Total criticised loans	7,713	12,222	2,773	3,633	26,341	940	6,894	4,008	1,779	12	13,633	39,974
Total loans percentage	%	%	%	%	%	%	%	%	%	%	%	%
Criticised loans/total loans	26	50	29	27	34	63	59	69	65	22	63	41
Impaired loans/total loans	9	36	5	17	19	35	51	48	47	22	49	25
Impairment provisions – statement of financial position												
Specific	1,453	4,181	241	403	6,278	391	3,923	1,308	354	3	5,979	12,257
IBNR	786	874	203	58	1,921	131	268	224	134	6	763	2,684
Total impairment provisions	2,239	5,055	444	461	8,199	522	4,191	1,532	488	9	6,742	14,941
Provision cover percentage	%	%	%	%	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	54	47	49	18	44	74	66	47	27	25	57	49
Total provisions/impaired loans	83	58	91	21	58	99	71	55	37	75	64	60
Total provisions/total loans	8	21	5	3	11	35	36	27	18	17	31	15
Impairment charge/average loans												7.84

*Forms an integral part of the audited financial statements

3.1 Credit risk -Credit profile of the loan portfolio

Gross loans and receivables to customers amounted to € 89.9 billion at 31 December 2012 down from € 98.7 billion at 31 December 2011 and include € 0.5 billion which are classified as held for sale (€ 1.2 billion at 31 December 2011). The reduction reflects the continued deleveraging of non-core assets, particularly in the CICB and AIB UK market segments and the sale of a portion of the buy-to-let portfolio in EBS. The reduction is also impacted by the demand for credit from customers being exceeded by repayments of debt.

The Group has a Non-Core unit which actively manages the disposal of selected assets under the Group's deleveraging programme. While Non-Core is a distinct business segment, credit management activities, including the day to day interaction with borrowers, is undertaken by the market segments. During 2012, the Group refined its definition of non-core assets to ensure all cross-collateralised elements of borrower connections were maintained in the respective areas. This resulted in the transfer of € 3.3 billion from core into non-core assets and € 4.1 billion from non-core to core assets resulting in a net transfer of € 0.8 billion into core assets.

The on-going difficult economic environment, particularly in Ireland where the majority of the Group's loans and advances to customers are concentrated, continued to impact credit quality with borrowers experiencing difficulty in meeting their debt repayments. Consequently, there was a significant amount of restructuring activity with regard to existing facilities in the period. Details relating to this type of activity as it applies to the residential mortgage portfolio in Ireland are provided on pages 92 – 104. At 31 December 2012, the Group was not in a position to systematically capture restructuring/forbearance activity at a portfolio level as it related to non-mortgage loans and receivables. However, this is being addressed and information on a Group basis will be available in 2013. In the interim, it should be noted that criticised loans, which largely comprise customers in difficulty, either restructured or requiring restructuring, are in general, managed by dedicated specialised lending teams where intense case management is provided with a view to minimising loan losses through pro-active monitoring and control. At 31 December 2012, non mortgage criticised loans amounted to € 28.6 billion (31 December 2011: € 27 billion) of which € 21.3 billion were impaired with specific provisions of € 12.5 billion providing cover of 59% (31 December 2011: impaired loans € 18.5 billion, specific provisions € 10.5 billion, cover of 57%). Total statement of financial position provisions to total loans were 18% up from 15% at 31 December 2011.

The income statement provision charge for loans and receivables was € 2,434 million or 2.57% of average customer loans compared with € 7,774 million or 7.84% in 2011 (excluding provisions for loans held for sale to NAMA). The provision comprised € 3,756 million in specific provisions and a release of IBNR provisions of € 1,322 million (31 December 2011: € 7,595 million in specific provisions and an IBNR provision charge of € 179 million).

The movement in IBNR provisions of € 1,322 million was due to the level of specific provisions raised during 2012 which had largely been provided in IBNR provisions at 31 December 2011, based on management's view of the incurred loss inherent in the portfolio at that time, as evidenced by the level of arrears, requests for forbearance and vulnerable loans. The portfolios most impacted were the property and construction portfolio where the release was € 659 million due, in particular, to the level of specific provisions raised in 2012 in the property investment sub-sector, and € 369 million for the residential mortgage portfolio which largely resulted from specific provisions being taken during the year, particularly for mortgages in forbearance. IBNR provisions were also reduced by € 205 million, € 84 million and € 5 million in the SME/other commercial, other personal and corporate portfolios, respectively.

The financial position IBNR provisions amounted to € 1,343 million which represented 2.22% of non-impaired loans (3.63%: 31 December 2011). The outcomes of independent reviews of certain higher risk portfolios helped to inform management's view of the incurred loss remaining in the performing book and the appropriate level of IBNR provisions required.

Core portfolio € 74.2 billion:

At 31 December 2012, the core portfolio amounted to € 74.2 billion and has reduced from € 77.0 billion at 31 December 2011.

As mentioned above, the Group refined its definition of non-core assets during the year which resulted in a net transfer into Core of approximately € 0.8 billion. However, there were further underlying reductions of € 3.6 billion across all sectors in the core portfolio reflecting the impact of repayments and lower levels of demand for credit as a result of the continuing difficult economic environment, particularly in Ireland, where household deleveraging and subdued consumer sentiment are still in evidence.

€ 30.9 billion or 42% of the core portfolio was criticised (31 December 2011: € 26.3 billion or 34%) of which € 19.5 billion was impaired (31 December 2011: € 14.3 billion). Excluding the reclassification of core/non-core assets during the year, the increase in criticised and impaired loans was € 3.8 billion and € 4.4 billion respectively.

55.7% or € 41.4 billion of the core portfolio related to residential mortgages which comprised € 34.1 billion in owner-occupier mortgages and a further € 7.3 billion in buy-to-let mortgages. Arrears in the residential mortgage portfolio in Ireland continued to increase, albeit at a slower pace in the second half of 2012 compared with the first half, as borrowers' repayment capacity was impacted by high unemployment and a general reduction in disposable income through increased taxes and pay reductions. Further detailed disclosures in relation to the total Republic of Ireland residential mortgage portfolio of € 39.5 billion, and forbearance activity and arrears for this portfolio are provided on pages 101 – 104.

3.1 Credit risk – Credit profile of the loan portfolio *(continued)*

Core portfolio € 74.2 billion: (continued)

Core property and construction loans amounted to € 12.1 billion and comprised property investment loans of € 9.7 billion, land and development loans of € 1.9 billion and other property and construction loans of € 0.5 billion (31 December 2011: € 11.5 billion, € 0.8 billion and € 0.6 billion respectively).

€ 6.2 billion of the property investment portfolio of € 9.7 billion related to loans for the purchase of property in the Republic of Ireland, € 3.3 billion in the United Kingdom, and € 0.2 billion in other geographical areas. While the investment property market in Ireland remains challenging, there is some evidence that prime rents and yields for office and retail properties stabilised in 2012, however, secondary yields continued to weaken.

€ 6.7 billion of the core property investment portfolio was criticised (31 December 2011: € 6.2 billion) of which € 5.0 billion was impaired (31 December 2011: €3.9 billion). The Group had core statement of financial position specific provisions of € 2.3 billion providing cover of 45% for impaired loans (31 December 2011: € 1.7 billion or 43%) and total provisions to total loans of 25% (31 December 2011: 20%). The income statement provision charge for the core property investment portfolio was € 317 million compared with € 1,270 million for 2011, reflecting the slowing down in the pace of new impaired loans in the period.

Core land and development loans amounted to € 1.9 billion at 31 December 2012, up from € 0.8 billion at 31 December 2011. This increase was influenced primarily by the reclassification of non-core assets in the Group during 2012 which resulted in exposures relating to loans being transferred from non-core to the core portfolio. The portfolio largely relates to loans for the purchase of property and land in Ireland of € 1.4 billion and € 0.5 billion in the United Kingdom.

€ 1.6 billion of the core land and development portfolio was criticised (31 December 2011: € 0.2 billion) of which € 1.2 billion was impaired (31 December 2011: € 0.1 billion). The increase in criticised and impaired loans compared with 31 December 2011 is largely due to the majority of the loans which transferred back from the non-core portfolio being criticised, with a substantial portion of these also being impaired. The Group had core statement of financial position specific provisions of € 867 million providing cover of 71% for land and development impaired loans (31 December 2011: € 47 million or 47%) and total provisions to total loans of 47% (31 December 2011: 8%). The significant increase in provision cover was largely due to the reclassification of core/non-core assets resulting in approximately € 0.8 billion of impaired assets which were heavily provided for when transferred back into the core portfolio. The income statement provision charge for the year was € 26 million compared with € 53 million in 2011 and reflects the relatively low level of new impaired loans downgraded in the year compared with the previous year. Further detailed profiles of the property and construction portfolios by market segment are provided on pages 115 – 117.

The remaining core portfolio consisted of: € 0.5 billion in property loans; € 0.4 billion in contractors; € 0.1 billion in housing associations; € 4.2 billion in other personal loans; € 13.2 billion to SME/other commercial borrowers; and € 3.4 billion to corporate borrowers. These portfolios are profiled in more detail on pages 112 – 114 and 118 – 121.

The Group held total core statement of financial position specific provisions of € 9.5 billion providing cover of 49% on impaired loans of € 19.5 billion (31 December 2011: € 6.3 billion or 44%). Total core provisions to total core loans was 14% (31 December 2011: 11%).

The income statement provision charge for total core loans and receivables to customers was € 1,744 million or 2.29% of average core customer loans. The core provision charge comprised € 2,679 million in specific provisions and a release of € 935 million in IBNR provisions as outlined above (31 December 2011: specific provisions € 4,168 million and an IBNR provision charge of € 368 million).

Non-Core portfolio € 15.6 billion:

The non-core portfolio amounted to € 15.6 billion (31 December 2011: € 21.7 billion) following: the net transfer of € 0.8 billion as a result of the reclassification of non-core assets by the Group during the year; disposals as part of the deleveraging programme including the sale of buy-to-let mortgages in EBS; targeted non-refinancing of loans; and repayments. The portfolio now largely comprises property and construction and SME/other commercial loans at € 10.2 billion and € 2.1 billion respectively with a further € 1.8 billion to corporate borrowers, € 1.2 billion related to residential mortgages and € 0.5 billion in other personal loans.

The non-core property and construction portfolio of € 10.2 billion included € 5.2 billion in property investment loans (€ 2.9 billion related to loans for the purchase of property in Ireland, € 1.6 billion in the United Kingdom, € 0.2 billion in the United States of America and € 0.5 billion in other geographical locations) and € 4.6 billion in land and development loans (€ 3.2 billion in Ireland and € 1.4 billion in the United Kingdom). There was a further € 0.3 billion relating to loans to housing associations in the United Kingdom.

3.1 Credit risk – Credit profile of the loan portfolio

Non-Core portfolio € 15.6 billion: ***(continued)***

€ 11.7 billion of the total non-core portfolio was criticised of which € 10.0 billion was impaired (31 December 2011: € 13.6 billion and € 10.6 billion respectively). Excluding the reclassification of core/non-core assets during the year, the underlying decrease in criticised loans since 31 December 2011 was € 1.1 billion, largely as a result of deleveraging in the portolio.

The Group had non-core statement of financial position specific provisions of € 5.7 billion providing cover of 57% for impaired loans (31 December 2011: € 6.0 billion or 57%) and total provisions to total loans of 38% (31 December 2011: 31%).

The Non-Core income statement provision charge was € 690 million or 3.67% of average non-core customer loans for the year to 31 December 2012 and comprised € 1,077 million in specific provisions and a movement of € 387 million in IBNR provisions as outlined above (31 December 2011:€ 3,427 million and € 189 million respectively).

The provision charge for land and development loans of € 309 million accounted for 45% of the total non-core provision charge and reflected the impact that the lack of activity in this sector has had on the portfolio.

The following table profiles the asset quality of the Group's loans and receivables as at 31 December 2012 and 31 December 2011.

							2012	
							Of which	
Asset quality*	**Mortgages € m**	**Other € m**	**Property and construction € m**	**SME/other commercial € m**	**Corporate € m**	**Total € m**	**Core € m**	**Non-Core € m**
Neither past due nor impaired	**32,318**	**2,902**	**7,554**	**9,309**	**4,334**	**56,417**	**51,152**	**5,265**
Past due but not impaired	**2,073**	**365**	**893**	**688**	**20**	**4,039**	**3,638**	**401**
Impaired - provisions held	**8,130**	**1,431**	**13,804**	**5,248**	**803**	**29,416**	**19,456**	**9,960**
Gross loans and receivables	**42,521**	**4,698**	**22,251**	**15,245**	**5,157**	**89,872**	**74,246**	**15,626**
Provisions for impairment	**(3,206)**	**(1,139)**	**(8,104)**	**(3,496)**	**(583)**	**(16,528)**	**(10,518)**	**(6,010)**
	39,315	**3,559**	**14,147**	**11,749**	**4,574**	**73,344**	**63,728**	**9,616**
Deferred costs						**89**		
Unearned income						**(108)**		
Net loans and receivables						**73,325**		

							2011	
							Of which	
Asset quality*	Mortgages € m	Other € m	Property and construction € m	SME/other commercial € m	Corporate € m	Total € m	Core € m	Non-Core € m
Neither past due nor impaired	36,614	3,527	11,454	10,871	6,590	69,056	58,943	10,113
Past due but not impaired	2,269	459	1,137	854	79	4,798	3,764	1,034
Impaired - provisions held	6,343	1,334	11,899	4,562	695	24,833	14,261	10,572
Gross loans and receivables	45,226	5,320	24,490	16,287	7,364	98,687	76,968	21,719
Provisions for impairment	(2,681)	(1,063)	(7,568)	(3,093)	(536)	(14,941)	(8,199)	(6,742)
	42,545	4,257	16,922	13,194	6,828	83,746	68,769	14,977
Deferred costs						103		
Unearned income						(125)		
Net loans and receivables						83,724		

Profiles of past due but not impaired loans are detailed on pages 86 and 87 and impaired loans are detailed on page 88.

*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

Aged analysis of contractually past due but not impaired gross loans and receivables to customers*

The table below sets out the aged analysis of contractually past due but not impaired loans and receivables to customers as at 31 December 2012 and 31 December 2011 by:

(a) industry sector;
(b) core/non-core; and
(c) market segment:

Past due but not impaired is defined as follows: 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 a missed payment is overdue. This category can also include an element of loans where negotiation with the borrower on new terms and conditions has not concluded to full completion of documentation while the original loan facility remains outside its original terms for more than 90 days. When a loan or exposure is past due, the entire exposure is reported as past due, not just the amount of any excess or arrears.

							2012
a) Industry sector	**1–30 days € m**	**31–60 days € m**	**61–90 days € m**	**91–180 days € m**	**181–365 days € m**	**> 365 days € m**	**Total € m**
Agriculture	**55**	**9**	**16**	**13**	**16**	**30**	**139**
Energy	**6**	**–**	**–**	**1**	**–**	**1**	**8**
Manufacturing	**19**	**4**	**2**	**4**	**7**	**5**	**41**
Property and construction	**210**	**101**	**66**	**174**	**187**	**155**	**893**
Distribution	**80**	**34**	**28**	**46**	**45**	**42**	**275**
Transport	**7**	**5**	**1**	**15**	**1**	**3**	**32**
Financial	**4**	**2**	**8**	**6**	**2**	**1**	**23**
Other services	**70**	**25**	**17**	**21**	**33**	**24**	**190**
Personal							
Residential mortgages	**1,013**	**451**	**248**	**208**	**91**	**62**	**2,073**
Credit cards	**39**	**11**	**9**	**5**	**1**	**–**	**65**
Other	**75**	**32**	**40**	**48**	**47**	**58**	**300**
	1,578	**674**	**435**	**541**	**430**	**381**	**4,039**
b) Of which:							
Core	**1,493**	**624**	**405**	**443**	**358**	**315**	**3,638**
Non-Core	**85**	**50**	**30**	**98**	**72**	**66**	**401**
	1,578	**674**	**435**	**541**	**430**	**381**	**4,039**
c) Market segment							
PBB	**571**	**232**	**157**	**186**	**110**	**55**	**1,311**
CICB	**314**	**142**	**113**	**207**	**272**	**294**	**1,342**
AIB UK	**104**	**78**	**45**	**97**	**40**	**21**	**385**
EBS	**589**	**222**	**120**	**51**	**8**	**11**	**1,001**
Group	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	1,578	**674**	**435**	**541**	**430**	**381**	**4,039**
As a percentage of	**%**	**%**	**%**	**%**	**%**	**%**	**%**
total gross loans	**1.8**	**0.7**	**0.5**	**0.6**	**0.5**	**0.4**	**4.5**

*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)*

							2011
a) 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	54	37	10	11	19	13	144
Energy	4	–	1	2	2	1	10
Manufacturing	24	16	2	5	6	2	55
Property and construction	391	163	115	171	184	113	1,137
Distribution	153	75	45	148	35	23	479
Transport	10	7	2	4	2	1	26
Financial	6	1	1	2	4	–	14
Other services	87	30	13	17	38	20	205
Personal							
Residential mortgages	1,067	489	253	294	126	40	2,269
Credit cards	50	16	11	8	1	–	86
Other	126	60	34	56	53	44	373
	1,972	894	487	718	470	257	4,798
b) Of which:							
Core	1,602	759	418	555	305	125	3,764
Non-Core	370	135	69	163	165	132	1,034
	1,972	894	487	718	470	257	4,798
c) Market segment							
PBB	563	362	203	299	152	41	1,620
CICB	460	282	182	338	275	188	1,725
AIB UK	220	62	30	47	20	6	385
EBS	727	188	72	34	23	22	1,066
Group	2	–	–	–	–	–	2
	1,972	894	487	718	470	257	4,798
As a percentage of	%	%	%	%	%	%	%
total gross loans	2.0	0.9	0.5	0.7	0.5	0.3	4.9

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

Loans past due but not impaired were € 4.0 billion or 4.5 % of total loans and receivables to customers (31 December 2011: € 4.8 billion or 4.9%).

Residential mortgage loans past due but not impaired at € 2.1 billion represent 51% of the total past due but not impaired loans (31 December 2011: € 2.3 billion represent 47%) largely driven by decreases in household income and the high level of unemployment. Property and construction loans past due but not impaired represent a further 22% or € 0.9 billion (31 December 2011: 24% or € 1.1 billion) with other personal at 9% or € 0.4 billion (31 December 2011: 10% or € 0.5 billion).

*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

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:

2012*

		Impaired loans				Specific impairment provisions	
	Gross loans and receivables € m	Individually assessed € m	Collectively assessed € m	Total € m	% of total loans	Total € m	% of impaired loans
Retail							
Residential mortgages	**42,521**	**3,888**	**4,242**	**8,130**	**19**	**2,699**	**33**
Other personal lending	**4,698**	**863**	**568**	**1,431**	**30**	**1,064**	**74**
Total retail	**47,219**	**4,751**	**4,810**	**9,561**	**20**	**3,763**	**39**
Commercial							
Property and construction	**22,251**	**13,306**	**498**	**13,804**	**62**	**7,681**	**56**
SME/commercial	**15,245**	**4,559**	**689**	**5,248**	**34**	**3,256**	**62**
Total commercial	**37,496**	**17,865**	**1,187**	**19,052**	**51**	**10,937**	**57**
Corporate	**5,157**	**803**	**–**	**803**	**16**	**485**	**60**
Total	**89,872**	**23,419**	**5,997**	**29,416**	**33**	**15,185**	**52**
Specific impairment provisions at 31 December 2012		**12,515**	**2,670**	**15,185**			
		%	**%**	**%**			
Specific provision cover percentage		**53**	**45**	**52**			

2011

		Impaired loans				Specific impairment provisions	
	Gross loans and receivables € m	Individually assessed € m	Collectively assessed € m	Total € m	% of total loans	Total € m	% of impaired loans
Retail							
Residential mortgages	45,226	2,859	3,484	6,343	14	1,787	28
Other personal lending	5,320	764	570	1,334	25	903	68
Total retail	50,546	3,623	4,054	7,677	15	2,690	35
Commercial							
Property and construction	24,490	11,557	342	11,899	49	6,469	54
SME/commercial	16,287	4,060	502	4,562	28	2,665	58
Total commercial	40,777	15,617	844	16,461	40	9,134	55
Corporate	7,364	695	-	695	9	433	62
Total	98,687	19,935	4,898	24,833	25	12,257	49
Specific impairment provisions at 31 December 2011		10,318	1,939	12,257			
		%	%	%			
Specific provision cover percentage		52	40	49			

*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 year ended 31 December 2012:

	2012*		
		Of which	
	Total € m	Core € m	Non-Core € m
At 1 January 2012	**14,945**	**8,203**	**6,742**
Exchange translation adjustments	**47**	**11**	**36**
Transfers	**34**	**968**	**(934)**
Charge against income statement	**2,434**	**1,744**	**690**
Amounts written off	**(673)**	**(404)**	**(269)**
Disposals	**(263)**	**–**	**(263)**
Recoveries of amounts written off in previous years	**4**	**–**	**4**
Provisions on loans and receivables returned by NAMA	**4**	**–**	**4**
At 31 December 2012	**16,532**	**10,522**	**6,010**
Total provisions are split as follows:			
Specific	**15,189**	**9,474**	**5,715**
IBNR	**1,343**	**1,048**	**295**
	16,532	**10,522**	**6,010**
Amounts include:			
Loans and receivables to banks *(note 28)*	**4**	**4**	**–**
Loans and receivables to customers *(note 29)*	**16,406**	**10,518**	**5,888**
Loans and receivables of disposal groups and non-current assets held for sale *(note 25)*	**122**	**–**	**122**
	16,532	**10,522**	**6,010**

Provisions – income statement

The following table sets out the provision charge in the income statement for the years ended 31 December 2012 and 31 December 2011:

			2012*			2011
	Core € m	Non-Core € m	Total € m	Core	Non-Core	Total € m
Provisions for impairment on loans and receivables to customers	**1,744**	**690**	**2,434**	4,536	3,238	7,774
Provisions for impairment on loans and receivables held for sale to NAMA	**–**	**–**	**–**	–	87	87
Total provisions for impairment on loans and receivables	**1,744**	**690**	**2,434**	4,536	3,325	7,861
Charge/(writeback) of provisions for liabilities and commitments	**4**	**5**	**9**	(422)	6	(416)
Provisions for impairment on financial investments available for sale	**84**	**2**	**86**	275	8	283
Total	**1,832**	**697**	**2,529**	4,389	3,339	7,728

While there were some initial signs of improvement in the Irish economy where the majority of the Group's exposure is concentrated, continuing high unemployment, low levels of activity in the property sector, and the impact of the on-going austerity measures influenced the credit quality profile of the Group's loans and receivables to customers and associated provision levels for the year to 31 December 2012.

The income statement provision charge for loans and receivables for the year to 31 December 2012 was € 2,434 million or 2.57% of average customer loans compared with € 7,774 million or 7.84% in 2011 (excluding provisions for loans held for sale to NAMA). The provision comprised € 3,756 million in specific provisions and a release of IBNR provisions of € 1,322 million as outlined on page 83 (2011:€ 7,595 million in specific provisions and IBNR charge of € 179 million) split € 1,744 million for core loans and receivables and € 690 million for non-core.

A provision of € 9 million for liabilities and commitments was raised in 2012.

The provision for impairment on financial instruments available for sale of € 86 million related to equity investments of which NAMA subordinated bonds accounted for € 82 million.

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3.1 Credit risk – Credit profile of the loan portfolio

Provisions – income statement *(continued)*

The following table analyses by market segment the income statement impairment provision charge/(credit) for loans and receivables to customers for the years ended 31 December 2012 and 31 December 2011:

2012*

	Core			Non-Core			Total		
	Mortgages € m	**Other € m**	**Total € m**	**Mortgages € m**	**Other € m**	**Total € m**	**Mortgages € m**	**Other € m**	**Total € m**
PBB	**318**	**176**	**494**	**–**	**48**	**48**	**318**	**224**	**542**
CICB	**169**	**747**	**916**	**1**	**415**	**416**	**170**	**1,162**	**1,332**
AIB UK	**10**	**87**	**97**	**8**	**226**	**234**	**18**	**313**	**331**
EBS	**237**	**–**	**237**	**6**	**(14)**	**(8)**	**243**	**(14)**	**229**
Total	**734**	**1,010**	**1,744**	**15**	**675**	**690**	**749**	**1,685**	**2,434**

2011

	Mortgages € m	Other € m	Total € m
PBB	703	723	1,426
CICB	499	4,439	4,938
AIB UK	99	988	1,087
EBS	305	18	323
Total	1,606	6,168	7,774

The following table analyses by market segment the impairment provision charge/(credit) as a percentage of average loans expressed as basis points ("bps") for the years ended 31 December 2012 and 31 December 2011:

2012

	Core			Non-Core			Total		
	Mortgages bps	**Other bps**	**Total bps**	**Mortgages bps**	**Other bps**	**Total bps**	**Mortgages bps**	**Other bps**	**Total bps**
PBB	**140**	**263**	**168**	**278**	**606**	**601**	**140**	**297**	**179**
CICB	**545**	**359**	**383**	**37**	**409**	**400**	**504**	**376**	**388**
AIB UK	**35**	**133**	**103**	**258**	**442**	**431**	**57**	**269**	**223**
EBS	**179**	**–**	**179**	**40**	**(176)**	**(37)**	**166**	**(176)**	**149**
Total	**175**	**297**	**229**	**75**	**402**	**367**	**170**	**331**	**257**

2011

	Mortgages bps	Other bps	Total bps
PBB	301	876	451
CICB	1,386	1,230	1,244
AIB UK	302	807	70
EBS	396	385	395
Group	17	–	17
Total	418	1,076	784

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3.1 Credit risk – Credit profile of the loan portfolio

Provisions for impairment – income statement

The following table analyses the income statement impairment provision charge/(credit) split between individually significant, individually insignificant and IBNR for loans and receivables to customers for the years ended 31 December 2012 and 31 December 2011:

Impairment charge by nature of impairment provision	**2012*** **€ m**	2011 € m
Individually significant	**2,821**	6,470
Individually insignificant	**935**	1,124
IBNR	**(1,322)**	180
Total	**2,434**	7,774[(1)]

[(1)]Excludes € 87 million relating to loans and receivables held for sale to NAMA.

Core provisions*

The Core provision charge of € 1,744 million comprised € 2,679 million of specific provisions and a release of € 935 million of IBNR provisions (31 December 2011: € 4,168 million and an IBNR provision charge of € 368 million).

The movement in IBNR provisions occurred in the following portfolios: € 328 million related to residential mortgages; € 362 million to property and construction loans; € 162 million, € 78 million and € 5 million respectively to the SME/other commercial, other personal and corporate sectors where IBNR provisions raised in previous periods, have now been reflected in the specific provision charge at 31 December 2012 and following independent reviews of certain higher risk portfolios which helped inform management's view of incurred loss remaining in the performing book.

42% or € 734 million of the Core provision charge related to residential mortgages where the portfolio has experienced an increase in impaired loans as borrowers' repayment capacity was impacted by the difficult economic environments in Ireland and the United Kingdom. The charge occurred in PBB (owner-occupier € 219 million and buy-to-let € 99 million); in EBS where the charge of € 237 million related to the owner-occupier mortgage portfolio; € 169 million in CICB where the charge related to the buy-to-let mortgage sector; and € 10 million in AIB UK.

€ 378 million of the Core provision charge related to the property and construction sector, primarily in the CICB market segment where the charge was € 290 million; PBB € 50 million; and € 38 million in AIB UK.

The Core provision charge in the SME/other commercial sector was € 443 million and was largely incurred in the distribution (hotels, licensed premises and retail/wholesale) and other services sectors as a result of the continuing pressure on SMEs, particularly in Ireland, who are heavily dependent on the domestic economy which remained challenged during 2012. A further € 148 million of the provision charge related to the other personal portfolio where borrowers capacity to repay continued to be impacted by high levels of unemployment and reduced incomes, and € 39 million related to the corporate portfolio.

Non-Core provisions*

The non-core provision charge of € 690 million comprised € 1,077 million in specific provisions and a release of € 387 million in IBNR provisions (31 December 2011: € 3,427 million and € 189 million).

The non-core provision charge was largely driven by provisions of € 403 million in the property and construction sector. These occurred mainly in the land and development sub-sector (CICB € 165 million; PBB € 20 million; and AIB UK € 124 million) which reflected the impact that the lack of activity in this sector has had on the portfolio where 95% of loans were impaired at 31 December 2012. The provision charge for property investment was € 103 million and was incurred primarily in CICB € 51 million, AIB UK € 59 million and PBB € 7 million, reflecting the pressure that borrowers in Ireland and the UK are experiencing as a result of poorer rental incomes and yields where properties are in secondary locations. There was a release of IBNR provisions of € 14 million in EBS relating to property investment loans and a further € 9 million, largely in AIB UK relating to loans to housing associations.

The provision charge in the non-core corporate portfolio was € 128 million and included a significant provision in the transport sub-sector. The SME/other commercial, other personal and residential mortgage sectors accounted for € 74 million, € 71 million and € 15 million respectively of the non-core provision charge, as borrowers in these sectors continued to be impacted by the weak Irish and UK economies, with lower turnover, high unemployment and reduced incomes.

*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

Loans and receivables to customers – Residential mortgages*

Residential mortgages amounted to € 42.5 billion at 31 December 2012. This compares to € 45 billion at 31 December 2011. The split of the residential mortgage book was owner-occupier € 34.2 billion (31 December 2011: € 35 billion) and buy-to-let € 8.3 billion (2011: € 10 billion). The income statement impairment charge for 2012 was € 0.7 billion or 1.70% of average residential mortgages, comprising € 1.1 billion specific charge and a release of IBNR of € 0.4 billion (2011: € 1.6 billion or 3.4% of average residential mortgages, comprising € 1.4 billion specific charge and € 0.2 billion IBNR charge). Statement of financial position provisions of € 3.2 billion were held at 31 December 2012, split € 2.7 billion specific and € 0.5 billion IBNR (31 December 2011: € 2.6 billion, split € 1.7 billion specific and € 0.9 billion IBNR).

This section provides the following information in relation to residential mortgages:

Republic of Ireland residential mortgages – pages 93 to 104

- 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 of residential mortgages
- Residential mortgages which were past due but not impaired
- Residential mortgages which were impaired
- Forbearance:
  - Owner occupier
  - Buy-to-let
  - Total
- Repossessions

AIB UK residential mortgages – pages 105 to 111

- Credit profile
- Origination profile
- Loan-to-value profile:
  - Actual and weighted average indexed loan-to-value ratios of AIB UK residential mortgages
  - Loan-to-value ratios of AIB UK residential mortgages *(index linked)* that were neither past due nor impaired
  - Loan-to-value ratios of AIB UK residential mortgages *(index linked)* that were greater than 90 days past due and/or impaired
- Credit quality profile
- AIB UK residential mortgages which were past due but not impaired
- AIB UK residential mortgages which were impaired
- Repossessions

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Risk management – 3. Individual risk types

3.1 Credit risk - Credit profile of the loan portfolio *(continued)*

Loans and receivables to customers – Republic of Ireland residential mortgages

The following table analyses the Republic of Ireland residential mortgage portfolio by market segment showing impairment provisions for the years ended 31 December 2012 and 31 December 2011:

2012*

	PBB			CICB			EBS			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**	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**
Total gross residential mortgages	**18,536**	**4,219**	**22,755**	**30**	**3,121**	**3,151**	**13,018**	**607**[1]	**13,625**	**31,584**	**7,947**	**39,531**
In arrears (>30 days past due)[2]	**2,286**	**1,239**	**3,525**	**19**	**1,990**	**2,009**	**2,919**	**353**	**3,272**	**5,224**	**3,582**	**8,806**
In arrears (>90 days past due)[2]	**2,091**	**1,166**	**3,257**	**19**	**1,954**	**1,973**	**2,592**	**343**	**2,935**	**4,702**	**3,463**	**8,165**
Of which impaired	**1,955**	**1,099**	**3,054**	**19**	**1,895**	**1,914**	**2,549**	**339**	**2,888**	**4,523**	**3,333**	**7,856**
Statement of financial position specific provisions	**655**	**441**	**1,096**	**6**	**798**	**804**	**563**	**126**	**689**	**1,224**	**1,365**	**2,589**
Statement of financial position IBNR provisions	**170**	**46**	**216**	**–**	**38**	**38**	**152**	**28**	**180**	**322**	**112**	**434**
Provision cover percentage	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Specific provisions/impaired loans	**33.5**	**40.1**	**35.9**	**29.7**	**42.1**	**42.0**	**22.1**	**37.2**	**23.9**	**27.1**	**41.0**	**33.0**
Income statement	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Income statement specific provisions	**376**	**253**	**629**	**–**	**268**	**268**	**143**	**30**	**173**[3]	**519**	**551**	**1,070**
Income statement IBNR provisions	**(157)**	**(154)**	**(311)**	**–**	**(98)**	**(98)**	**94**	**(24)**	**70**	**(63)**	**(276)**	**(339)**
Total impairment provisions	**219**	**99**	**318**	**–**	**170**	**170**	**237**	**6**	**243**	**456**	**275**	**731**

[1]All Non-Core.

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

[3]Inclusive of a settlement received in respect of Mortgage Indemnity Insurance.

*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)*

2011

	PBB			CICB[1]			EBS[2]			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	Owner-occupier € m	Buy-to-let € m	Total € m
Total gross residential mortgages	18,626	4,345	22,971	34	3,309	3,343	13,492	1,861[3]	15,353	32,152	9,515	41,667
In arrears (>30 days past due)[4]	1,471	734	2,205	22	1,657	1,679	2,459	805	3,264	3,952	3,196	7,148
In arrears (>90 days past due)[4]	1,212	616	1,828	22	1,580	1,602	2,238	785	3,023	3,472	2,981	6,453
Of which impaired	1,008	510	1,518	21	1,496	1,517	2,238	765	3,003	3,267	2,771	6,038
Statement of financial position specific provisions	305	189	494	5	555	560	403	213	616	713	957	1,670
Statement of financial position IBNR provisions	327	200	527	–	137	137	58	67	125	385	404	789
Provision cover percentage	%	%	%	%	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	30.2	37.1	32.6	25.8	37.1	37.0	18.0	27.8	20.5	21.8	34.6	27.7
Income statement	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Income statement specific provisions	236	156	392	5	475	480	324	114	438	565	745	1,310
Income statement IBNR provisions	175	136	311	–	(16)	(16)	(116)	(17)	(133)	59	103	162
Total impairment provisions	411	292	703	5	459	464	208	97	305	624	848	1,472

[1]Excludes purchased residential mortgage loan pools of € 178 million in CICB. In 2012, these loans are shown in 'Financial' sector.

[2]Excludes deferred costs of € 70 million in EBS. In 2012, the EBS residential mortgage portfolio includes deferred costs.

[3]All Non-Core.

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

3.1 Credit risk – Credit profile of the loan portfolio

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

Residential mortgages in the Republic of Ireland (managed in the PBB, CICB & EBS market segments) amounted to € 39.5 billion compared to € 41.7 billion at 31 December 2011, the decrease mainly relating to the deleveraging of € 1.2 billion of buy-to-let mortgages in EBS in 2012. The split of the residential mortgage book was owner-occupier € 31.6 billion and buy-to-let € 7.9 billion (31 December 2011: owner-occupier € 32.2 billion and buy-to-let € 9.5 billion) and comprised 42% tracker rate, 46% variable rate and 12% fixed rate mortgages. The total income statement provision charge for 2012 was € 0.7 billion or 1.79% of average residential mortgages, comprising € 1.0 billion specific charge and a release of IBNR of € 0.3 billion. Statement of financial position provisions of € 3.0 billion were held at 31 December 2012, split € 2.6 billion specific provisions and € 0.4 billion IBNR provisions. 56% of the total residential mortgage book was in negative equity caused by the decrease in house prices in the last number of years and resulting in a quantum of negative equity of € 6.0 billion at 31 December 2012. Total owner-occupier and buy-to-let impaired loans increased from € 6.0 billion at 31 December 2011 to € 7.9 billion at 31 December 2012.

The level of loans greater than 90 days in arrears and/or impaired in the Republic of Ireland was 20.7% at 31 December 2012 compared to 15.5% at 31 December 2011. Residential mortgages are assessed for impairment when they are past due, typically for more than ninety 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. The portfolio also continues to experience an increase in arrears as borrowers' repayment capacity continues to be impacted by the current economic climate and high levels of personal debt. The pace of increase in arrears slowed during the year, particularly in comparison to the first half of the year.

The level of loans greater than 90 days in arrears and/or impaired in the owner-occupier book increased from € 3,472 million or 10.8% at 31 December 2011 to € 4,702 million or 14.9% at 31 December 2012. Decreases in household income and the high level of unemployment continue to be principal drivers of increased arrears and impaired loans in the owner-occupier book, coupled with an increase in the impairment of owner-occupier loans that are not past due, where evidence exists of other impairment triggers within the book, as mentioned above.

The level of loans greater than 90 days in arrears and/or impaired in the buy-to-let book increased from € 2,981 million or 31.3% at 31 December 2011 to € 3,463 million or 43.6% at 31 December, as the buy-to-let book continues to be impacted by increased financial pressure on borrowers.

Statement of financial position specific provisions of € 2.6 billion were held at 31 December 2012 and provided cover of 33% (31 December 2011: € 1.7 billion providing cover of 28%), and represents an increase of € 0.9 billion in the period. AIB has used a 55% peak-to-trough house price decline as a base for assessing collateral values, but, where relevant, has applied a discount to reflect a higher decline in value. IBNR statement of financial position provisions of € 434 million were held for the performing book compared to € 789 million held at 31 December 2011 and reflects management's view of incurred loss in this book. This view was informed by: the levels of specific provision taken in 2012; the results of independent credit reviews carried out on the more vulnerable elements of the residential mortgage portfolio; and management's view of the likely specific provisions.

The total income statement provision charge for 2012 was € 731 million, comprising a specific charge of € 1,070 million and a release of IBNR of € 339 million, further details of which are outlined on page 83. This compares to a total income statement charge of € 1,472 million for 2011, comprising a specific charge of € 1,310 million and an IBNR charge of € 162 million.

Information on the provisioning policies and methodologies employed in the identification of loans for assessment as impaired is set out in accounting policy number 15 'Impairment of financial assets'.

3.1 Credit risk – Credit profile of the loan portfolio

Residential mortgages by year of origination

The following table profiles the Republic of Ireland total residential mortgage portfolio and impaired residential mortgage portfolio by year of origination at 31 December 2012 and 31 December 2011:

	2012*				2011			
	Total		Impaired		Total		Impaired	
Republic of Ireland	Number	Balance € m	Number	Balances € m	Number	Balance € m	Number	Balance € m
1996 and before	**9,436**	**237**	**1,074**	**37**	11,327	298	1,027	35
1997	**3,398**	**106**	**367**	**15**	4,271	134	367	16
1998	**4,562**	**170**	**502**	**25**	5,189	215	459	30
1999	**6,017**	**277**	**670**	**48**	6,723	334	617	45
2000	**7,081**	**412**	**801**	**68**	7,730	478	677	58
2001	**7,627**	**538**	**882**	**82**	8,169	611	764	72
2002	**11,847**	**1,053**	**1,426**	**169**	13,414	1,221	1,217	144
2003	**16,957**	**1,732**	**2,309**	**322**	18,336	1,964	1,848	262
2004	**22,190**	**2,769**	**3,204**	**556**	23,919	3,116	2,509	452
2005	**30,375**	**4,362**	**5,148**	**1,029**	32,571	4,874	3,909	838
2006	**38,113**	**6,652**	**7,529**	**1,806**	40,342	7,264	5,602	1,401
2007	**36,623**	**6,670**	**7,435**	**1,741**	38,423	7,129	5,479	1,290
2008	**34,983**	**6,312**	**5,824**	**1,388**	36,077	6,642	4,286	1,032
2009	**23,693**	**3,776**	**2,104**	**432**	24,490	3,983	1,342	297
2010	**16,308**	**2,553**	**610**	**120**	16,637	2,629	352	64
2011	**4,960**	**782**	**74**	**18**	5,030	775	44	2
2012	**7,024**	**1,130**	**–**	**–**	–	–	–	–
Total	**281,194**	**39,531**	**39,959**	**7,856**	292,648	41,667	30,499	6,038

The table shows that 18% of the residential mortgage portfolio originated before 2005, with such loans representing 17% of the impaired balances at 31 December 2012 (31 December 2011: 20% of the residential mortgage portfolio originated before 2005, with such loans representing 18% of the impaired balances). A further 61% of the residential mortgage portfolio originated between 2005 and 2008, with such loans representing 76% of impaired balances (31 December 2011: 62% of the residential mortgage portfolio originated between 2005 and 2008, with such loans representing 76% of impaired balances). The remainder of the portfolio (21%) originated since 2008, and represents 7% of the impaired balances at 31 December 2012 (31 December 2011: 18% originated since 2008 representing 6% of the impaired balances).

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

The property values used in the completion of the following loan-to-value tables are determined with reference to the original or most recent valuation, indexed to the Central Statistics Office ("CSO") Residential Property Price Index. The CSO Residential Property Price Index for December 2012 reported that national residential property prices were 50% lower than their highest level in early 2007 and reported an annual fall in residential property prices of 4.5% in 2012. Comparative figures as reported by the CSO in December 2011 were 47% and 16.7% respectively.

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 2012 and 31 December 2011:

2012*

	Owner-occupier		Buy-to-let		Total	
Republic of Ireland	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	**3,783**	**12.0**	**523**	**6.6**	**4,306**	**10.9**
50% to 70%	**3,612**	**11.4**	**643**	**8.1**	**4,255**	**10.8**
71% to 80%	**2,189**	**6.9**	**432**	**5.4**	**2,621**	**6.6**
81% to 90%	**2,516**	**8.0**	**490**	**6.2**	**3,006**	**7.6**
91% to 100%	**2,480**	**7.9**	**593**	**7.5**	**3,073**	**7.8**
101% to 120%	**5,438**	**17.2**	**1,248**	**15.7**	**6,686**	**16.9**
121% to 150%	**6,264**	**19.8**	**1,742**	**21.9**	**8,006**	**20.2**
Greater than 150%	**5,302**	**16.8**	**2,276**	**28.6**	**7,578**	**19.2**
Total	**31,584**	**100.0**	**7,947**	**100.0**	**39,531**	**100.0**
Weighted average indexed loan-to-value[1]:						
Stock of residential mortgages at year end		**102.7**		**125.8**		**107.4**
New residential mortgages issued during year		**76.9**		**60.2**		**76.5**
Impaired residential mortgages		**122.1**		**144.6**		**131.6**

2011

	Owner-occupier		Buy-to-let		Total	
Republic of Ireland	€ m	%	€ m	%	€ m	%
Less than 50%	4,132	12.9	682	7.1	4,814	11.6
50% to 70%	3,843	12.0	871	9.1	4,714	11.3
71% to 80%	2,173	6.8	534	5.6	2,707	6.5
81% to 90%	2,347	7.3	638	6.7	2,985	7.2
91% to 100%	2,586	8.0	741	7.8	3,327	8.0
101% to 120%	6,028	18.7	1,585	16.7	7,613	18.3
121% to 150%	6,433	20.0	2,251	23.7	8,684	20.8
Greater than 150%	4,610	14.3	2,213	23.3	6,823	16.3
Total	32,152	100.0	9,515	100.0	41,667	100.0
Weighted average indexed loan-to-value[1][2]:						
Stock of residential mortgages at year end		99.8		118.6		104.1
New residential mortgages issued during year		73.7		61.6		72.8
Impaired residential mortgages		114.6		134.8		123.9

54% of the total owner-occupier and 66% of the total buy-to-let mortgages were in negative equity at 31 December 2012 (31 December 2011: 53% and 64% respectively). The weighted average indexed loan-to-value ratio for the total portfolio was 107.4% at 31 December 2012 (31 December 2011: 104.1%) whilst the weighted average indexed loan-to-value ratio for the impaired portfolio was 131.6% (31 December 2011: 123.9%), reflecting the decrease in property prices in the period. The weighted average indexed loan-to-value ratio of new mortgages issued during 2012 was 76.5% (31 December 2011: 72.8%).

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

[2]Arising from changes made to the method of calculating the weighted average indexed loan-to-value ratios in 2012, comparative figures for 2011 have been adjusted.

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3.1 Credit risk – Credit profile of the loan portfolio *(continued)*

Loan-to-value ratios of residential mortgages *(index linked)* that were neither past due nor impaired

The following table profiles the Republic of Ireland residential mortgage portfolio that was neither past due nor impaired by the indexed loan-to-value ratios at 31 December 2012 and 31 December 2011:

2012*

Republic of Ireland	Owner-occupier € m	Owner-occupier %	Buy-to-let € m	Buy-to-let %	Total € m	Total %
Less than 50%	**3,401**	**13.3**	**412**	**9.8**	**3,813**	**12.8**
50% to 70%	**3,173**	**12.4**	**482**	**11.4**	**3,655**	**12.3**
71% to 80%	**1,890**	**7.4**	**310**	**7.3**	**2,200**	**7.4**
81% to 90%	**2,182**	**8.6**	**341**	**8.1**	**2,523**	**8.5**
91% to 100%	**2,091**	**8.2**	**378**	**8.9**	**2,469**	**8.3**
101% to 120%	**4,520**	**17.7**	**691**	**16.3**	**5,211**	**17.5**
121% to 150%	**4,794**	**18.8**	**828**	**19.6**	**5,622**	**18.9**
Greater than 150%	**3,464**	**13.6**	**786**	**18.6**	**4,250**	**14.3**
Total	**25,515**	**100.0**	**4,228**	**100.0**	**29,743**	**100.0**

2011

Republic of Ireland	Owner-occupier € m	Owner-occupier %	Buy-to-let € m	Buy-to-let %	Total € m	Total %
Less than 50%	3,792	14.0	552	9.0	4,344	13.0
50% to 70%	3,460	12.6	677	11.0	4,137	12.3
71% to 80%	1,924	7.0	419	6.8	2,343	7.0
81% to 90%	2,065	7.5	479	7.8	2,544	7.6
91% to 100%	2,253	8.2	509	8.3	2,762	8.2
101% to 120%	5,226	19.1	1,023	16.7	6,249	18.7
121% to 150%	5,235	19.1	1,337	21.8	6,572	19.6
Greater than 150%	3,415	12.5	1,139	18.6	4,554	13.6
Total	27,370	100.0	6,135	100.0	33,505	100.0

Of the residential mortgages that were neither past due nor impaired at 31 December 2012, 50% of owner occupier and 55% of buy-to-let mortgages were in negative equity (31 December 2011: 51% and 57% respectively). In terms of the total portfolio that was neither past due nor impaired, 51% was in negative equity at 31 December 2012 (31 December 2011: 52%).

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3.1 Credit risk – Credit profile of the loan portfolio

Loan-to-value ratios of residential mortgages *(index linked)* that were greater than 90 days past due and/or impaired

The following table profiles the Republic of Ireland residential mortgage portfolio that was greater than 90 days past due and/or impaired by the indexed loan-to-value ratios at 31 December 2012 and 31 December 2011:

2012*

	Owner-occupier		**Buy-to-let**		**Total**		**Total residential mortgage portfolio**	
Republic of Ireland	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	**252**	**5.4**	**93**	**2.7**	**345**	**4.2**	**4,306**	**10.9**
50% to 70%	**301**	**6.4**	**141**	**4.0**	**442**	**5.5**	**4,255**	**10.8**
71% to 80%	**208**	**4.4**	**105**	**3.0**	**313**	**3.8**	**2,621**	**6.6**
81% to 90%	**237**	**5.0**	**128**	**3.7**	**365**	**4.5**	**3,006**	**7.6**
91% to 100%	**299**	**6.4**	**193**	**5.6**	**492**	**6.0**	**3,073**	**7.8**
101% to 120%	**684**	**14.6**	**523**	**15.1**	**1,207**	**14.8**	**6,686**	**16.9**
121% to 150%	**1,153**	**24.5**	**851**	**24.6**	**2,004**	**24.5**	**8,006**	**20.2**
Greater than 150%	**1,567**	**33.3**	**1,430**	**41.3**	**2,997**	**36.7**	**7,578**	**19.2**
Total	**4,701**	**100.0**	**3,464**	**100.0**	**8,165**	**100.0**	**39,531**	**100.0**

2011

	Owner-occupier		Buy-to-let		Total		Total residential mortgage portfolio	
Republic of Ireland	€ m	%	€ m	%	€ m	%	€ m	%
Less than 50%	223	6.4	112	3.7	335	5.2	4,814	11.6
50% to 70%	253	7.3	164	5.6	417	6.4	4,714	11.3
71% to 80%	170	4.9	96	3.2	266	4.1	2,707	6.5
81% to 90%	199	5.7	134	4.5	333	5.2	2,985	7.2
91% to 100%	231	6.7	198	6.6	429	6.6	3,327	8.0
101% to 120%	548	15.8	488	16.4	1,036	16.1	7,613	18.3
121% to 150%	891	25.6	812	27.2	1,703	26.4	8,684	20.8
Greater than 150%	957	27.6	977	32.8	1,934	30.0	6,823	16.3
Total	3,472	100.0	2,981	100.0	6,453	100.0	41,667	100.0

Of the residential mortgages that were greater than 90 days past due and/or impaired at 31 December 2012, 72% of the owner-occupier and 81% of the buy-to-let mortgages were in negative equity (31 December 2011: 69% and 76% respectively). In terms of the total portfolio that was greater than 90 days past due and/or impaired, 76% was in negative equity at 31 December 2012 (31 December 2011: 72%).

*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 2012 and 31 December 2011:

	2012*			2011		
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	**25,515**	**4,228**	**29,743**	27,370	6,135	33,505
Past due but not impaired	**1,546**	**386**	**1,932**	1,515	609	2,124
Impaired - provisions held	**4,523**	**3,333**	**7,856**	3,267	2,771	6,038
Gross residential mortgages	**31,584**	**7,947**	**39,531**	32,152	9,515	41,667
Provisions for impairment	**(1,546)**	**(1,477)**	**(3,023)**	(1,098)	(1,361)	(2,459)
	30,038	**6,470**	**36,508**	31,054	8,154	39,208

Residential mortgages which were past due but not impaired

The following table profiles the Republic of Ireland residential mortgage portfolio that was past due but not impaired at 31 December 2012 and 31 December 2011:

	2012*			2011		
Republic of Ireland	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	**845**	**137**	**982**	830	184	1,014
31 - 60 days	**334**	**77**	**411**	326	134	460
61 - 90 days	**188**	**42**	**230**	154	81	235
91 - 180 days	**120**	**65**	**185**	147	117	264
181 - 365 days	**42**	**38**	**80**	50	65	115
Over 365 days	**17**	**27**	**44**	8	28	36
Total past due but not impaired	**1,546**	**386**	**1,932**	1,515	609	2,124
Total gross residential mortgages	**31,584**	**7,947**	**39,531**	32,152	9,515	41,667

€ 1.9 billion or 5% of the Republic of Ireland residential mortgage portfolio was past due but not impaired at 31 December 2012 (2011: € 2.1 billion or 5%), of which € 1.0 billion or 51% was 30 days or less past due but not impaired (2011: € 1.0 billion or 48%). Loans past due more than 90 days but not impaired amounted to € 0.3 billion (16% of the portfolio), and have decreased from € 0.4 billion (20% of the portfolio) at 31 December 2011.

Residential mortgages which were impaired

The following table profiles the Republic of Ireland residential mortgage portfolio that was impaired at 31 December 2012 and 31 December 2011:

	2012			2011		
Republic of Ireland	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Not past due	**782**	**1,025**	**1,807**	371	855	1,226
1 - 30 days	**193**	**170**	**363**	84	139	223
31 - 60 days	**158**	**153**	**311**	180	195	375
61 - 90 days	**145**	**102**	**247**	210	137	347
91 - 180 days	**558**	**292**	**850**	582	320	902
181 - 365 days	**815**	**447**	**1,262**	777	408	1,185
Over 365 days	**1,872**	**1,144**	**3,016**	1,063	717	1,780
Total impaired	**4,523**	**3,333**	**7,856**	3,267	2,771	6,038
Total gross residential mortgages	**31,584**	**7,947**	**39,531**	32,152	9,515	41,667

Residential mortgages are assessed for impairment if they are past due, typically, for more than ninety days or if the borrower exhibits an inability to meet its obligations to the Group based on objective evidence of loss events ("impairment triggers"). Loans are deemed impaired where the carrying value of the asset is shown to be in excess of the present value of future cashflows, and an appropriate provision is raised. Where loans are not deemed to be impaired, they are collectively assessed as part of the IBNR provision calculation.

Of the Republic of Ireland residential mortgage portfolio that was impaired at 31 December 2012, € 1.8 billion or 23% was not past due (2011: € 1.2 billion or 20%). A further €0.9 billion or 12% of the impaired portfolio was less than 90 days past due at 31 December 2012 (2011: € 0.9 billion or 16%).

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3.1 Credit risk – Credit profile of the loan portfolio

Forbearance – residential mortgages

The Group has a number of forbearance strategies in operation to assist borrowers who have difficulty in meeting repayment commitments. These are described on page 74.

The following tables analyse 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 2012 and 31 December 2011:

						2012*
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
Republic of Ireland owner-occupier		€ m		€ m		€ m
Interest only	10,372	1,820	4,230	848	6,142	972
Reduced payment (greater than interest only)	1,852	387	877	229	975	158
Payment moratorium	838	127	350	58	488	69
Arrears capitalisation	3,139	571	2,071	408	1,068	163
Term extension	5,735	598	686	63	5,049	535
Other	312	41	146	20	166	21
Total forbearance	22,248	3,544	8,360	1,626	13,888	1,918

						2012*
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
Republic of Ireland buy-to-let		€ m		€ m		€ m
Interest only	5,346	1,386	3,162	931	2,184	455
Reduced payment (greater than interest only)	957	224	518	129	439	95
Payment moratorium	79	19	47	12	32	7
Arrears capitalisation	1,800	488	1,484	427	316	61
Term extension	718	106	91	17	627	89
Other	25	10	14	8	11	2
Total forbearance	8,925	2,233	5,316	1,524	3,609	709

						2012*
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
Republic of Ireland – Total		€ m		€ m		€ m
Interest only	15,718	3,206	7,392	1,779	8,326	1,427
Reduced payment (greater than interest only)	2,809	611	1,395	358	1,414	253
Payment moratorium	917	146	397	70	520	76
Arrears capitalisation	4,939	1,059	3,555	835	1,384	224
Term extension	6,453	704	777	80	5,676	624
Other	337	51	160	28	177	23
Total forbearance	31,173	5,777	13,676	3,150	17,497	2,627

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3.1 Credit risk – Credit profile of the loan portfolio

Forbearance – residential mortgages *(continued)*

	2011					
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
Republic of Ireland owner-occupier		€ m		€ m		€ m
Interest only	13,681	2,548	3,436	675	10,245	1,873
Reduced payment (greater than interest only)	1,014	184	251	58	763	126
Payment moratorium	1,438	254	470	92	968	162
Arrears capitalisation	1,512	274	649	135	863	139
Term extension	4,964	524	447	41	4,517	483
Other	2	1	–	–	2	1
Total forbearance	22,611	3,785	5,253	1,001	17,358	2,784

	2011					
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
Republic of Ireland buy-to-let		€ m		€ m		€ m
Interest only	7,401	1,866	2,565	816	4,836	1,050
Reduced payment (greater than interest only)	423	99	107	29	316	70
Payment moratorium	136	40	78	28	58	12
Arrears capitalisation	823	232	558	163	265	69
Term extension	872	132	89	15	783	117
Other	–	–	–	–	–	–
Total forbearance	9,655	2,369	3,397	1,051	6,258	1,318

	2011					
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
Republic of Ireland – Total		€ m		€ m		€ m
Interest only	21,082	4,414	6,001	1,491	15,081	2,923
Reduced payment (greater than interest only)	1,437	283	358	87	1,079	196
Payment moratorium	1,574	294	548	120	1,026	174
Arrears capitalisation	2,335	506	1,207	298	1,128	208
Term extension	5,836	656	536	56	5,300	600
Other	2	1	–	–	2	1
Total forbearance	32,266	6,154	8,650	2,052	23,616	4,102

The Group has developed a Mortgage Arrears Resolution Strategy ("MARS") for dealing with mortgage customers in difficulty or likely to be in difficulty. MARS builds on and formalises the Group's Mortgage Arrears Resolution Process, under which short-term mortgage forbearance solutions were provided to customers in financial difficulty for the last number of years. MARS includes new longer-term forbearance solutions which were devised in 2012 to assist existing Republic of Ireland primary residential mortgage customers in difficulty. Further details on MARS are set out on page 74.

Of the total residential mortgage portfolio in the Republic of Ireland of € 39.5 billion (31 December 2011: € 41.7 billion), € 5.8 billion (15%) was subject to forbearance measures at 31 December 2012, compared to € 6.2 billion (15%) at 31 December 2011. The majority (56%) of the loans that were subject to forbearance measures at 31 December 2012 were granted a period of interest only payments (31 December 2011: 72%). € 3.2 billion (55%) of the loans under forbearance were greater than 90 days past due or impaired at 31 December 2012, compared to € 2.1 billion (33%) at 31 December 2011.

3.1 Credit risk – Credit profile of the loan portfolio

Forbearance – residential mortgages *(continued)*

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 2012 and 31 December 2011:

			2012*			2011
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	**176**	**36**	**212**	209	58	267
31 - 60 days	**96**	**20**	**116**	121	53	174
61 - 90 days	**58**	**15**	**73**	74	33	107
91 - 180 days	**53**	**25**	**78**	94	38	132
181 - 365 days	**23**	**12**	**35**	37	22	59
Over 365 days	**9**	**13**	**22**	5	10	15
Total past due but not impaired	**415**	**121**	**536**	540	214	754

€ 0.5 billion or 9% of the Republic of Ireland residential mortgage portfolio that was subject to forbearance measures at 31 December 2012 was past due but not impaired (31 December 2011: € 0.8 billion or 12%). Of the portion of the portfolio that was past due but not impaired, € 0.2 billion or 40% was 30 days or less past due but not impaired (31 December 2011: € 0.3 billion or 35%). € 0.1 billion (25%) of the portfolio was more than 90 days past due, compared to € 0.2 billion (27%) at 31 December 2011.

The following table profiles the Republic of Ireland residential mortgage portfolio that was subject to forbearance measures and which was impaired at 31 December 2012 and 31 December 2011:

			2012			2011
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Not past due	**475**	**575**	**1,050**	183	412	595
1 - 30 days	**117**	**97**	**214**	36	59	95
31 - 60 days	**88**	**90**	**178**	62	103	165
61 - 90 days	**61**	**57**	**118**	65	45	110
91 - 180 days	**209**	**154**	**363**	178	120	298
181 - 365 days	**249**	**217**	**466**	204	137	341
Over 365 days	**342**	**284**	**626**	137	105	242
Total impaired	**1,541**	**1,474**	**3,015**	865	981	1,846

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.

Of the Republic of Ireland residential mortgage portfolio that was subject to forbearance measures and impaired at 31 December 2012, € 1.1 billion or 35% was not past due at 31 December 2012 (31 December 2011: € 0.6 billion or 32%). A further € 0.5 billion or 17% of the impaired portfolio was less than 90 days past due at 31 December 2012 (31 December 2011: € 0.4 billion or 20%).

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3.1 Credit risk – Credit profile of the loan portfolio

Forbearance – residential mortgages *(continued)*

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 2012 and 31 December 2011:

	2012*			2011		
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Less than 50%	**313**	**74**	**387**	376	95	471
50% – 70%	**341**	**111**	**452**	432	152	584
71% - 80%	**231**	**86**	**317**	261	96	357
81% - 90%	**245**	**96**	**341**	268	126	394
91%- 100%	**274**	**143**	**417**	292	164	456
101% - 120%	**568**	**353**	**921**	657	394	1,051
121% - 150%	**796**	**510**	**1,306**	824	602	1,426
Greater than 150%	**776**	**860**	**1,636**	675	740	1,415
Total forbearance	**3,544**	**2,233**	**5,777**	3,785	2,369	6,154

Of the residential mortgage portfolio in the Republic of Ireland that was subject to forbearance measures at 31 December 2012, 60% of owner-occupier and 77% of buy-to-let mortgages were in negative equity (31 December 2011: 57% and 73% respectively), whilst 67% of the total portfolio subject to forbearance measures was in negative equity at 31 December 2012 (31 December 2011: 63%).

Republic of Ireland residential mortgages – repossessions[(1)]

The number (stock) of repossessions as at 31 December 2012 and 31 December 2011 is set out below:

	2012*		2011	
	Stock of repossessions	**Balance outstanding € m**	Stock of repossessions	Balance outstanding € m
Owner-occupier	**80**	**23**	91	29
Buy-to-let	**53**	**15**	39	11
Total	**133**	**38**	130	40

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

The increase in the stock of repossessed properties in 2012 relates to 64 properties repossessed in the Republic of Ireland offset by disposals. The majority of repossessions were by way of voluntary surrender.

Republic of Ireland residential mortgages - repossessions disposed of

The following table analyses disposed of repossessed properties for the years ended 31 December 2012 and 31 December 2011:

						2012*
	Number of disposals	**Outstanding balance at repossession date € m**	**Gross sales proceeds on disposal € m**	**Costs to sell € m**	**Loss on sale[(1)] € m**	**Average loan-to-value at sale price %**
Owner-occupier	**44**	**13**	**5**	**1**	**9**	**244**
Buy-to-let	**17**	**8**	**3**	**–**	**5**	**324**
Total	**61**	**21**	**8**	**1**	**14**	**269**

						2011
	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	5	2	1	–	1	214
Buy-to-let	10	3	1	–	2	238
Total	15	5	2	–	3	230

[(1)]Before specific impairment provisions.

During the year ended 31 December 2012, 61 residential properties were disposed of in the Republic of Ireland, resulting in a total loss on sale of € 14 million compared to 2011 when 15 residential properties were disposed of, resulting in a total loss of € 3 million.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

AIB UK residential mortgages

The following table analyses the AIB UK residential mortgage portfolio showing impairment provisions for the years ended 31 December 2012 and 31 December 2011:

	2012*			2011		
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	**2,583**	**407**	**2,990**	2,823	434	3,257
In arrears (>30 days past due)[1]	**319**	**65**	**384**	252	33	285
In arrears (>90 days past due)[1]	**270**	**56**	**326**	211	27	238
Of which impaired	**230**	**44**	**274**	169	24	193
Statement of financial position specific provisions	**88**	**22**	**110**	55	12	67
Statement of financial position IBNR provisions	**61**	**12**	**73**	88	12	100
Provision cover percentage	**%**	**%**	**%**	%	%	%
Specific provisions/impaired loans	**38.3**	**50.0**	**40.1**	32.9	46.1	34.7
Income statement	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Income statement specific provisions	**36**	**12**	**48**	33	6	39
Income statement IBNR provisions	**(28)**	**(2)**	**(30)**	53	7	60
Total impairment provisions	**8**	**10**	**18**	86	13	99

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

Residential mortgages in AIB UK were € 3.0 billion at 31 December 2012 and comprised owner-occupier mortgages of € 2.6 billion and buy-to-let mortgages of € 0.4 billion (31 December 2011: € 3.2 billion comprising owner-occupier mortgages of € 2.8 billion and buy-to-let mortgages of € 0.4 billion).

The level of loans greater than 90 days in arrears and/or impaired increased to 10.9% at 31 December 2012 from 7.4% at 31 December 2011, as borrowers' repayment capacity continues to be impacted by the current economic climate, particularly in Northern Ireland. Statement of financial position specific provisions of € 110 million were held at 31 December 2012 and provided cover of 40% (31 December 2011: € 67 million providing cover of 35%). IBNR statement of financial position provisions of € 73 million were held at 31 December 2012, down from € 100 million at 31 December 2011, and reflects management's view of incurred loss in the performing book.

The total income statement provision charge at 31 December 2012 was € 18 million, comprising a specific provision charge of € 48 million and a release of IBNR of € 30 million, reflecting the reversal of IBNR provisions raised in previous periods to specific provisions, particularly, in relation to low-start mortgages in Northern Ireland. This compares to a total income statement charge of € 99 million for 2011, comprising a specific charge of € 39 million and an IBNR charge of € 60 million.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

AIB UK residential mortgages by year of origination

The following table profiles the AIB UK total residential mortgage portfolio and impaired residential mortgage portfolio by year of origination at 31 December 2012 and 31 December 2011:

	2012*				2011			
	Total		Impaired		Total		Impaired	
AIB UK	Number	Balance € m	Number	Balance € m	Number	Balance € m	Number	Balance € m
1996 and before	**335**	**17**	**2**	**–**	418	20	1	–
1997	**62**	**2**	**–**	**–**	87	3	–	–
1998	**93**	**5**	**1**	**–**	113	6	1	–
1999	**242**	**12**	**–**	**–**	293	15	–	–
2000	**230**	**15**	**–**	**–**	276	18	–	–
2001	**3,285**	**104**	**126**	**4**	3,656	121	114	5
2002	**1,317**	**84**	**47**	**3**	1,466	97	42	2
2003	**1,955**	**145**	**118**	**13**	2,108	160	104	10
2004	**2,421**	**213**	**135**	**14**	2,558	236	119	12
2005	**3,218**	**333**	**268**	**32**	3,400	369	214	25
2006	**4,891**	**600**	**443**	**73**	5,174	658	311	51
2007	**5,515**	**820**	**523**	**102**	5,815	884	339	66
2008	**2,627**	**373**	**135**	**23**	2,771	400	100	18
2009	**1,205**	**136**	**32**	**8**	1,315	160	18	2
2010	**605**	**65**	**8**	**1**	656	76	6	–
2011	**324**	**32**	**3**	**1**	337	34	1	2
2012	**288**	**34**	**–**	**–**	–	–	–	–
Total	**28,613**	**2,990**	**1,841**	**274**	30,443	3,257	1,370	193

The table shows that 20% of the residential mortgage portfolio originated before 2005, with such loans representing 12% of the impaired balances at 31 December 2012 (31 December 2011: 21% of the residential mortgage portfolio originated before 2005, with such loans representing 15% of the impaired balances). A further 71% of the residential mortgage portfolio originated between 2005 and 2008, with such loans representing 84% of impaired balances (31 December 2011: 71% of the residential mortgage portfolio originated between 2005 and 2008, with such loans representing 83% of impaired balances). The remainder of the portfolio (9%) originated since 2008 and represent 4% of the impaired balances at 31 December 2012 (31 December 2011: 8% originated since 2008 with such loans representing 2% of the impaired balances).

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

The property values used in the completion of the following loan-to-value tables are determined with reference to the original or most recent valuation, indexed to the Nationwide House Price Index ("HPI") in the UK. This index for Quarter 4 2012 reported that house prices across the UK were 11.5% lower than their peak in Quarter 3 2007 and reported an annual fall of 1.1% during 2012. Comparative figures, as reported in the Nationwide HPI in Quarter 4 2011, was a decline from peak of 10.5% and an annual increase of 1.1%.

In Northern Ireland (which represents 70% of the UK residential mortgage portfolio), the Nationwide HPI reported in Quarter 4 2012 that house prices decreased by 54.3% from their peak in Quarter 3 2007 (2011: 50.2%), whilst during 2012 house prices decreased by 8.2% (2011: 8.9%).

Actual and weighted average indexed loan-to-value ratios of AIB UK residential mortgages

The following table profiles the AIB UK residential mortgage portfolio by the indexed loan-to-value ratios and the weighted average indexed loan-to-value ratios at 31 December 2012 and 31 December 2011:

2012*

	Owner-occupier		**Buy-to-let**		**Total**	
AIB UK	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	**442**	**17.1**	**54**	**13.3**	**496**	**16.6**
50% to 70%	**406**	**15.7**	**59**	**14.7**	**465**	**15.6**
71% to 80%	**258**	**10.0**	**25**	**6.1**	**283**	**9.5**
81% to 90%	**261**	**10.1**	**29**	**7.1**	**290**	**9.7**
91% to 100%	**249**	**9.6**	**25**	**6.1**	**274**	**9.2**
101% to 120%	**293**	**11.4**	**34**	**8.3**	**327**	**10.9**
121% to 150%	**304**	**11.8**	**62**	**15.2**	**366**	**12.2**
Greater than 150%	**370**	**14.3**	**119**	**29.2**	**489**	**16.3**
Total	**2,583**	**100.0**	**407**	**100.0**	**2,990**	**100.0**
Weighted average indexed loan-to-value[1]:						
Stock of residential mortgages at year end		**96.9**		**111.7**		**98.9**
New residential mortgages issued during year		**71.1**		**–**		**71.1**
Impaired residential mortgages		**119.6**		**145.4**		**123.7**

2011

	Owner-occupier		Buy-to-let		Total	
AIB UK	€ m	%	€ m	%	€ m	%
Less than 50%	543	19.2	58	13.3	601	18.5
50% to 70%	525	18.6	77	17.7	602	18.5
71% to 80%	315	11.2	31	7.2	346	10.6
81% to 90%	301	10.7	37	8.7	338	10.4
91% to 100%	276	9.8	28	6.3	304	9.3
101% to 120%	301	10.6	39	9.0	340	10.4
121% to 150%	329	11.6	94	21.7	423	13.0
Greater than 150%	233	8.3	70	16.1	303	9.3
Total	2,823	100.0	434	100.0	3,257	100.0
Weighted average indexed loan-to-value[1]:						
Stock of residential mortgages at year end		88.2		101.1		89.9
New residential mortgages issued during year		70.0		77.0		70.4
Impaired residential mortgages		105.9		121.8		107.9

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

37% of owner-occupier and 53% of buy-to-let mortgages were in negative equity at 31 December 2012 (31 December 2011: 31% and 47% respectively). In terms of the total portfolio, 40% was in negative equity at 31 December 2012 (31 December 2011: 33%). The weighted average indexed loan-to-value ratio for the total portfolio was 98.9% at 31 December 2012 (31 December 2011: 89.9%) whilst the weighted average indexed loan-to-value ratio for the impaired portfolio was 123.7% (31 December 2011: 107.9%), reflecting the decrease in property prices in Northern Ireland in the period. The weighted average indexed loan-to-value ratio of new mortgages issued during 2012 was 71.1% (31 December 2011: 70.4%).

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Loan-to-value ratios of AIB UK residential mortgages *(index linked)* that were neither past due nor impaired

The following table profiles the AIB UK residential mortgage portfolio that was neither past due nor impaired by the indexed loan-to-value ratios at 31 December 2012 and 31 December 2011:

2012*

	Owner-occupier		Buy-to-let		Total	
AIB UK	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	**417**	**18.7**	**52**	**15.3**	**469**	**18.2**
50% to 70%	**373**	**16.7**	**55**	**16.1**	**428**	**16.6**
71% to 80%	**229**	**10.2**	**22**	**6.4**	**251**	**9.7**
81% to 90%	**226**	**10.1**	**21**	**6.4**	**247**	**9.6**
91% to 100%	**192**	**8.6**	**21**	**6.1**	**213**	**8.3**
101% to 120%	**258**	**11.5**	**30**	**8.8**	**288**	**11.2**
121% to 150%	**257**	**11.5**	**51**	**15.1**	**308**	**12.0**
Greater than 150%	**283**	**12.7**	**88**	**25.8**	**371**	**14.4**
Total	**2,235**	**100.0**	**340**	**100.0**	**2,575**	**100.0**

2011

	Owner-occupier		Buy-to-let		Total	
AIB UK	€ m	%	€ m	%	€ m	%
Less than 50%	519	20.5	56	14.4	575	19.7
50% to 70%	483	19.0	72	18.6	555	19.0
71% to 80%	283	11.2	29	7.5	312	10.7
81% to 90%	265	10.5	29	7.5	294	10.0
91% to 100%	238	9.4	25	6.3	263	9.0
101% to 120%	267	10.5	35	9.1	302	10.3
121% to 150%	281	11.1	83	21.4	364	12.5
Greater than 150%	197	7.8	59	15.2	256	8.8
Total	2,533	100.0	388	100.0	2,921	100.0

Of the residential mortgages that were neither past due nor impaired at 31 December 2012, 36% of owner-occupier and 50% of buy-to-let mortgages were in negative equity (31 December 2011: 29% and 46% respectively). In total, 37% of such mortgages were in negative equity at 31 December 2012 (31 December 2011: 32%) driven by continued property price declines in Northern Ireland in 2012.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Loan-to-value ratios of AIB UK residential mortgage portfolio *(index linked)* that were greater than 90 days past due and/or impaired

The following table profiles the AIB UK residential mortgage portfolio that was greater than 90 days past due and/or impaired by the indexed loan-to-value ratios at 31 December 2012 and 31 December 2011:

2012*

	Owner-occupier		**Buy-to-let**		**Total**		**Total residential mortgage portfolio**	
AIB UK	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	**15**	**5.4**	**1**	**1.9**	**16**	**4.9**	**496**	**16.6**
50% to 70%	**22**	**8.2**	**3**	**5.8**	**25**	**7.7**	**465**	**15.6**
71% to 80%	**26**	**9.4**	**3**	**4.6**	**29**	**8.6**	**283**	**9.5**
81% to 90%	**27**	**10.1**	**7**	**12.4**	**34**	**10.4**	**290**	**9.7**
91% to 100%	**40**	**14.9**	**3**	**6.4**	**43**	**13.5**	**274**	**9.2**
101% to 120%	**29**	**10.7**	**4**	**6.5**	**33**	**9.8**	**327**	**10.9**
121% to 150%	**39**	**14.5**	**8**	**14.5**	**47**	**14.4**	**366**	**12.2**
Greater than 150%	**72**	**26.8**	**27**	**47.9**	**99**	**30.7**	**489**	**16.3**
Total	**270**	**100.0**	**56**	**100.0**	**326**	**100.0**	**2,990**	**100.0**

2011

	Owner-occupier		Buy-to-let		Total		Total residential mortgage portfolio	
AIB UK	€ m	%	€ m	%	€ m	%	€ m	%
Less than 50%	14	7.1	–	–	14	6.3	601	18.5
50% to 70%	27	12.8	4	14.8	31	13.0	602	18.5
71% to 80%	26	12.3	1	3.7	27	11.3	346	10.6
81% to 90%	25	11.9	3	11.1	28	11.8	338	10.4
91% to 100%	26	12.3	2	7.4	28	11.8	304	9.3
101% to 120%	24	11.4	2	7.4	26	10.9	340	10.4
121% to 150%	37	17.5	7	26.0	44	18.5	423	13.0
Greater than 150%	32	14.7	8	29.6	40	16.4	303	9.3
Total	211	100.0	27	100.0	238	100.0	3,257	100.0

Of the residential mortgages that were greater than 90 days past due and/or impaired at 31 December 2012, 52% of owner-occupier and 68% of buy-to-let mortgages were in negative equity (31 December 2011: 44% and 63% respectively). In terms of the total portfolio that was greater than 90 days past due and/or impaired, 55% was in negative equity at 31 December 2012 (31 December 2011: 46%), driven by continued property price declines in Northern Ireland 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 AIB UK residential mortgages

The following table profiles the asset quality of AIB UK residential mortgage portfolio as at 31 December 2012 and 31 December 2011:

	2012*			2011		
AIB UK	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Neither past due nor impaired	**2,235**	**340**	**2,575**	2,533	388	2,921
Past due but not impaired	**118**	**23**	**141**	121	22	143
Impaired - provisions held	**230**	**44**	**274**	169	24	193
Gross residential mortgages	**2,583**	**407**	**2,990**	2,823	434	3,257
Provisions for impairment	**(149)**	**(34)**	**(183)**	(143)	(24)	(167)
	2,434	**373**	**2,807**	2,680	410	3,090

AIB UK residential mortgages which were past due but not impaired

The following table profiles the AIB UK residential mortgage portfolio that was past due but not impaired at 31 December 2012 and 31 December 2011:

	2012*			2011		
AIB UK	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	**29**	**2**	**31**	38	13	51
31 - 60 days	**35**	**5**	**40**	25	4	29
61 - 90 days	**14**	**4**	**18**	16	2	18
91 - 180 days	**12**	**11**	**23**	27	3	30
181 - 365 days	**10**	**1**	**11**	11	–	11
Over 365 days	**18**	**–**	**18**	4	–	4
Total	**118**	**23**	**141**	121	22	143

€ 141 million or 5% of the AIB UK residential mortgage portfolio was past due but not impaired at 31 December 2012 (31 December 2011: € 143 million or 4%), of which € 31 million or 22% was 30 days or less past due but not impaired (31 December 2011: € 51 million or 36%). € 52 million (37%) of the portfolio was more than 90 days past due, compared to € 45 million (31%) at 31 December 2011.

AIB UK residential mortgages which were impaired

The following table profiles the AIB UK residential mortgage portfolio that was impaired at 31 December 2012 and 31 December 2011:

	2012			2011		
AIB UK	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Not in arrears	**15**	**2**	**17**	8	1	9
1 - 30 days	**3**	**1**	**4**	5	1	6
31 - 60 days	**5**	**1**	**6**	7	1	8
61 - 90 days	**6**	**2**	**8**	1	–	1
91 - 180 days	**27**	**7**	**34**	33	3	36
181 - 365 days	**52**	**12**	**64**	44	6	50
Over 365 days	**122**	**19**	**141**	71	12	83
Total impaired	**230**	**44**	**274**	169	24	193
Total gross residential mortgages	**2,583**	**407**	**2,990**	2,823	434	3,257

Residential mortgages are assessed for impairment if they are past due, typically for more than ninety days, or if the borrower exhibits an inability to meet its obligations to the Group based on objective evidence of loss events ("impairment triggers"). Loans are deemed impaired where the carrying value of the asset is shown to be in excess of the present value of future cashflows and an appropriate provision is raised. Where loans are not deemed to be impaired, they are collectively assessed as part of the IBNR provision calculation.

Of the AIB UK residential mortgage portfolio that was impaired at 31 December 2012, € 17 million or 6% was not past due (31 December 2011: € 9 million or 5%). A further € 18 million or 7% of the impaired portfolio was less than 90 days past due at 31 December 2012 (31 December 2011: € 15 million or 8%).

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

AIB UK residential mortgages – repossessions

The number (stock) of repossessions as at 31 December 2012 and 31 December 2011 is set out below:

	2012*		2011	
	Stock of repossessions	**Balance outstanding € m**	Stock of repossessions	Balance outstanding € m
Owner-occupier	**143**	**33**	59	14
Buy-to-let	**71**	**15**	33	7
Total	**214**	**48**	92	21

During the year ended 31 December 2012, 98 properties were disposed of in AIB UK, resulting in a total loss on sale of € 10.3 million before specific impairment provisions. This compares to 31 December 2011 when 68 properties were disposed of resulting in a total loss on sale of € 6.6 million before specific impairment provisions. A total of 220 properties were repossessed in AIB UK in 2012, the majority of which resulted from the enforcement of security and compares to 2011 when 106 properties were repossessed.

*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

Loans and receivables to customers – Other personal lending

The following table analyses other personal lending by market segment showing asset quality and impairment provisions for the years ended 31 December 2012 and 31 December 2011:

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	Core				Non-Core				2012 Total
	PBB	CICB	AIB UK	Total Core	PBB	CICB	AIB UK	Total Non-Core	
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Satisfactory	1,865	290	284	2,439	1	64	2	67	2,506
Watch	148	109	36	293	–	23	7	30	323
Vulnerable	221	110	38	369	1	53	15	69	438
Impaired	623	479	38	1,140	1	244	46	291	1,431
Total criticised loans	992	698	112	1,802	2	320	68	390	2,192
Total gross loans and receivables	2,857	988	396	4,241	3	384	70	457	4,698
Total loans percentage	%	%	%	%	%	%	%	%	%
Criticised loans/total loans	35	71	28	42	52	83	97	85	47
Impaired loans/total loans	22	48	10	27	28	64	66	64	30
Impairment provisions - statement of financial position*									
Specific	535	320	27	882	–	152	30	182	1,064
IBNR	31	24	11	66	–	8	1	9	75
Total impairment provisions	566	344	38	948	–	160	31	191	1,139
Provision cover percentage	%	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	86	67	74	77	–	62	64	62	74
Total provisions/impaired loans	91	72	100	83	–	66	67	66	80
Total provisions/total loans	20	35	10	22	–	42	44	42	24
Impairment charge/average loans	1.24	16.13	4.86	4.16	4.92	4.96	3.55	4.87	4.37

*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

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

	Core				Non-Core				2011 Total
	PBB	CICB	AIB UK	Total Core	PBB	CICB	AIB UK	Total Non-Core	
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Satisfactory	1,775	72	345	2,192	397	449	7	853	3,045
Watch	115	13	36	164	103	162	6	271	435
Vulnerable	110	14	47	171	130	175	30	335	506
Impaired	342	71	38	451	208	632	43	883	1,334
Total criticised loans	567	98	121	786	441	969	79	1,489	2,275
Total gross loans and receivables	2,342	170	466	2,978	838	1,418	86	2,342	5,320
Total loans percentage	%	%	%	%	%	%	%	%	%
Criticised loans/total loans	24	58	26	26	53	68	92	64	43
Impaired loans/total loans	15	42	8	15	25	45	50	38	25
Impairment provisions – statement of financial position									
Specific	289	52	28	369	153	360	21	534	903
IBNR	95	-	4	99	57	2	2	61	160
Total impairment provisions	384	52	32	468	210	362	23	595	1,063
Provision cover percentage	%	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	84	73	76	82	73	57	49	60	68
Total provisions/impaired loans	112	73	86	104	101	57	54	67	80
Total provisions/total loans	16	30	7	16	25	26	26	25	20
Impairment charge/average loans									8.45

3.1 Credit risk – credit profile of the loan portfolio

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

The other personal lending portfolio at € 4.7 billion has reduced by € 0.6 billion in the period and comprises € 3.7 billion in loans and overdrafts and € 1.0 billion in credit card facilities. There has been a marked shift in the profile of the portfolio in terms of core/non core assets as a result of the reclassification of non-core assets during the year. This is particularly evident in the PBB market segment where practically all loans in this sector are now included in core assets.

Despite evidence of some improvement in retail sales and consumer spending in Ireland in the second half of 2012, with some stabilisation in unemployment and house prices, the reduction in the overall other personal lending book reflects the continued lack of demand for personal credit, as households focus on reducing debt, where possible.

€ 2.2 billion or 47% of the portfolio is criticised of which impaired loans amount to € 1.4 billion (31 December 2011: € 2.3 billion or 43% and € 1.3 billion).

The Group has statement of financial position specific provisions of € 1.1 billion providing cover on impaired loans of 74% (31 December 2011: € 0.9 billion or 68%) and a further € 0.1 billion in IBNR provisions representing 2.30% of performing loans (31 December 2011: € 0.2 billion or 4.01%).

The income statement provision charge for the year was € 219 million or 4.37% of average customer loans compared with € 478 million or 8.45% in the year to 31 December 2011. While the provision charge has reduced significantly since 2011, borrowers in this sector were impacted by high unemployment levels and reduced incomes as a result of austerity measures.

Risk management – 3. Individual risk types

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 market segment showing asset quality and impairment provisions for the years ended 31 December 2012 and 31 December 2011:

	Core					Non-Core					2012 Total
	PBB	CICB	AIB UK	EBS	Total Core	PBB	CICB	AIB UK	EBS	Total Non-Core	
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Investment											
Commercial investment	592	6,322	1,290	–	8,204	–	2,818	759	278	3,855	12,059
Residential investment	261	753	490	–	1,504	1	880	499	–	1,380	2,884
	853	7,075	1,780	–	9,708	1	3,698	1,258	278	5,235	14,943
Land and development											
Commercial development	121	363	45	–	529	2	788	130	–	920	1,449
Residential development	244	697	422	–	1,363	1	2,407	1,222	–	3,630	4,993
	365	1,060	467	–	1,892	3	3,195	1,352	–	4,550	6,442
Contractors	117	152	135	–	404	–	19	23	–	42	446
Housing associations	–	–	95	–	95	–	–	325	–	325	420
Total gross loans and receivables	1,335	8,287	2,477	–	12,099	4	6,912	2,958	278	10,152	22,251
Analysed as to asset quality											
Satisfactory	379	1,927	1,220	–	3,526	1	1,153	414	60	1,628	5,154
Watch	123	461	529	–	1,113	–	354	93	78	525	1,638
Vulnerable	140	512	400	–	1,052	–	232	339	32	603	1,655
Impaired	693	5,387	328	–	6,408	3	5,173	2,112	108	7,396	13,804
Total criticised loans	956	6,360	1,257	–	8,573	3	5,759	2,544	218	8,524	17,097
Total loans percentage	%	%	%	%	%	%	%	%	%	%	%
Criticised loans/total loans	72	77	51	–	71	87	83	86	78	84	77
Impaired loans/total loans	52	65	13	–	53	87	75	71	39	73	62
Impairment provisions – statement of financial position*											
Specific	549	2,574	141	–	3,264	2	3,241	1,147	27	4,417	7,681
IBNR	29	146	45	–	220	–	93	72	38	203	423
Total impairment provisions	578	2,720	186	–	3,484	2	3,334	1,219	65	4,620	8,104
Provision cover percentage	%	%	%	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	79	48	43	–	51	70	63	54	25	60	56
Total provisions/impaired loans	83	50	57	–	54	70	64	58	60	62	59
Total provisions/total loans	43	33	7	–	29	61	48	41	23	46	36
Impairment charge/average loans	4.60	3.23	1.43	–	2.97	7.49	3.30	5.40	(1.76)	3.69	3.30

*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

Loans and receivables to customers – Property and construction *(continued)*

	Core					Non-Core					2011 Total
	PBB	CICB	AIB UK	EBS	Total Core	PBB	CICB	AIB UK	EBS	Total Non-Core	
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Investment											
Commercial investment	621	8,871	1,248	–	10,740	–	819	1,266	896	2,981	13,721
Residential investment	60	153	533	–	746	247	1,563	565	–	2,375	3,121
	681	9,024	1,781	–	11,486	247	2,382	1,831	896	5,356	16,842
Land and development											
Commercial development	–	4	87	–	91	138	1,246	104	–	1,488	1,579
Residential development	–	60	646	–	706	266	3,206	887	–	4,359	5,065
	–	64	733	–	797	404	4,452	991	–	5,847	6,644
Contractors	129	187	131	–	447	–	8	31	–	39	486
Housing associations	–	-	127	–	127	–	–	391	–	391	518
Total gross loans and receivables	810	9,275	2,772	–	12,857	651	6,842	3,244	896	11,633	24,490
Analysed as to asset quality											
Satisfactory	389	4,083	1,674	–	6,146	162	1,414	636	127	2,339	8,485
Watch	93	1,030	650	–	1,773	77	278	75	164	594	2,367
Vulnerable	95	368	275	–	738	101	276	560	64	1,001	1,739
Impaired	233	3,794	173	–	4,200	311	4,874	1,973	541	7,699	11,899
Total criticised loans	421	5,192	1,098	–	6,711	489	5,428	2,608	769	9,294	16,005
Total loans percentage	%	%	%	%	%	%	%	%	%	%	%
Criticised loans/total loans	52	56	40	–	52	75	79	80	86	80	65
Impaired loans/total loans	29	41	6	–	33	48	71	61	60	66	49
Impairment provisions – statement of financial position											
Specific	189	1,593	84	–	1,866	230	3,290	942	141	4,603	6,469
IBNR	36	493	53	–	582	72	222	155	68	517	1,099
Total impairment provisions	225	2,086	137	–	2,448	302	3,512	1,097	209	5,120	7,568
Provision cover percentage	%	%	%	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	81	42	49	–	44	74	67	48	26	60	54
Total provisions/impaired loans	97	55	79	–	58	97	72	56	39	66	64
Total provisions/total loans	28	23	5	–	19	46	51	34	23	45	31
Impairment charge/average loans											14.12

3.1 Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Property and construction *(continued)*

At 31 December 2012, the property and construction portfolio amounted to € 22.3 billion.

This sector continues to be very challenging, particularly in Ireland. However, latest information available on the commercial segment indicates that while asset prices continue to fall there are indications of a stabilisation reported by some sectors in prime rents and yields, nevertheless, pressure on rental cash flows continues as a result of tenants renegotiating lease terms including rental holidays. There are also positive signs in the housing market with activity levels improving, albeit off a low base, and prices beginning to stabilise and rents recovering. In the UK, while there have also been signs of improvement in prime markets, such as London and the South East, secondary markets remain relatively illiquid.

The level of criticised loans in the Group's property and construction portfolio at € 17.1 billion has increased from € 16.0 billion at 31 December 2011. However, the pace of deterioration has slowed since 2011 when the increase into criticised was € 3.0 billion. Impaired loans amounted to € 13.8 billion or 62% of the portfolio (31 December 2011: € 11.9 billion or 49%).

The Group has € 7.7 billion in statement of financial position specific provisions providing cover on impaired loans of 56% (31 December 2011: € 6.5 billion or 54%). Total statement of financial position provisions of € 8.1 billion represented 36% of loans and receivables (31 December 2011: € 7.6 billion or 31%).

The income statement provision charge for the year to 31 December 2012 of € 781 million or 3.30% of average customer loans compared with € 3,580 million or 14.12% to 31 December 2011. The reduced income statement provision charge was impacted by a release of € 659 million IBNR provisions as outlined on page 83.

Investment

Property investment loans amounted to €14.9 billion at 31 December 2012 (31 December 2011: € 16.8 billion) of which € 12.1 billion related to commercial investment. The reduction was largely as a result of deleveraging in the CICB, AIB UK and EBS market segments. € 9.1 billion of the investment property portfolio related to loans for the purchase of property in the Republic of Ireland, € 5.0 billion in the United Kingdom, € 0.2 billion in the United States of America and € 0.6 billion in other geographical locations (31 December 2011: € 9.1 billion, € 6.4 billion, € 0.4 billion and € 0.9 billion respectively).

€ 10.6 billion or 71% of the investment property portfolio was criticised at 31 December 2012 compared with € 9.7 billion or 58% at 31 December 2011. Included in criticised loans were € 8.0 billion of loans which were impaired (31 December 2011: € 6.3 billion) on which the Group had € 3.4 billion in statement of financial position specific provisions, providing cover of 42% (31 December 2011: € 2.6 billion or 41%). Total provisions as a percentage of total loans was 25%, up from 21% at December 2011 for this sector.

The income statement provision charge for the year to 31 December 2012 was € 420 million or 2.64% of average property investment customer loans (31 December 2011: € 1,850 million or 11.43%).

Land and development

At 31 December 2012, Group land and development loans amounted to € 6.4 billion (31 December 2011: € 6.6 billion). € 4.6 billion of this portfolio related to loans in the Republic of Ireland and € 1.8 billion related to loans in the United Kingdom, which is relatively unchanged from 31 December 2011.

While there was some increase in sales of land sites in Ireland during 2012, this sub-sector continues to be difficult and is likely to remain so given the lack of appetite for bank funding for this type of development. Land values have reverted to agricultural values in some locations where the possibility of development in the medium term is remote.

€ 6.2 billion of the land and development portfolio was criticised up from € 6.1 billion at 31 December 2011. Included in criticised loans were € 5.6 billion of loans which were impaired (31 December 2011: € 5.4 billion) on which the Group had € 4.1 billion in statement of financial position specific provisions providing cover of 74% (31 December 2011: 69%). Total provisions as a percentage of total loans was 65%, up from 58% at 31 December 2011 for this sector.

The income statement provision charge for the year to was € 334 million or 4.90% of average land and development customer loans compared with € 1,663 million or 25.0% to 31 December 2011.

There was also an income statement provision charge of € 27 million for other property and construction exposures, comprising a charge of € 39 million for contractors and a release of IBNR provision of € 12 million relating to housing associations in AIB UK.

Risk management – 3. Individual risk types

3.1 Credit risk – credit profile of the loan portfolio

Loans and receivables to customers – SME/other commercial lending

The following table analyses SME/other commercial lending by market segment showing asset quality and impairment provisions for the years ended 31 December 2012 and 31 December 2011:

	Core				Non-Core				2012 Total
	PBB	CICB	AIB UK	Total Core	PBB	CICB	AIB UK	Total Non-Core	
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	1,048	590	43	1,681	–	29	12	41	1,722
Distribution									
Hotels	58	1,386	647	2,091	–	126	407	533	2,624
Licensed premises	211	681	46	938	–	32	154	186	1,124
Retail/Wholesale	442	1,675	201	2,318	–	53	69	122	2,440
Other distribution	90	109	9	208	–	–	7	7	215
	801	3,851	903	5,555	–	211	637	848	6,403
Other services	721	1,411	1,845	3,977	1	73	919	993	4,970
Other	466	1,084	407	1,957	–	45	148	193	2,150
Total gross loans and receivables	3,036	6,936	3,198	13,170	1	358	1,716	2,075	15,245
Analysed as to asset quality									
Satisfactory	1,573	2,558	2,189	6,320	–	41	715	756	7,076
Watch	319	637	472	1,428	–	9	36	45	1,473
Vulnerable	376	580	203	1,159	–	33	256	289	1,448
Impaired	768	3,161	334	4,263	1	275	709	985	5,248
Total criticised loans	1,463	4,378	1,009	6,850	1	317	1,001	1,319	8,169
Total loans percentage	%	%	%	%	%	%	%	%	%
Criticised loans/total loans	48	63	32	52	84	88	58	64	54
Impaired loans/total loans	25	46	10	32	42	77	41	47	34
Impairment provisions – statement of financial position*									
Specific	637	1,947	164	2,748	1	168	339	508	3,256
IBNR	56	136	28	220	–	5	15	20	240
Total impairment provisions	693	2,083	192	2,968	1	173	354	528	3,496
Provision cover percentage	%	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	83	62	49	64	100	61	48	52	62
Total provisions/impaired loans	90	66	58	70	113	63	50	54	67
Total provisions/total loans	23	30	6	23	47	48	21	25	23
Impairment charge/average loans	3.03	4.41	0.79	3.20	0.00	13.21	2.77	3.67	3.26

*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

Loans and receivables to customers – SME/other commercial lending *(continued)*

	Core				Non-Core				2011
	PBB	CICB	AIB UK	Total Core	PBB	CICB	AIB UK	Total Non-Core	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	1,044	666	43	1,753	–	–	13	13	1,766
Distribution									
Hotels	62	1,557	645	2,264	–	–	485	485	2,749
Licensed premises	223	740	47	1,010	–	–	112	112	1,122
Retail/Wholesale	504	2,018	211	2,733	–	–	82	82	2,815
Other distribution	–	–	36	36	–	–	19	19	55
	789	4,315	939	6,043	–	–	698	698	6,741
Other services	759	1,589	1,910	4,258	–	–	1,161	1,161	5,419
Other	537	1,151	458	2,146	15	20	180	215	2,361
Total gross loans and receivables	3,129	7,721	3,350	14,200	15	20	2,052	2,087	16,287
Analysed as to asset quality									
Satisfactory	1,677	3,375	2,392	7,444	4	5	919	928	8,372
Watch	452	752	478	1,682	1	2	79	82	1,764
Vulnerable	380	543	263	1,186	1	1	401	403	1,589
Impaired	620	3,051	217	3,888	9	12	653	674	4,562
Total criticised loans	1,452	4,346	958	6,756	11	15	1,133	1,159	7,915
Total loans percentage	%	%	%	%	%	%	%	%	%
Criticised loans/total loans	46	56	29	48	73	75	55	56	49
Impaired loans/total loans	20	40	6	27	60	60	32	32	28
Impairment provisions - statement of financial position									
Specific	481	1,759	109	2,349	8	10	298	316	2,665
IBNR	128	185	57	370	2	–	56	58	428
Total impairment provisions	609	1,944	166	2,719	10	10	354	374	3,093
Provision cover percentage	%	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	78	58	50	60	89	83	46	47	58
Total provisions/impaired loans	98	64	76	70	111	83	54	55	68
Total provisions/total loans	19	25	5	19	67	50	17	18	19
Impairment charge/average loans									9.57

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 € 15.2 billion at 31 December 2012 and includes lending to the following main sub-sectors: hotels and licensed premises € 3.7 billion; retail/wholesale € 2.4 billion; other services € 5.0 billion; and agriculture € 1.7 billion (31 December 2011: € 3.9 billion, € 2.8 billion, € 5.4 billion and € 1.8 billion respectively).

Exposures in this sector of c. 67% are to SMEs in Ireland, who are heavily dependant on the domestic economy which remained challenged throughout 2012. A substantial portion of SME customers experienced a reduction in turnover during the year which together with economic conditions and the level of indebtedness in the sector has resulted in many SMEs experiencing difficulty in managing the finances of their businesses. Consequently, there has been a significant amount of refinance and restructuring activity with regard to existing facilities in order to sustain these businesses.

The level of criticised loans at € 8.2 billion representing 54% of the portfolio (31 December 2011: € 7.9 billion or 49% is indicative of the continuing stress on trading entities. Within criticised loans, impaired loans amounted to € 5.2 billion or 34% of the sector (31 December 2011: € 4.6 billion or 28%). The Group had statement of financial position specific provisions of € 3.3 billion providing cover of 62% on impaired loans (31 December 2011: € 2.7 billion or 58%).

Statement of financial position total provisions of € 3.5 billion represented 23% cover of total loans for the sector (31 December 2011: € 3.1 billion or 19%).

The income statement provision charge for the year to 31 December 2012 was € 517 million or 3.26% of average customer loans compared with € 1,603 million or 9.57% to 31 December 2011.

The reduction in the provision charge in the year was influenced by a release of € 205 million of income statement IBNR provisions. At 31 December 2011, the Group had IBNR provisions of € 428 million, informed by a number of factors including: the level of arrears; and the levels of stress in the portfolios. Specific provisions were raised during 2012 which together with the reduction in the non impaired portfolio of € 1.7 billion, resulted in a reduction in the required level of IBNR provisions.

3.1 Credit risk – credit profile of the loan portfolio

Loans and receivables to customers – Corporate lending

The following table analyses corporate lending showing asset quality and impairment provisions for the years ended 31 December 2012 and 31 December 2011.

	2012			2011		
	Core € m	**Non-Core € m**	**Total € m**	Core € m	Non-Core € m	Total € m
Satisfactory	**2,873**	**1,197**	**4,070**	3,729	2,779	6,508
Watch	**106**	**29**	**135**	81	25	106
Vulnerable	**129**	**20**	**149**	7	48	55
Impaired	**263**	**540**	**803**	386	309	695
Total criticised loans	**498**	**589**	**1,087**	474	382	856
Total gross loans and receivables	**3,371**	**1,786**	**5,157**	4,203	3,161	7,364
Total loans percentage	**%**	**%**	**%**	%	%	%
Criticised loans/total loans	**15**	**33**	**21**	11	12	12
Impaired loans/total loans	**8**	**30**	**16**	9	10	9
Impairment provisions - statement of financial position*						
Specific	**176**	**309**	**485**	216	217	433
IBNR	**71**	**27**	**98**	59	44	103
Total impairment provisions	**247**	**336**	**583**	275	261	536
Provision cover percentage	**%**	**%**	**%**	%	%	%
Specific provisions/impaired loans	**67**	**57**	**60**	56	70	62
Total provisions/impaired loans	**94**	**62**	**73**	71	84	77
Total provisions/total loans	**7**	**19**	**11**	7	8	7
Impairment charge/average loans	**1.00**	**5.28**	**2.63**			5.26

The corporate portfolio amounted to € 5.2 billion at 31 December 2012 compared with € 7.4 billion at 31 December 2011. The reduction largely reflects the continued deleveraging of the portfolio along with scheduled repayments.

Criticised loans at € 1.1 billion represent 21% of the portfolio compared with € 0.9 billion or 12% at 31 December 2011. Within criticised loans, impaired loans amounted to € 0.8 billion (31 December 2011: € 0.7 billion) and the Group had statement of financial position specific provisions of € 0.5 billion providing cover of 60% on these loans (31 December 2011: € 0.4 billion or 62%).

Statement of financial position total provisions of € 0.6 billion represented 11% of loans and receivables (31 December 2011: € 0.5 billion or 7%).

The income statement provision charge for the year was € 167 million or 2.63% of average customer loans (31 December 2011: € 508 million or 5.26%). The reduced provision charge was due to a lower level of large corporate credit defaults compared with 2011 when a number of large borrowers were impaired and required a high level of specific provision.

*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. Each rating tool has up to 11 rating/grading points, each point or grade in turn has its own ascribed Probability of Default ("PD"), which differentiates the risk associated with borrowers under each grade. Rating tools are designed to ensure they are suitable for the type of borrower being rated and therefore can have different PD bands or scales. Hence, a rating tool used to grade credit card borrowers will have a higher average PD than a tool being used to rate commercial borrowers and will have different PDs attaching to individual grading points.

To facilitate the aggregation of these individual tools for reporting purposes, the Group uses a Reporting masterscale which has 13 points, each with its own PD. The PD range for the full masterscale is 0% to 100% (where 100% indicates a borrower who is in default). The reporting masterscale in itself is not a rating tool and is not used in decision making or in the ongoing management of loans. It facilitates mapping of the individual rating tools purely by PD.

The role of rating tools is outlined in the Risk Management section of this report (pages 72 and 73) and highlights the role of rating tools in identifying and managing loans including those of lower credit quality. These lower credit quality loans are referred to as 'Criticised loans' and while identifiable within their own rating models can be spread across different ranges in the reporting masterscale as they carry different PDs.

For reporting purposes loans and receivables to customers are categorised into:
- (i) Neither past due nor impaired;
- (ii) Past due but not impaired; and
- (iii) Impaired.

Neither past due nor impaired applies to those loans that are neither contractually past due and/or have not been categorised as impaired by the Group.

Past due but not impaired is defined as follows: 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 a missed payment is overdue. This category can also include an element of loans where negotiation with the borrower on new terms and conditions has not concluded to full completion of documentation while the original loan facility remains outside its original terms for more than 90 days. When a loan or exposure is past due, the entire exposure is reported as past due, not just the amount of any excess or arrears.

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 'Strong, Satisfactory and Higher Risk', which are described as follows:

Grades 1 – 3 (Strong) typically includes strong corporate and commercial lending combined with elements of the retail portfolios and residential mortgages.
Grades 4 – 10 (Satisfactory) typically includes new business written and existing satisfactorily performing exposures across all portfolios. The lower end of this category includes a portion of the Group's criticised loans (i.e. loans requiring additional management attention over and above that normally required for the loan type) that are neither past due nor impaired.
Grades 11 – 13 (Higher Risk) contains the remainder of the Group's criticised loans that are neither past due nor impaired, together with loans written at a high PD where there is a commensurate higher margin for the risk taken.

Loans and receivables to customers – Lending classifications:
Corporate/commercial includes loans to corporate and larger commercial enterprises processed through one of the Group's corporate/commercial rating tools, where the exposure is typically greater than € 300,000.
Residential mortgages include loans for the purchase of residential properties processed through the Group's residential mortgage rating tools. In some circumstances, residential mortgage exposures can be processed through the Group's Corporate and Commercial rating tools (e.g. where a borrower has more than five investment properties).
Other includes loans to SMEs and individuals. In some cases, behaviour scoring and credit scoring methodologies are used.

*Forms an integral part of the audited financial statements

3.1 Credit risk – credit profile of the loan portfolio

Credit ratings* *(continued)*

Internal credit ratings

The internal credit ratings profile of loans and receivables to customers by asset class at 31 December 2012 and 31 December 2011 is as follows:

	2012				2011			
Masterscale grade	**Corporate/ commercial € m**	**Residential mortgages € m**	**Other € m**	**Total € m**	Corporate/ commercial € m	Residential mortgages € m	Other € m	Total € m
1 to 3	**1,135**	**8,338**	**1,006**	**10,479**	2,037	9,153	1,041	12,231
4 to 10	**14,295**	**19,517**	**2,737**	**36,549**	21,071	22,554	3,019	46,644
11 to 13	**4,380**	**3,881**	**1,128**	**9,389**	4,575	4,245	1,361	10,181
Neither past due nor impaired	**19,810**	**31,736**	**4,871**	**56,417**	27,683	35,952	5,421	69,056
Past due but not impaired	**1,618**	**2,018**	**403**	**4,039**[1]	2,120	2,193	485	4,798[2]
Impaired	**20,489**	**7,347**	**1,580**	**29,416**	17,871	5,583	1,379	24,833
Total gross loans and receivables	**41,917**	**41,101**	**6,854**	**89,872**	47,674	43,728	7,285	98,687
Unearned income				**(108)**				(125)
Deferred costs				**89**				103
Impairment provisions				**(16,528)**				(14,941)
Total				**73,325**				83,724

[1]Of this amount, € 46 million relates to masterscale grade 1– 3; € 964 million relates to masterscale grade 4 – 10; and € 3,029 million relates to masterscale grade 11 – 13.

[2]Of this amount, € 66 million relates to masterscale grade 1 – 3; € 1,394 million relates to masterscale grade 4 – 10; and € 3,338 million relates to masterscale grade 11 – 13.

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 2012 and 31 December 2011 is as follows:

					2012
	Bank € m	**Corporate € m**	**Sovereign € m**	**Other € m**	**Total € m**
AAA/AA	**2,452**	**3**	**3,881**	**583**	**6,919**
A	**2,347**	**15**	**221**	**223**	**2,806**
BBB+/BBB/BBB-	**1,167**	**60**	**24,995**[1]	**79**	**26,301**
Sub investment	**103**	**99**	**26**	**79**	**307**
Unrated	**76**	**115**	**–**	**–**	**191**
Total	**6,145**	**292**	**29,123**	**964**	**36,524**

					2011
	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m
AAA/AA	2,741	–	3,966	1,468	8,175
A	3,073	14	175	171	3,433
BBB+/BBB/BBB-	3,170	77	25,185[1]	35	28,467
Sub investment	175	150	48	68	441
Unrated	96	160	–	1	257
Total	9,255	401	29,374	1,743	40,773

[1]Includes NAMA senior bonds which do not have an external credit rating and to which the Group has attributed a rating of BBB+ (31 December 2011: BBB+) i.e. the external rating of the Sovereign.

*Forms an integral part of the audited financial statements

3.1 Credit risk – credit profile of the loan portfolio

Leveraged debt by geographic location and industry sector

Leveraged lending (including the financing of management buy-outs, buy-ins and private equity buy-outs) is conducted primarily through specialist lending teams. The leveraged loan book is held as part of the loans and receivables to customers portfolio. Specific impairment provisions of € 34 million (31 December 2011: € 70 million) are currently held against impaired exposures of € 72 million (31 December 2011: € 106 million). These impaired exposures are not included in the analysis below. The unfunded element below includes off-balance sheet facilities and the undrawn element of facility commitments.

The portfolio continues to reduce, in large part due to AIB's deleveraging plans.

	2012		2011	
Leveraged debt by geographic location*	**Funded € m**	**Unfunded € m**	Funded € m	Unfunded € m
United Kingdom	**84**	**24**	215	35
Rest of Europe	**39**	**4**	220	53
United States of America	**325**	**50**	777	131
Rest of the World	**31**	**–**	62	1
	479	**78**	1,274	220

	2012	2011
Funded leveraged debt by industry sector*	**€ m**	€ m
Agriculture	**–**	6
Property and construction	**–**	7
Distribution	**91**	298
Energy	**29**	42
Financial	**5**	19
Manufacturing	**158**	474
Transport	**14**	63
Other services	**182**	365
	479	1,274

Large exposures (including disposal groups and non-current assets held for sale)

AIB's Group Large Exposure Policy sets out maximum exposure limits to, or on behalf of, a customer or a group of connected customers.

At 31 December 2012, the Group's top 50 exposures amounted to € 9.3 billion, and accounted for 10.4% (€ 10.5 billion and 10.6% at 31 December 2011) of the Group's on-balance sheet total gross loans and receivables to customers. No single customer exposure exceeded regulatory guidelines. In addition, the Group holds NAMA senior bonds amounting to € 17.4 billion (31 December 2011: € 19.9 billion).

*Forms an integral part of the audited financial statements.

3.1 Credit risk – Analysis of credit risk – 5 year summaries

This section sets out 5 year summaries as required for SEC reporting as follows:

- Loans and receivables to customers by geography and industry sector
- Percentages of loans and receivables to customers by geography and industry sector
- Risk elements in lending
- Impaired loans and receivables to customers
- Provisions for impairment (banks and customers)
- Movements in provisions for impairments on loans and receivables (including loans and receivables held for sale to NAMA and loans and receivables included within disposal groups and non-current assets held for sale)
- Additional information on provisions for impairment
- Loans charged off and recoveries of previously charged off loans
- Analysis of loans and receivables to customers by contractual residual maturity and interest rate sensitivity
- Analysis of loans and receivables held for sale to NAMA by geography and industry sector
- Cross-border outstandings

3.1 Credit risk – Analysis of credit risk – 5 year summaries

Loan and receivables to customers by geography and industry sector*

The credit portfolio is diversified within each of its geographic markets (which are principally in Ireland and the United Kingdom) by spread of locations, industry classification and individual customer.

Other than property and construction in Ireland (17.8%) and residential mortgages in Ireland (43.9%), as at 31 December 2012, no one industry or loan category, in any geographic market accounts for more than 10% of AIB Group's total loan portfolio.

The following table shows the gross loan and receivables to customers portfolio by geography and industry sector at 31 December 2012, 2011, 2010, 2009 and 2008 excluding in 2010 and 2009 those held for sale to NAMA. which are analysed on page 142.

	2012	2011	2010	2010	2009	2008
			Continuing operations	Discontinued operations		
	€ m	€ m	€ m	€ m	€ m	€ m
IRELAND						
Agriculture	**1,727**	1,810	1,939	–	2,015	2,217
Energy	**326**	431	686	–	844	992
Manufacturing	**1,271**	1,563	2,617	–	3,108	3,801
Property and construction	**15,983**	17,222	17,246	–	15,930	33,290
Distribution	**5,839**	6,391	7,626	–	8,182	9,364
Transport	**538**	614	809	–	979	1,016
Financial	**592**	1,048	1,368	–	1,403	1,549
Other services	**3,093**	3,276	4,080	–	4,700	5,422
Personal – Residential mortgages	**39,486**	41,847[1]	27,290	–	27,818	26,546
– Other	**4,223**	4,755	5,349	–	6,242	7,357
Lease financing	**457**	544	764	–	922	1,107
Guaranteed by Irish Government	**–**	–	–	–	–	1
	73,535	79,501	69,774	–	72,143	92,662
UNITED KINGDOM						
Agriculture	**54**	58	67	–	120	149
Energy	**118**	250	304	–	292	372
Manufacturing	**350**	486	843	–	1,193	1,348
Property and construction	**6,228**	6,938	7,430	–	7,068	10,312
Distribution	**1,950**	2,109	2,439	–	2,639	2,615
Transport	**614**	683	749	–	601	647
Financial	**190**	320	525	–	696	826
Other services	**3,050**	3,474	4,523	–	4,936	5,356
Personal – Residential mortgages	**3,035**	3,325	3,534	–	3,635	3,629
– Other	**475**	566	672	–	861	757
Lease financing	**–**	–	8	–	48	61
	16,064	18,209	21,094	–	22,089	26,072
UNITED STATES OF AMERICA						
Agriculture	**–**	–	–	–	3	6
Energy	**19**	41	201	–	435	614
Manufacturing	**4**	12	60	–	161	260
Property and construction	**40**	218	732	–	904	1,090
Distribution	**1**	14	122	–	162	209
Transport	**22**	32	73	–	69	76
Financial	**3**	–	29	–	54	146
Other services	**184**	271	751	–	753	977
Personal – Residential mortgages	**–**	–	–	–	–	–
	273	588	1,968	–	2,541	3,378

[1]The significant increase in residential mortgages in Ireland in 2011 compared with 2010 reflects the EBS portfolio which was acquired by AIB in July 2011.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Analysis of credit risk – 5 year summaries

Loan and receivables to customers portfolio by geography and industry sector* ***(continued)***

	2012	2011	2010	2010	2009	2008
			Continuing operations	Discontinued operations		
	€ m	€ m	€ m	€ m	€ m	€ m
POLAND						
Agriculture	**–**	–	–	133	126	165
Energy	**–**	–	–	70	86	76
Manufacturing	**–**	–	–	978	1,024	1,145
Property and construction	**–**	–	–	2,542	2,852	2,760
Distribution	**–**	–	–	837	804	790
Transport	**–**	–	–	81	83	100
Financial	**–**	–	–	125	143	237
Other services	**–**	–	–	318	322	461
Personal – Residential mortgages	**–**	–	–	1,821	1,538	1,352
– Other	**–**	–	–	1,051	1,039	857
Lease financing	**–**	–	–	685	711	745
	–	–	–	8,641	8,728	8,688
REST OF WORLD	**–**	389	1,042	–	1,106	1,363
Total gross loans to customers	**89,872**[1]	98,687[1]	93,878[2]	8,641	106,607	132,163
Unearned income	**(108)**	(125)	(167)	(67)	(279)	(382)
Deferred costs	**89**	103	–	–	–	–
Provisions for impairment	**(16,528)**	(14,941)	(7,299)	(344)	(2,987)	(2,292)
Total loans and receivables	**73,325**	83,724	86,412	8,230	103,341	129,489

[1]Includes € 475 million (2011: € 1,195 million) in loans and receivables to customers that relate to 'Disposal groups and non-current assets held for sale'.

[2]Includes € 74 million relating to AmCredit which was held within 'Disposal groups and non-current assets held for sale'.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Analysis of credit risk – 5 year summaries

Percentages of loans and receivables to customers by geography and industry sector

The following table shows the percentages of loans and receivables to customers by geography and industry sector at 31 December 2012, 2011, 2010, 2009 and 2008, excluding in 2010 and 2009 those held for sale to NAMA but including, in 2010, those within disposal groups and non-currents assets held for sale, that were not classified as discontinued operations (0.1%, Rest of World).

	2012	2011	2010	2010	2009	2008
			Continuing operations	Discontinued operations		
	%	%	%	%	%	%
IRELAND						
Agriculture	**1.9**	1.8	1.9	–	1.9	1.7
Energy	**0.4**	0.4	0.7	–	0.8	0.7
Manufacturing	**1.4**	1.6	2.6	–	2.9	2.9
Property and construction	**17.8**	17.5	16.8	–	14.9	25.2
Distribution	**6.5**	6.5	7.4	–	7.7	7.1
Transport	**0.6**	0.6	0.8	–	0.9	0.8
Financial	**0.7**	1.1	1.3	–	1.3	1.1
Other services	**3.5**	3.3	4.0	–	4.4	4.1
Personal – Residential mortgages	**43.9**	42.4	26.6	–	26.1	20.1
– Other	**4.7**	4.8	5.2	–	5.9	5.6
Lease financing	**0.5**	0.6	0.7	–	0.9	0.8
	81.9	80.6	68.0	–	67.7	70.1
UNITED KINGDOM						
Agriculture	**0.1**	0.1	0.1	–	0.1	0.1
Energy	**0.1**	0.3	0.3	–	0.3	0.3
Manufacturing	**0.4**	0.5	0.8	–	1.1	1.0
Property and construction	**6.9**	7.0	7.3	–	6.6	7.8
Distribution	**2.2**	2.1	2.4	–	2.5	2.0
Transport	**0.7**	0.7	0.7	–	0.6	0.5
Financial	**0.2**	0.3	0.5	–	0.7	0.6
Other services	**3.3**	3.5	4.4	–	4.6	4.0
Personal – Residential mortgages	**3.4**	3.4	3.4	–	3.4	2.7
– Other	**0.5**	0.6	0.7	–	0.8	0.6
Lease financing	**–**	–	–	–	–	0.1
	17.8	18.5	20.6	–	20.7	19.7
UNITED STATES OF AMERICA						
Energy	**–**	–	0.2	–	0.3	0.5
Manufacturing	**–**	–	0.1	–	0.2	0.2
Property and construction	**0.1**	0.2	0.7	–	0.8	0.8
Distribution	**–**	–	0.1	–	0.2	0.2
Transport	**–**	–	0.1	–	0.1	0.1
Financial	**–**	–	**–**	–	0.1	0.1
Other services	**0.2**	0.3	0.7	–	0.7	0.7
	0.3	0.5	1.9	–	2.4	2.6
POLAND						
Agriculture	**–**	–	–	0.1	0.1	0.1
Energy	**–**	–	–	0.1	0.1	0.1
Manufacturing	**–**	–	–	1.0	1.0	0.9
Property and construction	**–**	–	–	2.5	2.7	2.1
Distribution	**–**	–	–	0.8	0.7	0.6
Transport	**–**	–	–	0.1	0.1	0.1
Financial	**–**	–	–	0.1	0.1	0.2
Other services	**–**	–	–	0.3	0.3	0.3
Personal – Residential mortgages	**–**	–	–	1.8	1.4	1.0
– Other	**–**	–	–	1.0	1.0	0.6
Lease financing	**–**	–	–	0.7	0.7	0.6
	–	–	–	8.5	8.2	6.6
REST OF WORLD	**–**	0.4	1.0	–	1.0	1.0
Total loans	**100.0**	100.0	91.5	8.5	100.0	100.0

3.1 Credit risk – Analysis of credit risk – 5 year summaries

Risk elements in lending

The Group's loan control and review procedures generally do not include the classification of loans as non-accrual, accruing past due, restructured and potential problem loans, as defined by the SEC. Management has, however, set out in the following table the amount of loans, (including, in the case of 2010 and 2009, those held for sale to NAMA and in 2010 those within discontinued operations)[2], at 31 December, without giving effect to available security and before deduction of provisions, using the SEC's classification:

	2012 € m	2011 € m	2010 € m	2009 € m	2008 € m
Loans accounted for on non-accrual basis[1]					
Ireland	**24,719**	21,047	10,215	14,922	1,972
United Kingdom	**4,641**	3,725	2,524	1,944	689
United States of America	**56**	49	75	42	61
Poland[2]	**–**	–	587	477	250
Rest of World	**–**	12	68	68	19
	29,416	24,833	13,469	17,453	2,991
Accruing loans which are contractually past due 90 days or more as to principal or interest					
Ireland	**1,190**	1,371	1,768	815	153
United Kingdom	**162**	74	59	83	117
United States of America	**–**	–	29	–	13
Poland[2]	**–**	–	3	4	1
	1,352	1,445	1,859	902	284
Restructured loans not included above[3]	**55**	75	233	140	–
Other real estate and other assets owned	**–**	17	12	10	–

[1]These figures represent AIB's impaired loans before provisions. Total interest income that would have been recorded during the year ended 31 December 2012 had interest on gross impaired loans been included in income amounted to € 771 million (2011: € 528 million; 2010: € 462 million; 2009: € 235 million; 2008: € 109 million) - € 656 million for Ireland, € 114 million for the United Kingdom and € 1 million for the United States. Of the total figure of € 771 million above, € 392 million (2011: € 236 million; 2010: € 296 million; 2009: € 172 million; 2008: € 45 million) was included in income for the year ended 31 December 2012 for interest on impaired loans (net of provisions).

[2]For 2010, Poland is classified as a discontinued operation.

[3]AIB, on occasion, restructures loans on uncommercial terms. In circumstances where it enters into such arrangements these loans are typically classified as impaired and hence included in the table above under that category. In certain circumstances, as part of a loan restructure, AIB will convert debt to equity and if the recapitalised borrower is viable will reclassify the debt as performing. The restructured loans figure above solely relates to the loan element of these restructures which is deemed to be performing (i.e. non-impaired) following the restructure event. The value of equity held in the statement of financial position as at 31 December 2012 from such transactions was € 19 million (2011: € 24 million) and the amount of debt resulting from such transactions and held in performing grades was € 9 million (2011: €33 million).

AIB Group generally expects that loans, where known information about possible credit problems causes management to have serious doubt as to the ability of borrowers to comply with loan repayment terms, would be included under its definition of impaired loans and would therefore have been reported in the above table.

In AIB Group, loans are typically reported as impaired when interest thereon is 90 days or more past due or where a specific provision is raised, except: (i) where there is sufficient evidence that repayment in full, including all interest up to the time of repayment (including costs) will be made within a reasonable and identifiable time period, either from realisation of security, refinancing commitment or other sources; or (ii) where there is independent evidence that the balance due, including interest, is adequately secured. Upon impairment, the accrual of interest income based on the original terms of the claim is discontinued but the increase of the present value of impaired claims due to the passage of time is reported as interest income.

3.1 Credit risk – Analysis of credit risk – 5 year summaries

Impaired loans and receivables to customers by geography and industry sector*

The following table presents an analysis of AIB Group's impaired loans and receivables to customers by geography and industry sector at 31 December 2012, 2011, 2010, 2009 and 2008. Loans and receivables held for sale to NAMA are analysed on page 142.

	2012	2011	2010	2010	2009	2008
			Continuing operations	Discontinued operations		
	€ m	€ m	€ m	€ m	€ m	€ m
IRELAND						
Agriculture	**322**	299	193	–	105	47
Energy	**32**	34	7	–	11	10
Manufacturing	**319**	303	293	–	134	71
Property and construction	**10,856**	9,467	5,510	–	2,275	1,148
Distribution	**2,812**	2,499	1,505	–	846	147
Transport	**113**	113	77	–	34	11
Financial	**219**	168	61	–	70	17
Other services	**706**	628	384	–	206	65
Personal – Residential mortgages	**7,856**	6,138	1,013	–	475	163
– Other	**1,345**	1,253	777	–	556	257
Lease financing	**139**	145	135	–	96	36
	24,719	21,047	9,955	–	4,808	1,972
UNITED KINGDOM						
Agriculture	**12**	11	10	–	4	2
Energy	**1**	1	–	–	2	-
Manufacturing	**153**	132	75	–	66	33
Property and construction	**2,908**	2,389	1,408	–	449	432
Distribution	**630**	557	240	–	229	89
Transport	**244**	14	2	–	2	2
Financial	**26**	23	15	–	85	3
Other services	**307**	323	117	–	168	53
Personal – Residential mortgages	**274**	193	115	–	56	53
– Other	**86**	82	61	–	40	22
	4,641	3,725	2,043	–	1,101	689
UNITED STATES OF AMERICA						
Energy	**3**	3	1	–	–	32
Manufacturing	**–**	1	–	–	11	17
Property and construction	**40**	43	40	–	8	12
Distribution	**–**	2	22	–	–	–
Transport	**–**	–	12	–	–	–
Other services	**13**	–	–	–	23	–
	56	49	75	–	42	61
POLAND						
Agriculture	**–**	–	–	12	10	39
Energy	**–**	–	–	1	2	–
Manufacturing	**–**	–	–	62	74	46
Property and construction	**–**	–	–	264	194	61
Distribution	**–**	–	–	57	52	30
Transport	**–**	–	–	15	8	3
Financial	**–**	–	–	2	1	-
Other services	**–**	–	–	23	13	7
Personal – Residential mortgages	**–**	–	–	19	13	11
– Other	**–**	–	–	97	75	36
Lease financing	**–**	–	–	35	35	17
	–	–	–	587	477	250
REST OF WORLD	**–**	12	68	–	68	19
TOTAL	**29,416**	24,833	12,141	587	6,496	2,991

 *Forms an integral part of the audited financial statements

3.1 Credit risk – Analysis of credit risk – 5 year summaries

Impaired loans and receivables to customers by geography and industry sector* *(continued)*

2012

The following commentary on loans and receivables includes those within disposal groups and non current assets held for sale.

Group impaired loans were € 29,416 million at 31 December 2012 and now represent 33% of loans and receivables up from € 24,833 million or 25% at 31 December 2011.

Ireland

Impaired loans in Ireland were € 24,719 million representing 34% of total group loans and receivables, up from € 21,047 million or 27% at December 2011. 85% or € 3,107 million of this increase relates to residential mortgages and property loans and reflects the continuing weak economic environment in Ireland with high unemployment, low level of activity in the property sector and muted consumer spending impacting impaired loans in most sectors but particularly the following: property (up € 1,389 million); distribution (hotels, licensed premises, retail) (up € 313 million); and residential mortgage (up € 1,718 million).

United Kingdom

In the United Kingdom, impaired loans increased by € 916 million to € 4,641 million primarily in the following sectors: property (up € 519 million); transport (up € 230 million); and residential mortgages (up € 81 million). The increase reflects the ongoing stress in the economic environment, particularly in the North of England and Northern Ireland.

United States of America

Impaired loans in the United States of America were € 56 million, up on the 2011 level of € 49 million and are primarily related to borrowers in the property sector.

Rest of World

Impaired loans in the rest of world reduced to Nil from € 12 million in 2011 as a result of the sale of AmCredit during the year.

2011

The following commentary on loans and receivables, includes those within disposal groups and non current assets held for sale. It also includes EBS which was acquired by AIB on 1 July 2011.

Group impaired loans were € 24,833 million at 31 December 2011 and now represent 25% of loans and receivables.

Ireland

Impaired loans were € 21,047 million representing 27% of total Group loans and receivables, up from € 9,955 million at December 2010. € 3,544 million of this increase relates to residential mortgage and property investment loans in EBS which was acquired by AIB on 1 July 2011. The underlying increase in AIB impaired loans in the year was € 7,548 million and reflects the impact the continuing difficult economic environment in Ireland with rising unemployment, a lack of activity in the property/housing sectors and reduced consumer spending is having on borrowers in most sectors, particularly the following: property (up € 3,416 million); distribution (hotels, licensed premises, retail) (up € 994 million); and residential mortgages (up € 2,122 million).

United Kingdom

Impaired loans increased by € 1,682 million to € 3,725 million primarily in the following sectors: property (up € 981 million); distribution (up € 317 million); other services (up € 206 million); and residential mortgages (up € 78 million).

United States of America

Impaired loans in the United States of America were € 49 million, down on the 2010 level of € 75 million and are related to borrowers in the property sector. The reduction is primarily due to the write-off and sale of certain assets.

Rest of World

Impaired loans in the Rest of World were € 12 million, down from € 68 million in 2010 and relate to residential mortgages in AmCredit. The reduction is largely due to the sale of portfolios in AmCredit and other loan portfolios in the CICB market segment.

3.1 Credit risk – Analysis of credit risk – 5 year summaries

Provisions for impairment on loans and receivables (both to banks and customers)*

The following table presents an analysis of provisions for impairment on loans and receivables (both to banks and customers) at 31 December 2012, 2011, 2010, 2009 and 2008. Provisions for impairment on loans and receivables held for sale to NAMA are analysed separately on page 142.

	2012	2011	2010	2010	2009	2008
			Continuing operations	Discontinued operations		
	€ m	€ m	€ m	€ m	€ m	€ m
IRELAND						
Agriculture	**225**	192	100	–	44	19
Energy	**26**	25	5	–	4	8
Manufacturing	**224**	184	128	–	58	35
Property and construction	**6,205**	5,332	2,310	–	557	398
Distribution	**1,723**	1,442	678	–	286	57
Transport	**91**	78	44	–	20	8
Financial	**160**	137	49	–	53	10
Other services	**486**	387	200	–	90	34
Personal – Residential mortgages	**2,589**	1,718	212	–	81	32
– Other	**1,006**	854	479	–	302	136
Lease financing	**133**	121	109	–	67	25
	12,868	10,470	4,314	–	1,562	762
UNITED KINGDOM						
Agriculture	**8**	7	5	–	1	–
Manufacturing	**76**	66	30	–	29	13
Property and construction	**1,469**	1,130	525	–	178	134
Distribution	**290**	256	121	–	88	37
Transport	**124**	12	1	–	2	1
Financial	**12**	9	3	–	35	2
Other services	**158**	180	49	–	61	21
Personal – Residential mortgages	**110**	67	30	–	16	3
– Other	**58**	50	35	–	24	17
	2,305	1,777	799	–	434	228
UNITED STATES OF AMERICA						
Energy	**3**	3	–	–	–	4
Manufacturing	**–**	1	–	–	–	4
Property and construction	**7**	7	14	–	2	4
Other services	**6**	–	–	–	4	–
Distribution	**–**	–	2	–	–	–
Transport	**–**	–	6	–	–	–
	16	11	22	–	6	12
POLAND						
Agriculture	**–**	–	–	7	7	–
Energy	**–**	–	–	1	1	–
Manufacturing	**–**	–	–	29	24	–
Property and construction	**–**	–	–	68	45	–
Distribution	**–**	–	–	28	23	–
Transport	**–**	–	–	7	4	–
Financial	**–**	–	–	1	1	–
Other services	**–**	–	–	13	8	101
Personal – Residential mortgages	**–**	–	–	8	6	32
– Other	**–**	–	–	77	58	–
Lease financing	**–**	–	–	20	11	6
	–	–	–	259	188	139
REST OF WORLD	**–**	3	23	–	24	7
TOTAL SPECIFIC PROVISIONS	**15,189**	12,261	5,158	259	2,214	1,148
TOTAL IBNR PROVISIONS	**1,343**	2,684	2,145	85	777	1,146
TOTAL PROVISIONS	**16,532**	14,945	7,303	344	2,991	2,294

 *Forms an integral part of the audited financial statements

3.1 Credit risk – Analysis of credit risk – 5 year summaries

Movements in provisions for impairment on loans and receivables (includeds loans and receivables within disposal groups and non-current assets held for sale)[1]

	Years ended 31 December				
	2012 € m	2011 € m	2010 € m	2009 € m	2008 € m
Total provisions at beginning of period	**14,945**	7,976	7,156	2,294	744
Transfers in/(out)	**34**	–	(6)	(10)	–
Acquisition of subsidiaries	**–**	738	–	–	–
Disposal of subsidiaries	**–**	(360)	–	–	–
Disposal of loans and receivables	**(263)**	–	–	–	–
Transferred from/(to) NAMA	**4**	(570)	(4,569)	–	–
Exchange translation adjustments	**47**	74	40	31	(117)
Recoveries of provisions previously charged off	**4**	4	48	6	11
	14,771	7,862	2,669	2,321	638
Amounts charged off					
Ireland	**(399)**	(481)	(490)	(287)	(68)
United Kingdom	**(269)**	(253)	(236)	(149)	(78)
United States of America	**(2)**	(37)	(20)	(15)	(1)
Poland	**–**	(2)	(52)	(57)	(19)
Rest of World	**(3)**	(29)	(15)	(12)	–
	(673)	(802)	(813)	(520)	(166)
Net provision movement[2]					
Ireland	**1,897**	6,457	5,312	4,671	1,348
United Kingdom	**541**	1,371	705	530	363
United States of America	**–**	25	30	10	12
Poland	**–**	24	110	117	101
Rest of World	**–**	12	11	33	9
	2,438	7,889	6,168	5,361	1,833
Recoveries of provisions previously charged off[2]					
Ireland	**(2)**	(2)	(3)	(1)	(7)
United Kingdom	**(2)**	(2)	(39)	(1)	(1)
United States of America	**–**	–	(1)	–	–
Poland	**–**	–	(5)	(4)	(3)
	(4)	(4)	(48)	(6)	(11))
Total provisions at end of period	**16,532**	14,945	7,976	7,156	2,294
Provisions at end of period					
Specific	**15,189**	12,261	5,646	5,798	1,148
IBNR	**1,343**	2,684	2,330	1,358	1,146
	16,532	14,945	7,976	7,156	2,294
Amounts include:					
Loans and receivables to banks	**4**	4	4	4	2
Loans and receivables to customers	**16,406**	14,932	7,287	2,987	2,292
Loans and receivables held for sale to NAMA	**–**	–	329	4,165	–
Loans and receivables of discontinued operations	**–**	–	344	–	–
Loans and receivables of disposal groups and non-current assets held for sale	**122**	9	12	–	–
	16,532	14,945	7,976	7,156	2,294

[1]Provisions for loans and receivables held for sale to NAMA are included in 2009 and 2010.

[2]The aggregate of these sets of figures represents the total provisions for impairment charged to income. Commentary on the movements is detailed on page 131 (impaired loans), on pages 134 to 137 (provisions for impairment) and page 139 (net loans charged off).

3.1 Credit risk – Analysis of credit risk – 5 year summaries

Provisions for impairment on loans and receivables (including loans and receivables held for sale to NAMA and loans and receivables included within discontinued operations)

The following table reconciles the total provisions for impairment charged to income for the years ended 31 December 2012, 2011, 2010, 2009 and 2008 as shown in (A), the table on page 133 relating to 'Movements in provisions for impairment of loans and receivables (including loans and receivables held for sale to NAMA and loans and receivables included within disposal groups and non-current assets held for sale)', with that shown in (B), AIB Group's 'Consolidated statement of income'.

	2012 € m	2011 € m	2010 € m	2009 € m	2008 € m
(A)					
Net provision movement	**2,438**	7,889	6,168	5,361	1,833
Recoveries of loans previously charged off	**(4)**	(4)	(48)	(6)	(11)
Total charged to income	**2,434**	7,885	6,120	5,355	1,822
(B)					
Provisions for impairment	**2,434**	7,885	6,120	5,355	1,822

The following table sets out the provisions charged to income and net loans charged off as a percentage of average loans for the years ended 31 December 2012, 2011, 2010, 2009 and 2008. The 2010 and 2009 figures include provisions for loans and receivables held for sale to NAMA and loans and receivables included within discontinued operations. The 2011 figures include the provision charge for loans and receivables held for sale to NAMA.

	2012 %	2011 %	2010 %	2009 %	2008 %
Total provisions charged to income	**2.57**	7.33	4.97	4.05	1.37
Net loans charged off	**0.71**	0.71	0.62	0.40	0.12

Commentary on provisions for impairment in 2012

The following commentary includes provisions for loans and receivables (including loans and receivables held for sale to NAMA and loans and receivables included within disposal groups and non current assets held for sale.).

The provision for impairment charge to income on loans and receivables of € 2,434 million or 2.57% of average advances for the year ended 31 December 2012 compared with € 7,885 million 7.33% of average advances at 31 December 2011. The significant reduction in the provision for impairment in the year of € 5,451 million reflects the slowdown in the pace of cases downgraded to impaired status requiring provision during 2012 at 18% in 2012 compared with 105% in 2011. The provision for impairment in 2012 was also impacted by the release of IBNR provisions of € 1,322 million compared with a charge of € 179 million in 2011.

The movement in IBNR provisions of € 1,322 million was due to the level of specific provisions raised during 2012 which had largely been provided in IBNR provisions at 31 December 2011, based on management's view of the incurred loss inherent in the portfolio at that time, as evidenced by the level of arrears, requests for forbearance and vulnerable loans. The portfolios most impacted were the property and construction portfolio where the release was € 659 million due in particular to the level of specific provisions raised in 2012 in the property investment sub-sector, and € 369 million for the residential mortgage portfolio which largely resulted from specific provisions being taken during the year, particularly for mortgages in forbearance. IBNR provisions were reduced by € 205 million, € 84 million and € 5 million in the SME/other commercial, other personal and corporate portfolios respectively.

Since all eligible loans have now transferred to NAMA there was no provision charge in 2012 compared to € 87 million in 2011.

Ireland

The impairment charge was € 1,895 million and included a specific charge of € 3,014 million and a release of IBNR of 1,119 million. The charge was split € 536 million relating to PBB; € 1,130 million for CICB; and € 229 million for EBS.

Included in the PBB charge of € 536 million was a specific provision charge of € 1,120 million, with € 629 million or 56% relating to residential mortgage loans reflecting the increased level of arrears due to pressure on borrowers caused by continued high unemployment and reduced incomes. A further € 135 million (12%) of the specific charge related to loans in the property and construction sector, influenced by a continued low level of activity. € 175 million or 16% of the specific charge was for consumer loans and the remaining € 181 million related to SME/other commercial borrowers who are highly dependent on the Irish economy which remained weak throughout 2012. There was a release of IBNR provision of € 585 million in 2012 of which € 311 million related to the residential mortgage portfolio where specific provisions were raised for cases, particularly those in forbearance, which had been

3.1 Credit risk – Analysis of credit risk – 5 year summaries
Commentary on provisions for impairment in 2012 *(continued)*

Ireland
allocated IBNR provisions at December 2011 with the remaining spread across the non-mortgage portfolios largely in the consumer, distribution (includes hotels, licensed premises, retail) and property sectors.

The provision for impairment in CICB market segment of € 1,130 million included a specific charge of € 1,714 million and a release of IBNR provision of € 584 million. The key elements of the specific provision charge related to: (i) property loans, where the charge was € 901 million or 53% of the specific charge reflecting the impact of the continuing lack of activity in this sector; and (ii) € 349 million or 20% related to the distribution and other services sectors which continued to be affected by reduced consumer spending as a result of budgetary cuts and lower incomes and € 268 million or 16% related to buy-to-let mortgages influenced by an increasing arrears profile due in part to high levels of unemployment. The provision charge also included a release of IBNR provisions of € 584 million of which € 476 million related to the property sector where IBNR provisions had been raised at year end December 2011 to take account of continued pressure on rental cash flows and uncertainty over the timing of a recovery in this sector which have now been reflected in specific provisions. At 31 December 2011, IBNR provisions were set aside for the loss on non-impaired mortgages in the forbearance book and specific provisions were raised for these where relevant in 2012 which resulted in a reduction of € 98 million IBNR provisions in this portfolio. The IBNR stock of provisions (statement of financial position) was € 528 million, € 239 million of which has been allocated to the property portfolio, € 141 million to SME/commercial portfolios which have been impacted by reduced consumer demand as a result of continued high unemployment and lower disposable incomes and € 77 million for large borrower connections in the corporate portfolio with the remaining € 71 million allocated to residential mortgages and consumer portfolios.

The impairment provision in EBS of € 229 million related to residential mortgages, € 237 million for the owner-occupier sector in Ireland, € 6 million for the buy-to-let portfolio and a reduction of IBNR provisions of € 14 million provision in the property investment sub-sector.

United Kingdom
The impairment charge in the United Kingdom was € 539 million compared with € 1,318 million in 2011 (excluding € 51 million relating to NAMA) and included € 331 million relating to AIB Bank UK, € 200 million relating to CICB customers and € 8 million to PBB customers.

In AIB Bank UK, the majority of the provision for impairment related to borrowers in the property and construction sector (€ 209 million) reflecting the continued pressure on this sector, in both the land and development and property investment sub-sectors and while there have been signs of improvement in prime markets, such as London and the South East, the secondary markets still remain relatively illiquid. There was a release of € 193 million IBNR provisions in the AIB Bank UK which reflected lower than anticipated loss rates in the 'low start' mortgage and land and development property exposures in FTB and interest only property and business loans in AIB GB. The statement of financial position IBNR provisions was € 244 million at 31 December 2012 and was allocated to the following portfolios: € 117 million to the property portfolio, € 73 million in relation to the residential mortgage portfolio and € 55 million to SME/other commercial and consumer portfolios.

The impairment charge in CICB of € 200 million related primarily to large corporates in the property, and transport sectors. The statement of financial position IBNR provisions was € 21 million at 31 December 2012.

United States
The impairment charge was Nil compared with € 25 million to December 2011. The reduction is due to a smaller book as a result of disposals under the deleveraging programme.

3.1 Credit risk – Analysis of credit risk – 5 year summaries

Commentary on provisions for impairment in 2011

The following commentary includes provisions for loans and receivables (including loans and receivables held for sale to NAMA and loans and receivables included within disposal groups and non current assets held for sale. It includes the provision for impairment raised in the EBS for the six months since it was acquired by AIB in July 2011).

The provision for impairment for loans and receivables of € 7,885 million or 7.33% of average loans for the year ended 31 December 2011 was € 1,765 million higher than in 2010 (€ 6,120 million 4.97% of average loans) and was impacted by the continuing economic difficulties being experienced, particularly in Ireland.

The 2011 provision included € 87 million relating to loans and receivables held for sale to NAMA compared with € 1,497 million in 2010.

The remaining non-NAMA charge of € 7,798 million (7.32% of average advances) has increased by € 3,175 million since December 2010 and comprised € 7,619 million in specific provisions (2010: € 3,318 million) and € 179 million in IBNR provisions (2010: € 1,305 million). 77% of the increase in provisions related to business in Ireland with a further 25% in the UK.

Ireland

The provision for impairment of € 6,455 million included a charge of € 36 million relating to loans held for sale to NAMA. The non-NAMA charge was € 6,419 million and included a specific charge of € 6,479 million and a release of IBNR of € 60 million. The charge was split € 1,426 million relating to PBB, € 4,670 million for CICB and € 323 million for EBS (for six months to December 2011).

Included in the PBB charge of € 1,426 million was a specific provision charge of € 936 million, with € 392 million or 42% relating to residential mortgage loans reflecting the increased level of arrears due to pressure on borrowers caused by unemployment and reduced incomes. A further € 166 million (18%) of the specific charge related to loans in the property sector, influenced by a continued lack of activity in that sector. € 184 million or 20% of the specific charge was for consumer loans and the remaining € 194 million related to SME/commercial loans. There was an IBNR provision of € 490 million raised in 2011. € 311 million of this charge was allocated to the residential mortgage portfolio based on the increasing arrears profile and a large proportion was set aside for non-impaired forbearance cases. The IBNR provision charge has been allocated to the following portfolios: € 311 million to residential mortgages (statement of financial position of € 527 million), which reflects recent provision experience, the level of arrears (including > 90 days past due but not impaired), the level of requests for forbearance and level of vulnerable loans (i.e. one notch above impaired). € 179 million of the provision charge has been allocated to non-mortgage portfolios (statement of financial position of € 390 million), mostly in the distribution sector (includes hotels, licensed premises, retail).

The non-NAMA provision for impairment in CICB market segment of € 4,670 million included a specific charge of € 5,071 million, and a release of IBNR provision of € 401 million. While there have been increased provision charges across most sectors, the key elements of the non-NAMA specific provision charge related to: (i) property loans, where the charge was € 2,933 million or 58% of the specific charge reflecting the impact of the continuing lack of activity in this sector; and (ii) € 822 million or 16% related to the distribution sector which has been affected by reduced consumer spending and € 515 million or 10% related to buy-to-let mortgages influenced by pressure on sponsor affordability and further declines in house prices. The IBNR provision of € 401 million reflected the release of IBNR provisions which had been raised at year end December 2010 based on the level of requests for restructure and the uncertainty over true peak to trough asset price declines which have now been reflected in specific provisions, offset by the raising of IBNR provisions based on management's view of incurred loss in the portfolio at the reporting date. The IBNR stock of provisions (statement of financial position) of € 1,110 million is based on management's estimate of incurred loss in the book. € 714 million of the statement of financial position has been allocated to the property portfolio which reflects the impact of continued pressure on rental cash flows and uncertainty over the timing of a recovery in this sector. € 136 million has been allocated to the residential mortgage portfolio based on recent provision experience and heightened levels of forbearance requests. The remaining € 260 million has been allocated to SME/commercial portfolios which have been impacted by reduced consumer demand as a result of continued high unemployment and lower disposable incomes.

The provision for impairment in EBS for the six months to 31 December 2011 was € 323 million of which 94% related to residential mortgages in Ireland. The statement of financial position provisions amounted to € 209 million in relation to property loans and € 740 million for residential mortgages reflecting the pressure on affordability resulting in higher levels of arrears.

United Kingdom

The provision for impairment in the United Kingdom was € 1,369 million and included a provision of € 51 million relating to loans held for sale to NAMA compared with € 152 million in 2010. The non-NAMA charge of € 1,318 million included € 1,087 million relating to AIB UK and € 231 million relating to CICB customers.

In AIB UK, € 646 million or 59% of the charge related to borrowers in the property sector reflecting the continued pressure on this sector, particularly in the land and development sub-sector. € 212 million of the AIB UK charge was in IBNR provisions which included provisions raised in respect of management's view of impairment in the 'low start' mortgage and land and development property

3.1 Credit risk – Analysis of credit risk – 5 year summaries
Commentary on provisions for impairment in 2011 *(continued)*

United Kingdom
exposures in FTB and interest only property and business loans in AIB GB. The levels of mortgages in forbearance and 90 days past due but not impaired were also taken into consideration when determining the appropriate level of IBNR stock. The statement of financial position IBNR provisions was € 427 million at 31 December 2011 and was allocated to the following portfolios: € 207 million to the property portfolio, € 100 million in relation to the residential mortgage portfolio and € 120 million to other SME/commercial and consumer portfolios.

The charge in CICB of € 231 million related primarily to large corporates in the manufacturing, property, distribution, and other services sectors and the statement of financial position was € 30 million across these sectors.

United States of America
The provision for impairment decreased compared with 2010 by € 4 million to € 25 million and relate to loans predominantly in the property sector (62%) with provisions also in the energy, manufacturing, distribution and other services sectors impacted by a reducing book.

Rest of World
The provision of € 12 million relates to loans in the property and other services sectors in the CICB market segment.

Disposal groups
The impairment charge was € 24 million which related to the 3 months to 31 March 2011 in the BZWBK business.

Additional information on provisions for impairment
The following table presents additional information with respect to the statement of financial position provisions as at 31 December 2012, 2011, 2010, 2009 and 2008. The 2010 and 2009 figures include provisions for impairment on loans and receivables held for sale to NAMA and the 2010 figure also includes provisions for impairment on loans and receivables included within discontinued operations.

	2012	2011	2010	2009	2008
	%	%	%	%	%
Provisions as a percentage of total loans, less unearned income, at end of period					
Specific provisions	**16.90**	12.42	5.40	4.46	0.87
IBNR provisions	**1.49**	2.72	2.23	1.04	0.87
	18.39	15.14	7.63	5.50	1.74

Provisions are raised as outlined on pages 75 – 78.

The increase in provisions from 15.14% to 18.39% reflects the impact that the continuing high level of unemployment, low levels of activity in the property sector with further property price reductions and ongoing austerity measures is having on our borrowers' ability to repay facilities, particularly in Ireland. Specific provisions as a percentage of loans increased from 12.42% to 16.90% and are allocated to individual impaired loans (€ 29,416 million up from € 24,833 million for 2011).

The IBNR provisions as a percentage of loans decreased from 2.72% to 1.49% at December 2012. The reduction reflects a release of € 1,322 million in the year as a result of:
- (i) IBNR provisions raised in previous periods which have now been reflected in specific provisions;
- (ii) improved credit management processes; and
- (iii) independent reviews of cetain higher risk portfolios which helped inform management's view of the incurred loss remaining in the performing book.

3.1 Credit risk – Analysis of credit risk – 5 year summaries

Loans charged off and recoveries of previously charged off loans

The following table presents an analysis of loans charged off and recoveries of previously charged off loans for the years ended 31 December 2012, 2011, 2010, 2009, and 2008. This table includes loans and receivables to customers of continuing operations, loans and receivables held for sale to NAMA, and loans and receivables included within disposal groups and non-current assets held for sale[1].

	Loans charged off					Recoveries of loans previously charged off				
	2012 € m	2011 € m	2010 € m	2009 € m	2008 € m	**2012 € m**	2011 € m	2010 € m	2009 € m	2008 € m
IRELAND										
Agriculture	**5.2**	5.2	8.2	1.7	1.7	**–**	0.1	0.7	0.2	0.7
Energy	**2.2**	2.4	1.3	8.1	–	**–**	0.2	–	–	–
Manufacturing	**23.3**	64.9	31.7	38.3	1.2	**0.1**	–	–	–	–
Property and construction	**112.2**	152.3	202.2	135.6	35.1	**0.2**	–	0.1	–	–
Distribution	**44.7**	67.9	58.0	15.3	7.2	**–**	–	–	–	2.9
Transport	**5.6**	2.7	5.2	1.5	1.5	**–**	–	–	–	–
Financial	**27.2**	23.1	31.0	26.7	0.1	**–**	–	–	–	2.2
Other services	**29.9**	48.0	35.5	5.8	5.7	**0.1**	0.3	0.1	–	–
Personal – Residential mortgages	**50.1**	19.4	24.2	9.5	2.4	**–**	–	0.1	–	0.1
– Other	**93.4**	91.4	76.5	28.9	9.6	**0.7**	0.6	1.2	0.6	1.0
Lease financing	**5.6**	3.8	16.2	15.6	3.6	**0.1**	0.2	0.3	0.2	0.3
	399.4	481.1	490.0	287.0	68.1	**1.2**	1.4	2.5	1.0	7.2
UNITED KINGDOM										
Agriculture	**0.1**	0.2	0.1	0.1	0.1	**–**	–	–	–	–
Energy	**–**	–	–	–	–	**–**	–	–	–	–
Manufacturing	**21.9**	25.2	11.8	5.7	15.5	**–**	0.4	–	–	0.2
Property and construction	**97.9**	117.0	46.7	40.9	33.4	**0.6**	0.3	37.9	–	0.1
Distribution	**53.1**	34.9	43.1	63.2	19.4	**0.2**	0.2	0.3	0.2	0.1
Transport	**11.2**	0.3	29.7	0.3	0.3	**–**	0.2	–	–	–
Financial	**4.3**	0.3	54.0	0.5	0.1	**–**	0.1	–	–	–
Other services	**65.4**	63.0	42.0	33.6	5.5	**0.3**	0.2	0.3	0.1	0.1
Personal – Residential mortgages	**6.0**	4.3	2.6	0.5	0.3	**–**	–	–	–	–
– Other	**9.2**	7.3	5.9	4.0	3.8	**0.9**	0.6	0.4	0.2	0.3
	269.1	252.5	235.9	148.8	78.4	**2.0**	2.0	38.9	0.5	0.8
UNITED STATES OF AMERICA										
Energy	**–**	–	0.3	8.2	–	**0.2**	0.2	0.5	–	–
Manufacturing	**0.9**	0.9	2.1	1.4	–	**–**	–	0.1	–	–
Property and construction	**–**	22.8	7.5	5.3	0.9	**–**	–	–	–	–
Distribution	**–**	5.0	1.4	–	–	**–**	–	–	–	–
Transport	**–**	6.8	–	–	–	**–**	–	–	–	–
Other services	**0.6**	2.1	9.1	–	–	**–**	–	–	–	–
	1.5	37.6	20.4	14.9	0.9	**0.2**	0.2	0.6	–	–
POLAND[1]	**–**	2.2	51.8	57.0	18.7	**–**	–	5.5	4.1	2.9
REST OF WORLD	**2.7**	28.6	14.7	12.3	–	**0.1**	–	0.3	–	–
TOTAL	**672.7**	802.0	812.8	520.0	166.1	**3.5**	3.6	47.8	5.6	10.9

[1]For 2010, Poland is classified as a discontinued operation, all other amounts relate to continuing operations.

3.1 Credit risk – Analysis of credit risk – 5 year summaries *(continued)*
Loans charged off and recoveries of previously charged off loans *(continued)*

Net loans charged off 2012

The following commentary includes loans and receivables (including loans and receivables within disposal groups and non current assets held for sale).

Group – net loans charged off at 0.71% (€ 669 million) of average advances for the year to December 2012 compared with 0.71% or € 798 million at December 2011.

Ireland – net loans charged off were € 398 million and were split € 171 million in PBB and € 227 million in CICB market segments. 50% of the net charge-offs in PBB related to loans in the other personal sector with a further 31% to the property and residential mortgage sectors. In CICB, the net-charge offs were spread across a number of sectors, primarily property € 95 million, distribution € 35 million, manufacturing € 20 million, financial € 27 million and other services € 21 million with the remaining in residential mortgages and the other personal sector.

United Kingdom – net loans charged off were € 267 million, € 109 million of which related to the CICB market segment with the main net charge-offs occurring in other services € 51 million, distribution € 26 million, property € 16 million and manufacturing € 15 million and transport € 1 million sectors. In AIB Bank UK, the net charge-offs were € 158 million mainly in the property € 81 million, distribution € 28 million, other services € 14 million and other personal € 9 million sectors.

United States – net loans charged off were € 1 million and related to borrowers in the manufacturing and other services sectors.

Rest of World – net loans charged off were € 3 million relating to residential mortgages in AmCredit.

Net loans charged off 2011

The following commentary includes loans and receivables (including loans and receivables held for sale to NAMA and loans and receivables included within disposal groups and non current assets held for sale. It also includes the EBS which was acquired by AIB on 1 July 2011).

Group – net loans charged off at 0.71% (€ 798 million) of average loans for the year to December 2011 compared with 0.62% or € 765 million at December 2010.

Ireland – net loans charged off were € 480 million and were split € 300 million in PBB and € 180 million in CICB market segments. 38% of the net charge offs in PBB were related to the property sector. The other main sectors where net charge offs occurred were the distribution, other services, residential mortgage and other personal sectors. In CICB the net charge offs were spread across a number of sectors, primarily in manufacturing, property, distribution, financial and other services.

United Kingdom – net loans charged off were € 250 million, € 150 million of which related to the CICB market segment with the main net charge offs occurring in the manufacturing, property, distribution, and other services sectors. In AIB UK, the net charge offs were € 101 million mainly in the property, distribution and other services sectors.

United States – net loans charged off were € 37 million and mainly related to borrowers in the property sector.

Rest of World – net loans charged off were € 29 million with € 4 million relating to residential mortgages in AmCredit and the remaining arising in the other services sector.

Disposal Groups – net loans charged off were € 2 million in the lease financing sector.

3.1 Credit risk – Analysis of credit risk – 5 year summaries

Analysis of loans and receivables to customers by contractual residual maturity and interest rate sensitivity

The following tables analyse gross loans and receivables to customers by contractual residual maturity and interest rate sensitivity. Overdrafts, which in the aggregate represent approximately 2% of the portfolio at 31 December 2012, are classified as repayable within one year. Approximately 9% of AIB Group's loan portfolio is provided on a fixed rate basis. Fixed rate loans are defined as those loans for which the interest rate is fixed for the full term of the loan. The interest rate risk exposure is managed within agreed policy parameters.

The analysis of loans and receivables to customers for both NAMA and disposal groups and non-current assets held for sale are shown separately below.

Loans and receivables to customers

							2012
	Fixed rate	**Variable rate**	**Total**	**Within 1 year**	**After 1 year but within 5 years**	**After 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Ireland	**6,933**	**66,505**	**73,438**	**31,465**	**5,582**	**36,391**	**73,438**
United Kingdom	**905**	**14,781**	**15,686**	**7,484**	**2,596**	**5,606**	**15,686**
United States of America	**16**	**257**	**273**	**106**	**141**	**26**	**273**
Total loans by maturity	**7,854**	**81,543**	**89,397**	**39,055**	**8,319**	**42,023**	**89,397**

							2011
	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Ireland	8,339	70,631	78,970	24,711	8,342	45,917	78,970
United Kingdom	1,157	17,007	18,164	7,443	3,905	6,816	18,164
United States of America	49	309	358	73	220	65	358
Total loans by maturity	9,545	87,947	97,492	32,227	12,467	52,798	97,492

							2010
	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Ireland	8,136	61,638	69,774	20,490	12,732	36,552	69,774
United Kingdom	2,430	18,664	21,094	7,580	5,604	7,910	21,094
United States of America	169	1,799	1,968	740	1,058	170	1,968
Rest of World	82	886	968	295	538	135	968
Total loans by maturity	10,817	82,987	93,804	29,105	19,932	44,767	93,804

							2009
	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Ireland	9,463	62,680	72,143	19,143	21,516	31,484	72,143
United Kingdom	914	21,175	22,089	6,391	6,606	9,092	22,089
United States of America	147	2,394	2,541	1,125	1,204	212	2,541
Poland[1]	1,245	7,483	8,728	3,150	3,467	2,111	8,728
Rest of World	90	1,016	1,106	107	799	200	1,106
Total loans by maturity	11,859	94,748	106,607	29,916	33,592	43,099	106,607

[1]See discontinued operations (note 18).

3.1 Credit risk – Analysis of credit risk – 5 year summaries *(continued)*

Analysis of loans and receivables to customers by contractual residual maturity and interest rate sensitivity *(continued)*

Loans and receivables to customers

							2008
	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Ireland	8,245	84,417	92,662	36,457	23,457	32,748	92,662
United Kingdom	2,025	24,047	26,072	8,030	7,587	10,455	26,072
United States of America	430	2,948	3,378	810	2,151	417	3,378
Poland[1]	1,022	7,666	8,688	2,915	3,476	2,297	8,688
Rest of World	8	1,355	1,363	62	701	600	1,363
Total loans by maturity	11,730	120,433	132,163	48,274	37,372	46,517	132,163

Loans and receivables held for sale to NAMA for the years ended 31 December 2010 and 2009

							2010
	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Ireland	32	701	733	568	90	75	733
United Kingdom	16	1,499	1,515	1,038	348	129	1,515
United States of America	–	–	–	–	–	–	–
Total loans by maturity	48	2,200	2,248	1,606	438	204	2,248

							2009
	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Ireland	444	19,000	19,444	16,528	1,812	1,104	19,444
United Kingdom	–	3,722	3,722	2,433	679	610	3,722
United States of America	–	29	29	29	–	–	29
Total loans by maturity	444	22,751	23,195	18,990	2,491	1,714	23,195

Loans and receivables held within disposal groups and non-current assets held for sale for the years ended 31 December 2012, 2011 and 2010

							2012
	Fixed rate	**Variable rate**	**Total**	**Within 1 year**	**After 1 year but within 5 years**	**After 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Ireland	**–**	**97**	**97**	**14**	**8**	**75**	**97**
United Kingdom	**–**	**378**	**378**	**240**	**18**	**120**	**378**
Total loans by maturity	**–**	**475**	**475**	**254**	**26**	**195**	**475**

							2011
	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Ireland	–	531	531	79	426	26	531
United Kingdom	–	45	45	–	11	34	45
United States of America	39	191	230	78	115	37	230
Rest of World	80	309	389	141	119	129	389
Total loans by maturity	119	1,076	1,195	298	671	226	1,195

3.1 Credit risk – Analysis of credit risk – 5 year summaries

Analysis of loans and receivables to customers by contractual residual maturity and interest rate sensitivity *(continued)*

Loans and receivables held within disposal groups and non-current assets held for sale for the years ended 31 December 2012, 2011 and 2010

							2010
	Fixed rate € m	Variable rate € m	Total € m	Within 1 year € m	After 1 year but within 5 years € m	After 5 years € m	Total € m
Poland	1,209	7,432	8,641	3,155	3,334	2,152	8,641
Rest of World	–	74	74	–	–	74	74
Total loans by maturity	1,209	7,506	8,715	3,155	3,334	2,226	8,715

Analysis of loans and receivables held for sale to NAMA by geography and industry sector

The following table analyses loans and receivables held for sale to NAMA by geography and industry sector at 31 December 2010 and 31 December 2009 showing: (i) gross loans; (ii) specific provisions for impairment; and (iii) impaired loans. There were no loans held for sale to NAMA at 31 December 2012 or 31 December 2011.

			2010			2009
	Loans and receivables € m	Specific provisions for impairment € m	Impaired Loans € m	Loans and receivables € m	Specific provisions for impairment € m	Impaired loans € m
IRELAND						
Agriculture	–	–	–	24	5	15
Energy	–	–	–	64	8	23
Manufacturing	–	–	–	37	3	10
Property and construction	567	38	167	18,055	3,245	9,684
Distribution	43	8	36	602	79	228
Transport	1	–	–	19	–	–
Financial	–	–	–	16	–	1
Other services	27	3	15	200	11	33
Personal – Residential mortgages	86	1	37	138	6	17
– Other	8	2	5	289	35	103
UNITED KINGDOM						
Agriculture	–	–	–	1	–	–
Energy	3	–	–	4	–	–
Manufacturing	15	–	–	16	–	–
Property and construction	1,351	176	450	3,523	189	833
Distribution	92	–	13	85	–	–
Financial	27	–	–	20	2	3
Other services	17	1	15	57	1	6
Personal – Residential mortgages	–	–	–	6	–	–
– Other	11	–	3	10	–	1
UNITED STATES						
Property and construction	–	–	–	29	–	–
Total	2,248[1]	229[2]	741	23,195[1]	3,584[2]	10,957

[1] € 1,919 million net of provisions of € 329 million (2009: € 19,030 million net of provisions of € 4,165 million).

[2] Total provisions of € 329 million including IBNR of € 100 million (2009: total provisions of € 4,165 million including IBNR of € 581 million).

3.1 Credit risk – Analysis of credit risk – 5 year summaries

Cross-border outstandings

Cross-border outstandings, which exclude finance provided within AIB Group, are based on the country of domicile of the borrower and comprise placings with banks and money at call and short notice, loans to customers (including those classified as held for sale to NAMA in 2009 and 2010 and those held within discontinued operations in 2010), finance lease receivables and installment credit, acceptances and other monetary assets, including non-local currency claims of overseas offices on local residents. AIB Group monitors geographic breakdown based on the country of the borrower and the guarantor of ultimate risk. Cross-border outstandings exceeding 1% of total assets are shown in the following table. In addition, the Group's exposure to certain other EU countries are shown at 31 December 2012, 2011, 2010, 2009 and 2008.

	As % of total assets[1]	Total	Banks and other financial institutions	Government and official institutions	Commercial, industrial and other private sector
		€ m	€ m	€ m	€ m
31 December 2012					
United Kingdom	**1.5**	**1,877**	**589**	**575**	**713**
United States of America	**1.2**	**1,447**	**93**	**28**	**1,326**
France	**1.6**	**1,950**	**485**	**715**	**750**
Spain	**1.3**	**1,616**	**474**	**–**	**1,142**
Germany	**0.6**	**781**	**294**	**306**	**181**
Italy	**0.2**	**230**	**–**	**221**	**9**
Portugal	**0.1**	**149**	**21**	**25**	**103**
Greece	**–**	**–**	**–**	**–**	**–**
31 December 2011					
United Kingdom	1.8	2,492	684	572	1,236
United States of America	1.6	2,199	50	307	1,842
France	1.4	1,925	447	731	747
Spain	1.3	1,824	575	30	1,219
Germany	0.8	1,118	630	277	211
Italy	0.2	287	–	175	112
Portugal	0.2	250	54	98	98
Greece	0.1	52	–	16	36
31 December 2010					
United Kingdom	5.7	8,313	730	870	6,713
United States of America	3.7	5,329	403	658	4,268
Spain	2.0	2,941	900	340	1,701
France	1.7	2,527	705	989	833
Germany	1.2	1,760	892	361	507
Italy	1.0	1,428	405	824	199
Portugal	0.4	530	206	246	78
Greece	0.1	119	67	41	11
31 December 2009					
United States of America	4.7	8,193	1,127	1,303	5,763
United Kingdom	2.9	5,093	1,186	695	3,212
Spain	2.1	3,610	1,585	117	1,908
France	1.7	3,013	1,974	480	559
Germany	1.2	2,065	1,300	294	471
Italy	0.9	1,643	665	625	353
Portugal	0.3	469	138	201	130
Greece	0.1	158	–	42	116
31 December 2008					
United Kingdom	5.1	9,362	1,776	1,456	6,130
United States of America	5.0	9,052	596	1,689	6,767
Germany	2.2	3,984	2,458	743	783
France	1.6	2,973	1,603	662	708
Spain	2.5	4,576	2,180	223	2,173
Italy	1.1	1,929	730	652	547

[1]Assets, consisting of total assets as reported in the consolidated statement of financial position, totalled € 122,516 million at 31 December 2012 (2011: € 136,651 million; 2010: € 145,222 million; 2009: € 174,314 million; 2008: € 182,174 million).

At 31 December 2012 cross-border outstandings to borrowers in the Netherlands amounted to 0.7% and Australia 0.2%.

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 2012 and 31 December 2011:

	2012			2011		
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	**7,588**	**608**	**(1)**	5,217	40	(531)
Euro government securities	**1,754**	**153**	**(4)**	1,860	102	(62)
Non Euro government securities	**712**	**95**	**–**	1,270	207	(3)
Supranational banks and government agencies	**1,682**	**55**	**–**	1,147	10	(1)
Collateralised mortgage obligations	**22**	**–**	**(6)**	509	–	(12)
Other asset backed securities	**920**	**1**	**(140)**	1,210	–	(353)
Euro bank securities	**3,070**	**176**	**(11)**	3,055	43	(77)
Non Euro bank securities	**161**	**3**	**(5)**	476	4	(12)
Euro corporate securities	**87**	**6**	**(3)**	110	4	(6)
Non Euro corporate securities	**193**	**17**	**–**	279	15	(5)
Other investments	**12**	**–**	**–**	12	–	–
Total debt securities	**16,201**	**1,114**	**(170)**	15,145	425	(1,062)
Equity securities						
Equity securities – NAMA subordinated bonds	**47**	**–**	**–**	132	–	–
Equity securities – other	**96**	**16**	**(10)**	112	18	(24)
Total financial investments available for sale	**16,344**	**1,130**	**(180)**	15,389	443	(1,086)

The following tables analyse the available for sale portfolio by geography at 31 December 2012 and 31 December 2011:

	2012			2011		
Government securities*	**Irish Government € m**	**Euro governments € m**	**Non Euro governments € m**	Irish Government € m	Euro governments € m	Non Euro governments € m
Republic of Ireland	**7,588**	**–**	**–**	5,217	–	–
United Kingdom	**–**	**–**	**621**	–	–	1,146
Italy	**–**	**221**	**–**	–	175	–
Austria	**–**	**160**	**–**	–	179	–
Spain	**–**	**–**	**–**	–	30	–
France	**–**	**683**	**–**	–	699	–
Germany	**–**	**281**	**–**	–	277	–
Greece	**–**	**–**	**–**	–	16	–
Portugal	**–**	**25**	**–**	–	98	–
Netherlands	**–**	**358**	**–**	–	341	–
Rest of World	**–**	**26**	**91**	–	45	124
	7,588	**1,754**	**712**	5,217	1,860	1,270

*Forms an integral part of the audited financial statements

3.1 Credit risk - Financial investments available for sale *(continued)*

Asset backed securities*	2012 Total € m	2011 Total € m
Republic of Ireland	**37**	34
United Kingdom	**95**	153
United States of America	**84**	585
Italy	**–**	89
Spain	**545**	636
Greece	**–**	32
Rest of World	**181**	190
	942	1,719

Bank securities*	2012 Euro € m	2012 Non Euro € m	2011 Euro € m	2011 Non Euro € m
Republic of Ireland	**903**	**35**	622	34
United Kingdom	**425**	**10**	316	127
United States of America	**35**	**–**	32	3
Australia	**–**	**–**	36	20
Italy	**–**	**–**	–	–
Austria	**21**	**–**	70	18
France	**464**	**–**	323	–
Germany	**75**	**6**	481	97
Portugal	**20**	**–**	54	–
Netherlands	**344**	**–**	266	25
Spain	**441**	**–**	569	6
Sweden	**24**	**110**	6	143
Belgium	**52**	**–**	11	–
Denmark	**35**	**–**	88	–
Rest of World	**231**	**–**	181	3
	3,070	**161**	3,055	476

The cumulative credit to available for sale securities reserves relating to bank securities is € 163 million (2011: charge of € 42 million) which is gross of hedging and taxation.

*Forms an integral part of the audited financial statements

3.1 Credit risk - Financial investments available for sale *(continued)*

Debt securities

Available for sale ("AFS") debt securities have increased from a fair value of € 15.1 billion at 31 December 2011 to € 16.2 billion at 31 December 2012. Sales and maturities of € 5.6 billion were offset by purchases of € 5.1 billion and an increase in fair value of € 1.6 billion. The increase in fair value was principally due to an improvement in the market values of Irish Government securities (+ € 1.1billion) however, improvements were also observed in most markets.

There are no specific impairment provisions held against the AFS debt securities but an incurred but not reported ("IBNR") provision of € 10 million is held against the remaining bank subordinated debt portfolio of € 103 million nominal and an IBNR provision of € 50 million is held against the remaining European asset backed securities holdings of € 900 million.

The portfolio remains materially investment grade, with 26% rated AAA (2011 35%); 11% rated AA (2011 10%); 7% rated A (2011 11%); and 54% rated BBB (2011 41%).

The Irish Government securities position increased from € 5.2 billion at 31 December 2011 to € 7.6 billion at 31 December 2012, including (net) new purchases of € 1.3 billion for the purpose of increased capital investment, and fair value gains of € 1.1 billion.

Equity securities

NAMA subordinated bonds are included within available for sale equity securities. The fair value of these bonds at 31 December 2012 was € 47 million (against a nominal holding of € 471 million) compared with the 31 December 2011 fair value of € 132 million (against a nominal holding of € 478 million). An impairment provision of € 82 million was made in the year to 31 December 2012.

Asset backed securities

Asset backed securities of € 0.9 billion principally relate to residential mortgage backed securities of € 0.8 billion (31 December 2011: € 1.1 billion). An analysis of these securities by country on page 145 includes collateralised mortgage obligations of € 22 million (31 December 2011: € 509 million).

Bank securities by geography

At 31 December 2012, the bank bond fair value of € 3.2 billion (31 December 2011: € 3.5 billion) included € 1.7 billion of covered bonds (31 December 2011: € 1.1 billion); € 0.8 billion of government guaranteed senior bank debt (31 December 2011: € 0.9 billion); € 0.6 billion of senior unsecured bank debt (31 December 2011: € 1.4 billion); and € 0.1 billion of subordinated bank debt (31 December 2011: € 0.1 billion).

Republic of Ireland

The fair value of Irish debt securities in the available for sale category amounted to € 8.6 billion (31 December 2011: € 5.9 billion) at 31 December 2012 and consisted of sovereign debt € 7.6 billion (31 December 2011: € 5.2 billion); government guaranteed senior bank debt of € 0.7 billion (31 December 2011: € 0.5 billion); covered bonds of € 0.2 billion (31 December 2011: € 0.1 billion) and residential mortgage backed securities of € 37 million (31 December 2011: € 44 million)

In addition to Irish Government securities outlined above, NAMA senior debt amounting to € 17.4 billion (31 December 2011: € 19.9 billion), which is guaranteed by the Irish Government, is included within loans and receivables to customers (note 29).

Italy

The fair value of Italian debt securities at 31 December 2012 was € 223 million (31 December 2011: € 269 million) and included sovereign debt of € 221 million (2011: € 175 million); asset backed securities of Nil (31 December 2011: € 89 million) and corporate debt of € 2 million (31 December 2011: € 5 million).

Portugal

The fair value of Portuguese debt securities at 31 December 2012 was € 131 million (31 December 2011: € 231 million). It comprised sovereign debt of € 25 million (31 December 2011: € 98 million); asset backed securities of € 83 million (31 December 2011: € 79 million); senior bank debt of € 20 million (31 December 2011: € 54 million); and corporate debt of € 3 million.

Spain

The fair value of Spanish debt securities at 31 December 2012 was € 1 billion and included asset backed securities of € 0.5 billion; and senior bank bonds of € 0.5 billion. The fair value at 31 December 2011 amounting to € 1.2 billion comprised of asset backed securities of € 0.6 billion; covered bonds of € 0.5 billion, subordinated bank debt of € 37 million; sovereign debt of € 30 million; and senior bank debt of € 6 million.

The asset backed securities at 31 December 2012 were all residential mortgage backed securities which had been rated AAA at origination. The 31 December 2012 ratings profile was: A 17%; AA 69%; BBB 10%; BB 1%; and B 3%. The overall weighted average market bid price for the portfolio was 78.19 (31 December 2011: 71.45).

In addition, Spanish debt of € 0.5 billion (31 December 2011: € 0.6 billion) is included within loans and receivables to customers (note29).

3.2 Liquidity risk*

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

Risk identification and assessment

Liquidity risk is assessed by modelling the net cash outflows of the Group over a series of maturity bands. Behavioural assumptions are applied to those liabilities whose contractual repayment dates are not reflective of their inherent stability. Those net cash outflows are compared against the Group's stock of liquid assets to determine, within each maturity band, the adequacy of the Group's liquidity position. Furthermore, for the Liquidity Coverage Ratio "LCR" as defined by Basel III, the unencumbered stock of high quality liquid assets is compared against net cash outflows over the first 30 calendar days.

Risk management and mitigation

The Group's liquidity management policy aims to ensure that it has sufficient liquidity to meet its current requirements. In addition, it operates a funding strategy designed to anticipate additional funding requirements based upon projected balance sheet movements. The Group undertakes liquidity stress testing and contingency planning to deal with unforeseen events. Stress tests include both firm specific and systemic risk events and a combination of both, at varying levels of severity. 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 liquidity contingency plan, which details corrective action options under various levels of stress events. The purpose of these actions is to ensure the continued stability of the Group's liquidity position, within the Group's pre-defined liquidity risk tolerance levels. These results are reported to the Group Asset and Liability Committee ("ALCo"), Leadership Team and Board, and to other committees if invoked under the Group's Liquidity Contingency Plan.

The liquidity and funding requirements of the Group are managed by the Treasury function. Euro and sterling represent the most important currencies to the Group from a liquidity and funding perspective. AIB is required to comply with the liquidity requirements of the Central Bank of Ireland and also with the requirements of local regulators overseas which include regulatory restrictions on the transfer of liquidity among the Group. In the absence of normal market conditions and given the extent of support from the monetary authorities, the Group's contingency liquidity management framework remains activated. Notwithstanding this, AIB improved its liquidity buffer during the course of 2012.

The principles behind the Group's liquidity management policy aim to ensure that the Group can at all times meet its obligations as they fall due at an economic price. The Group manages its liquidity in a number of ways:

– Firstly, through the active management of its liability maturity profile it aims to ensure a balanced spread of repayment obligations with a key focus on 0 – 8 day and 9 day – 1 month time periods. Monitoring ratios apply to periods in excess of 1 month;
– Secondly, the Group aims to maintain a stock of high quality liquid assets to meet its obligations as they fall due. Discounts are applied to these assets based upon their cash-equivalence and price sensitivity;and
– Finally, net outflows are monitored on a daily basis. AIB's liquidity position was in surplus to the regulatory ratios at all times during 2012.

The Group endeavours 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. These customer deposits represent the largest source of funding for the Group, and the core retail franchises and accompanying deposit base in both Ireland and the UK provide a stable and reasonably predictable source of funds. During the year, AIB decided to end its presence in the Offshore locations of Isle of Man and the Channel Islands. Since that decision, the deposit base in these locations has gradually been wound down, although the loss of liquidity for AIB has been minimal, as the majority of the liquidity had been previously 'trapped' off shore as a result of local regulations.

Customer accounts have increased by € 3 billion in the full year 2012, notwithstanding outflows of € 2 billion as a result of the announced closure of AIB's operations in the Isle of Man and Channel Islands, and with management focus on reductions in the overall pricing of its deposits in both the Irish and UK markets. Strong growth was experienced across all business areas during this period, as sentiment towards Ireland and Irish banks improved.

The Irish Government Eligible Liabilities Guarantee ("ELG") scheme played an important role in underpinning the funding position of the Group, however, it is prepared for the withdrawal of the guarantee from 31 March 2013. Positive first steps were taken during 2012 in this regard with the Group's quantum of covered liabilities decreasing as AIB Group (UK) plc withdrew from the scheme in August 2012. This withdrawal from the ELG scheme has had a negligible overall effect on deposit balances. Details of the ELG are included in note 63 to the financial statements.

The Group monitors and manages the funding support provided by its deposit base to its loan book through a series of measures including the Basel III liquidity ratios, the LCR and Net Stable Funding Ratio ("NSFR"), pending their formal introduction as regulatory

*Forms an integral part of the audited financial statements

3.2 Liquidity risk*

Risk management and mitigation

standards. During 2012, a decision was taken by the Central Bank to replace the loan to deposit ratio ("LDR") targets in favour of an advanced monitoring framework focusing on the Basel III ratios.

As a consequence of the deposit developments outlined above and the deleveraging that was achieved through asset sales and loan repayments, the Group's LDR decreased from 136% at 31 December 2011 (138% including loans and receivables held for sale) to115% at 31 December 2012 (115% including loans and receivables held for sale). The target for the LCR is 100% by January 2018, (per latest Capital Requirements Directive proposals) with interim targets set from January 2015 and AIB is projected to be in compliance with these targets.

The Group has seen a significant improvement in its liquidity position over the course of 2012, despite the maturity of € 4.5billion in unsecured medium term note ("MTN") issuances during the year and with no access to replacement unsecured funding in the wholesale markets. This improvement has resulted from further progress on the deleveraging programme, increased deposit inflows and lower collateral haircuts arising from the renewed market confidence experienced by Ireland during 2012. This has enabled the Group to cease using Own-Use Bank Bonds ("OUBBs") and to reduce Central Bank funding significantly. At 31 December 2012, the Group availed of Central Bank funding amounting to € 22 billion, reduced from € 31 billion at 31 December 2011. Central Bank drawings include the switch of € 3 billion from short term operations into the 3 year Long-Term Refinancing Operations ("LTROs") at 31 December 2011 and the switch of a further € 8.25 billion in March 2012.

The Group continues to develop the capability to create collateral pools from its loan assets aimed at market investors, as was evidenced by a successful Residential Mortgage Backed Securities ("RMBS") issuance in May 2012 using AIB UK mortgages. In addition, AIB re-entered the secured wholesale term markets with an ACS (covered bond) issuance in December 2012, and again, in January 2013.

The Group's debt ratings as at 12 February 2013 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.

As a further indicator that the Irish economy is stabilising, Fitch's November 2012 revision of the outlook from negative to stable on the Group's 'Long Term Issuer Default Rating' was the first positive revision for AIB in almost four years.

Risk monitoring and reporting

In common with other areas of risk management, the Group operates a "three lines of defence" model. Risk monitoring and reporting is carried out in the first line by Treasury ALM – Analysis, Reporting and Control ("T-ALM ARC") which reports directly to the CFO. Second line assurance is provided by Financial Risk reporting to the CRO, and Group Internal Audit comprises the third line. The liquidity position of AIB is measured and reported daily by T-ALM. Financial Risk are responsible for all monitoring and review of liquidity management in AIB. In addition to the regular Group ALCo, the monthly Executive Risk Committee ("ERC") and the Board Risk Committee ("BRC") reporting on the liquidity and funding position of the Group, the Leadership Team and the Board are briefed on liquidity and funding on an on-going basis. Further information on liquidity risk can be found in notes 60 and 61 to the financial statements.

3.3 Market risk*

Market risk is the risk relating to the uncertainty of returns attributable to fluctuations in market factors. Where the uncertainty is expressed as a potential loss in earnings or value, it represents a risk to the income and capital position of the Group. Market risk includes repricing risk, curve risk, basis risk, optionality risk, valuation risk and concentration risk. The Group is exposed to market risk through the following risk factors: interest rates, foreign exchange, equity prices, inflation rates and credit spreads.

The Group assumes market risk as a result of its banking book and trading book activities.

Interest rate risk in the banking book ("IRRBB") is defined as the Group's sensitivity to earnings volatility in its non-trading activity arising from movements in interest rates. It reflects a combination of interest rate risk arising from the retail, commercial and corporate operations and banking book positions maintained by the Group's Treasury function. Non-trading interest rate risk in retail, commercial and corporate activities can arise from a variety of sources, including where those assets and liabilities and off-balance sheet instruments have different repricing dates.

Credit spread risk in the banking book is the exposure of the Group's financial positon to adverse movements in the credit spreads of bonds held in the available for sale ("AFS") securities portfolio. Credit spreads are defined as the difference between bond yields and

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3.3 Market risk*_(continued)_

interest rate swap rates of equivalent maturity. Changes in the credit spread impact the valuations of bonds held in the banking book and these fair value changes are recorded through the Group's equity reserve. The AFS portfolio is the principal source of credit spread risk.

The Group also assumes market risk through its trading book activities which relate to all positions in financial instruments (principally derivatives) that are held with trading intent or in order to hedge positions held with trading intent. The Group's Treasury function is responsible for managing all trading book activities which 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 Framework governance process.

Risk identification and assessment

It is the Group's policy that all market risk be centralised within Treasury. AIB employs a suite of metrics to estimate its market risk profile. IRRBB is a key risk measure for non-trading portfolios, including the management of structural interest rate positions (e.g. capital investments and current account hedges, etc) and Treasury's banking book positions (e.g. securities investments, etc). In addition, Value at Risk ("VaR") is employed within the Treasury environment, particularly in the context of trading book portfolios, but also as a risk assessment tool for Treasury's banking book portfolios where it augments the IRRBB measures.

IRRBB is calculated on the basis of establishing the repricing behaviour of each asset, liability and off-balance sheet product. For some products, the actual interest repricing characteristics may differ from their contractual arrangements. In these cases, the repricing maturity is determined by the market interest rates that most closely fit the behaviour of the product interest rate. For non-interest bearing current accounts, the repricing maturity is determined by the stability of the portfolio. The assumptions behind these repricing maturities and the stability levels of portfolios are reviewed periodically by Group ALCo.

In quantifying Treasury's market risk profile, Treasury's risk measurement systems are configured to address all material risk factors. The principal risk measurement methodology employed is based on an historical simulation application of the industry standard VaR technique. The methodology incorporates the portfolio diversification effect within each standard risk factor (interest rate, credit spread, foreign exchange, equity, as applicable). This VaR metric is derived from an observation of historical prices over a period of one year, assessed at a 95% statistical confidence level and using a 1 day holding period.

Although an important measure of risk, VaR has limitations as a result of its use of historical data holding periods and its assumption that markets remain constant over the given time horizon. Furthermore, the use of confidence intervals does not convey any information about potential loss when the confidence level is exceeded. The Group recognises these limitations and supplements its use with a variety of other techniques, including sensitivity analysis, interest rate gaps by time period and daily open foreign exchange and equity positions. In particular, the sensitivity of the Group's AFS securities portfolio to a one basis point shift in credit spreads is actively monitored and the portfolio is subject to additional nominal limits. The size of the AFS portfolio and the net unrealised gains/losses are set out in note 33.

Stress-testing and scenario analysis are employed on an ongoing basis to gauge the vulnerability of Treasury's portfolio to loss under stressed market conditions. Some stress-tests revolve around defining large, severe and extreme scenarios and determining the changes in the value of Treasury's portfolio of financial instruments in the event of any one scenario. Others, for example in the case of interest rate risk portfolios, employ principal components analysis ("PCA") to analyse interest rate term structure factor sensitivity (i.e. PCA identifies the three most predictive elements driving interest rate changes, namely parallel shift, and twist and bow, and uses these in the determination of alternative stressed portfolio valuation). For foreign exchange and equity portfolios, historical simulation techniques are used to determine potential worst case outcomes.

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. TALM supports front line management where sanctioned market risk exists, particularly the Head of Treasury, through the information they provide and the portfolio analysis they undertake. TALM also estimates the level of capital required to support market risks.

Financial Risk, reporting to the CRO, is responsible, for exercising independent risk oversight and control over the Group's total market risk portfolio. In particular, Financial Risk provides oversight on the integrity and effectiveness of the risk and control environment and escalates any deficiencies therein. It monitors the evolving risk profile, providing appropriate challenge to the frontline on its management through the different governance forums and the CRO report. It provides assurance that the risk dimensions of the business activity are understood and escalates any limit excesses as they arise. It proposes and maintains the Market Risk Management Framework and Policies as the basis of the Group's control architecture for market risk activities, including the annual agreement of market risk limits (subject to the Board approved Risk Appetite Statement). Financial Risk is also responsible for the integrity of the market risk measurement methodologies.

*Forms an integral part of the audited financial statements

3.3 Market risk* *(continued)*

Risk management and mitigation

Market risk management in the Group is actively administered on the basis of clearly delegated authorities that reflect the appropriate segregation of duty, fit for purpose trading environments with enabling technology and competent personnel with relevant skill and experience. From a governance perspective, the market risk agenda (including the valuation of financial instruments) is overseen by the Market Risk Committee ("MRC"). The MRC supports the "3 Lines of Defence" governance model, plays a key role in elevating the visibility of market risk issues and sets the benchmark for market risk management across the Group. The Chairman of the MRC, the Head of Products, derives his delegated authority from Group ALCo and the MRC is formally a sub-committee of Group ALCo. The membership comprises representatives from Treasury, TALM, Financial Risk and GIA. The MRC establishes a common basis of communication, provides definitive guidance on the Group's market risk activities and contributes directly to its risk culture.

As a core risk management principle, the Group requires that Treasury manages, and is responsible for, all material interest rate risk in the Group. Banking book risk is managed as part of Treasury's overall interest rate risk position. The Group manages structural interest rate risk volatility by maintaining a portfolio of instruments with interest rates fixed for several years. The size and maturity of this portfolio is determined by characteristics of the interest-free or fixed-rate liabilities and assets and, in the case of the Group's capital, an assumed average maturity.

Market risk management aligns with trading business strategy through the articulation of an annual risk strategy and appetite statement. This process yields a suite of market risk limits that considers both the risk (e.g. IRRBB and VaR) and financial (e.g. embedded value and 'stop loss') impacts of Treasury activities.

It should be noted that credit risk issues inherent in the market risk portfolios are subject to the credit risk framework that was described in the previous section. A suite of policies and standards clarifies roles and responsibilities, and provides for effective measurement, monitoring and review of dealing positions.

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 disclosure depends on the audience and purpose and ranges from transaction-level control and activity reporting to enterprise level risk profiles. For example, front office and risk functions receive the full range of daily control and activity, valuation, sensitivity and risk measurement reports, while risk governance forums receive a monthly market risk commentary and summary risk profile.

The MRC acts as the principal risk governance forum for the Group's market risk activities (including trading and banking books) and receives a reporting pack on a monthly basis to allow it review the Group's consolidated market risk profile, focusing on emerging trends, key changes and results of stress scenarios. Group ALCo also monitors AIB's market risk position and has specific responsibility for providing direction on capital management, IRRBB and funds transfer pricing decisions. Group ALCo meets on a monthly basis and receives standing reports on the Group's asset and liability risk profile, which allows it to monitor positions against limits.

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 1 January 2013 and 1 January 2012 and the impact on net interest income over a twelve month period.

Sensitivity of projected net interest income to interest rate movements:

	31 December	
	2012	2011
Sensitivity of projected net interest income to interest rate movements	**€ m**	€ m
+ 100 basis point parallel move in all interest rates	**(19)**	(11)
– 100 basis point parallel move in all interest rates	**(3)**	11

The analysis is subject to certain simplifying assumptions including but not limited to: equal, simultaneous parallel movements in rates across all; all positions on wholesale books run to maturity; and there is no management action in response to movements in interest rates, such as changes in product margins. In practice, positions in both retail and wholesale books are actively managed and the actual impact on interest income can differ from the model.

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3.3 Market risk* *(continued)*

Market risk profile

The following table summarises Treasury's VaR profile for the years ended 31 December 2012 and 2011, measured in terms of Value at Risk. For interest rate risk positions, the table also differentiates between Treasury's banking book (arising principally from its holdings of AFS securities) and trading book positions. For VaR measurement, Treasury employs a 95% confidence interval, a 1-day holding period and a 1-year sample period.

	VaR (trading book)		VaR (banking book)		Total VaR	
	2012 € m	2011 € m	**2012 € m**	2011 € m	**2012 € m**	2011 € m
Interest rate risk						
1 day holding period:						
Average	**0.2**	0.4	**4.6**	4.9	**4.6**	4.9
High	**0.4**	0.9	**7.7**	6.0	**7.7**	6.0
Low	**0.1**	0.2	**2.0**	3.3	**2.0**	3.4
31 December	**0.2**	0.2	**2.2**	5.8	**2.2**	5.8

On a like for like basis, Treasury's VaR fell slightly during 2012 to an average of € 4.6 million compared to € 4.9 million for 2011 with exposure levels remaining restrained. The factors affecting the overall interest rate VaR in 2012 were:

– a fall in underlying strategic exposures as existing positions ran down the curve;
– a fall in the underlying level of market interest rate volatility which influences the VaR calculation – in 2012 there was a continuation of the low interest rate environment and very few tail events with rising interest rates (this dampens the VaR on liability-led position);
– lower basis risk associated with managing the Group's NAMA bond portfolio due to a reduction in cash versus derivative spread volatility to more normal levels and also the redemption of € 2.4 billion of NAMA bonds during the period;
– lower interest rate risk taking in the trading book generally, reflecting greater Treasury focus on liquidity management and banking book risk management; and
– lower strategic interest rate risk taking, reflecting a market view that the interest rates cycle has bottomed and re-investment will require a higher interest rate re-entry point.

The following table sets out the VaR for foreign exchange rate and equity risk for the years ended 31 December 2012 and 2011:

	Foreign exchange rate risk		Equity risk	
	VaR (trading book)		VaR (trading book)	
	2012 € m	2011 € m	**2012** € m	2011 € m
1 day holding period:				
Average	**0.1**	0.2	**0.5**	0.7
High	**0.1**	0.4	**0.7**	1.1
Low	**–**	–	**0.4**	0.4
31 December	**–**	–	**0.4**	0.6

In terms of foreign exchange VaR, the level of overall exposure remains modest with very little open risk being run, the average VaR for 2012 was € 0.06 million (shown as € 0.1 million) compared to € 0.16 million in 2011 (shown as € 0.2 million). A similar pattern was evident in terms of equity VaR with an average of € 0.5 million in 2012 compared to € 0.7 million in 2011.

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3.4 Structural foreign exchange risk*

The Group has two objectives with respect to foreign exchange risk. Firstly, to ensure, that its consolidated capital ratios are largely protected from the effect of changes in exchange rates and secondly, that the Group's foreign currency earnings are managed within tolerance levels based on the forecast for the forthcoming year, making use of other natural hedges within the Group's balance sheet where these are available. The former is termed structural foreign exchange risk and results from net investment in subsidiaries, associates and branches, the functional currencies of which are currencies other than euro. The amount of structural foreign exchange risk is immaterial.

Risk identification and assessment

The Group prepares its consolidated statement of financial position in euro. Accordingly, the consolidated statement of financial position is affected by movements in the exchange rates between foreign currencies and the 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.

Risk management and mitigation

The Group's foreign exchange hedging activity (on foreign currency earnings) is overseen by the Head of Treasury, as advised by the Hedging Committee. The Hedging Committee also monitors and reports to Group ALCo on the foreign exchange sensitivity of consolidated capital ratios. Group ALCo sets the framework for and reviews the management of these activities.

The impact on capital ratios is measured in terms of basis points sensitivities using scenario analysis.

Risk monitoring and reporting

The Board reviews and approves relevant policies and limits. Group ALCo monitors the Group's foreign exchange risks. It meets on a monthly basis and receives reports on the Group's asset and liability risk profile including foreign exchange risk. Open positions are reported as differences between expected earnings in the current year and the value of hedges in place. Exchange differences on structural exposures are recognised in 'other income' in the financial statements.

*Forms an integral part of the audited financial statements.

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.

Risk identification and assessment

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

Risk management and mitigation

Each business area is primarily responsible for managing its own operational risks. An overarching Group Operational Risk Management ("ORM") framework is in place, designed to establish an effective and consistent approach to operational risk management across the enterprise. The Group ORM framework is also supported by a range of specific policies addressing issues such as information security and business continuity management.

An important element of the Group's operational risk management framework is the ongoing monitoring through self-assessment of risks, control deficiencies and weaknesses, plus the tracking of incidents and loss events. The role of Operational Risk is to review and coordinate operational risk management activities across the Group including setting policy and standards 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 make sure that all components, taken together, deliver the control objectives of key risk management processes. In addition, an insurance programme is in place, including a self insured retention, to cover a number of risk events which would fall under the operational risk umbrella. These include financial lines policies (comprehensive crime/computer crime; professional indemnity/civil liability; employment practices liability; directors and officers liability) and a suite of general insurance policies to cover such things as property and business interruption, terrorism, combined liability and personal accident.

Risk monitoring and reporting

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

Operational risk – New Target Operating Model

AIB has developed a new target operating model for operational risk to ensure the framework outlined above is embedded and executed more robustly across the Group. The key principles of the new model are:

- A strong operational risk function, appropriately staffed and clearly independent of the first line of defence;
- Technology in place to support assessment and mitigation of operational risks; and
- Greater control effectiveness testing by operational risk.

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. The Regulatory Compliance function also promotes the embedding of an ethical framework within AIB's businesses to ensure that the Group operates with honesty, fairness and integrity. A code of Business Ethics is in place for all staff alongside a Leadership Code for more senior staff. These are supported by a suite of policies. New Board driven codes are being put in place to enhance and build on the existing codes.

Risk identification and assessment

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

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

Risk management and mitigation

The Board, operating through the Audit Committee, 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. ExCo's responsibilities in respect of compliance include the establishment and maintenance of the framework for internal controls and the control environment in which compliance policy operates thereby ensuring that Regulatory Compliance is suitably independent from business activities and that it is adequately resourced.

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

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

Risk monitoring and reporting

Regulatory Compliance undertakes risk-based monitoring of compliance with relevant policies, procedures and regulatory obligations. Monitoring can be undertaken by either dedicated compliance monitoring teams or quality assurance teams in retail segments, covering both operational risk and regulatory compliance, at the direction of the compliance function.

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

Regulatory Compliance report to the Executive Risk Committee, business unit management teams and independently to the Board of directors, through the Audit Committee, on the effectiveness of the processes established to ensure compliance with laws and regulations within its scope.

*Forms an integral part of the audited financial statements.

3.7 Pension risk

Pension's risk is the risk that the funding position of the Group's defined benefit plans would deteriorate to such an extent that the Group would be required to make additional contributions to cover its pension obligations towards current and former employees. Pension risk includes market risk, investment risk and actuarial risk. The Group maintains a number of defined benefit pension schemes for past and current employees, further details of which are included in note 12 to the financial statements. The ability of the pension funds to meet the projected pension payments is maintained through the diversification of the investment portfolio across geographies and across a wide range of assets including equities, bonds, mortgage portfolios and property. Market risk arises because the estimated market value of the pension fund assets might decline or their investment returns might reduce. Actuarial risk is the risk that the estimated value of the pension liabilities might increase.

As detailed in note 12, there were a number of significant developments in 2012 with regard to the Group's defined benefit schemes which include the Group's announcement of its intention to close the schemes to future accrual. While the Group is taking certain risk mitigating actions, however, due to difficult financial market conditions and recent changes to pension and accounting regulations, a level of volatility associated with pension funding remains.

3.8 Parent company risk information

Credit risk

- Maximum exposure to credit risk
- Collateral
- Loans and receivables to customers by geographic location and industry sector
- Internal credit ratings
- Impaired loans by geographic location and industry sector
- Aged analysis of contractually past due but not impaired gross loans
- Provisions for impairment by geographic location and industry sector
- External credit ratings of financial instruments
- Leveraged debt by geographic location and industry sector

Market risk profile

3.8 Parent company risk information *(continued)*

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 2012 and 31 December 2011:

	2012			2011		
Maximum exposure to credit risk*	**Amortised cost[8] € m**	**Fair value[9] € m**	**Total € m**	Amortised cost[8] € m	Fair value[9] € m	Total € m
Balances at central banks[1]	**558**	**–**	**558**	527	–	527
Items in course of collection	**95**	**–**	**95**	100	–	100
Disposal groups and non-current assets held for sale	**353**	**–**	**353**	1,129	–	1,129
Trading portfolio financial assets[2]	**–**	**22**	**22**	–	54	54
Derivative financial instruments[3]	**–**	**2,768**	**2,768**	–	3,025	3,025
Loans and receivables to banks[4]	**31,284**	**–**	**31,284**	36,028	–	36,028
Loans and receivables to customers[5]	**37,234**	**–**	**37,234**	42,074	–	42,074
NAMA senior bonds	**17,082**	**–**	**17,082**	19,509	–	19,509
Financial investments available for sale[6]	**–**	**14,829**	**14,829**	–	13,132	13,132
Other assets:						
Sale of securities awaiting settlement	**–**	**–**	**–**	2	–	2
Trade receivables	**28**	**–**	**28**	83	–	83
Accrued interest[7]	**391**	**–**	**391**	515	–	515
	87,025	**17,619**	**104,644**	99,967	16,211	116,178
Financial guarantees	**1,095**	**–**	**1,095**	1,575	–	1,575
Loan commitments and other credit related commitments	**7,690**	**–**	**7,690**	8,269	–	8,269
	8,785	**–**	**8,785**	9,844	–	9,844
Total	**95,810**	**17,619**	**113,429**	109,811	16,211	126,022

[1]Included within cash and balances at central banks of € 1,076 million (2011: € 1,067 million).

[2]Excluding equity shares of € 2 million (2011: € 2 million).

[3]Exposures to subsidiary undertakings of € 293 million (2011: € 356 million) have been included.

[4]Exposures to subsidiary undertakings of € 29,709 million (2011: € 33,441 million) have been included.

[5]Exposures to subsidiary undertakings of € 11,891 million (2011: € 11,868 million) have been included.

[6]Excluding equity shares of € 101 million (2011: € 204 million).

[7]Exposures to subsidiary undertakings of € 12 million (2011: € 42 million) have been included.

[8]All amortised cost items are 'loans and receivables' per IAS 39 *Financial Instruments: Recognition and Measurement* definitions.

[9]All items measured at fair value except financial investments available for sale and cash flow hedging derivatives are classified as 'fair value through profit or loss'.

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3.8 Parent company risk information *(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 70.

Set out below is the fair value of collateral accepted by Allied Irish Banks p.l.c. at 31 December 2012 and 31 December 2011 in relation to financial assets detailed in the maximum exposure to credit risk table on page 157:

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 2012, Allied Irish Banks p.l.c. has received collateral with a fair value of € 61 million on loans with a carrying value of € 61 million (2011: € 55 million and € 59 million respectively).

Loans and receivables to customers

The following table shows the fair value of collateral held for residential mortgages at 31 December 2012 and 31 December 2011:

				2012				2011
	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%	**118**	**3**	**7**	**128**	143	3	6	152
50% - 70%	**134**	**5**	**10**	**149**	142	2	7	151
71% - 80%	**81**	**2**	**9**	**92**	79	2	4	85
81% - 90%	**89**	**4**	**8**	**101**	81	3	6	90
91% - 100%	**126**	**6**	**51**	**183**	162	3	12	177
	548	**20**	**85**	**653**	607	13	35	655
Partially collateralised								
Collateral value relating to loans over 100% loan-to-value	**794**	**23**	**235**	**1,052**	993	50	200	1,243
Total collateral value	**1,342**	**43**	**320**	**1,705**	1,600	63	235	1,898
Gross residential mortgages	**1,653**	**50**	**407**	**2,110**	1,916	83	310	2,309[2]
Statement of financial position specific provisions			**(125)**	**(125)**			(103)	(103)
Statement of financial position IBNR provisions				**(22)**				(65)
Net residential mortgages			**282**	**1,963**			207	2,141

[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.

[2]Excludes purchased residential mortgage pools of € 178 million in 2011. In 2012, these have been included in the 'financial' sector.

While AIB considers that a borrower's repayment capacity is paramount in granting any loan, the Company also takes collateral in support of lending transactions for the purchase of residential property. There are clear policies in place which set out the type of property which is acceptable as collateral and the loan to property value relationship. Collateral valuations are required at the time of origination of each residential mortgage. The fair value at 31 December 2012 is based on the property values at origination and applying the CSO (Ireland) and Nationwide (UK) indices 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 70.

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 2012 have a carrying value of € 17,082 million (2011: € 19,509 million)

Financial investments available for sale

At 31 December 2012, government guaranteed senior bank debt amounting to € 495 million (2011: € 554 million) was held within the available for sale portfolio.

3.8 Parent company 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

2012

	Republic of Ireland	United Kingdom	United States of America	Rest of the World	Total	Of which: Loans and receivables to customers	Of which: Disposal groups and non-current assets held for sale
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	**1,722**	**–**	**–**	**–**	**1,722**	**1,722**	**–**
Energy	**298**	**113**	**19**	**–**	**430**	**342**	**88**
Manufacturing	**1,074**	**58**	**4**	**–**	**1,136**	**1,136**	**–**
Property and construction	**15,673**	**599**	**40**	**–**	**16,312**	**16,312**	**–**
Distribution	**5,633**	**409**	**1**	**–**	**6,043**	**6,043**	**–**
Transport	**502**	**528**	**22**	**–**	**1,052**	**679**	**373**
Financial	**582**	**19**	**2**	**–**	**603**	**603**	**–**
Other services	**2,849**	**247**	**186**	**–**	**3,282**	**3,268**	**14**
Personal							
Residential mortgages	**2,110**	**–**	**–**	**–**	**2,110**	**2,110**	**–**
Other	**4,211**	**–**	**–**	**–**	**4,211**	**4,211**	**–**
Lease financing	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	34,654	**1,973**	**274**	**–**	**36,901**	**36,426**	**475**
Unearned income	**(74)**	**(5)**	**(1)**	**–**	**(80)**	**(80)**	**–**
Deferred costs	**2**	**–**	**–**	**–**	**2**	**2**	**–**
Provisions	**(10,825)**	**(285)**	**(17)**	**–**	**(11,127)**	**(11,005)**	**(122)**
Total	**23,757**	**1,683**	**256**	**–**	**25,696**	**25,343**[1]	**353**

2011

	Republic of Ireland	United Kingdom	United States of America	Rest of the World	Total	Of which: Loans and receivables to customers	Of which: Disposal groups and non-current assets held for sale
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	1,801	–	–	–	1,801	1,795	6
Energy	393	243	41	174	851	620	231
Manufacturing	1,381	132	12	10	1,535	1,502	33
Property and construction	16,267	687	218	112	17,284	16,608	676
Distribution	6,266	478	14	35	6,793	6,720	73
Transport	573	614	32	–	1,219	1,186	33
Financial	1,039	113	–	–	1,152	1,146	6
Other services	3,148	328	270	4	3,750	3,735	15
Personal:							
Residential mortgages	2,433	–	–	54	2,487	2,427	60
Other	4,733	–	–	–	4,733	4,733	–
Lease financing	21	–	–	–	21	21	–
	38,055	2,595	587	389	41,626	40,493	1,133
Unearned income	(85)	(7)	(2)	(1)	(95)	(93)	(2)
Deferred costs	3	–	–	–	3	3	–
Provisions	(9,998)	(186)	(13)	(9)	(10,206)	(10,197)	(9)
Total	27,975	2,402	572	379	31,328	30,206[1]	1,122

[1] Excludes intercompany balances of € 11,891 million (2011: € 11,868 million).

*Forms an integral part of the audited financial statements

3.8 Parent company risk information *(continued)*

Internal credit ratings

The internal credit rating profiles of loans and receivables to customers by asset class for Allied Irish Banks, p.l.c. at 31 December 2012 and 31 December 2011 are as follows:

	2012				2011			
Masterscale grade	**Corporate/ commercial € m**	**Residential mortgages € m**	**Other € m**	**Total € m**	Corporate/ commercial € m	Residential mortgages € m	Other € m	Total € m
1 to 3	**995**	**390**	**1,003**	**2,388**	1,726	536	1,036	3,298
4 to 10	**8,481**	**868**	**1,902**	**11,251**	14,193	1,073	2,149	17,415
11 to 13	**2,505**	**293**	**1,002**	**3,800**	2,251	240	1,200	3,691
	11,981	**1,551**	**3,907**	**17,439**	18,170	1,849	4,385	24,404
Past due but not impaired[1]	**1,321**	**38**	**368**	**1,727**	1,747	50	451	2,248
Impaired	**16,157**	**265**	**1,313**	**17,735**	13,582	265	1,127	14,974
Total gross loans and receivables	**29,459**	**1,854**	**5,588**	**36,901**	33,499	2,164	5,963	41,626
Unearned income				**(80)**				(95)
Deferred costs				**2**				3
Impairment provisions				**(11,127)**				(10,206)
Total				**25,696**				31,328

[1]Of this amount, € 41 million relates to masterscale grade 1 – 3 (2011: € 65 million); € 596 million relates to masterscale grade 4 – 10 (2011: € 944 million) and € 1,090 million relates to masterscale grade 11 – 13 (2011: € 1,239 million).

Details of the rating profiles, masterscale ranges and lending classifications are set out on page 122.

*Forms an integral part of the audited financial statements

3.8 Parent company 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 2012 and 31 December 2011.

	2012						
						Of which	
	Republic of Ireland	**United Kingdom**	**United States of America**	**Rest of the World**	**Total**	**Loans and receivables to customers**	**Disposal groups and non-current assets held for sale**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Agriculture	**322**	**–**	**–**	**–**	**322**	**322**	**–**
Energy	**32**	**–**	**3**	**–**	**35**	**35**	**–**
Manufacturing	**313**	**–**	**–**	**–**	**313**	**313**	**–**
Property and construction	**10,732**	**375**	**40**	**–**	**11,147**	**11,147**	**–**
Distribution	**2,807**	**54**	**–**	**–**	**2,861**	**2,861**	**–**
Transport	**104**	**237**	**–**	**–**	**341**	**104**	**237**
Financial	**219**	**–**	**–**	**–**	**219**	**219**	**–**
Other services	**703**	**29**	**13**	**–**	**745**	**745**	**–**
Personal:							
Residential mortgages	**407**	**–**	**–**	**–**	**407**	**407**	**–**
Other	**1,345**	**–**	**–**	**–**	**1,345**	**1,345**	**–**
Lease financing	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**16,984**	**695**	**56**	**–**	**17,735**	**17,498**	**237**

	2011						
						Of which	
	Republic of Ireland	United Kingdom	United States of America	Rest of the World	Total	Loans and receivables to customers	Disposal groups and non-current assets held for sale
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	299	–	–	–	299	299	–
Energy	33	–	3	–	36	36	–
Manufacturing	274	19	1	–	294	294	–
Property and construction	8,909	170	43	–	9,122	9,122	–
Distribution	2,493	72	2	–	2,567	2,567	–
Transport	107	1	–	–	108	108	–
Financial	168	–	–	–	168	168	–
Other services	626	90	–	–	716	716	–
Personal:							
Residential mortgages	398	–	–	12	410	392	18
Other	1,252	–	–	–	1,252	1,252	–
Lease financing	2	–	–	–	2	2	–
Total	14,561	352	49	12	14,974	14,956	18

*Forms an integral part of the audited financial statements

3.8 Parent company 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 2012 and 31 December 2011.

2012

	1 – 30 days	31 – 60 days	61 – 90 days	91 + days	Total	Of which: Loans and receivables to customers	Of which: Disposal groups and non-current assets held for sale
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	**53**	**8**	**15**	**59**	**135**	**135**	**–**
Energy	**6**	**–**	**–**	**2**	**8**	**8**	**–**
Manufacturing	**17**	**3**	**2**	**16**	**38**	**38**	**–**
Property and construction	**159**	**74**	**58**	**407**	**698**	**698**	**–**
Distribution	**68**	**30**	**16**	**127**	**241**	**241**	**–**
Transport	**6**	**5**	**1**	**19**	**31**	**31**	**–**
Financial	**1**	**1**	**6**	**8**	**16**	**16**	**–**
Other services	**61**	**19**	**13**	**74**	**167**	**167**	**–**
Personal:							
Residential mortgages	**17**	**9**	**4**	**18**	**48**	**48**	**–**
Credit cards	**37**	**11**	**9**	**6**	**63**	**63**	**–**
Other	**71**	**28**	**38**	**145**	**282**	**282**	**–**
Total	**496**	**188**	**162**	**881**	**1,727**	**1,727**	**–**
As a percentage of total loans[1]	**1.3%**	**0.5%**	**0.4%**	**2.4%**	**4.7%**	**4.7%**	**–**

2011

	1 – 30 days	31 – 60 days	61 – 90 days	91 + days	Total	Of which: Loans and receivables to customers	Of which: Disposal groups and non-current assets held for sale
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	53	36	10	43	142	142	–
Energy	3	–	1	5	9	9	–
Manufacturing	21	15	1	13	50	50	–
Property and construction	247	127	97	390	861	861	–
Distribution	123	71	44	200	438	438	–
Transport	9	7	2	6	24	24	–
Financial	2	1	1	6	10	10	–
Other services	77	26	12	74	189	189	–
Personal:							
Residential mortgages	19	21	8	35	83	81	2
Credit cards	49	16	11	9	85	85	–
Other	116	57	33	151	357	357	–
Total	719	377	220	932	2,248	2,246	2
As a percentage of total loans[1]	1.8%	0.9%	0.5%	2.5%	5.8%	5.6%	0.2%

[1]Total loans (excluding intercompany) are gross of impairment provisions and unearned income.

*Forms an integral part of the audited financial statements

3.8 Parent company 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 2012 and 31 December 2011.

2012

	Republic of Ireland	United Kingdom	United States of America	Rest of the World	Total	Of which: Loans and receivables to customers	Of which: Disposal groups and non-current assets held for sale
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	**225**	**–**	**–**	**–**	**225**	**225**	**–**
Energy	**26**	**–**	**3**	**–**	**29**	**29**	**–**
Manufacturing	**221**	**–**	**–**	**–**	**221**	**221**	**–**
Property and construction	**6,163**	**99**	**7**	**–**	**6,269**	**6,269**	**–**
Distribution	**1,717**	**37**	**–**	**–**	**1,754**	**1,754**	**–**
Transport	**88**	**122**	**–**	**–**	**210**	**88**	**122**
Financial	**157**	**–**	**–**	**–**	**157**	**157**	**–**
Other services	**482**	**6**	**6**	**–**	**494**	**494**	**–**
Personal:							
Residential mortgages	**125**	**–**	**–**	**–**	**125**	**125**	**–**
Other	**1,004**	**–**	**–**	**–**	**1,004**	**1,004**	**–**
Specific	**10,208**	**264**	**16**	**–**	**10,488**	**10,366**	**122**
IBNR	**617**	**21**	**1**	**–**	**639**	**639**	**–**
Total	**10,825**	**285**	**17**	**–**	**11,127**	**11,005**	**122**

2011

	Republic of Ireland	United Kingdom	United States of America	Rest of the World	Total	Of which: Loans and receivables to customers	Of which: Disposal groups and non-current assets held for sale
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	192	–	–	–	192	192	–
Energy	24	–	3	–	27	27	–
Manufacturing	170	11	1	–	182	182	–
Property and construction	5,180	33	7	–	5,220	5,220	–
Distribution	1,434	51	–	–	1,485	1,485	–
Transport	74	3	–	–	77	77	–
Financial	133	–	–	–	133	133	–
Other services	386	59	–	–	445	445	–
Personal:							
Residential mortgages	147	–	–	3	150	147	3
Other	854	–	–	–	854	854	–
Specific	8,594	157	11	3	8,765	8,762	3
IBNR	1,404	29	2	6	1,441	1,435	6
Total	9,998	186	13	9	10,206	10,197	9

*Forms an integral part of the audited financial statements

3.8 Parent company 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 2012 and 31 December 2011 is as follows:

					2012
	Bank[1] € m	**Corporate € m**	**Sovereign € m**	**Other € m**	**Total € m**
AAA/AA	**1,535**	**3**	**3,835**	**583**	**5,956**
A	**1,476**	**15**	**221**	**223**	**1,935**
BBB+/BBB/BBB-	**723**	**60**	**24,274[2]**	**79**	**25,136**
Sub investment	**86**	**99**	**26**	**79**	**290**
Unrated	**76**	**115**	**–**	**–**	**191**
Total	**3,896**	**292**	**28,356**	**964**	**33,508**

					2011
	Bank[1] € m	Corporate € m	Sovereign € m	Other € m	Total € m
AAA/AA	1,102	–	3,362	1,468	5,932
A	1,015	14	175	171	1,375
BBB+/BBB/BBB-	2,701	77	24,482[2]	35	27,295
Sub investment	157	150	48	68	423
Unrated	96	160	–	1	257
Total	5,071	401	28,067	1,743	35,282

[1]Excludes loans to subsidiaries of € 29,709 million (2011: € 33,441 million).

[2]Includes NAMA senior bonds which do not have an external credit rating and to which the Group has attributed a rating of BBB+ (2011 :BBB+) i.e. the external rating of the Sovereign.

*Forms an integral part of the audited financial statements

3.8 Parent company risk information *(continued)*

Leveraged debt by geographic location and industy sector*

Leveraged lending (including the financing of management buy-outs, buy-ins and private equity buy-outs) is conducted primarily through specialist lending teams. The leveraged loan book is held as part of the loans and receivables to customers portfolio. Specific impairment provisions of € 29 million (2011: € 11 million) are currently held against impaired exposures of € 60 million (2011: € 30 million). These impaired exposures are not included in the analysis below. The unfunded element below includes off-balance sheet facilities and the undrawn element of facility commitments. The portfolio continues to reduce, in large part due to AIB's deleveraging activities.

	2012		2011	
Leveraged debt by geographic location	**Funded € m**	**Unfunded € m**	Funded € m	Unfunded € m
United Kingdom	**84**	**24**	58	12
Rest of Europe	**39**	**4**	131	13
United States of America	**154**	**50**	189	32
Rest of World	**31**	**–**	1	–
	308	**78**	379	57

Funded leveraged debt by industry sector*	**2012 € m**	2011 € m
Agriculture	**–**	–
Property and construction	**–**	–
Distribution	**62**	102
Energy	**28**	–
Financial	**5**	3
Manufacturing	**117**	177
Transport	**6**	18
Other services	**90**	79
	308	379

*Forms an integral part of the audited financial statements

3.8 Parent company risk information *(continued)*

Market risk profile*

The following table sets out the VaR for Allied Irish Banks, p.l.c. at 31 December 2012 and 31 December 2011:

	VaR (trading book)		VaR (banking book)		Total VaR	
	2012 € m	2011 € m	**2012 € m**	2011 € m	**2012 € m**	2011 € m
Interest rate risk						
1 day holding period:						
Average	**0.2**	0.4	**4.5**	4.9	**4.6**	4.9
High	**0.4**	0.9	**7.7**	6.0	**7.7**	5.9
Low	**0.1**	0.2	**2.0**	3.3	**2.0**	3.4
31 December	**0.2**	0.2	**2.2**	5.7	**2.2**	5.8

The following table sets out the VaR for foreign exchange rate and equity risk for the years ended 31 December 2012 and 31 December 2011:

	Foreign exchange rate risk		Equity risk	
	VaR (trading book)		VaR (trading book)	
	2012 € m	2011 € m	**2012** € m	2011 € m
1 day holding period:				
Average	**0.1**	0.2	**0.5**	0.7
High	**0.3**	0.4	**0.7**	1.1
Low	**–**	–	**0.4**	0.4
31 December	**–**	–	**0.4**	0.6

*Forms an integral part of the audited financial statements

Governance and oversight

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Governance and oversight – 1. The Board and Executive Officers

Certain information in respect of the Directors and Executive Officers is set out below.

David Hodgkinson – *Chairman (Non-Executive Director) and Nomination and Corporate Governance Committee Chairman*
Mr Hodgkinson was Group Chief Operating Officer for HSBC Holdings plc from May 2006 until his retirement from the company in December 2008. During his career with HSBC, he held a number of senior management positions in the Middle and Far East, and Europe, including as Managing Director of The Saudi British Bank, and CEO of HSBC Bank Middle East. Mr Hodgkinson, who joined HSBC in 1969, has also served as Chairman of HSBC Bank Middle East Limited, HSBC Bank A S Turkey, Arabian Gulf Investments (Far East) Limited and HSBC Global Resourcing (UK) Ltd. He was a Director of HSBC Bank Egypt SAE, The Saudi British Bank, Bank of Bermuda Limited, HSBC TrinkausBurkhardt and British Arab Commercial Bank.

Mr Hodgkinson joined the Board as Executive Chairman on 27 October 2010 and became Non-Executive Chairman with effect from 12 December 2011. He has been Chairman of the Nomination and Corporate Governance Committee and a member of the Remuneration Committee since January 2011. (Age 62)

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, and a Non-Executive Director of Tribal Group plc. Prior to this, Mr Ball has served as Group Finance Director of 3i Group plc and the Robert Fleming Group, held a series of senior finance and operational roles at Dresdner Kleinwort Benson, and was Director General, Finance for the HMG Department for Constitutional Affairs. Mr Ball joined the Board in October 2011 and has been a member of the Board Risk Committee since November 2011 and was appointed to the Nomination and Corporate Governance Committee in February 2013. (Age 52)

Bernard Byrne* *FCA* **– *Director Personal, Business & Corporate Banking***
Mr Byrne joined AIB in May 2010 as Group Chief Financial Officer and member of the Leadership Team and took up the role of Director of Personal & Business Banking in May 2011. He was appointed to his current post in July 2012. He began his career as a Chartered Accountant with PricewaterhouseCoopers (PwC) in 1988 and joined ESB International in 1994. In 1998 he took up the post of Finance Director with IWP International Plc before moving to ESB in 2004 where he held the post of Group Finance and Commercial Director until he left to join AIB. Mr Byrne was co-opted to the Board on 24 June 2011. He was appointed Non-Executive Director of EBS Limited in July 2011. (Age 44)

David Duffy* *B.B.S., MA* **– *Chief Executive Officer***
Mr Duffy joined AIB in December 2011 as Chief Executive Officer and member 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. Mr Duffy was co-opted to the Board on 15 December 2011. (Age 51)

Peter Hagan *BSc, Dip BA* **– *Non-Executive Director***
Mr Hagan is former Chairman and CEO of Merrill Lynch's US commercial banking subsidiaries, he was also a director of Merrill Lynch International Bank (London) Merrill Lynch Bank (Swiss) ML Business Financial Services and FDS Inc. Over a period of 35 years he has held senior positions in the international banking industry, including as Vice Chairman and Representative Director of the Aozora Bank (Tokyo, Japan). During 2011 and until Sept 2012, he was a director of each of the US subsidiaries of IBRC. He is presently a consultant in the fields of financial service litigation and regulatory change. He is currently a Director and Treasurer of 170 East 70th Corp. and a Director of the Thomas Edison State College Foundation. Mr Hagan joined the board in July 2012 and is a member of the Board Risk Committee, Nomination and Corporate Governance Committee and the Remuneration Committee. (Age 64)

Tom Foley *BComm, FCA* **– *Non-Executive Director***
Mr Foley is a former Executive Director of KBC Bank Ireland and has held a variety of senior management and board positions with KBC, including in Corporate Finance, Treasury, Business Banking, Private and Mortgage Banking as well as KBC's UK Division. He was a Member of the Nyberg Commission of Investigation into the Banking Sector during 2010 and 2011 and the Department of Finance (Cooney) Expert Group on Mortgage Arrears and Personal Debt during 2010. He qualified as a Chartered Accountant with PricewaterhouseCoopers (PwC) and is a former senior executive with Ulster Investment Bank and is a Non-Executive Director of BPV Finance (International) plc, and IntesaSanPaolo Life Limited. Mr Foley joined the Board in September 2012 and is a member of the Audit Committee and Remuneration Committee. He was appointed Non-Executive Director of EBS Limited in November 2012. (Age 59)

Jim O'Hara – *Non-Executive Director*
Mr O'Hara is a former Vice President of Intel Corporation and General Manager of Intel Ireland, where he was responsible for Intel's technology and manufacturing group in Ireland. He is a Non-Executive Director of Fyffes plc, a board member of Enterprise Ireland, and Chairman of a number of indigenous technology start up companies. He is a past President of the American Chamber of Commerce in Ireland. Mr O'Hara joined the Board in October 2010 and has been a member of the Audit Committee, Remuneration Committee and Nomination and Corporate Governance Committee since January 2011, and was appointed Chairman of the Remuneration Committee in July 2012. He was appointed Non-Executive Director of EBS Limited in June 2012. (Age 62)

Governance and oversight – 1. The Board and Executive Officers

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, the European Investment Bank, St. Vincent's Healthcare Group Ltd, and President of the Ireland Chapter of the Ireland-US Council. He has previously held the posts of Secretary, National Debt Management, in the Department of Finance, and Secretary, Department of Defence. He is a former Chairman of the Audit Committee of the European Investment Bank and 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 ("EBRD"). He was formerly a member of the Council of the Dublin Chamber of Commerce. He joined the Board in January 2010 as a nominee of the Minister for Finance under the Government's National Pensions Reserve Fund Act 2000 (as amended) and has been Chairman of the Board Risk Committee since November 2010. (Age 70)

Dick Spring *BA, BL* **– *Non-Executive Director***
Mr Spring is a former Tánaiste (Deputy Prime Minister) of the Republic of Ireland, Minister for Foreign Affairs and leader of the Labour Party. He is a Non-Executive Director of Fexco Holdings Ltd., Repak Ltd, The Realta Global Aids Foundation Ltd and Chairman of the Diversification Strategy Fund p.l.c. He is Chairman of International Development Ireland Ltd., Altobridge Ltd. and Alder Capital Ltd. Mr Spring joined the Board in January 2009 as a nominee of the Minister for Finance under the CIFS Scheme. He has been a member of the Nomination and Corporate Governance Committee since April 2009 and the Board Risk Committee since November 2010. (Age 62)

Thomas Wacker *MBA (International Business & Finance)* ***- Non-Executive Director***
Mr Wacker is a Non-Executive Director of the USA Rugby Board and is the former Chief Executive Officer of the International Rugby Board. He was a Non-Executive Director and former Chief Executive Officer of Belmont Advisors (UK) Limited and was a former Chief Executive of IFG Group plc's offshore business and Non-Executive Director of the parent company. Prior to this, Mr Wacker held senior management roles with Royal Trust Company of Canada, Bank of Montreal, Citibank, and Citigroup Investment Banking Group.
Mr Wacker joined the Board in October 2011 and has been a member of the Audit Committee since November 2011. (Age 69)

Catherine Woods *BA, Mod (Econ)* **– *Non-Executive Director and Audit Committee Chairman***
Ms Woods is a Non-Executive Director of AIB Mortgage Bank, and Chairman of EBS Limited (from 12 February 2013). She is the Finance Expert on the adjudication panel established by the Government to oversee the rollout of the National Broadband scheme and is a former Vice President and Head of the European Banks Equity Research Team, JP Morgan, where her mandates included the recapitalisation of Lloyds' of London and the re-privatisation of Scandinavian banks. Ms Woods is a former director of An Post, and a former member of the Electronic Communications Appeals Panel. She joined the Board in October 2010, has been a member of the Audit Committee and Board Risk Committee since January 2011, and was appointed Chairman of the Audit Committee in July 2011. (Age 50)

* Executive Directors

Board Committees
Information concerning membership of the Board's Audit, Risk, Nomination and Corporate Governance, and Remuneration Committees is given in the Corporate Governance statement on pages 173 to 184.

Executive Officers (in addition to Executive Directors above)

Anne Boden *BSc (Jt. Hons), MBA* **– *Chief Operating Officer***
Ms Boden was appointed to her current role and the Leadership Team in July 2012. She joined AIB from RBS where she held the position of Head of EMEA, Global Transaction Services across 24 countries. From 2006 she was Chief Information Officer and was a member of the Board of Directors of Aon Ltd., where she managed the acquisition strategy. Previously, Ms Boden was at UBS where she held senior management positions in Zurich within European Corporate and Institutional Banking. In the early part of her career, Ms Boden worked for Lloyds Bank and Standard Chartered Bank, and as a strategy and technology consultant for Price Waterhouse. (Age 53)

Helen Dooley *LLB* **– *Group General Counsel***
Ms Dooley was appointed to her current role and the Leadership Team in October 2012, having previously held the role of Head of Legal in EBS Limited. Prior to this she held a number of other senior roles in EBS including Head of Regulatory Compliance and Company Secretary. Ms Dooley began her career in 1992 working principally as a banking and restructuring lawyer with Wilde Sapte solicitors in London, moving to Hong Kong in 1998 to work for Johnson Stokes & Master solicitors and returning to Ireland in 2001 to work for A&L Goodbody solicitors. (Age 44)

Governance and oversight – 1. The Board and Executive Officers

Enda Johnson – ***Head of Corporate Affairs & Strategy***
Mr Johnson joined AIB as Head of Strategy in May 2012 and was appointed to his current role and the Leadership Team in July 2012. He worked previously as a senior analyst with the National Treasury Management Agency,including a secondment at the Department of Finance. Before joining the National Treasury Management Agency in 2010, he worked with Merrill Lynch for seven years in New York, London and California, in their investment banking and equity capital markets divisions. Mr Johnson has a Bachelor of Arts degree in Economics and Bachelor of Science degree in Engineering from Brown University. (Age 33)

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 40)

Fergus Murphy *BSc (Mgt), MA, DABS, AMCT, FIBI* **– *Director of Products***
Mr Murphy was appointed to the Leadership Team in July 2011, in his former role as Managing Director of EBS Limited,following the acquisition of EBS by AIB, and was subsequently appointed Group Services & Transformation Director in December 2011. He was appointed to his current role in July 2012. Before joining EBS Building Society as Chief Executive in January 2008, he held a number of senior positions including Chief Executive of ACC Bank plc, Chief Executive of Rabobank Asia, Global Treasurer and Global Head Investment Book Rabobank International and Managing Director of Rabobank Ireland plc. He is Chairman of Financial Services Ireland. (Age 49)

Brendan O'Connor *BA, MBA* – ***Head of Financial Solutions Group***
Mr O'Connor was appointed to his current role 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 47).

Ronan O'Neill *B.Comm, FCA, FIB,* **– *Managing Director, AIB Group (UK) plc***
Mr O'Neill was appointed to his current role and to the Leadership Team in October 2011. He joined AIB in 1979 and has a significant breadth of experience in a number of roles throughout the organisation, including holding the post of Head of Corporate Banking Britain from 1997 to 2002. He has also held senior posts in Risk and Credit functions and was Head of Corporate and Commercial Banking until he was appointed to his current role. (Age 59)

Peter Rossiter *BBS, FCA* **– *Chief Risk Officer***
Mr Rossiter was appointed to his current role and the Leadership Team in May 2012. He joined AIB from Irish Bank Resolution Corporation Ltd (IBRC) where he was Chief Risk Officer since November 2009. Previously, he spent 27 years with Citigroup in a range of roles, including senior risk positions in Warsaw, Moscow, Istanbul, London and Brussels. (Age 56)

Peter Spratt *FCA* **– *Interim Managing Director of AIB Group (UK) plc***
Mr Spratt was appointed to his current role in January 2013. Mr Spratt is a partner in PwC's Business Recovery Services practice in London, and is the Global Leader of PwC Crisis Management practice and has worked in restructuring for over 25 years. PwC were engaged to provide the services of Mr Spratt to oversee the Non-Core Unit from May 2011 and he was appointed to the Leadership Team at that time. He was appointed as Head of the Financial Solutions Group in July 2012 following its establishment. Since January 2013, Mr Spratt has been acting as Interim Managing Director of AIB Group (UK) plc. (Age 53)

Paul Stanley *BComm, FCCA* **– *Acting Chief Financial Officer***
Mr Stanley was appointed to his current role and the Leadership Team in May 2011. He joined AIB's Branch banking division in 1980 before moving to the Group's Financial Control department. He spent two years as a senior risk analyst in the Group's Capital Markets division, treasury operations, before he took up a three year role as Head of Treasury Finance and Risk in AIB's Poland Division (Bank Zachodni WBK) in 2000. He returned to Ireland in 2003 as Head of Asset Liability Management until he was appointed Group Financial Controller in 2010.(Age 49)

Governance and oversight - 2. Report of the Directors

for the year ended 31 December 2012

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 2012. A Statement of the Directors' responsibilities in relation to the financial statements is shown on page 381.

Results

The Group's loss attributable to the ordinary shareholders of the Company amounted to € 3,647 million and was arrived at as shown in the consolidated income statement on page 218.

Dividend

There was no dividend paid in 2012.

Going concern

The financial statements have been prepared on a going concern basis. In making its assessment of the Group's ability to continue as a going concern, the Board of Directors have taken into consideration the significant economic and market risks and uncertainties that continue to impact the Group. These include the ability to access Eurosystem funding and Central Bank liquidity facilities to meet liquidity requirements. In addition, the Directors have considered the current level of capital and the potential requirement for capital in the period of assessment. Furthermore, the Directors considered the risks and uncertainties impacting the Eurozone and have taken into account the developments taken at EU level which saw a marked easing of the eurozone sovereign debt crisis and improvements in conditions in eurozone financial markets during the second half of 2012.

Credit Institutions (Stabilisation) Act 2010

The Directors have a duty to have regard to the matters set out in the Credit Institutions (Stabilisation) Act 2010 ('the Act'). This duty is owed by the Directors to the Minister for Finance of Ireland ('the Minister') on behalf of the State and, to the extent of any inconsistency, takes priority over any other duties of the Directors. Under the terms of the Act the Minister may, in certain circumstances, direct the Company to undertake actions, which may impact on the pre-existing legal and contractual rights of shareholders. Such directions may include the dis-application of shareholder pre-emption rights, an increase in the Company's authorised share capital, the issue of shares to the Minister or to another person nominated by the Minister, or amendments to the Company's Memorandum and Articles of Association.

Capital

Information on the structure of the Company's share capital, including the rights and obligations attaching to each class of shares, is set out in note 45 and in the Schedule on pages 389 to 390.

On 14 May 2012, arising from the non-payment of a dividend amounting to € 280 million on the 2009 Preference Shares, the NPRFC became entitled to bonus shares in lieu and the Company issued 3,623,969,972 new ordinary shares by way of a bonus issue to the NPRFC.

As at 31 December 2012, some 35.7 million shares (0.007% of issued ordinary shares), purchased in previous years were held as Treasury Shares; see note 47.

Accounting policies

The principal accounting policies, together with the basis of preparation of the financial statements, are set out on pages 193 to 217.

Review of activities

The Statement by the Chairman on page 4 to 5 and the review by the Chief Executive Officer on pages 6 to 8 and the Management Report on pages 21 to 42 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. Declan Collier resigned as Non-Executive Director on 28 June 2012;
- Mr. Peter Hagan was appointed a Non-Executive Director on 26 July 2012; and
- Mr. Tom Foley was appointed a Non-Executive Director on 13 September 2012.

The names of the Directors, together with a short biographical note on each Director, are shown on pages 168 to 170.

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 388 to 394.

Directors' and Secretary's Interests in the Share Capital
The interests of the Directors and Secretary in the share capital of the Company are shown in note 62.

Directors' Remuneration
The Company's policy with respect to Directors' remuneration is included in the Corporate Governance Statement on pages 179 to 180. Details of the total remuneration of the Directors in office during 2012 and 2011 are shown in note 62.

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 14 May 2012:
– National Pensions Reserve Fund Commission 99.8%

Corporate Governance
The Directors' Corporate Governance Statement appears on pages 173 to 184 and forms part of this Report. Additional information is included in the Schedule to the Report of the Directors on page 381.

Political Donations
The Directors have satisfied themselves that there were no political contributions during the year, which require disclosure under the Electoral Act, 1997.

Books of Account
The measures taken by the Directors to secure compliance with the Company's obligation to keep proper books of account are the use of appropriate systems and procedures, including those set out in the Internal Control section of the Corporate Governance Statement on pages 182 and 183, 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 410; 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 58 to 64.

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. The branch established in Canada is in the process of being closed.

Auditor
The Auditor, KPMG, has signified willingness to continue in office in accordance with Section 160(2) of the Companies Act, 1963.

During 2012, the Board decided that a tender process relating to the appointment of the Auditor should be considered. Accordingly, the Audit Committee, on behalf of the Board, has commenced a process to consider and evaluate proposals submitted from professional accountancy firms. The resulting recommendation will be put to shareholders for their approval at the 2013 Annual General Meeting.

David Hodgkinson
Chairman

David Duffy
Chief Executive Officer

26 March 2013

Governance and oversight – 3. Corporate Governance statement

Corporate Governance practices

Allied Irish Banks, p.l.c. ("AIB") is subject to the provisions of the Central Bank of Ireland's Corporate Governance Code for Credit Institutions and Insurance Undertakings ('the Central Bank Code'), including compliance with requirements which specifically relate to 'major institutions', which imposes minimum core standards upon all credit institutions and insurance undertakings licensed or authorised by the Central Bank of Ireland.

AIB believes it has robust governance arrangements, which include a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks to which it is or might be exposed, adequate internal controls, including sound administrative and accounting procedures, IT systems and controls. The system of governance is subject to regular internal review.

AIB's corporate governance practices also reflect Irish company law and, in relation to the UK businesses, UK company law, the Listing Rules of the Enterprise Securities Market of the Irish Stock Exchange, and certain provisions of the US Sarbanes Oxley Act of 2002.

The Board of Directors

The Board is responsible for the leadership, direction and control of AIB and its subsidiaries (collectively referred to as 'AIB' or the 'Group') and is accountable to shareholders for financial performance. There is a comprehensive range of matters specifically reserved for decision by the Board. At a high level these include:

- appointing the Chairman and the Chief Executive Officer, and Senior Management, and addressing succession planning;
- ultimate responsibility for corporate governance;
- determining the Group's strategic objectives;
- monitoring progress towards achievement of the Group's objectives, and overseeing the management of the business, including control systems and risk management; and
- approving annual operating and capital budgets, major acquisitions and disposals, and monitoring and reviewing financial performance.

The Board is responsible for approving high level policy and strategic direction in relation to the nature and scale of risk that AIB is prepared to assume in order to achieve its strategic objectives. The Board ensures that an appropriate system of internal controls is maintained and reviews its effectiveness. Specifically the Board:

- sets the Group's Risk Appetite, incorporating risk limits;
- approves Risk Frameworks, incorporating risk strategies, policies, and principles;
- approves stress testing and capital plans under the Group's Internal Capital Adequacy Assessment Process ("ICAAP"); and
- approves other high-level risk limits as required by Credit, Capital, Liquidity and Market policies.

The Board receives regular updates on the Group's risk profile through the Chief Executive Officer's monthly report, and relevant updates from the Chairman of the Board Risk Committee. An overview of the Committee's activities is detailed on page 177.

The Board is also responsible for endorsing the appointment of individuals who may have a material impact on the risk profile of the Group and monitoring on an ongoing basis their appropriateness for the role. The removal from office of the head of a 'Control Function', as defined in the Central Bank Code, is also subject to Board approval.

AIB has received significant support from the Irish State ('the State') in the context of the financial crisis because of its systemic importance to the Irish financial system. This support has taken various forms including capital injections, asset relief and various guarantees. As a result of the State support measures, the State holds c. 99.8% of the ordinary shares of the Company. The relationship between AIB and the State as shareholder is governed by a relationship framework ('the Framework'). Within the Framework, the Board retains full responsibility and authority for all of the operations and business of the Group in accordance with its legal and fiduciary duties and retains responsibility and authority for ensuring compliance with the regulatory and legal obligations of the Group.

Chairman

The Chairman's responsibilities include the leadership of the Board, ensuring its effectiveness, setting its agenda, ensuring that the Directors receive adequate, accurate and timely information, facilitating the effective contribution of the Non-Executive Directors, ensuring the proper induction of new directors, the ongoing training and development of all directors, and reviewing the performance of individual directors. Mr David Hodgkinson was appointed Executive Chairman on 27 October 2010 and Non-Executive Chairman with effect from 12 December 2011, following the appointment of Mr David Duffy as Chief Executive Officer.

The role of the Chairman is separate from the role of the Chief Executive Officer, with clearly-defined responsibilities attaching to each; these are set out in writing and agreed by the Board.

Governance and oversight -
3. Corporate Governance statement

Chief Executive Officer

The Chief Executive Officer is responsible for the day-to-day running of the Group, ensuring an effective organisation structure, the appointment, motivation and direction of senior executive management, and for the operational management of all the Group's businesses. Mr David Duffy was appointed Chief Executive Officer on 12 December 2011 and was co-opted to the Board on 15 December 2011.

Company Secretary

The Directors have access to the advice and services of the Company Secretary, Mr David O'Callaghan, who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Board meetings

The Chairman sets the agenda for each Board meeting. The Directors are provided with relevant papers in advance of the meetings to enable them to consider the agenda items, and are encouraged to participate fully in the Board's deliberations. Executive management attend Board meetings and make regular presentations.

The Board held eleven scheduled meetings during 2012, and ten additional out-of-course meetings or briefings. Attendance at Board meetings and meetings of Committees of the Board is reported on below. During a number of Board meetings, the Non-Executive Directors met in the absence of the Executive Directors, in accordance with good governance standards. In addition to their attendance at Board and Committee meetings, Non-Executive Directors attended Board meetings of AIB Group (UK) p.l.c., AIB Mortgage Bank and EBS Limited and held consultative meetings with the Chairman.

Board membership

It is the policy of the Board that a majority of the Directors should be Non-Executive. At 31 December 2012, there were 9 Non-Executive Directors and 2 Executive Directors. The Board deems the appropriate number of Directors to meet the requirements of the business to be between 10 and 14. Non-Executive Directors are appointed so as to maintain an appropriate balance on the Board, and to ensure a sufficiently wide and relevant mix of backgrounds, skills and experience to provide strong and effective leadership and appropriate challenge to executive management.

The names of the Directors, with brief biographical notes, are shown on pages 168 to 170. In the performance of their functions, the Directors have a duty to have regard to the matters mentioned in section 4 of the Credit Institutions (Stabilisation) Act 2010 ('the Act'). The duty imposed by the Act is owed by the Directors to the Minister for Finance on behalf of the Irish State, and takes priority over any other duty of the Directors to the extent of any inconsistency. Thereafter, all Directors are required to act in the best interests of the Group, and to bring independent judgement to bear in discharging their duties as Directors.

There is a procedure in place to enable the Directors to take independent professional advice, at the Group's expense. The Group holds insurance cover to protect Directors and Officers against liability arising from legal actions brought against them in the course of their duties.

Performance evaluation

The Chairman meets annually with each Director individually to review their performance. These reviews include discussion of, inter alia, the Directors' individual contributions and performance at the Board and relevant Board Committees, the conduct of Board meetings, the performance of the Board as a whole and its committees, compliance with the Director-specific provisions of the Central Bank Code, the requirements of the Central Bank's Fitness and Probity Regulations, and other specific matters which the Chairman and/or Directors may wish to raise. Attendance at Board and Committee meetings is one of a number of important factors considered in evaluating Directors' performance, and a table showing each Board Member's attendance at such meetings is shown below and separately within the commentary on each of the Board Committees on the following pages.

Attendance at scheduled Board and Board Committee Meetings

Name	Board		Audit Committee		Board Risk Committee		Remuneration Committee		Nomination and Corporate Governance Committee	
Directors	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
Simon Ball	11	11			12	11				
Bernard Byrne	11	11								
David Duffy	11	11								
Tom Foley	4	4	3	3			1	1		
Peter Hagan	5	5			4	4	1	1	1	1
David Hodgkinson	11	11					4	4	6	6
Jim O'Hara	11	10	13	13			4	3	6	6
Dr Michael Somers	11	11			12	12				
Dick Spring	11	11			12	12			6	3
Tom Wacker	11	11	13	13						
Catherine Woods	11	11	13	13	12	12				
Former Directors										
Declan Collier	6	5	7	6			3	3		

Column A indicates the number of scheduled meetings held during 2012 which the Director was eligible to attend; Column B indicates the number of meetings attended by each Director during 2012. The Board held eleven scheduled meetings during 2012, and ten additional out-of-course meetings or briefings.

Terms of appointment

Non-Executive Directors are generally appointed for a three-year term, with the possibility of renewal for a further three years; the term may be further extended, in exceptional circumstances, on the recommendation of the Nomination and Corporate Governance Committee.

Mr Dick Spring was appointed Non-Executive Director in 2009 as a nominee of the Minister for Finance under the Irish Government's Credit Institutions (Financial Support) Scheme 2008 (S.I. No. 411 of 2008). Dr Michael Somers was appointed Non-Executive Director in 2010 as a nominee of the Minister for Finance under the Irish Government's National Pensions Reserve Fund Act 2000 (as amended) for a three year term to 31 December 2012. Dr Somers was reappointed a Non-Executive Director, under the same regime, for a further period of one year with effect from 1 January 2013.

Following appointment, in accordance with the requirements of the Articles of Association, Directors are required to retire at the next Annual General Meeting ("AGM"), and may go forward for reappointment, and are subsequently required to make themselves available for re-appointment at intervals of not more than three years. Since 2005, all Directors have retired from office at the AGM and have offered themselves for reappointment with the exception of Messrs Somers and Spring.

Under the terms of the Government's preference share investment, Messrs. Somers and Spring are not required to stand for election or regular re-election by shareholders.

Letters of appointment, as well as dealing with appointees' responsibilities, stipulate that a specific time commitment is required from Directors. A copy of the standard terms of the letter of appointment of Non-Executive Directors is available on request from the Company Secretary.

The Board has determined that all Non-Executive Directors in office in December 2012, namely Mr Simon Ball, Mr Tom Foley, Mr Peter Hagan, Mr David Hodgkinson, Mr Jim O'Hara, Dr Michael Somers, Mr Dick Spring, Mr Tom Wacker and Ms Catherine Woods are independent in character and judgement and free from any business or other relationship with the Company or the Group that could affect their judgement. In 2011, the Central Bank confirmed that Messrs Somers and Spring should be considered independent for the purposes of the Central Bank Corporate Governance Code.

Governance and oversight -
3. Corporate Governance statement

Induction and professional development

There is an induction process for new directors. Its content varies between Executive and Non-Executive Directors. In respect of the latter, the induction is designed to familiarise Non-Executive Directors with the Group and its operations, and comprises the provision of relevant briefing material, including details of the Group's strategic and operational plans, and a programme of meetings with the Chief Executive Officer, the Leadership team and the Senior Management of businesses and support functions. A continuous 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, with their Board papers, and are formally noted by the Board. This provides an opportunity for Directors who are not members of those Committees to seek additional information or to comment on issues being addressed at Committee level. The Terms of Reference of the Audit Committee, the Board Risk Committee, the Nomination and Corporate Governance Committee, and the Remuneration Committee are available on AIB's website: www.aibgroup.com. In carrying out their duties, the Board Committees are entitled to take independent professional advice, at the Group's expense, where deemed necessary or desirable by the Committee Members.

Audit Committee

Current Members: Ms Catherine Woods, Chairman;Mr Tom Foley (from 13 September 2012); Mr Jim O'Hara; Mr Tom Wacker.
Former Members during the year: Mr Declan Collier (resigned from the Board 28 June 2012).

Member attendance during 2012:		**A**	**B**
Declan Collier	Former Member	7	6
Tom Foley	Current Member	3	3
Jim O'Hara	Current Member	13	13
Tom Wacker	Current Member	13	13
Catherine Woods	Current Member	13	13

Column A indicates the number of Committee meetings held during 2012 which the Member was eligible to attend; Column B indicates the number of meetings attended by each Member during 2012.

The Audit Committee comprises Non-Executive Directors whom the Board has determined have the collective skills and relevant financial experience to enable the Committee to discharge its responsibilities. The Audit Committee has oversight responsibility for:

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

These responsibilities are discharged through its meetings with and receipt of reports from management, the Auditor, the Chief Financial Officer, the Group Internal Auditor, the Chief Risk Officer and the Head of Regulation and Compliance.

The Sarbanes-Oxley Act requires that the Audit Committee membership includes an 'audit committee financial expert', as defined in related SEC rules. The Board has determined that Ms Catherine Woods is an 'independent audit committee financial expert' for these purposes. Ms Woods has accepted this determination on the understanding that she has not thereby agreed to undertake additional responsibilities beyond those of a member and Chairman of the Audit Committee.

During 2012, the Audit Committee met on thirteen occasions. The following, whilst not intended to be exhaustive, is a summary of the activities undertaken by the Committee in the discharge of its responsibilities. The Committee:

- reviewed the Group's annual and interim financial statements prior to approval by the Board, including: the Group's accounting policies and practices; the minutes of the Group Disclosure Committee (an executive committee whose role is to ensure the compliance of AIB Group Financial Information with legal and regulatory requirements prior to external publication); reports on compliance; effectiveness of internal controls; and the findings, conclusions and recommendations of the Auditor and Group Internal Auditor;
- reviewed the scope of the independent audit, and the findings, conclusions and recommendations of the Auditor;
- satisfied itself through regular reports from the Head of Internal Audit, the Chief Financial Officer, the Chief Risk Officer, the Auditor and the Head of Governance and Assurance that the system of internal controls over financial reporting was effective;

- provided oversight in relation to the Auditor's effectiveness and relationship with the Group, including agreeing the Auditor's terms of engagement, audit plans and remuneration;
- reviewed and monitored 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 (note 16);
- provided assurance regarding the independence and performance of the Group Internal Audit function, through reviews of rolling quarterly updates on control issues and related remediating actions, and a monthly report detailing Internal Audit reports issued during the previous month; the annual audit plan and related progress; and the adequacy of resources allocated to the function; the Chairman of the Committee met with the Head of Internal Audit and the Lead Audit Partner between scheduled meetings of the Committee to discuss material issues arising;
- received rolling updates from the Chief Risk Officer and the Head of Governance and Assurance to satisfy itself that the Group was in compliance with all regulatory and compliance obligations and considered key developments and emerging issues, particularly in respect of the Group's responsibilities under the Government Guarantee and Capital Subscription and Planning Agreements with the Minister, 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 Lead Audit Partner, the Chief Risk Officer and the Head of Internal Audit, in each case with only Non-Executive Directors present.

The Committee is also responsible for making recommendations in relation to the Head of Internal Audit, including appointment, replacement, and remuneration, in conjunction with the Remuneration Committee, and confirming the Head of Internal Audit's independence; the Committee meets with the Head of Internal Audit in confidential session, in the absence of management. The Head of Internal Audit has unrestricted access to the Chairman of the Audit Committee.

The following attend the Committee's meetings by invitation: the Lead Audit Partner; the Chief Financial Officer, the Chief Risk Officer; the Head of Internal Audit; and the Head of Governance and Assurance. Other senior executives also attend where appropriate.

Board Risk Committee

Current Members: Dr. Michael Somers, Chairman; Mr. Simon Ball; Mr. Peter Hagan (from 26 July 2012) Mr. Dick Spring; and Ms. Catherine Woods.

Member attendance during 2012:		**A**	**B**
Simon Ball	Current member	12	11
Peter Hagan	Current member	4	4
Dr Michael Somers	Current member	12	12
Dick Spring	Current member	12	12
Catherine Woods	Current member	12	12

Column A indicates the number of Committee meetings held during 2012 which the Member was eligible to attend; Column B indicates the number of meetings attended by each Member during 2012.

The Board Risk Committee was established to assist 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 Non-Executive Directors whom the Board has determined have the collective skills and relevant experience to enable the Committee to discharge its responsibilities. To ensure co-ordination of the work of the Board Risk Committee with the risk related considerations of the Audit Committee, the Chairman of the Audit Committee is also a member of the Board Risk Committee.

The Board Risk Committee has responsibility for:
- providing oversight and advice to the Board in relation to current and potential future risks facing the Group and risk strategy in that regard, including the Group's risk appetite and tolerance;
- the effectiveness of the Group's risk management infrastructure;
- monitoring and reviewing the Group's risk profile, risk trends, risk concentrations and risk policies;
- considering and acting upon the implications of reviews of risk management undertaken by Group Internal Audit and/or external third parties.

The responsibilities of the Committee are discharged through its meetings, receiving, commissioning and considering reports from the Chief Risk Officer, the Chief Credit Officer, the Chief Financial Officer, the Head of Internal Audit, the Head of Governance and Assurance and other members of management.

During 2012, the Board Risk Committee met on twelve occasions. The following, while not intended to be exhaustive, is a summary of the key items considered, reviewed and/or approved or recommended by the Committee during the year:

- monthly reports from the Chief Risk Officer which provided an overview of key risks including liquidity and funding, capital adequacy, credit risk, market risk, regulatory risk, business risk, and related mitigants;
- periodic reports from the Chief Credit Officer regarding the credit quality, performance and outlook of key credit portfolios within the Group;
- items of a risk related nature, including:
  (a) the governance, organisational and delegated authority framework;
  (b) the risk appetite framework and risk appetite statement;
  (c) the funding and liquidity strategy;
  (d) risk frameworks and policies, including those relating to (i) credit risk, (ii) operational risk, (iii) financial risk, including market and pension risk, and (iv) compliance;
  (e) the code of conduct and conflict of interest policy for employees; and
  (f) capital planning including consideration of the quarterly, six monthly and annual ICAAP Reports and related firm wide stress test scenarios as at 31 December 2011 and 30 June 2012;
- reports from management on a number of specific areas in order to ensure that appropriate management oversight and control was evident, including:
  (a) arrangements for dealing with customers in difficulty, including debt settlement strategies and preparations for personal insolvency legislation and amendments to the Irish Bankruptcy Law;
  (b) Eurozone risks and management's contingency planning in that regard;
  (c) significant operational risk events, potential business "knock out" risks, and the Group's business continuity planning arrangements;
  (d) credit risk performance and trends, including days past due and monthly overview of significant credit transactions; and
  (e) regulatory developments and business preparedness for changes to regulatory codes and directives, including Consumer Protection Code, Fitness and Probity and Anti-Money Laundering/Financial Sanctions;
- presentations from the individual businesses on their high level risks and related mitigants;
- management's plans and progress in meeting the actions required in the Central Bank of Ireland's Risk Mitigation Programme; and
- the Group's Risk Management infrastructure including actions taken to strengthen the Group's risk management governance, people skills and system capabilities, and to address the risk management related recommendations arising from the Central Bank of Ireland's Supervisory Review and Evaluation Process.

The Committee is also responsible for making recommendations in relation to the Chief Risk Officer, including appointment, replacement, and remuneration, in conjunction with the Remuneration Committee, and confirming the Chief Risk Officer's independence; the Committee meets with the Chief Risk Officer in confidential session, in the absence of management. The Chief Risk Officer has unrestricted access to the Chairman of the Board Risk Committee.

The following attend the Committee's meetings by invitation: the Lead Audit Partner; the Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer, the Chief Credit Officer, the Head of Internal Audit, and the Head of Governance and Assurance. Other senior executives also attend where appropriate.

Nomination and Corporate Governance Committee

Current Members: Mr. David Hodgkinson (Chairman); Mr. Jim O'Hara, Mr. Peter Hagan (from 26 July 2012); and Mr. Dick Spring.

Member attendance during 2012:		**A**	**B**
Peter Hagan	Current member	1	1
David Hodgkinson	Current member	6	6
Jim O'Hara	Current member	6	6
Dick Spring	Current member	6	3

Column A indicates the number of Committee meetings held during 2012 which the Member was eligible to attend; Column B indicates the number of meetings attended by each Member during 2012.

The Nomination and Corporate Governance Committee's responsibilities include: recommending candidates to the Board for appointment as Directors; reviewing the size, structure and composition of the Board and the Board Committees, reviewing succession planning, and monitoring the Group's responsibilities and activities concerning staff, the marketplace (including customers, products and suppliers), the environment and the community.

The search for suitable candidates for the Board is a continuous process, and recommendations for appointment are made, based on merit and objective criteria, following an appraisal process and interviews. The Committee is also responsible for approving corporate-giving budgets and any substantial philanthropic donations, and reviewing the Group's corporate governance policies and practices. The Committee met six times during 2012. Messrs Tom Foley and Peter Hagan were nominated by the Committee to the Board and appointed Non-Executive Directors on 13 September 2012 and 26 July 2012, respectively, following a selection process that included the services of an external executive search consultancy firm.

Remuneration Committee

Members: Mr Jim O'Hara (Chairman from 14 August 2012); Mr Tom Foley (from 13 September 2012); Mr Peter Hagan (from 26 July 2012); and Mr David Hodgkinson.
Former Members during the year: Mr Declan Collier (former Committee Chairman, resigned from the Board 28 June 2012).

Member attendance during 2012:		A	B
Declan Collier	Former member	3	3
Tom Foley	Current member	1	1
Peter Hagan	Current member	1	1
David Hodgkinson	Current member	4	4
Jim O'Hara	Current member	4	3

Column A indicates the number of Committee meetings held during 2012 which the Member was eligible to attend; Column B indicates the number of meetings attended by each Member during 2012.

AIB's remuneration policies are set and governed by the Remuneration Committee whose purpose, duties and membership are set by its Terms of Reference which may be viewed on the website www.aibgroup.com.The scope of the Committee's activities is broad based, ranging from setting pay policy to determining appropriate pension arrangements.

The Remuneration Committee's responsibilities include recommending to the Board: Group remuneration policies and practices; the remuneration of the Chairman of the Board (which matter is considered in his absence); and, performance-related and share-based incentive schemes when appropriate.

The Committee also determines the remuneration of the Chief Executive Officer, and, in consultation with the Chief Executive Officer, the remuneration of other Executive Directors, when in office, and the other members of the Executive Leadership Team, under advice to the Board. Details of the total remuneration of the Directors in office during 2012 and 2011 are shown in note 62. 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.

The Committee met four times during 2012.

Remuneration Policy and Governance

The Terms of Reference of the Remuneration Committee were reviewed in 2012 by the Committee following which, changes were made, with Board approval, to reflect relevant provisions of the Central Bank Code and standardisation of Group documentation. The governance and scope of AIB's remuneration policies and practices include all financial benefits for employees and extend to all areas of the Group.

The adoption of remuneration policies and practices, which are both fair and competitive and that support sustainable performance over the long-term, is a key responsibility of the Board. The Board recognises the need to take account of appropriate input from AIB's control functions in its decision making, and to ensure that remuneration policies and practices are consistent with and promote effective risk management, and that they do not encourage excessive risk taking but support the maintenance of a sound capital base and the required liquidity levels. The 2011 review of remuneration policies took account of the remuneration requirements of the Capital Requirements Directive- CRD III and the related EBA Guidelines, which came into force in January 2011. Following this, a Remuneration Disclosure Report was published in June 2012 within AIB's Pillar 3 Disclosure Report, in accordance with the EBA Guidelines, which summarised AIB's principal remuneration policies and practices and which provided aggregated remuneration data for Identified Staff in 2011. The list of Identified Staff was compiled in consultation with the relevant business areas, control functions and support areas to agree those individuals who were considered to have a material impact on AIB's risk profile. Consideration was given to the extent of individuals' reporting lines and the degree to which individuals' decision making was subject to control and approval through credit committees or trading limits. The Remuneration Disclosure Report for 2012 will be included in AIB's 2012 Pillar 3 Disclosure Report.

While the design features required by the EBA are now included in AIB's remuneration policy there was little scope in practice to implement the design requirements of the incentive schemes because of the financial position of the Group, and the constraints on remuneration arising from AIB's commitments under the Subscription and Placing Agreements between AIB and the National Pensions Reserve Fund Commission ("NPRFC"), the National Treasury Management Agency ("NTMA") and the Minister for Finance. There were no bonuses or shares awarded in 2012. Any incentive schemes implemented in future will be structured in line with the new regulatory requirements and AIB's revised remuneration policy.

Remuneration policy, in general, is strongly influenced by the Group's significant reliance on State support and the requirements and constraints arising from the Subscription and Placing Agreements.

Central Bank review

The Central Bank of Ireland completed a review of AIB's remuneration policies and practices in September 2011 with the primary objective of assessing the level of AIB's compliance with the provisions of the remuneration guidelines issued by the EBA. The findings of the review and required actions were included in a risk mitigation programme. While no material issues were identified by the review, the Central Bank requested that a number of the EBA requirements be more clearly expressed in AIB's Remuneration Policy to ensure AIB was fully compliant with all aspects of the Guidelines. These changes were made in June 2012 and specifically included:

– Ensuring that incentive awards are restricted to maintain an adequate capital base and also when in receipt of State support;
– An adjustment to incentive pools for current and future risk; and
– The inclusion of AIB's criteria and definition of Identified Staff.

Voluntary severance programme

The Group announced the terms of a voluntary severance programme, which includes both an early retirement scheme and a voluntary severance scheme in May 2012, with an objective of achieving annual cost savings of € 170 million equating to a reduction of c. 2,500 in overall staff numbers.

The voluntary severance terms were consistent with those available to staff in other banks in receipt of State aid and was based on either 3 weeks' annualised salary for each year of service plus statutory redundancy, or 4 weeks' annualised salary for each year of service, inclusive of statutory redundancy, both with an annualised salary cap of € 225,000. The scheme was introduced on a phased basis, according to business needs and capacity, with the result that not all areas of the business were immediately within the scope of the voluntary severance scheme.

An early retirement scheme was opened for staff in Defined Benefit Pension Schemes in the Republic of Ireland and the UK, with early retirement on a pro rata, actuarially reduced basis, based on pensionable service to the date of leaving. The Group reduced the impact of actuarial reduction by an amount broadly equivalent to the comparable voluntary severance payment. A strong level of interest was expressed in the scheme with early retirement dates phased to December 2013.

There were 1,257 departures under the early retirement scheme and 487 departures under the voluntary severance scheme in 2012.

Remuneration review

A reduction of up to 15% in salary and pay related allowances was applied to those on the Leadership Team effective from 1 September 2012. The salary of the Chief Executive Officer was reduced from € 500,000 to € 425,000 during the year while the salaries of the members of the Leadership Team are managed by the Remuneration Committee in accordance with AIB's obligations under the Subscription and Placing agreements and are in a range of € 200,000 to € 400,000 in accordance with the recommendations of the Covered Institutions Remuneration Oversight Committee ("CIROC").

AIB's remuneration spend continued to be closely managed in 2012, with salary increases restricted principally to retaining key staff at risk to the market particularly in IT, business analysis and other financial services control functions.
In summary, throughout 2012:

– There were no general salary increases or increments paid;
– There were no bonus schemes or share based incentives in operation; and
– Out of course approved salary increases were managed within agreed budgetary parameters.

Pay and Benefits Review

A comprehensive review of Pay and Benefits was undertaken in 2012 to assist in reducing the Group's overall cost. Three main areas were identified and targeted for action – salary, benefits and the Defined Benefit Pension Scheme. The most significant of these changes are as follows:

– In addition to the changes applied to the Leadership Team, a reduction of up to 10% and 7.5% in salary and pay related allowances was applied to Executives and Senior Managers, effective from 1 September 2012 and 1 January 2013 respectively, relative to market benchmarks. The Company also announced a general pay freeze until the end of 2014;

Pay and Benefits Review *(continued)*

– Allowances have been reduced and apart from a small number of high mileage drivers, company cars have been discontinued. Benefits such as club subscriptions and preferential staff deposit and lending rates, have also been eliminated; and
– Transfer of all employees in Ireland and the UK who are currently members of a defined benefit pension scheme (including hybrid arrangements) to a defined contribution pension scheme. This change will have no impact on the benefits accrued up to the date of transfer. The Group and the Irish Bank Officials Association ("the IBOA") agreed to refer the issues to the Labour Relations Commission. These discussions are ongoing and implementation of the new pension arrangements has been deferred pending the completion of this process.

A review of Non-Executive Directors' fees has also been undertaken.

Directors' remuneration

Details of the total remuneration of the Directors in office during 2012 and 2011 are shown in note 62.

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:

Summary Shareholders' Report

The Shareholders Report ("the Report") is a summary version of AIB's main 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 main Annual Financial Report. This summary report does not form part of the Annual Financial Report or Form 20-F and is referred to for reference purposes only.

Website

The website, www.aibgroup.com, contains, for the previous five years, the Annual Financial Report, the Interim Report/Half-yearly Financial Report, and the Annual Financial Report on Form 20-F. The Group's presentation to fund managers and analysts of annual and interim financial results are available on the internet, and may be accessed on the Company's website: www.aibgroup.com. Since 2009, the Annual Financial Report and the Annual Report on Form 20-F have been combined in the form of this Annual Financial Report. None of the information on the website is incorporated in, or otherwise forms part of, this Annual Financial Report.

Annual General Meeting ("AGM")

All shareholders are invited to attend the AGM and to participate in the proceedings. At the AGM, it is practice to give a brief update on the Group's performance and developments of interest for the year to date. Separate resolutions are proposed on each separate issue and voting is conducted by way of poll. The votes for, against, and withheld, on each resolution, including proxies lodged, are subsequently published on AIB's website. Proxy forms provide the option for shareholders to direct their proxies to withhold their vote. It is usual for all Directors to attend the AGM and to be available to meet shareholders before and after the meeting. The Chairmen of the Board's Committees are available to answer questions about the Committees' activities. A help desk facility is available to shareholders attending. The Company's 2013 AGM is scheduled to be held on 20 June 2013, at the Company's Head Office at Bankcentre, Ballsbridge, Dublin 4, and it is intended that the Notice of the Meeting will be posted to shareholders at least 21 clear days before the meeting, in line with the requirements of Irish Company law.

Governance & oversight -
3. Corporate Governance statement

Accountability and Audit

Accounts and Directors' Responsibilities

The Statement concerning the responsibilities of the Directors in relation to the Accounts appears on page 381.

Going Concern

The Group's activities are subject to risk factors and uncertainties as set out on pages 58 to 64.

Notwithstanding these risk factors and uncertainties, the Directors have prepared the financial statements on a going concern basis. In making its assessment of the Group's ability to continue as a going concern, the Board of Directors have taken into consideration the significant economic and market risks and uncertainties that continue to impact the Group. These include the ability to access Eurosystem funding and Central Bank liquidity facilities to meet liquidity requirements. In addition, the Directors have considered the current level of capital and the potential requirement for capital in the period of assessment. Furthermore, the Directors considered the risks and uncertainties impacting the Eurozone and have taken into account the developments taken at EU level which saw a marked easing of the eurozone sovereign debt crisis and improvements in conditions in eurozone financial markets during the second half of 2012.

Internal Controls

The Directors acknowledge that they are responsible for the Group's system of internal control. They acknowledge that systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Group's system of internal control is based on the following:

Governance and oversight

- AIB Board in place and has ultimate responsibility for the governance of all risk taking activity across the Group. The Board is supported by a number of subcommittees including a Board Risk Committee, an Audit Committee, a Remuneration Committee and a Nomination and Corporate Governance Committee.
- The Board Risk Committee evaluates material risks and risk management across the Group and risk disclosures made by the Group.
- At the executive level, a Leadership Team is in place with responsibility for establishing business strategy, risk appetite, enterprise risk management and control.
- The Executive Risk Committee which is a subcommittee of the Leadership Team reviews the effectiveness and application of the Group's risk frameworks and policies, risk profile, risk concentrations and all breaches of Board approved risk appetite and limits.
- The Group Audit Committee of the Board reviews various aspects of control, including the design and operating effectiveness of internal control over the financial reporting framework in compliance with the requirements of Section 404 of the Sarbanes-Oxley Act, the Group's statutory accounts and other published financial statements and information, and ensures that no restrictions are placed on the scope of the statutory audit or the independence of the Internal Audit and Regulatory Compliance functions.
- There is involvement at all meetings of the Audit and Board Risk Committees by the Chief Financial Officer, Chief Risk Officer and Group Internal Auditor.
- The Group operates a three lines of defence framework in the delineation of accountabilities for risk governance.
- AIB's remuneration policies are set and governed by the Remuneration Committee whose purpose, duties and membership are to ensure that remuneration policies and practices are consistent with and promote effective risk management.
- There is an independent Group Internal Audit function which is responsible for independently assessing the effectiveness of the Group's corporate governance, risk management and internal controls and which reports directly to the Chair of the Audit Committee.
- Risk management committees are in place with approved terms of reference ("ToR") that operate under delegated authority from the Board and Executive level.

Risk Management

- A Board approved Risk Appetite Statement ("RAS") sets the limits of risk appetite associated with the Group's strategic objectives. The RAS is reviewed at least annually by the Board and more frequently if required. Risk policies and procedures are updated where appropriate to reflect the limits of the risk appetite.
- AIB's approach to managing risk and compliance matters are set out in a suite of policy documents that forms part of the AIB policy framework which are individually aligned with the RAS and are Board approved.
- AIB has adopted an Enterprise Risk Management approach to identifying, assessing and managing risks which builds on the three lines of defence governance framework and is supported by a risk management framework and policy architecture which are currently under development.
- The Group's risk management framework is also supported by the underlying Group Risk committees comprising Asset and Liability Committee ("ALCo"), Credit Risk Committee ("CRC"), Operations Risk Committee ("ORC") and the Compliance Committee. Each of these committees is responsible for identifying actions to support robust risk management in line with the Group's risk appetite.
- A comprehensive annual budgeting and financial reporting system is in place, which incorporates clearly-defined and communicated common accounting policies and financial control procedures, including those relating to authorisation limits, capital expenditure and investment procedures.
- Roles and responsibilities for management and staff are outlined via a clearly-defined organisational management structure, with defined lines of authority and accountability.
- AIB's Internal Capital Adequacy Assessment Process ("ICAAP") has been developed which determines the adequacy and appropriateness of capital levels based on the Group's identification and assessment of the material risks to which it is exposed.

Risk identification

- Key internal and external risks are identified and assessed throughout AIB through a combination of top-down and bottom-up risk assessment processes. The key risks to the organisation are defined within the AIB risk universe and are continually updated reflecting the current operating and risk environment.
- The Group's risk identification and assessment framework is supported by a framework of stress testing, scenario analysis and sensitivity analysis. The Group undertakes a regular program of stress testing across all of the material risks to meet internal and regulatory requirements.

Risk control and monitoring

- There is a centralised risk (and compliance) control function, headed by the Chief Risk Officer ("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 reported to the Executive Risk Committee and Board Risk Committee via the monthly CRO report. Material breaches of risk appetite are escalated to the Board and the Central Bank of Ireland ('the Central Bank').
- The centralised Credit function is headed by a Chief Credit Officer who reports to the CRO.
- There is an independent Compliance function which provides advisory services to the Group and which monitors and reports on prudential, conduct of business and financial crime compliance and forthcoming regulations across the Group, and on management's attention to compliance matters.
- AIB staff who perform Pre-Approved Controlled functions/Controlled functions meet the required standards as outlined in AIB's Fitness and Probity programme.
- 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 Group Audit Committee.

Taking the above into account, the Directors are satisfied:

- that there is a clear organisational structure which provides effective oversight of the activities of the Group;
- that processes are in place to identify, manage, monitor and report on risks;
- that adequate internal control mechanisms, including sound administrative and accounting procedures, IT systems and controls are in place, which are subject to on-going improvement initiatives to further strengthen such systems;
- that the remuneration policies and practices are consistent with and promote sound and effective risk management;
- that the system of governance is subject to regular internal review.

Additional requirements in the United States

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the US Exchange Act). Management has assessed the effectiveness of the Group's internal control over financial reporting as of 31 December 2012, based on the criteria set forth by the US Committee of Sponsoring Organisations of the Treadway Commission in their publication 'Internal Control - Integrated Framework'. Based on this assessment, management believes that, as of 31 December 2012, the Group's internal control over financial reporting is effective. There have been no changes in the Group's internal control over financial reporting during 2012 that has materially affected or is reasonably likely to materially affect the Group's internal control over financial reporting.

In addition to the need for such internal controls over financial reporting, the SEC has adopted somewhat broader requirements designed to ensure that reporting companies, such as AIB, have adequate 'disclosure controls and procedures' in place. As of 31 December 2012, the Group carried out an evaluation, under the supervision of and with the participation of the Group's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Group's disclosure controls and procedures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon, and as of the date of the Group's evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective in all material respects to ensure that information required to be disclosed in the reports which the Group files and submits under the US Exchange Act is recorded, processed, summarised and reported as and when required.

Code of Conduct

In June 2012 the Group adopted a Code of Conduct that applies to all employees. This replaced the previous code of business ethics. A copy of the Code is available on the Group website at www.aibgroup.com/investorrelations. (The information on this website is not incorporated by reference into this document). The Code of Conduct sets out the key standards for behaviour and conduct that apply to all employees, and includes particular requirements regarding responsibilities of management for ensuring that business and support activities are carried out to the highest standards of behaviour. The application of the Code of Conduct is underpinned by policies, practices and training which are designed to ensure that the Code is understood and that all employees act in accordance with it.

As part of the Code implementation, AIB encourages its employees to raise any concerns of wrongdoing through a number of channels, both internal and external. One such channel includes a confidential external helpline. Employees are assured that if they raise a concern in good faith, AIB will not tolerate any victimisation or unfair treatment of the employee as a result.

The Code of Conduct and supporting policies are subject to annual review and update to the Board.

4.1 Current climate of regulatory change

Globally, regulators continue to implement reforms arising from the financial crisis. In the banking sector, the focus is on supporting the stability of the banking system and ensuring appropriate resolution and recovery mechanisms are in place. Regulators worldwide have adopted a more intrusive style of regulation with a strong focus on sanctions for breaches of regulatory requirements.

4.2 Ireland

Overview of financial services legislation

The Central Bank Reform Act 2010 was brought into operation by the Irish Minister for Finance ("the Minister") on 1 October 2010.The Central Bank Reform Act 2010 created a single, fully-integrated Central Bank of Ireland ("Central Bank") with a unitary board, the Central Bank Commission, chaired by the Governor of the Central Bank. The Central Bank (Supervision and Enforcement) Bill was published in mid 2011. The main purposes of the Bill are to (a) provide enhanced powers to the Central Bank for the supervision of regulated financial service providers and (b) provide enhanced powers to the Central Bank for the enforcement of financial services legislation. It is expected that the Bill will be enacted in 2013.

The Central Bank is responsible for the:

– prudential supervision and regulation of a range of banking and financial services entities in Ireland, including credit institutions;
– investment firms, stockbroking firms, payment institutions, insurance companies and credit unions;
– conduct of business of such financial services entities, including the protection of consumer interests; and
– overall stability of the financial system.

The Central Bank and Financial Services Authority of Ireland Act 2004 established the Financial Services Ombudsman's Bureau to deal with certain complaints about financial institutions.

The Credit Institutions (Stabilisation) Act 2010 was signed into law on 21 December 2010.The Act provides the legislative basis for the reorganisation and restructuring of the Irish banking system as agreed in the joint EU/IMF Programme for Ireland. The Act empowers the Minister following consultation with the Governor of the Central Bank of Ireland, to propose any of a number of Stabilisation Orders that the Minister believes is necessary to stabilise a particular relevant institution (including its group companies). A proposed Stabilisation Order must be confirmed by the Irish High Court. The Act also imposes new duties on the directors of an institution and sets out matters to which directors must have regard in the performance of their functions. These include protecting the interests of the taxpayers, restoring confidence in the banking sector and facilitating the availability of credit in the economy of the State. The provisions of the Act were to cease to have effect on 31 December 2012 unless otherwise extended. The Act was extended and remains in effect until the end of 2014, unless further extended in due course.

The Central Bank and Credit Institutions (Resolution) Act came into force in 2011. It provides a framework for the resolution of Irish banks and other Irish credit institutions encountering financial difficulties and not covered under the Credit Institutions (Stabilisation) Act, 2010.

Other legislative measures in the context of the financial crisis that commenced in 2008, including the Credit Institutions (Financial Support) Scheme 2008, the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 and the National Asset Management Agency Act 2009, are described in note 63(g) 'Related party transactions - Summary of relationship with the Irish Government'. These pieces of legislation and associated regulations provide for a limited-duration State guarantee of many deposits in certain Irish credit institutions, including Allied Irish Banks, p.l.c. and some of its subsidiaries, subject to any applicable deposit protection scheme; a limited-duration State guarantee of certain other eligible liabilities issued by a relevant institution, including Allied Irish Banks, p.l.c. and some of its subsidiaries; and a State vehicle for the acquisition of many land and development-related loans from certain Irish credit institutions, including Allied Irish Banks, p.l.c. and some of its subsidiaries.

The Credit Institutions (Financial Support) Scheme 2008 expired in September 2010. The Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 has since been in operation subject to six-monthly reviews. On 26 February 2013, however, the Minister announced that this Scheme will end for all new liabilities, with effect from midnight on 28 March 2013 (note 69).

The Central Bank of Ireland ('the Central Bank')

The Central Bank has a wide range of statutory powers to enable it to effectively regulate and supervise the activities of financial institutions in Ireland including the power to carry out inspections. Features of the regulatory regime include prudential regulation and codes of conduct, each of which is addressed in more detail below. The Central Bank also has wide-ranging powers of inspection: inspectors appointed by the Central Bank may enter the relevant premises, take documents or copies, require persons employed in the business to provide information and order the production of documents. In cases of extreme concern, the Central Bank may direct a licence-holder to suspend its business activity for a specified period and may also intervene in the management or operation of an entity.

The Central Bank Reform Act 2010 contains a number of provisions which impact the regulation of credit institutions, including powers for the Central Bank to regulate sensitive or influential appointments in financial institutions. This includes the power to prevent the

appointment of a person from performing a 'controlled function' (as defined) or to remove or suspend a person from the performance of a controlled function, where the Central Bank is satisfied that the person is not a fit and proper person to perform such a function. The Central Bank introduced Regulations and Standards governing the new fitness and probity regime in 2011.

On 8 November 2010, the Central Bank issued new corporate governance requirements for credit institutions and insurance undertakings, which impose minimum core standards upon all credit institutions, including Allied Irish Banks p.l.c., and insurance undertakings licensed or authorised by the Central Bank. Additional requirements apply to institutions that are designated as 'major institutions' by the Central Bank.

The Central Bank has extensive enforcement powers including the ability to impose administrative sanctions directly on financial institutions for failure to comply with regulatory requirements (including codes of conduct and practice), subject to a right of appeal by the affected institution to the Irish Financial Services Appeals Tribunal and a further appeal to the Irish High Court. Such administrative sanctions may include a caution or reprimand, financial penalties (not exceeding € 5 million in the case of a firm or € 0.5 million in the case of an individual) and a direction disqualifying a person from being concerned in the management of a regulated financial service provider.

Banking Legislation

The banking regulatory code in Ireland is comprised principally of the Central Bank Acts; regulations made under the European Communities Act 1972; and regulatory notices and codes of conduct issued by the Central Bank. Various Statutory Instruments and regulations made by the relevant Government minister and regulatory notices made by the Central Bank implement in Ireland the substantial range of European Union directives relating to banking supervision and regulation, including the Capital Requirements Directive ("CRD").To the extent that areas of banking activity in Ireland are the subject of EU regulations or directives, the provisions of Irish banking law reflect the requirements of those EU instruments.

The Central Bank Acts regulate the conduct of banking business in Ireland and provide that banking business may only be carried on by the holder of a banking licence or an EU/European Economic Area entity which exercises 'passport rights' to carry on business in Ireland. Every Irish licensed bank is obliged to draw up and publish its annual financial statements in accordance with the European Communities (Credit Institutions: Accounts) Regulations 1992 (as amended by the European Communities (Credit Institutions) (Fair Value Accounting)) Regulations 2004). As a listed entity, Allied Irish Banks, p.l.c. is required to prepare its financial statements in accordance with IFRS endorsed by the European Union (as applied by the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005) and with those parts of the Companies Act 1963 to 2010 that are applicable to companies reporting under IFRS; and with article 4 of the EU Council Regulation 1606/2002 of 19 July 2002.

Allied Irish Banks, p.l.c. holds a banking licence and is authorised as a credit institution. AIB Mortgage Bank holds a banking licence and is registered as a designated mortgage credit institution. There are no conditions attached to AIB's licences or authorisations that are not market standard conditions.

EBS Limited ("EBS") became a wholly owned subsidiary of Allied Irish Banks, p.l.c. on 1 July 2011. EBS holds a banking licence and is authorised as a credit institution. EBS Mortgage Finance, a wholly owned subsidiary of EBS, holds a banking licence and is registered as a designated mortgage credit institution. There are no conditions attached to EBS' licences or authorisations that are not market standard conditions.

Capital Requirements

The Group is subject to applicable EU directives, including those that relate to capital adequacy. The Capital Requirements Directive ("CRD") reflects the Basel II rules on capital measurement and capital standards. It came into force on 1 January 2007 and introduced a revised supervisory framework in the EU designed to promote the financial soundness of credit institutions and investment firms. The CRD governs, among other topics, the amount and quality of capital that credit institutions and investment firms hold against the risks that they take. The CRD has been transposed into Irish law by the European Communities (Capital Adequacy of Credit Institutions) Regulations 2006 ("CRD Regulations"), as amended principally in 2009 (concerning the regulation of large exposures) and in 2010 (regarding the capital requirements for the trading book and for re-securitisations and subsequently in respect of the further regulation of large exposures and the introduction of new pan-EU supervisory arrangements and crisis management).

The Central Bank has powers to enforce the CRD Regulations in the context of its prudential supervision of credit institutions and investment firms. The CRD Regulations set the minimum capital requirements for all entities licensed by the Central Bank; consequently the Group regularly interacts with the Central Bank on an ongoing basis ensuring that it meets the capital adequacy requirements to which it is subject. The Central Bank may, from time to time, require a credit institution or investment firm to target a specified ratio, or maintain a certain minimum capital ratio, based on its assets and its liabilities, which may be expressed to apply to all licence-holders of a specified category or categories, to the total assets or total liabilities of the licence-holders concerned, or to specified assets or to assets of a specified kind.

Markets in Financial Instruments Directive ("MiFID")

MiFID was transposed into Irish law by the Markets in Financial Instruments and Miscellaneous Provisions Act 2007 and the European Communities (Markets in Financial Instruments) Regulations 2007, as amended (together the "MiFID Regulations").The MiFID Regulations regulate the provision of MiFID Services in respect of financial instruments and apply both to credit institutions and to investment firms (including stockbroking firms).

MiFID Services include the provision of investment advice, portfolio management, execution of client orders and others. A number of financial services that do not come within the definition of MiFID Services (such as the administration of collective investment schemes) are subject to the requirements of the Investment Intermediaries Act 1995 ("IIA"). Each relevant Group company ensures that it fulfils its obligations under MiFID, the MiFID Regulations and the IIA, as appropriate, on an ongoing basis and ensures that it holds the appropriate authorisation for its business at all times. The following subsidiaries of Allied Irish Banks, p.l.c.; AIB Capital Markets p.l.c.; AIB Investment Managers Ltd.; AIB Corporate Finance Ltd provide MiFID Services and each is authorised as an investment firm under the MiFID Regulations. Allied Irish Banks, p.l.c. also complies with the MiFID Regulations where it provides MiFID Services. It should be noted that AIB Investment Managers Ltd. was disposed of during 2012. In addition, AIB Capital Markets p.l.c. voluntarily surrendered its MiFID authorisation during 2012.

Other Financial Services Companies

In addition to the companies listed above, the Group includes a number of other financial services companies regulated by the Central Bank. AIB Mortgage Bank is a designated mortgage credit institution under the Asset Covered Securities Act 2001 (as amended), and is permitted to issue mortgage covered securities which are secured by a statutory preference over covered assets (principally, residential mortgage loans) comprised in a cover-assets pool. In addition to the role of the Central Bank, the activities of a credit institution that is designated for the purposes of the Asset Covered Securities Act 2001 (as amended) are subject to close oversight by an independent cover-assets monitor appointed by the credit institution and approved by the Central Bank of Ireland. The principal role of the cover-assets monitor is to ensure that the assets maintained in the covered assets pool are sufficient to provide adequate security to the holders of the asset covered securities. AIB Leasing Ltd. is authorised as a retail credit firm under the Central Bank Act, 1997. AIB Insurance Services Ltd. is authorised as an insurance intermediary under the Investment Intermediaries Act, 1995.

On 1 July 2011, AIB acquired EBS Limited including EBS Mortgage Finance and Haven Mortgages Limited, both of which are 100% owned subsidiaries of EBS. EBS Limited is authorised as a credit institution. EBS Mortgage Finance is a designated mortgage credit institution under the Asset Covered Securities Act, 2001 (as amended). Haven Mortgages Limited is authorised as a retail credit firm under the Central Bank Act, 1997.

Through a joint venture with Aviva Group Ireland, p.l.c., Allied Irish Banks, p.l.c. indirectly owns 24.99% of two life assurance undertakings; Ark Life Assurance Ltd. and Aviva Life and Pensions Ireland Ltd. In addition, Allied Irish Banks, p.l.c. indirectly owns 30% of Aviva Health Insurance Ireland Ltd., a regulated non-life insurance undertaking. These undertakings must comply with the provisions of legislation including the Insurance Acts 1909 to 2009 and the European Communities (Life Assurance) Framework Regulations 1994 (as amended) or European Communities (Non-Life Assurance) Framework Regulations 1994, as relevant. Further, the European Communities (Insurance Mediation) Regulations 2005 have implemented the EU Directive on Insurance Mediation and lay down rules for undertaking insurance and reinsurance mediation, as well as prescribing registration requirements for persons who wish to carry out insurance mediation business or act as an insurance intermediary or as a reinsurance intermediary.

Codes of conduct including Consumer Protection Code

The Central Bank has issued a number of codes of conduct, codes of practice and other requirements applicable to credit institutions and other regulated financial services entities (including investment firms, insurance undertakings and intermediaries). These codes address a substantial range of requirements including supervisory and reporting, corporate governance, conduct of business, advertising, disclosure and record retention requirements. The Central Bank introduced a revised Consumer Protection Code, effective 1 January 2012. This Code imposes detailed rules on regulated financial services entities operating in Ireland in relation to non-MiFID investment, insurance and banking services provided. In addition, the Central Bank has imposed statutory Codes of Conduct in relation to business lending to small and medium-sized enterprises, dealing with residential mortgage arrears and lending to related parties.

Consumer legislation

The provision of credit to consumers is regulated in Ireland by the Consumer Credit Regulations and the Consumer Credit Act 1995 (the "1995 Act").The Consumer Credit Regulations and the 1995 Act are relevant to the Group to the extent that any of its Group companies provide credit to consumers. The 1995 Act is also relevant to the Group to the extent that any of its Group companies provide credit in the form of housing loans. The Consumer Credit Regulations, which transpose into Irish law the provisions of the Consumer Credit Directive (Directive 2008/48/EC), prescribe a range of detailed requirements to be included in pre-contractual information and consumer credit agreements to be provided to consumers and impose a number of obligations on the provider of such credit. Where the provision of a particular type of credit does not fall within the scope of the Consumer Credit Regulations, it may fall within the scope of the 1995

Act. The 1995 Act prescribes a range of detailed requirements to be included in consumer credit agreements to be provided to consumers and imposes a number of obligations on the provider of such credit. The 1995 Act also imposes a requirement on all credit institutions to notify the Central Bank in advance of imposing on a customer any new charge in relation to the provision of certain specified services; increasing any charge previously notified; or imposing any charge that does not comply with a direction from the Central Bank. Irish law contains a wide range of consumer protection provisions, such as the European Communities (Unfair Terms in Consumer Contracts) Regulations 1995, the Consumer Protection Act 2007 and other measures regulating the content of face-to-face and distance marketing contracts made with a consumer.

Deposit protection and investor compensation

Under the European Communities (Deposit Guarantee Schemes) Regulations 1995 (as amended) which implement in Ireland the Deposit Guarantee Schemes Directive (Directive 94/19/EC), the Central Bank operates a deposit protection scheme under which each licensed bank must contribute to the deposit protection account held by the Central Bank. Currently, the level of contribution required is 0.2 per cent of deposits (in whatever currency) held at all branches of the licensed bank in the EEA, including deposits on current accounts but excluding certain funds and commitments such as interbank deposits, negotiable certificates of deposit, debt securities issued by the same institution and promissory notes. The maximum amount of deposit protected is € 100,000 per depositor per institution. See note 63(g) 'Related party transactions - Summary of relationship with the Irish Government' in respect of the limited-duration State guarantee of many deposits in certain Irish credit institutions, including Allied Irish Banks, p.l.c. and some of its subsidiaries. The Investor Compensation Act 1998 (the '1998 Act') provided for the establishment of the Investor Compensation Company Limited (the "ICCL") to administer and supervise an investor compensation scheme. The 1998 Act requires authorised investment firms to pay the ICCL such contribution to the fund maintained by the ICCL as the ICCL may from time to time specify. The maximum amount payable under the investor compensation scheme is 90% of the amount lost by an eligible investor subject to a maximum compensation payment of € 20,000.

Anti-money laundering

The Third EU Anti-Money Laundering Directive (2005/60/EC) was transposed into Irish Law by the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 (the "2010 Act") Persons designated under the 2010 Act (including credit institutions, financial institutions, investment firms, IIA firms and life assurance companies) are obliged to take the necessary measures to effectively counteract money laundering and terrorist financing in accordance with the provisions of the 2010 Act. Core guidelines have been published by the Department of Finance. The Guidelines have not been approved under section 107 of 2010 Act which is a matter for the Department of Justice and Equality and the Department of Finance.

The 2010 Act introduced, inter alia, an obligation on designated persons to (i) apply customer due diligence procedures to their customers; (ii) identify and take risk based and adequate measures to verify beneficial ownership; and (iii) identify and apply enhanced customer due diligence requirements to non-resident politically exposed persons. The 2010 Act amended reporting requirements where a suspicious transaction report is necessitated. The 2010 Act also introduced a requirement for the authorisation of trust or company service providers. Analogously, Ireland, by means including the Criminal Justice (Terrorist Offences) Act 2005, applies EU and United Nations mandated restrictions on financial transfers with designated individuals and regimes and imposes criminal penalties for participating in the financing of terrorism.

Data Protection

The main laws dealing with data protection are the Data Protection Acts 1988 and Data Protection (Amendment) Act 2003 ("DPAs"). These DPAs regulate the processing, disclosure and use of data relating to individual customers. They also require that certain categories of 'data controllers and data processors', including financial institutions and insurance companies which process personal data, are required to register with the Irish Data Protection Commissioner. The European Communities (Electronic Communications Networks and Services) (Data Protection and Privacy) Regulations 2003 (as amended) transpose the EU Electronic Privacy Directive (2002/58/EC) into law and regulate marketing by electronic and other means. The ePrivacy Regulations 2011 (S.I. 336) deal with data protection for phone, email, SME and internet use. A Personal Data Security Breach Code of Practice issued by the Irish Data Protection Commissioner sets out the requirements relating to the reporting of data security breaches and addresses situations where personal data has been put at risk of unauthorised disclosure, loss, destruction or alteration. Each relevant Group company has implemented and monitors appropriate policies and procedures to ensure compliance with its obligations under the DPAs.

4.3 United Kingdom

Regulation of AIB Group (UK) p.l.c.

AIB Group (UK) p.l.c. is a company incorporated in Northern Ireland and is authorised by the Financial Services Authority ("FSA") under the Financial Services and Markets Act 2000 ("FSMA") to carry on a wide range of regulated activities (including accepting deposits, advising on investments (except pension transfers and pension opt outs), arranging deals in investments (including regulated mortgage contracts) and dealing in investments (as both agent and principal), for both professional and retail clients in the United Kingdom. It carries on business under the trading names 'Allied Irish Bank (GB)', 'Allied Irish Bank (GB) Savings Direct'and 'First Trust Bank' in Great Britain and Northern Ireland, respectively.

The FSMA is the principal piece of legislation governing the establishment, supervision and regulation of financial services and markets in the United Kingdom. The FSA is currently the single regulator for almost the full range of financial business in the United Kingdom; the exception being Consumer Credit which is currently regulated by the Office of Fair trading (the "OFT"). It is expected that the OFT will transfer responsibility for regulating Consumer Credit to the Financial Conduct Authority in April 2014. The FSA derives its powers under the FSMA as amended. The FSA is responsible both for the prudential supervision and for the general supervision of AIB Group (UK) p.l.c.'s business in the United Kingdom. AIB Group (UK) p.l.c. must comply with the FSA's prudential rules including rules relating to capital adequacy, limits on large exposures and liquidity; and the FSA's non-prudential rules including rules relating to conduct of business, market conduct (including market abuse), money laundering and systems and controls.The FSA Handbook contains the rules and guidance issued by the FSA.

The Financial Services Bill has received royal assent and will come into force on 1 April 2013. This will give effect to a new regulatory structure. Under this new structure, the Financial Policy Committee ("FPC") within the Bank of England will be responsible for financial stability and macro prudential regulation. The Prudential Regulatory Authority ("PRA") will be a subsidiary of the Bank of England, supervising the prudential compliance of deposit takers, insurers and a small number of significant investment firms. A new body, the Financial Conduct Authority ("FCA") will be responsible for regulating conduct of business in wholesale and retail markets.

AIB Group (UK) p.l.c. has the statutory power to issue bank notes as local currency in Northern Ireland (it does this under the name 'First Trust Bank'). In this connection, it is subject to the provisions of the Bank Charter Act 1844, the Bankers (Northern Ireland) Acts 1845 and 1928, the Currency and Bank Notes Act 1928, the Allied Irish Banks Act 1981, the Allied Irish Banks Act 1993 and the Allied Irish Banks Act 1996.

AIB Group (UK) p.l.c. subscribes to the Lending Code of the Lending Standards Board which is a self-regulatory code setting minimum standards of good practice in relation to lending, including loans, credit cards and current account overdrafts. The Lending Standards Board is the successor organisation to the Banking Code Standards Board and the Lending Code replaced the previous Banking Codes issued by the Banking Code Standards Board following the transfer of responsibilities for the conduct of business regulation for deposit taking and payment products to the FSA on 1 November 2009. As of 1 November 2009, the FSA has introduced the Banking Conduct Regime which sets out the regulatory framework of retail banking services in relation to the regulated activity of payment services and accepting deposits from banking customers and activities connected with it. AIB Group (UK) p.l.c. is subject to the Banking Conduct Regime.

First Trust Independent Financial Advisers Ltd (a company incorporated in Northern Ireland) is authorised by the FSA to advise on and arrange certain investments, including pensions, life policies, securities and non-investment insurance contracts. As in the case of AIB Group (UK) p.l.c., the FSA is responsible both for the prudential supervision and for the general supervision of First Trust Independent Financial Advisers Ltd's business in the United Kingdom. On 30 December 2012, First Trust Independent Financial Advisers Ltd. ceased providing financial advice. The company name has changed to First Trust Financial Services Ltd. First Trust Bank has entered into an arrangement with Legal and General whereby financial advice will be provided to the bank's customers under an appointed representative arrangement.

Regulation of AIB

Allied Irish Banks, p.l.c. is incorporated and has its head office in Ireland, and is licensed as a credit institution in Ireland by the Central Bank of Ireland. Pursuant to the Banking Consolidation Directive (Directive 2006/48/EC (the "BCD")), Allied Irish Banks, p.l.c. has exercised its EU 'passport' rights to provide banking, treasury and corporate treasury services in the United Kingdom on a cross-border basis and through the establishment of branches (in the name of AIB).

In accordance with the BCD, the 'Home State' regulator (here, the Central Bank of Ireland) has primary responsibility for the prudential supervision of credit institutions incorporated in Ireland. However, credit institutions exercising their 'passport' rights must comply with certain requirements (in particular, conduct of business rules) set by the 'Host State' regulator (here, the FSA). In addition, the FSA has a responsibility to co-operate with the Central Bank of Ireland in ensuring that branches of Irish credit institutions in the United Kingdom maintain adequate liquidity and take sufficient steps to cover risks arising from their open positions on financial markets in the United Kingdom.

Regulation of other AIB Group entities

Certain other AIB Group entities are authorised to carry on regulated activities by way of the right to provide cross-border services into the United Kingdom under the EU passport; however, they carry on an insignificant amount of business in the United Kingdom at present.

Market in Financial Instruments Directive ("MiFID")

MiFID was implemented in the United Kingdom on 1 November 2007.The requirements of MiFID apply to all regulated AIB Group entities in the European Union that carry out a MiFID investment service or activity, for example arranging deals in financial instruments, dealing as agent or principal in financial instruments, providing investment advice and conducting portfolio management activities. MiFID is currently under review by the European Commission with the intention of implementing MiFID 2 by the end of 2014.

Insurance mediation

Dealing as agent, arranging deals in, making arrangement with a view to transactions in, assisting in the administration and performance of, advising on non-investment insurance contracts and agreeing to carry on any of these activities ('Insurance Mediation Activities') are (subject to applicable exemptions) regulated activities under the FSMA. These Insurance Mediation Activities have been implemented in the UK pursuant to the Insurance Mediation Directive (2002/92/EC). Each of AIB Group (UK) p.l.c. and First Trust Independent Financial Advisers Ltd is authorised by the FSA to carry on all Insurance Mediation Activities. In July 2012, the European Commission published a proposal for a recast Insurance Mediation Directive which, if adopted, will enhance the regulation of insurance intermediaries in the EU.

Mortgage regulation

Entering into as lender, arranging, advising on and administering regulated mortgage contracts, and agreeing to carry on any of these activities, are (subject to applicable exemptions) regulated activities under the FSMA. AIB Group (UK) p.l.c. is authorised by the FSA to enter into as lender, arrange and administer (but not advise on) regulated mortgage contracts.

Deposit protection and investor compensation

The Financial Services Compensation Schemes ("FSCS") is the UK's compensation fund of last resort for customers of authorised financial services firms and protects claims in respect of deposits, insurance policies, insurance broking (for business on or after 14 January 2005), investment business and home finance (e.g. mortgage advising and arranging) (for business on or after 31 October 2004). FSCS may pay compensation, subject to its rules, if a firm is unable or likely to be unable to meet its financial obligations. However, there are limits to the protection available under the FSCS. The deposit compensation limit increased on 31 December 2010 to 100 per cent. of £85,000 per person, per firm. Eligible investment business and home finance mediation claimants against firms declared in default on or after 1 January 2010 are entitled to receive 100 per cent. compensation for financial loss up to £50,000 per person, per firm. Compensation under the FSCS in respect of claims against insurance mediation firms are calculated on the basis of (i) claims in respect of liabilities subject to compulsory insurance, 100 per cent. of the claim and (ii) other insurance claims, 100 per cent. of the first £2,000 and 90 per cent. of the remainder of the claim against firms declared in default before 1 January 2010 and the maximum level of compensation for claims against firms declared in default on or after 1 January 2010 is 90 per cent. of the claim with no upper limit. Both AIB Group (UK) p.l.c. and First Trust Independent Financial Advisers Ltd are covered by the FSCS. Allied Irish Banks, p.l.c., as a bank operating in the United Kingdom under its EU passport, is not covered by the FSCS but, in accordance with the Deposit Guarantee Schemes Directive (Directive 94/19/EC), is covered by its home state (Ireland) deposit protection scheme. See note 63(g) 'Related party transactions - Summary of relationship with the Irish Government'.

Consumer credit

The Consumer Credit Act 1974, as amended ("CCA") regulates unsecured and certain secured consumer loan businesses, consumer hire and ancillary credit businesses such as credit brokerage and debt collecting. A credit agreement is regulated by the CCA where (a) the borrower is or includes an 'individual' as defined in the CCA; (b) if the agreement was made before the removal of the CCA financial limit, the amount of credit provided is £25,000 or less and (c) the credit agreement is not an exempt agreement under the CCA (for example, it is a regulated mortgage contract (as defined by the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001). At present, the Office of Fair Trading ("OFT') is responsible for the issue of licences under, and the superintendence of the working and the enforcement of, the CCA and other consumer protection legislation, although the Financial Services Act 2012 envisages the transfer of consumer credit regulation to the FCA in April 2014. Both Allied Irish Banks, p.l.c. and AIB Group (UK) p.l.c. hold current CCA licences.The EU Consumer Credit Directive (2008/48/EC) was implemented into UK legislation via, inter alia, the Consumer Credit (EC Directive) Regulations 2010 (SI 2010/1010).The majority of the provisions came into force on 1 February 2011, with a small number having come into force on 30 April 2010.

The Unfair Terms in Consumer Contracts Regulations 1999 (the 'Unfair Terms Regulations') apply to certain contracts for goods and services entered into with consumers, including mortgages and related products and services. The main effect of the Unfair Terms Regulations is that a non-negotiated contractual term covered by the Unfair Terms Regulations which is 'unfair' will not be enforceable against a consumer.The Unfair Terms Regulations will not generally affect terms which set out the subject matter of the contract, or concern the adequacy of price or remuneration for its goods and services sold, provided they are written in plain and intelligible language and are adequately drawn to the consumer's attention.

Anti-money laundering

The third EU Anti-Money Laundering Directive (2005/60/EC) adopted by the European Union in October 2005 was implemented in the UK on 15 December 2007 via the Money Laundering Regulations 2007.Practical assistance in the interpretation and application of the UK Money Laundering Regulations is provided by the guidance published by the Joint Money Laundering Steering Group ("JMLSG") which comprises several major trade bodies from within the financial services industry. The Money Laundering Regulations 2007 provide detailed obligations for designated persons, which includes credit institutions, financial institutions, legal professionals and estate agents. For example, in relation to customer due diligence there is an explicit requirement for firms to undertake ongoing monitoring of business relationships and for firms to identify not just their customer but also the ultimate beneficial owner of the customer(s) on a risk sensitive basis. Enhanced due diligence is expected to be carried out where a customer poses a higher risk of money laundering or terrorist financing. In addition to the Money Laundering Regulations 2007, other acts of the UK Parliament such as the Proceeds of Crime Act 2002, Terrorism Act 2000 and the Counter-Terrorism Act 2008 are designed to combat money laundering/ counter terrorist financing in the UK. On 5 February 2013, the European Commission adopted a legislative proposal for a new Money Laundering Directive, which once passed into law will replace the current Money Laundering Directive (2005/60/EC).

Data protection

The Data Protection Act 1998 ("UKDPA") is the primary legislation regarding the collection, use and disclosure of personal data relating to individuals in the United Kingdom.The UKDPA imposes a number of obligations on 'data controllers', including a requirement to notify the UK Information Commissioner's Office that it is a 'data controller' processing personal information in an automated form and comply with eight data protection principles. Each relevant AIB Group company has implemented and monitored appropriate procedures to ensure compliance with its obligations under the UKDPA. Civil and criminal sanctions apply for contraventions of the UKDPA.These include the issuance of monetary penalty notices to a maximum of £500,000 by the UK Information Commissioner for serious contraventions of the UKDPA.

The UKDPA and the Privacy and Electronic Communications (EC Directive) Regulations 2003 are the main laws which regulate the use of personal data for marketing purposes by electronic means and automated calling system in the United Kingdom. However, on 25 January 2012, the European Commission published a proposal for a new data protection regulation, which, if adopted, would provide the basis for a new EU wide date protection regulatory framework.

4.4 United States

Nature of the AIB Group's activities

Notwithstanding the disposal of its significant shareholding in M&T, AIB continues to be subject to federal and state banking and securities law supervision and regulation in the United States as a result of the banking activities conducted by its branch in New York and AIB's ongoing SEC reporting obligations under the Exchange Act.

Applicable federal and state banking laws and regulations

Under the US International Banking Act of 1978, as amended (the "IBA"), AIB is a foreign banking organisation and is treated as a bank holding company, as such terms are defined in the statute, and, as such, is subject to regulation by the Federal Reserve Board ("FRB"). As a bank holding company that has not elected to be a 'financial holding company', AIB is generally required to limit its direct and indirect activities in the United States to banking activities and activities that the FRB has determined to be 'so closely related to banking as to be a proper incident thereto'.

AIB continues to conduct limited corporate lending, treasury and other operations through its New York branch. AIB's New York branch is supervised by the FRB and the New York State Department of Financial Services. Under the IBA, the FRB may terminate the activities of any US branch or agency in certain specified circumstances. Also, under the New York Banking Law, the New York State Department of Financial Services may take possession of the business and property of a New York state-licensed branch under circumstances generally including violations of law, unsafe or unsound practices or insolvency.

Under US federal banking laws, state-licensed branches (such as AIB's New York branch) may not, as a general matter, engage as a principal in any type of activity not permissible for their federally licensed counterparts, unless the FRB determines that the additional activity is consistent with sound banking practices. US federal and state banking laws also generally subject state branches to the same single-borrower lending limits that apply to federal branches or agencies, which are substantially similar to the lending limits applicable to national banks. These single-borrower lending limits are based on the worldwide capital of the entire foreign bank.

Anti-money laundering, anti-terrorism and economic sanctions regulations have become a major focus of US government policy relating to financial institutions and are rigorously enforced. Regulations applicable to AIB and its affiliates impose obligations to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering. In particular, Title III of the USA PATRIOT Act, as amended, requires financial institutions operating in the United States to (i) give special attention to correspondent and payable-through bank accounts, (ii) implement enhanced due diligence and 'know your customer' standards for private banking and

correspondent banking relationships, (iii) scrutinise the beneficial ownership and activity of certain non-US and private banking customers (especially for so-called politically exposed persons) and (iv) develop new anti-money laundering programmes, due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programmes are intended to supplement any existing compliance programmes under the Bank Secrecy Act and Office of Foreign Assets Control ("OFAC") regulations.

OFAC administers and enforces economic and trade sanctions against targeted foreign countries, terrorists and international narcotics traffickers to carry out US foreign policy and national security objectives. Generally, the regulations require blocking of accounts and other property of specified countries, entities and individuals, and the prohibition of certain types of transactions (unless OFAC issues a licence) with specified countries, entities and individuals. Banks, including US branches of foreign banks, are expected to establish and maintain appropriate OFAC compliance programmes to ensure compliance with OFAC regulations.

Failure of a financial institution to maintain and implement adequate programmes to combat money laundering and terrorist financing could have serious legal and reputational consequences for the institution.

Applicable federal and state securities laws and regulations
Although AIB delisted its ordinary shares from the New York Stock Exchange in August 2011, it continues to be subject to regulation and supervision by the SEC. Like other registrants, AIB files reports and other information required under the Exchange Act with the SEC, including Annual Reports on Form 20-F and Current Reports on Form 6-K. The Sarbanes-Oxley Act imposes significant requirements on AIB and other SEC registrants. These include requirements with respect to the composition of AIB's Audit Committee, the supervision of AIB's auditors (and the services that may be provided by such auditors) and the need for personal certification by the chief executive officer and chief (principal) financial officer of Annual Reports on Form 20-F, as well as the financial statements included in such reports and related matters.

Although subject to such requirements, the Exchange Act and related SEC rules and regulations afford foreign private issuers, including AIB, relief from a number of requirements applicable to US registrants and, in certain respects, defers to the home country requirements of the company in question. AIB's Annual Reports on Form 20-F include disclosure of executive compensation and other disclosures applicable to AIB under Irish law, but these disclosures are not fully comparable with disclosure requirements applicable to US registrants. In addition, the SEC's rules under the Sarbanes-Oxley Act are, in some respects, less burdensome on AIB and other foreign private issuers than they are on similarly situated US registrants. AIB's Annual Reports on Form 20-F also reflect compliance with the internal control and auditor attestation requirements applicable to AIB by virtue of Section 404 of the Sarbanes-Oxley Act.

Other more recent federal laws and regulations, including the Dodd Frank Act of 2010, include provisions that have potentially significant limitations on non-US banks operating in the United States. However, given the recent changes in AIB's business and the disposal of its M&T shareholding, they are of less direct relevance to AIB.

4.5 Other locations

Smaller operations are undertaken in other locations that are also subject to the regulatory environment in those jurisdictions. In addition, discontinued operations are subject to the regulatory environment in which they operate.

Accounting policies*

1 Reporting entity
2 Statement of compliance
3 Basis of preparation
4 Basis of consolidation
5 Foreign currency translation
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8 Net trading income
9 Dividend income
10 Operating leases
11 Employee benefits
12 Non-credit risk provisions
13 Income tax, including deferred income tax
14 Impairment of property, plant and equipment, goodwill and intangible assets
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16 Determination of fair value of financial instruments
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18 Financial assets
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25 Financial guarantees
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27 Leases
28 Shareholders' equity
29 Insurance and investment contracts
30 Segment reporting
31 Cash and cash equivalents
32 Prospective accounting changes

*Forms an integral part of the audited financial statements.

The significant accounting policies that the Group applied in the preparation of the financial statements are set out in this section.

1 Reporting entity

Allied Irish Banks, p.l.c. ('the parent company' or 'the Company') is a company domiciled in Ireland. The address of the Company's registered office is Bankcentre, Ballsbridge, Dublin 4, Ireland. The consolidated financial statements include the financial statements of Allied Irish Banks, p.l.c. (the parent company) and its subsidiary undertakings, collectively referred to as the 'Group', where appropriate, including certain special purpose entities and are made up 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 2012. The accounting policies have been consistently applied by Group entities and are consistent with the previous year, unless otherwise described. The financial statements also comply with the Companies Acts 1963 to 2012 and the European Communities (Credit Institutions: Accounts) Regulations, 1992 (as amended) and the Asset Covered Securities Acts 2001 and 2007. The company financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the IASB and International Financial Reporting Standards as adopted by the EU as applicable for the year ended 31 December 2012 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 the European Communities (Credit Institutions: Accounts) Regulations, 1992 not to present its parent company income statement, statement of comprehensive income and related notes that form part of these approved financial statements.

3 Basis of preparation

Functional and presentation currency

The financial statements are presented in euro, which is the functional currency of the parent company and a significant number of its subsidiaries, rounded to the nearest million.

Basis of measurement

The financial statements have been prepared under the historical cost basis, with the exception of the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit or loss, certain hedged financial assets and financial liabilities and financial assets classified as available-for-sale.

The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and parent company statements of financial position, the consolidated and parent company statements of cash flows, and the consolidated and parent company statements of movements in equity together with the related notes. These notes also include financial instrument related disclosures which are required by IFRS 7 and revised IAS 1, contained in the Financial review and the Risk management sections of this Annual Financial Report. The relevant information on those pages is identified as forming an integral part of the audited financial statements.

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management's judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. The estimates that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in the areas of loan impairment and impairment of other financial instruments; the recoverability of deferred tax; determination of the fair value of certain financial assets and financial liabilities; and retirement benefit obligations. In addition, the designation of financial assets and financial liabilities has a significant impact on their income statement treatment and could have a significant impact on reported income.

A description of these estimates and judgements is set out within Financial review - Critical accounting policies and estimates. This section is identified as forming an integral part of the audited financial statements.

Arising from the results of the Prudential Capital Assessment Review ("PCAR")/Prudential Liquidity Assessment Review ("PLAR") in March 2011, AIB is required to dispose of non-core financial assets. Accordingly, certain of these financial assets are classified as held for sale at 31 December 2012. These assets do not constitute a major line of business or a geographical area of operations, but are included within 'Disposal groups and non-current assets held for sale' (note 25).

3 Basis of preparation *(continued)*

Going concern

The financial statements for the year ended 31 December 2012 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, cash flow and funding forecasts, capital resources projections, all of which have been prepared under base and stress scenarios. In addition, the Directors have considered the commitment of support provided to AIB by the Irish Government, through the programme for restructuring the Irish banking system, with AIB designated as one of the two 'Pillar Banks'. Furthermore, the Directors have considered the outlook for the Irish economy, taking into account such factors as progress on improving the fiscal situation and the support provided by the EU/IMF to Ireland and the fact that the economy returned to a modest growth path in 2011-2012. The Directors also considered the eurozone sovereign debt crisis taking into account the developments taken at an EU level that lead to a marked easing of the crisis and improvement of conditions in eurozone financial markets during the second half of 2012.

Background

The deterioration in the Irish economy in the period 2008-2010 culminated in the EU/IMF Programme of Financial Support for Ireland at the end of 2010. The EU/IMF Programme provided for the restructuring and reorganisation of the Irish banks. The subsequent Financial Measures Programme published by the Central Bank of Ireland (the 'Central Bank') in March 2011 set a PCAR requirement for AIB (including EBS Limited ("EBS")) to raise capital amounting to € 14.8 billion, which was met by July 2011.

Since then, there has been a modest rise in Irish GDP, however, it is all accounted for by exports as domestic demand has continued to contract. Overall, the economic backdrop remains challenging and growth is expected to pick up only modestly in the next two years. This will continue to present significant risks and challenges for the Group in the years ahead.

Since 2010, AIB has had limited access to wholesale funding and has been dependent on secured funding from the European Central Bank ("ECB"). Market volatility remained elevated and liquidity depressed during 2012 driven by the deterioration in global credit markets as sovereign difficulties in the eurozone grew and the overall global macroeconomic environment remained uncertain.

At different stages since the beginning of 2011, European countries and leaders reaffirmed their commitment to the euro, culminating in July 2012, when the ECB President pledged that the ECB would do whatever is necessary to protect the eurozone. The ECB followed this statement by announcing that it was willing to implement a new unlimited bond buying programme in the secondary market to support 'under pressure' sovereign bond markets in the euro area. This announcement led to a sharp fall in yields in peripheral eurozone debt markets and a marked easing of tensions in the eurozone financial system.

The various support measures adopted for the euro since the beginning of 2011 and the pronouncements of the ECB demonstrate the strong commitment of EU institutions and the euro area Member States to do whatever is necessary to preserve the euro.

Capital

In March 2011, following the Financial Measures Programme ("FMP"), the Central Bank announced new minimum capital target ratios for AIB of 10.5% core tier 1 capital, in a base scenario and 6% core tier 1 capital in a stressed scenario. These target ratios form the basis of the Group's capital management policy and are the capital adequacy requirements effective as at 31 December 2012. The Group's core tier 1 ratio at 31 December 2012 is 15.1% (2011: 17.9%). The Group's total capital ratio at 31 December 2012 is 17.6% (2011: 20.5%).

In October 2012, AIB published the results of the final assessment of the December 2011 capital exercise co-ordinated by the European Banking Authority ("EBA") under the supervision of the Central Bank. The published results confirmed that as at June 2012, AIB met the 9% core tier 1 ratio including the sovereign buffer as stated in the EBA December 2011 recommendation.

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

AIB are awaiting the authorities' finalisation of the Capital Requirements Directive IV ("CRD IV ") requirements which will impact on the Group's regulatory capital measurement and regulatory capital ratios. Sign off by the European Parliament is expected in April 2013, however, the Directors believe that the impact on the Group's capital position from the phased implementation during the period of assessment will be managed within the Group's existing capital resources.

The Directors have reviewed the capital and financial plans for the period of assessment, and although AIB consumes capital over the life of the plan they believe that the capital resources are sufficient to ensure that the Group is adequately capitalised both in a base and stress scenario.

3 Basis of preparation *(continued)*

Liquidity and funding

Customer deposits at 55% (up from 47% at 31 December 2011) are the single most important element of the Group's funding mix. Customer deposit accounts increased by € 5 billion in the full year 2012, or net € 3 billion including the run-off of Offshore deposits of € 2 billion following the announcement of the closure of that business. Growth was experienced across all business areas during this period, as sentiment towards Ireland and Irish banks improved. During 2012, AIB UK (AIB (GB) and FTB) withdrew from the Eligible Liabilities Guarantee ("ELG") scheme. The Group welcomed the announcement of the Minister for Finance on 26 February 2013 that the ELG scheme would be withdrawn for new liabilities with effect from midnight on the 28 March 2013 and is prepared for its withdrawal.

Wholesale funding markets continued to be challenging in 2012, however, it was a year having a contrasting second half compared to the first half. Irish sovereign bonds performed very strongly in the second half of 2012 enabling a successful return to the term funding markets for the National Treasury Management Agency ("NTMA"). This has continued into 2013 with further term issuance by the NTMA and the successful resumption of short term treasury bill auctions.

In the first half of 2012, AIB successfully issued a secured funding transaction backed by UK residential mortgage assets. Given the significant improvement in sentiment towards Ireland in the second half of 2012 it enabled the Group's issue of a covered bond from its Irish mortgage pool in November 2012. AIB also issued a second covered bond in January 2013.

The key factors influencing the Group's capacity for asset growth and its future shape will be:

– The performance of the economy;
– Retention and gathering of stable customer deposits in a challenging and increasingly competitive market environment;
– Gaining access to unsecured wholesale term markets; and
– Action to deleverage non-core assets.

The above are paramount to increasing the Group's pool of available liquid assets and to the Group's overall funding/liquidity strategy.

The Group continues to reduce its dependence on Central Bank/ECB support. Central Bank/ECB support amounted to € 22 billion at 31 December 2012, down from € 31 billion at 31 December 2011. This was due to asset deleveraging, loan amortisation and continued weak demand for credit, the redemption of NAMA senior bonds and increased deposits, partially offset by maturing secured and unsecured bonds (Covered Bonds and Medium Term Notes ("MTN") respectively). In addition, AIB ceased issuance of its Own Use Bank Bonds (i.e. self-issued MTN under the Government guarantee) in the first half of 2012.

Notwithstanding the 2012 improvements, it is expected that the Group will continue to require access to funding from the monetary authorities during the period of assessment. However, AIB's continued access to Central Bank funding support as required is considered to be assured due to its position as one of the two 'Pillar Banks'.

The Directors are satisfied based on AIB's position as one of the two 'Pillar Banks' that in all reasonable circumstances, the required liquidity and funding from the Central Bank/ECB will be available to the Group during the period of assessment.

The Directors, therefore, consider that the liquidity and funding position of AIB is assured 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 amendments to standards have been adopted by the Group and the Company during the year ended 31 December 2012. These amendments have not had a material impact on these financial statements.

Disclosures - Transfers of Financial Assets **(Amendments to IFRS 7)**

This amendment to IFRS 7 requires certain disclosures in respect of all transferred financial assets that are not derecognised in their entirety and transferred assets that are derecognised in their entirety but with which there is continuing involvement including the possible effects of any risks that may remain with the transferor of the assets. These disclosures are being made in the Group's financial statements for the year ended 31 December 2012 in note 55 and for the parent company, Allied Irish Banks, p.l.c., in note ab as the standard requires that all disclosures on transferred assets be shown in one note.

Other amendments resulting from Improvements to IFRSs which the Group adopted in 2012 did not have any impact on the accounting policies, financial position or performance of the Group.

4 Basis of consolidation

Subsidiary undertakings

A subsidiary undertaking is one where the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity, so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether the Group controls the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group until the date that control ceases.

A special purpose entity is an entity created to accomplish a narrow and well-defined objective such as the securitisation of particular assets or the execution of a specific borrowing or lending transaction. The financial statements of special purpose entities are included in the Group's consolidated financial statements where the substance of the relationship is that the Group controls the special purpose entity.

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 generally 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, over 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.

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 exceed the fair value of the consideration paid, the excess is accounted for as a capital contribution (accounting policy number 28). 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 (see accounting policy number 28 'Shareholders' equity - capital contributions).

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 generally one in which the Group's interest is greater than 20% and less than 50% and in which the Group has significant influence, but not control, over the entity's operating and financial policies.

Investments in associated undertakings are initially recorded at cost and increased (or decreased) each year by the Group's share of the post acquisition net income (or loss), and other movements reflected directly in other comprehensive income of the associated undertaking.

Goodwill arising on the acquisition of an associated undertaking is included in the carrying amount of the investment. When the Group's share of losses in an associate has reduced the carrying amount to zero, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations to make payments on behalf of the associate.

Where the Group continues to hold more than 20% of the interests 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*.

4 Basis of consolidation *(continued)*

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 polices 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.

5 Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using their functional currency, being the currency of the primary economic environment in which the entity operates.

Transactions and balances

Foreign currency transactions are translated into the respective entity's functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-translation at period end exchange rates of the amortised cost of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Exchange differences on equities and similar non-monetary items held at fair value through profit or loss are reported as part of the fair value gain or loss. Exchange differences on equities classified as available for sale financial assets, together with exchange differences on a financial liability designated as a hedge of the net investment in a foreign operation are reported in other comprehensive income.

Foreign operations

The results and financial position of all Group entities that have a functional currency different from the euro are translated into euro as follows:

- assets and liabilities including goodwill and fair value adjustments arising on consolidation of foreign operations are translated at the closing rate;
- income and expenses are translated into euro at the average rates of exchange during the period where these rates approximate to the foreign exchange rates ruling at the dates of the transactions;
- foreign currency translation differences are recognised in other comprehensive income; and
- since 1 January 2004, the Group's date of transition to IFRS, all such exchange differences are included in the foreign currency translation reserve within shareholders' equity. When a foreign operation is disposed of in full, the relevant amount of the foreign currency translation reserve is transferred to the income statement. When a subsidiary is partly disposed of, the foreign currency translation reserve is re-attributed to the non-controlling interest.

6 Interest income and expense recognition

Interest income and expense is recognised in the income statement for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The application of the method has the effect of recognising income receivable and expense payable on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating the effective interest rate, the Group estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding future credit losses. The calculation takes into account all fees, including those for any expected early redemption, and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

6 Interest income and expense recognition *(continued)*

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 current rate of return 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

11 Employee benefits *(continued)*

Retirement benefit obligations

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 current service cost, past service cost, curtailments, the expected return on scheme assets, and the change in the present value of scheme liabilities arising from the passage of time is charged to the income statement within personnel expenses.

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 and preferential rates on staff deposits is charged within personnel expenses.

Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without the realistic possibility of withdrawal, to a formal plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer seeking applications for voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

12 Non-credit risk provisions

Provisions are recognised for present legal or constructive obligations arising as consequences of past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

When the effect is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Payments are deducted from the present value of the provision, and interest at the relevant discount rate, is charged annually to interest expense using the effective interest method. Changes in the present value of the liability as a result of movements in interest rates are included in other financial income. The present value of provisions is included in other liabilities.

When a leasehold property ceases to be used in the business, provision is made, where the unavoidable costs of future obligations relating to the lease are expected to exceed anticipated income. The provision is calculated using market rates of interest to reflect the long-term nature of the cash flows. Before the provision is established, the Group recognises any impairment loss on the assets associated with the lease contract.

Restructuring costs

Where the Group has a formal plan for restructuring a business and has raised valid expectations in the areas affected by the restructuring by starting to implement the plan or announcing its main features, provision is made for the anticipated cost of restructuring, including retirement benefits and redundancy costs, when an obligation exists. The provision raised is normally utilised within twelve months. Future operating costs are not provided for.

Legal claims and other contingencies

Provisions are made for legal claims where the Group has present legal or constructive obligations as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Contingent liabilities are possible obligations whose existence will be confirmed only by the occurrence of uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably estimated. Contingent liabilities are not recognised but are disclosed in the notes to the financial statements unless the possibility of the transfer of economic benefit is remote.

A provision is recognised for a constructive obligation where a past event has led to an obligating event. This obligating event has left the Group with little realistic alternative but to settle the obligation and the Group has created a valid expectation in other parties that it will discharge the obligation.

13 Income tax, including deferred income tax

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

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided, using the financial statement liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the reporting date and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred income tax assets are recognised when it is probable that future taxable profits will be available against which the temporary differences will be utilised.

The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle the current tax assets and liabilities on a net basis or to realise the asset and settle the liability simultaneously.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and financial liabilities including derivative contracts, provisions for pensions and other post retirement benefits, and in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future. In addition, the following temporary differences are not provided for: goodwill, the amortisation of which is not deductible for tax purposes, and assets and liabilities the initial recognition of which, in a transaction that is not a business combination, affects neither accounting nor taxable profit. Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which the profits arise.

14 Impairment of property, plant and equipment, goodwill and intangible assets

Annually, or more frequently where events or changes in circumstances dictate, property, plant and equipment and intangible assets are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. Goodwill and intangible assets not yet available for use are subject to an annual impairment review.

The impairment review comprises a comparison of the carrying amount of the asset or cash generating unit with its recoverable amount. Cash-generating units are the lowest level at which management monitors the return on investment in assets. The recoverable amount is determined as the higher of fair value less costs to sell of the asset or cash generating unit and its value in use. Fair value less costs to sell is calculated by reference to the amount at which the asset could be disposed of in an arm's length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis. For intangible assets not yet available for use, the impairment review takes into account the cash flows required to bring the asset into use.

The carrying values of property, plant and equipment and intangible assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss may be reversed in part or in full when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the asset’s recoverable amount. The carrying amount of the asset will only be increased up to the amount that it would have been had the original impairment not been recognised. Impairment losses on goodwill are not reversed.

15 Impairment of financial assets

It is Group policy to make provisions for impairment of financial assets to reflect the losses inherent in those assets at the reporting date.

Impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and on or before the reporting date ('a loss event'), and that loss event or events has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the financial asset, or portfolio of financial assets.

Objective evidence that a financial asset or a portfolio of financial assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulty that the Group would not otherwise consider;
d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
    i adverse changes in the payment status of borrowers in the portfolio; and
    ii national or local economic conditions that correlate with defaults on the assets in the portfolio.

Incurred but not reported

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (i.e. individually insignificant). If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and includes these performing assets under the collective incurred but not reported ("IBNR") assessment. An IBNR impairment provision represents an interim step pending the identification of impairment losses on an individual asset in a group of financial assets. As soon as information is available that specifically identifies losses on individually impaired assets in a group, those assets are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

Collective evaluation of impairment

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

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

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

Impairment loss

For loans and receivables and assets held to maturity, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and is included in the income statement.

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

When a loan has been subjected to a specific provision and the prospects of recovery do not improve, a time will come when it may be concluded that there is no real prospect of recovery. When this point is reached, the amount of the loan which is considered to be

15 Impairment of financial assets *(continued)*

beyond the prospect of recovery is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

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

Collateralised financial assets

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.

Past due loans

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

- has breached an advised limit;
- has been advised of a limit lower than the then current outstandings; or
- has drawn credit without authorisation.

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

Financial investments available for sale

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

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

Loans renegotiated and forbearance

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

Forbearance

A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable to repay both the principal and interest on their loan in accordance with their original contract. Following an assessment of the customer's repayment capacity, a potential solution will be determined from the options available. There are a number of different types of forbearance options including interest and/or arrears capitalisation, interest rate adjustments, payment holidays, term extensions and equity swaps. These are detailed in the Credit Risk section 3.1. A request for a forbearance solution acts as a trigger for an impairment test.

All loans that are assessed for a forbearance solution are tested for impairment under IAS 39 and where a loan is deemed impaired, an appropriate provision is raised to cover the difference between the loan's carrying value and the present value of estimated future cashflows discounted at the loan's original effective interest rate. Where, having assessed the loan for impairment and the loan is not deemed to be impaired, it is included within the collective assessment as part of the IBNR provision calculation.

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 six months of consecutive payments of full principal and interest and, the upgrade would initially be to Watch/Vulnerable grades. In some non-mortgage cases, based on assessment by the relevant credit authority, the upgrade out of impaired to performing status may be earlier than six 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.

15 Impairment of financial assets *(continued)*

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

Where a loan has been subject to an impairment provision and the renegotiation leads to a customer granting equity to the Group in exchange for any loan balance outstanding, the new instrument is recognised at fair value with any difference to the loan carrying amount recognised in the income statement.

Non-forbearance renegotiation

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

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 amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial assets 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.

Financial liabilities are initially recognised at fair value, generally being their issue proceeds (fair value of consideration received), net of transaction costs incurred.

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 on an arm's length basis. Where quoted prices are not available or are unreliable because of market inactivity, fair values are determined using valuation techniques. These valuation techniques which use, to the extent possible, observable market data, include the use of recent arm's length transactions, reference to other similar instruments, option pricing models and 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 on an arm's length basis, in active markets.

Valuations for negotiable instruments such as debt and equity securities are determined using bid prices for asset positions and offer prices for liability positions. Where securities are traded on an exchange, the fair value is based on prices from the exchange. The market for debt securities largely operates on an 'over the counter' basis which means that there is not an official clearing or exchange price for these security instruments. Therefore, market makers and/or investment banks ('contributors') publish bid and offer levels which reflect an indicative price that they are prepared to buy and sell a particular security. The Group's valuation policy requires that the prices used in determining the fair value of securities quoted in active markets must be sourced from established market makers and/or investment banks.

Valuation techniques

In the absence of quoted market prices, and in the case of over-the-counter derivatives, fair value is calculated using valuation techniques. Fair value may be estimated using quoted market prices for similar instruments, adjusted for differences between the quoted instrument and the instrument being valued. Where the fair value is calculated using discounted cash flow analysis, the methodology is to use, to the extent possible, market data that is either directly observable or is implied from instrument prices, such as interest rate yield curves, equities and commodities prices, credit spreads, option volatilities and currency rates. In addition, the Group considers the impact of own credit risk when valuing its derivative liabilities.

16 Determination of fair value of financial instruments *(continued)*

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.

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 are little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business 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.

The Group tests the outputs of the 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, 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.

17 Valuation of NAMA senior bonds

NAMA senior bonds were received as consideration for financial assets transferred to NAMA and also as part of the 'Anglo' and 'EBS' transactions (notes 22 and 23 to the financial statements). These bonds are designated as loans and receivables and are separately disclosed in the statement of financial position as 'NAMA senior bonds'.

The bases for measurement, interest recognition and impairment are the same as those for loans and receivables (see accounting policy numbers 6, 15 and 18).

At initial recognition, the bonds were measured at fair value. The bonds carry a guarantee of the Irish Government, however, they are not marketable instruments. The only secondary market activity in the instruments is their sale and repurchase ('repo') to the European Central Bank ("ECB") within the regular Eurosystem open market operations. The bonds are not traded in the market and there are no comparable bonds trading in the market.

The fair value on initial recognition was determined using a valuation technique. The absence of quoted prices in an active market required increased use of management judgement in the estimation of fair value. This judgement included but was not limited to: evaluating available market information; evaluating relevant features of the instruments which market participants would factor into an appropriate valuation technique; determining the cash flows generated by the instruments including cash flows from assumed repo transactions; identifying a risk free discount rate; and applying an appropriate credit spread.

18 Financial assets

The Group classifies its financial assets into the following categories: - financial assets at fair value through profit or loss; loans and receivables; and available for sale financial assets.

Purchases and sales of financial assets are recognised on trade date, being the date on which the Group commits to purchase or sell the assets. Loans are recognised when cash is advanced to the borrowers.

Interest is calculated using the effective interest method and credited to the income statement. Dividends on available for sale equity securities are recognised in the income statement when the entity's right to receive payment is established.

Impairment losses and translation differences on the amortised cost of monetary items are recognised in the income statement.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all the risks and rewards of ownership.

18 Financial assets *(continued)*

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

Goodwill

Goodwill may arise on the acquisition of subsidiary and associated undertakings. The excess arising on the fair value of the consideration paid in a business combination over the acquired interests in the fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition is capitalised as goodwill. For the purpose of calculating goodwill, fair values of acquired assets, liabilities and contingent liabilities are determined by reference to market values or by discounting expected future cash flows to present value. This discounting is performed either using market rates or by using risk-free rates and risk adjusted expected future cash flows.

Goodwill is capitalised and reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Goodwill arising on the acquisition of an associated undertaking is included in the carrying amount of the investment in the consolidated financial statements. Gains or losses on the disposal of an entity include the carrying amount of the goodwill relating to the entity sold.

Goodwill previously written off to reserves under Irish GAAP has not been reinstated and will not be included in calculating any subsequent profit or loss on disposal.

Computer software and other intangible assets

Computer software and other intangible assets are stated at cost, less amortisation on a straight line basis and provisions for impairment, if any. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred. Capitalised computer software is amortised over 3 to 7 years. Other intangible assets are amortised over the life of the asset. Computer software and other intangible assets are reviewed for impairment when there is an indication that the asset may be impaired. Intangible assets not yet available for use are reviewed for impairment on an annual basis.

22 Derivatives and hedge accounting

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

The Group maintains trading positions in a variety of financial instruments including derivatives. Trading transactions arise both as a result of activity generated by customers and from proprietary trading with a view to generating incremental income.
Non-trading derivative transactions comprise transactions held for hedging purposes as part of the Group's risk management strategy against assets, liabilities, positions and cash flows.

Derivatives

Derivatives are measured initially at fair value on the date on which the derivative contract is entered into and subsequently remeasured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and from valuation techniques using discounted cash flow models and option pricing models as appropriate. Derivatives are included in assets when their fair value is positive, and in liabilities when their fair value is negative, unless there is the legal ability and intention to settle an asset and liability on a net basis.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Profits or losses are only recognised on initial recognition of derivatives when there are observable current market transactions or valuation techniques that are based on observable market inputs.

Embedded derivatives

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract, and the hybrid contract itself is not carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative, and reported at fair value with gains and losses being recognised in the income statement.

Hedging

All derivatives are carried at fair value and the accounting treatment of the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Where derivatives are held for risk management purposes, and where transactions meet the criteria specified in IAS 39 *'Financial Instruments: Recognition and Measurement'*, the Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or firm commitments ('fair value hedge'); or
- hedges of the exposure to variability of cash flows attributable to a recognised asset or liability, or a highly probable forecasted transaction ('cash flow hedge'); or
- hedges of a net investment in a foreign operation.

When a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

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.

23 Non-current assets held for sale and discontinued operations *(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 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.

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.

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 70.

Dividends on preference shares accounted for as equity are recognised in equity when approved for payment by the Board of Directors.

Other equity interests

Other equity interests relate to Reserve Capital Instruments (note 48). Any gain or loss on the extinguishment or remeasurement of the Reserve Capital Instruments is recognised in equity net of tax.

Capital reserves

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

Revaluation reserves

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

Capital redemption reserves

These reserves arose from the renominalisation of the ordinary shares of the company. Each ordinary share was subdivided into one ordinary share of € 0.01 each and thirty one deferred shares of € 0.01 each. The deferred shares were acquired by AIB and immediately cancelled. Following cancellation, the amount standing to the credit of the deferred shares account was transferred to a capital redemption reserves account.

28 Shareholders' equity *(continued)*

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 63). 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 until the final sale of the subsidiary. 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 (note 23) is treated as non-distributable as the related net assets received are largely non-cash in nature. In the case of the Anglo transaction (note 22) 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 44) 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 are distributable. These are included in revenue reserves.

Revenue reserves

Revenue reserves represent retained earnings of the parent company, subsidiaries and associated undertakings. It is shown net of the cumulative deficit within the defined benefit pension schemes and other appropriate adjustments.

Foreign currency translation reserves

The foreign currency translation reserves represent the cumulative gains and losses on the retranslation of the Group's net investment in foreign operations, at the rate of exchange at the year-end reporting date net of the cumulative gain or loss on instruments designated as net investment hedges.

Treasury shares

Where the Company or other members of the consolidated Group purchase the Company's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or re-issued, any consideration received is included in shareholders' equity.

Share based payments reserves

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

Non-controlling interests

Non-controlling interests comprise both equity and other equity interests. Equity interests relate to the interests of outside shareholders in consolidated subsidiaries. Other equity interests relate to non-cumulative perpetual preferred securities issued by a subsidiary.

29 Insurance and investment contracts

The Group accounted for its Long Term business in Aviva Life Holdings Ireland Limited ("ALH") in accordance with IFRS 4 *'Insurance Contracts'* up to the date on which it was classified as held for sale (accounting policy 23). Insurance contracts are those contracts containing significant insurance risk. In the case of life contracts, insurance risk exists if the amount payable on the occurrence of an insured event exceeds the assets backing the contract, or could do so in certain circumstances, and the product of the probability of the insured event occurring and the excess amount payable has commercial substance. In particular, guaranteed equity bonds which guarantee a return of the original premium irrespective of the current value of the backing assets are deemed to be insurance contracts notwithstanding that at the year-end reporting date there may be no excess of the original premium over the backing assets. Investment contracts are contracts that do not have significant insurance risk.

Insurance contracts

The Group accounts for its insurance contracts using the Market Consistent Embedded Value Principles ("MCEV"), published by the CFO Forum. The embedded value comprises two components: the net assets attributable to the Group and the present value of the in-force business ("VIF"). The change in the VIF before tax is accounted for as revenue. The value is estimated as the net present value of future cash flows attributable to the Group before tax, based on the market value of the assets at the year-end reporting date, using assumptions that reflect experience and a long-term outlook for the economy and then discounting at an appropriate risk free yield curve rate.

Insurance contract liabilities are calculated on a statutory basis. Premiums are recognised as revenue when due from the policyholder. Claims, which together with the increase in insurance contract liabilities are recognised in the income statement as they arise, are the cost of all claims arising during the period.

Investment contracts

Investment contracts are primarily unit-linked. Unit linked liabilities are deemed equal to the value of units attaching to contracts at the year-end reporting date. The liability is measured at fair value, which is the bid value of the assets held to match the liability. Increases in investment contract liabilities are recognised in the income statement as they arise. Revenue in relation to investment management services is recognised as the services are provided. Certain upfront fees and charges have been deferred and are recognised as income over the life of the contract. Premiums and claims are accounted for directly in the statement of financial position as adjustments to the investment contract liability.

30 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses. The Group has identified reportable segments on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker ("CODM") in order to allocate resources to the segment and assess its performance. Based on this identification, the reportable segments are the operating segments within the Group, the head of each being a member of the Leadership Team. The Leadership Team is the CODM and it relies primarily on the management accounts to assess performance of the reportable segments and when making resource allocation decisions.

Transactions between operating segments are on normal commercial terms and conditions, with internal charges and transfer pricing adjustments reflected in the performance of each operating segment. Revenue sharing agreements are used to allocate external customer revenues to an operating segment on a reasonable basis. Interest income earned on capital not allocated to operating segments is retained in Group.

Geographical segments provide products and services within a particular economic environment that is subject to risks and rewards that are different to those components operating in other economic environments. The geographical distribution of profit before taxation is based primarily on the location of the office recording the transaction. In addition, geographic distribution of loans and related impairment is also based on the location of the office recording the transaction.

31 Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value and with original maturities of less than three months.

32 Prospective accounting changes

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

Pronouncement	Nature of change	IASB effective date
Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*	The amendments require companies preparing financial statements in accordance with IFRSs to group together items within other comprehensive income that will be reclassified subsequently to profit or loss when specific conditions are met and those that will not be reclassified subsequently. The amendments also reaffirm existing requirements that items in profit or loss and other comprehensive income may be presented as either a single statement or two consecutive statements. These amendments relate to disclosures and will not have a significant impact on the financial statements in future years.	Annual periods beginning on or after 1 July 2012
IAS 19 *Employee Benefits* (IAS 19 revised 2011)	The amendments result in significant changes to accounting for defined benefit pension plans. The revised standard eliminates the option to defer recognition of gains and losses. Actuarial gains and losses are now required to be recognised in other comprehensive income and are excluded permanently from profit or loss. The expected returns on plan assets will no longer be recognised in profit or loss. The expected return and the interest cost are replaced by recording net interest in profit or loss which is calculated using the discount rate used to measure the pension obligation. Unvested past service costs can no longer be deferred and recognised over the future vesting period. Instead, all past service costs will be recognised at the earlier of when the amendment/curtailment occurs and when the entity recognises related restructuring or termination costs. Since the Group did not opt to avail of the 'corridor approach' option in the past, the impact of the revised standard will be limited to the effects of: (i) replacing the interest cost and expected return on plan assets by a finance cost component comprising the interest on the net defined benefit liability or asset; (ii) the timing of recognition of unvested past service costs; and (iii) recognition of all administration expenses, with the exception of costs associated with the management of scheme assets, in profit or loss. Based on the assumption that the defined benefit schemes will remain open for the full year 2013, the Group estimates that the adoption of IAS 19 revised will increase its retirement benefit charge for 2013 by c. € 20 million. In addition, the adoption of IAS 19 revised will require the restatement in 2013 of 2012 comparative amounts. Accordingly, a charge for termination benefits of € 130 million which was recognised in 2012, will be recognised in 2013.	Annual periods beginning on or after 1 January 2013 with retrospective application required
IFRS 10 *Consolidated Financial Statements*	This standard replaces the consolidation guidance in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities.* It introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee. IFRS 10 builds on the existing principles by identifying the concept of control as the determining factor in which an entity should be included within the consolidated financial statements of the parent company. This new standard will not change consolidation procedures for the Group, but will require management to assess whether an entity should be consolidated.	Annual periods beginning on or after 1 January 2013

32 Prospective accounting changes *(continued)*

Pronouncement	Nature of change	IASB effective date
IFRS 11 *Joint Arrangements*	IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 *Interests in Joint Ventures*, by focusing on the rights and obligations of the arrangement, rather than its legal form. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. The impact on the Group will be dependent on the formation of new joint arrangements by the Group.	Annual periods beginning on or after 1 January 2013
IFRS 12 *Disclosure of Interests in Other Entities*	IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*; it also replaces the disclosure requirements currently found in IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*. The required disclosures aim to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. This basic principle is further supported by more detailed disclosure objectives and requirements. This new standard will result in enhanced disclosures on the Group's subsidiaries and associates as well as unconsolidated structured entities.	Annual periods beginning on or after 1 January 2013
IAS 27 *Separate Financial Statements* (revised 2011)	The requirements relating to separate financial statements are unchanged and are included in the amended IAS 27. The other sections of IAS 27 are replaced by IFRS 10 *Consolidated Financial Statements*. IAS 27 is renamed 'Separate Financial Statements' and is now a standard dealing solely with separate financial statements. The existing guidance and disclosure requirements for separate financial statements are unchanged.	Annual periods beginning on or after 1 January 2013
IAS 28 *Investments in Associates and Joint Ventures* (revised 2011)	This standard prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 (revised 2011) does not include any disclosure requirements; these are now included in IFRS 12 *Disclosure of Interests in Other Entities*.	Annual periods beginning on or after 1 January 2013
IFRS 13 *Fair Value Measurement*	This standard established a single source of guidance for fair value measurements under IFRSs. IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair values measurements. The standard requires entities to disclose information about the valuation techniques and inputs used to measure fair value, as well as information about the uncertainty inherent in fair value measurements. This information will be required for both financial and non-financial assets and liabilities. Whilst the impact of the standard will not have a significant impact on reported results or the financial position of the Group, there will be a requirement for additional disclosures.	Annual periods beginning on or after 1 January 2013

32 Prospective accounting changes *(continued)*

Pronouncement	Nature of change	IASB effective date
Annual improvements to IFRSs: 2009 - 2011 Cycle	In May 2012, the IASB issued its fourth edition of amendments to its standards under the annual improvements process, primarily to remove inconsistencies and clarify wording. The amendments are to five International Financial Reporting Standards. The more relevant amendments are: IAS 1 *Presentation of Financial Statements* - The amendment clarifies the requirements in relation to comparative information in various circumstances. IAS 32 *Financial Instruments: Presentation* - The amendment clarifies that income tax relating to distributions to holders of equity instruments and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes. IAS 34 *Interim Financial Reporting* - The amendment clarifies the requirements on segment information for total assets and total liabilities for each reportable segment in interim financial reporting. None of the above amendments is expected to have a significant impact on reported results or disclosures.	Annual periods beginning on or after 1 January 2013
Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* and Amendments to IFRS 7 *Disclosures - Offsetting Financial Assets and Financial Liabilities*	These amendments to IAS 32 and IFRS 7 clarify the accounting requirements for offsetting financial instruments and introduce new disclosure requirements that aim to improve the comparability of financial statements prepared in accordance with IFRS and . US GAAP The amendments to IFRS 7 require more extensive disclosures. These disclosures focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements, irrespective of whether they are offset. The amendments to IAS 32 clarify that in order to offset financial instruments 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.	IFRS 7:Annual periods beginning on or after 1 January 2013 IAS 32: Annual periods beginning on or after 1 January 2014
Amendments to IFRS 10 *Consolidated Financial Statements,* IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements on Investment Entities*	In October 2012, the IASB issued Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). The amendments provide an exception from the requirements of consolidation and instead require investment entities to present their investments in subsidiaries as a net investment. These subsidiaries should be measured at fair value through profit and loss. The exception means that investment entities will be able to measure all their investments at fair value. The amendments also set out the disclosure requirements for investment entities. The impact of these amendments is being assessed but is not expected to have a significant impact on reported results or disclosures. The amendments are still subject to EU endorsement.	Annual periods beginning on or after 1 January 2014

32 Prospective accounting changes *(continued)*

Pronouncement	Nature of change	IASB effective date
IFRS 9 *Financial Instruments*	IFRS 9 will ultimately replace IAS 39 *Financial Instruments: Recognition and Measurement*. This project consists of three main phases: Phase 1: Classification and measurement In November 2009, the IASB issued IFRS 9 *Financial Instruments* covering classification and measurement of financial assets. The new standard aims to enhance the ability of investors and other users of financial information to understand the accounting for financial assets and to reduce complexity. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value. The basis of classification depends on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The IASB reissued IFRS 9 in October 2010. The revised standard carried over the requirements for derecognition of financial assets and liabilities from IAS 39 and incorporated new requirements on accounting for financial liabilities. Where an entity designates a financial liability on initial recognition at fair value through profit or loss, the portion of the fair value change due to changes in the liability's credit risk is recognised directly in other comprehensive income. The remainder is recognised in profit or loss. Phase 2: Impairment methodology The IASB published an exposure draft in November 2009 that proposed an 'expected loss model' for impairment. This phase of IFRS 9 is subject to on-going deliberations and has not yet been finalised. Phase 3: Hedge accounting In September 2012, the IASB posted on its website a review draft of the proposed micro hedge accounting requirements that will be incorporated into IFRS 9. The draft proposes a model that aims to align hedge accounting with risk management activities; establishes a more principles-based approach to hedge accounting; and addresses inconsistencies and weaknesses in the existing model in IAS 39. This phase is expected to be finalised in the first quarter of 2013. At a later point, further proposals will be issued by the IASB on macro hedging. Since significant aspects of the standard have yet to be finalised, it is impracticable for the Group to quantify the impact of IFRS 9 at this stage. The new standard is still subject to EU endorsement.	Annual periods beginning on or after 1 January 2015

Consolidated income statement

for the year ended 31 December 2012

	Notes	**2012 € m**	2011 € m	2010 € m
Continuing operations				
Interest and similar income	2	**3,916**	4,429	4,609
Interest expense and similar charges	3	**(2,810)**	(3,079)	(2,765)
Net interest income		**1,106**	1,350	1,844
Dividend income	4	**1**	4	1
Fee and commission income	5	**396**	470	585
Fee and commission expense	5	**(29)**	(29)	(88)
Net trading loss	6	**(100)**	(113)	(201)
Gain on redemption/remeasurement of subordinated liabilities and other capital instruments	7	**–**	3,277	372
Profit/(loss) on transfer of financial instruments to NAMA	8	**159**	(364)	(5,969)
Other operating (loss)/income	9	**(912)**	(255)	99
Other (loss)/income		**(485)**	2,990	(5,201)
Total operating income/(loss)		**621**	4,340	(3,357)
Administrative expenses	10	**(1,817)**	(1,605)	(1,469)
Impairment and amortisation of intangible assets	36	**(60)**	(66)	(126)
Depreciation of property, plant and equipment	37	**(60)**	(49)	(54)
Total operating expenses		**(1,937)**	(1,720)	(1,649)
Operating (loss)/profit before provisions		**(1,316)**	2,620	(5,006)
Provisions for impairment on loans and receivables	31	**(2,434)**	(7,861)	(6,015)
(Charge)/writeback of provisions for liabilities and commitments	43	**(9)**	416	(1,029)
Provisions for impairment on financial investments available for sale	13	**(86)**	(283)	(74)
Operating loss		**(3,845)**	(5,108)	(12,124)
Associated undertakings	34	**10**	(37)	18
Profit/(loss) on disposal of property	14	**2**	(1)	46
Profit/(loss) on disposal of businesses	15	**3**	38	(11)
Loss before taxation from continuing operations		**(3,830)**	(5,108)	(12,071)
Income tax credit from continuing operations	17	**183**	1,188	1,710
Loss after taxation from continuing operations		**(3,647)**	(3,920)	(10,361)
Discontinued operations				
Profit after taxation from discontinued operations	18	**–**	1,628	199
Loss for the year		**(3,647)**	(2,292)	(10,162)
Attributable to:				
Owners of the parent:				
Loss from continuing operations		**(3,647)**	(3,920)	(10,361)
Profit from discontinued operations		**–**	1,608	129
Loss for the year attributable to owners of the parent		**(3,647)**	(2,312)	(10,232)
Non-controlling interests:				
Profit from discontinued operations	19	**–**	20	70
Profit for the year attributable to non-controlling interests		**–**	20	70
		(3,647)	(2,292)	(10,162)
Basic (loss)/earnings per share				
Continuing operations	20(a)	**(0.7c)**	(1.6c)	(571.1c)
Discontinued operations	20(a)	**–**	0.7c	7.1c
		(0.7c)	(0.9c)	(564.0c)
Diluted (loss)/earnings per share				
Continuing operations	20(b)	**(0.7c)**	(1.6c)	(571.1c)
Discontinued operations	20(b)	**–**	0.7c	7.1c
		(0.7c)	(0.9c)	(564.0c)

David Hodgkinson, Chairman; David Duffy, Chief Executive Officer; Catherine Woods, Director; David O'Callaghan, Company Secretary.

Consolidated statement of comprehensive income

for the year ended 31 December 2012

	Notes	**2012 € m**	2011 € m	2010 € m
Loss for the year		**(3,647)**	(2,292)	(10,162)
Other comprehensive income				
Continuing operations				
Net change in foreign currency translation reserves	46	**34**	(11)	89
Net change in cash flow hedges, net of tax	46	**(162)**	(209)	(41)
Net change in fair value of available for sale securities, net of tax	46	**1,295**	112	(813)
Net change in property revaluation reserve		**(2)**	–	–
Net actuarial (losses)/gains in retirement benefit schemes, net of tax	12	**(740)**	(464)	1
Share of other comprehensive income of associates, net of tax		**–**	4	(13)
Other comprehensive income for the year, net of tax, from continuing operations		**425**	(568)	(777)
Discontinued operations				
Net change in foreign currency translation reserves	46	**–**	(134)	50
Net change in cash flow hedges, net of tax	46	**–**	1	–
Net change in fair value of available for sale securities, net of tax	46	**–**	(74)	3
Share of other comprehensive income of associates, net of tax		**–**	–	218
Other comprehensive income for the year, net of tax, from discontinued operations		**–**	(207)	271
Total other comprehensive income for the year, net of tax		**425**	(775)	(506)
Total comprehensive income for the year		**(3,222)**	(3,067)	(10,668)
Attributable to:				
Owners of the parent:				
Continuing operations		**(3,222)**	(4,488)	(11,138)
Discontinued operations		**–**	1,409	385
		(3,222)	(3,079)	(10,753)
Non-controlling interests:				
Discontinued operations		**–**	12	85
Total comprehensive income for the year		**(3,222)**	(3,067)	(10,668)

David Hodgkinson, Chairman; David Duffy, Chief Executive Officer; Catherine Woods, Director; David O'Callaghan, Company Secretary.

Consolidated statement of financial position

as at 31 December 2012

	Notes	2012 € m	2011 € m
Assets			
Cash and balances at central banks	59	**4,047**	2,934
Items in course of collection		**192**	202
Disposal groups and non-current assets held for sale	25	**562**	1,422
Trading portfolio financial assets	26	**24**	56
Derivative financial instruments	27	**2,835**	3,046
Loans and receivables to banks	28	**2,914**	5,718
Loans and receivables to customers	29	**72,972**	82,540
NAMA senior bonds	32	**17,387**	19,856
Financial investments available for sale	33	**16,344**	15,389
Interests in associated undertakings	34	**52**	50
Intangible assets and goodwill	36	**187**	176
Property, plant and equipment	37	**333**	360
Other assets		**239**	491
Current taxation		**9**	49
Deferred taxation	38	**3,860**	3,692
Prepayments and accrued income		**559**	670
Total assets		**122,516**	136,651
Liabilities			
Deposits by central banks and banks[1]	39	**28,442**	36,890
Customer accounts	40	**63,610**	60,674
Disposal groups held for sale	25	**–**	3
Derivative financial instruments	27	**3,256**	3,843
Debt securities in issue	41	**10,666**	15,654
Current taxation		**2**	1
Other liabilities	42	**1,627**	1,534
Accruals and deferred income		**1,260**	1,103
Retirement benefit liabilities	12	**789**	763
Provisions for liabilities and commitments	43	**352**	514
Subordinated liabilities and other capital instruments	44	**1,271**	1,209
Total liabilities		**111,275**	122,188
Shareholders' equity			
Share capital	45	**5,206**	5,170
Share premium	45	**2,890**	4,926
Reserves		**3,145**	4,367
Total shareholders' equity		**11,241**	14,463
Total liabilities and shareholders' equity		**122,516**	136,651

[1]This includes € 22,220 million of borrowings from central banks (2011: € 31,133 million).

David Hodgkinson, Chairman; David Duffy, Chief Executive Officer; Catherine Woods, Director; David O'Callaghan, Company Secretary.

Consolidated statement of cash flows

for the year ended 31 December 2012

	Notes	**2012 € m**	2011 € m	2010 € m
Reconciliation of loss before taxation to net cash outflow from operating activities				
Loss for the year from continuing operations before taxation		**(3,830)**	(5,108)	(12,071)
Adjustments for:				
Gain on redemption/remeasurement of subordinated liabilities and other capital instruments		**–**	(3,277)	(372)
(Profit)/loss on disposal of businesses		**(3)**	(38)	11
(Profit)/loss on disposal of property, plant and equipment	9 & 14	**(2)**	1	(45)
Loss on disposal of financial assets		**962**	322	54
Dividend income		**(14)**	(5)	(5)
Associated undertakings	34	**(15)**	1	(18)
Impairment of associated undertakings	34	**5**	36	–
Provisions for impairment on loans and receivables	31	**2,434**	7,861	6,015
(Profit)/loss on transfer on financial instruments held for sale to NAMA	8	**(159)**	364	5,969
Writeback of provisions/provisions for liabilities and commitments		**9**	(416)	1,029
Provisions for impairment on financial investments available for sale	13	**86**	283	74
Change in other provisions		**276**	80	58
Depreciation, amortisation and impairment		**120**	115	180
Interest on subordinated liabilities and other capital instruments	3	**223**	168	382
(Profit)/loss on disposal of financial investments available for sale	9	**(31)**	28	(88)
Amortisation of premiums and discounts		**(128)**	(60)	(13)
Change in prepayments and accrued income		**114**	(11)	(115)
Change in accruals and deferred income		**153**	71	(79)
		200	415	966
Change in deposits by central banks and banks		**(8,456)**	(17,696)	16,703
Change in customer accounts[1]		**2,654**	(9,796)	(22,908)
Change in loans and receivables to customers[2]		**6,798**	11,617	7,679
Change in NAMA senior bonds		**2,438**	891	–
Change in loans and receivables to banks		**265**	1,869	353
Change in trading portfolio financial assets/liabilities		**33**	(63)	85
Change in derivative financial instruments		**(769)**	385	210
Change in items in course of collection		**13**	76	(19)
Change in debt securities in issue		**(4,996)**	(3,174)	(15,728)
Change in notes in circulation		**9**	1	24
Change in other assets		**254**	(212)	109
Change in other liabilities		**(102)**	(87)	(1,564)
Effect of exchange translation and other adjustments[3]		**(258)**	(592)	231
Net cash outflow from operating assets and liabilities		**(2,117)**	(16,781)	(14,825)
Net cash outflow from operating activities before taxation		**(1,917)**	(16,366)	(13,859)
Taxation paid		**42**	15	(36)
Net cash outflow from operating activities		**(1,875)**	(16,351)	(13,895)
Investing activities *(note a)*		**546**	6,684	4,576
Financing activities *(note b)*		**(160)**	11,302	3,446
Change in cash and cash equivalents		**(1,489)**	1,635	(5,873)
Opening cash and cash equivalents		**7,373**	5,712	12,067
Reclassified to disposal groups and non-current assets held for sale		**–**	–	(716)
Effect of exchange translation adjustments		**42**	26	234
Closing cash and cash equivalents		**5,926**	7,373	5,712

Consolidated statement of cash flows *(continued)*

for the year ended 31 December 2012

	Notes	**2012 € m**	2011 € m	2010 € m
(a) Investing activities				
Net cash outflow on acquisition of business combinations	59	**–**	(3,420)	–
Purchase of financial investments available for sale	33	**(5,059)**	(1,760)	(6,241)
Proceeds from sales and maturity of financial investments available for sale	33	**5,685**	8,738	9,305
Additions to property, plant and equipment	37	**(37)**	(17)	(25)
Disposal of property, plant and equipment		**3**	2	87
Additions to intangible assets	36	**(71)**	(33)	(23)
Disposal of intangible assets		**–**	–	1
Disposal of investment in associated undertakings	18	**–**	–	1,467
Disposal of investment in businesses and subsidiaries[4]		**11**	3,169	–
Dividends received from associated undertakings		**14**	5	5
Cash flows from investing activities		**546**	6,684	4,576
(b) Financing activities				
Proceeds of issue of CCNs	44	**–**	1,600	–
Proceeds of issue of share capital to NPRFC	45	**–**	5,000	3,698
Capital contributions from the Minister for Finance and the NPRFC	51	**–**	6,054	–
Redemption of subordinated liabilities and other capital instruments		**–**	(1,120)	–
Cost of redemption of capital instruments	7	**–**	(9)	(5)
Interest paid on subordinated liabilities and other capital instruments		**(160)**	(223)	(247)
Cash flows from financing activities		**(160)**	11,302	3,446

[1]Includes deposits placed by the NTMA € 1,127 million (2011: € 27 million; 2010: € 8 million).

[2]Includes financial assets held for sale to NAMA and loans and receivables to customers within disposal groups and non-current assets held for sale.

[3]Included within the effect of exchange translation and other adjustments are amounts in respect of pension contributions of € 236 million (2011: € 216 million; 2010: € 375 million). In addition, included within this caption is a charge of € 182 million in respect of past service costs relating to the early retirement scheme; a credit of € 29 million in respect of a curtailment gain for voluntary severance employees; and a credit of € 151 million in respect of defined benefits, all of which are non-cash movements.

[4]Includes net proceeds on the disposal of BZWBK (note 18) and proceeds on the disposal of businesses (note 15).

Consolidated statement of changes in equity

for the year ended 31 December 2012

	Attributable to equity holders of parent											
	Share capital	Share premium	Capital reserves	Capital redemption reserves	Revaluation reserves	Available for sale securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Treasury shares	Share based payments reserves	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2012	**5,170**	**4,926**	**2,885**	**3,958**	**26**	**(1,003)**	**229**	**(822)**	**(467)**	**(462)**	**23**	**14,463**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,647)**	**–**	**–**	**–**	**(3,647)**
Other comprehensive income *(note 46)*	**–**	**–**	**–**	**–**	**(2)**	**1,295**	**(162)**	**(740)**	**34**	**–**	**–**	**425**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(2)**	**1,295**	**(162)**	**(4,387)**	**34**	**–**	**–**	**(3,222)**
Capital contributions *(note 49)*	**–**	**–**	**(247)**	**–**	**–**	**–**	**–**	**247**	**–**	**–**	**–**	**–**
Reduction of capital *(notes 45 and 50)*	**–**	**(2,000)**	**–**	**(3,958)**	**–**	**–**	**–**	**5,958**	**–**	**–**	**–**	**–**
Ordinary shares issued in lieu of dividend *(note 45)*	**36**	**(36)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Share based payments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2012	**5,206**	**2,890**	**2,638**	**–**	**24**	**292**	**67**	**996**	**(433)**	**(462)**	**23**	**11,241**

Consolidated statement of changes in equity

for the year ended 31 December 2011

	Attributable to equity holders of parent														
	Share capital	Share premium	Other equity interests	Capital reserves	Capital redemption reserves	Revaluation reserves	Available for sale securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Treasury shares	Share based payments reserves	Total	Non-controlling interests	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2011	3,965	5,089	239	253	–	24	(1,044)	437	(4,545)	(327)	(462)	30	3,659	690	4,349
Loss for the year	–	–	–	–	–	–	–	–	(2,312)	–	–	–	(2,312)	20	(2,292)
Other comprehensive income	–	–	–	–	–	–	41	(208)	(460)	(140)	–	–	(767)	(8)	(775)
Total comprehensive income for the year	–	–	–	–	–	–	41	(208)	(2,772)	(140)	–	–	(3,079)	12	(3,067)
Capital contributions *(notes 49 and 51)*	–	–	–	2,722	–	–	–	–	6,054	–	–	–	8,776	–	8,776
Ordinary shares issued in lieu of dividend *(note 45)*	163	(163)	–	–	–	–	–	–	–	–	–	–	–	–	–
Issue of ordinary shares *(note 45)*	5,000	–	–	–	–	–	–	–	–	–	–	–	5,000	–	5,000
Cancellation of deferred shares *(notes 45 and 50)*	(3,958)	–	–	–	3,958	–	–	–	–	–	–	–	–	–	–
Redemption of capital instruments *(notes 7 and 48)*	–	–	(239)	–	–	–	–	–	344	–	–	–	105	(189)	(84)
Share based payments	–	–	–	–	–	–	–	–	7	–	–	(7)	–	–	–
Extinguishment of non-controlling interests *(note 52)*	–	–	–	–	–	–	–	–	–	–	–	–	–	(513)	(513)
Other movements	–	–	–	(90)[1]	–	2	–	–	90	–	–	–	2	–	2
At 31 December 2011	5,170	4,926	–	2,885	3,958	26	(1,003)	229	(822)	(467)	(462)	23	14,463	–	14,463

[1]See note 49.

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1 Segmental information

The segments mentioned below reflect the internal financial reporting structure which is used by management to assess performance and allocate resources.

The segments' performance statements include income and direct costs relating to each segment but exclude overheads which are held centrally in the Group segment. Exceptional items are shown separately. Funding and liquidity costs are based on actual wholesale funding costs incurred and a segment's net funding requirement. Wholesale funding costs include the Irish Government's Eligible Liabilities Guarantee ("ELG") Scheme charges relating to wholesale funds. Net interest income also includes ELG charges directly attaching to customer deposits within a segment. Income on capital is allocated to segments based on each segment's capital requirement. Surplus capital is held in the Group segment. The cost of services between segments and from central support functions to segments is based on the estimated actual cost incurred in providing the service.

Personal & Business Banking ("PBB") comprises banking operations for the personal segment and small enterprises within the Republic of Ireland. The PBB segment also includes the Group's operations in the Channel Islands and the Isle of Man.

Corporate, Institutional and Commercial Banking ("CICB") comprises banking operations for mid-sized corporate and commercial enterprises. It also includes a Corporate Finance business and a Treasury customer services area which delivers treasury services to customers of the Group.

AIB UK comprises retail and commercial banking operations in Britain operating under the trading name Allied Irish Bank (GB) and in Northern Ireland operating under the trading name First Trust Bank.

EBS was acquired by AIB Group on 1 July 2011. The segment comprises banking operations for the personal segment within the Republic of Ireland. The segment view is shown on a consistent basis to other segments which differs from the legal entity basis whereby EBS wholesale treasury operations are reported as part of the Group segment and assets identified as non-core are reported as part of Non-Core.

Group includes wholesale treasury activities, unallocated costs of central services and income on capital not allocated to segments.

Non-Core comprises those assets which AIB is committed to deleveraging and losses on the transfer of loans to NAMA, together with related costs.

This segmental information reflects the Group's operating loss before exceptional items, which are separately identified and not allocated to a segment. For 2011 and 2010, exceptional items which had been allocated to particular segments have now been represented on the same basis as 2012.

1 Segmental information *(continued)*

	PBB	CICB	AIB UK	EBS	Group	Total Core	Total Non-Core	2012 Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Operations by business segments								
Net interest income	**575**	**(88)**	**102**	**62**	**368**	**1,019**	**87**	**1,106**
Other income/(loss)[1]	**259**	**75**	**67**	**11**	**(37)**	**375**	**(57)**	**318**
Total operating income/(loss)	**834**	**(13)**	**169**	**73**	**331**	**1,394**	**30**	**1,424**
Personnel expenses	**(420)**	**(173)**	**(108)**	**(30)**	**(216)**	**(947)**	**(66)**	**(1,013)**
General and administrative expenses	**(217)**	**(64)**	**(86)**	**(32)**	**(167)**	**(566)**	**(41)**	**(607)**
Depreciation, impairment and amortisation	**(55)**	**(12)**	**(11)**	**(10)**	**(31)**	**(119)**	**–**	**(119)**
Total operating expenses	**(692)**	**(249)**	**(205)**	**(72)**	**(414)**	**(1,632)**	**(107)**	**(1,739)**
Operating profit/(loss) before provisions	**142**	**(262)**	**(36)**	**1**	**(83)**	**(238)**	**(77)**	**(315)**
Provisions for impairment on loans and receivables	**(494)**	**(916)**	**(97)**	**(237)**	**–**	**(1,744)**	**(690)**	**(2,434)**
Provisions for liabilities and commitments	**–**	**(4)**	**–**	**–**	**–**	**(4)**	**(5)**	**(9)**
Provisions for impairment on financial investments available for sale	**–**	**–**	**–**	**–**	**(84)**	**(84)**	**(2)**	**(86)**
Total provisions	**(494)**	**(920)**	**(97)**	**(237)**	**(84)**	**(1,832)**	**(697)**	**(2,529)**
Group operating loss	**(352)**	**(1,182)**	**(133)**	**(236)**	**(167)**	**(2,070)**	**(774)**	**(2,844)**
Associated undertakings	**13**	**–**	**2**	**–**	**–**	**15**	**(5)**	**10**
Profit on disposal of property	**–**	**–**	**–**	**–**	**2**	**2**	**–**	**2**
Profit on disposal of businesses	**1**	**–**	**–**	**–**	**–**	**1**	**2**	**3**
Loss before exceptional items	**(338)**	**(1,182)**	**(131)**	**(236)**	**(165)**	**(2,052)**	**(777)**	**(2,829)**
Loss on disposal of loans								**(962)**
Profit on transfer of financial instruments to NAMA								**159**
Retirement benefit curtailment								**204**
Restructuring and restitution expenses								**(402)**
Total exceptional items								**(1,001)**
Loss before taxation								**(3,830)**

1 Segmental information *(continued)*

	PBB	CICB	AIB UK	EBS	Group	Total Core	Total Non-Core	2011 Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Operations by business segments								
Net interest income	583	79	134	86	320	1,202	148	1,350
Other income/(loss)[1]	263	85	70	5	(22)	401	37	438
Total operating income	846	164	204	91	298	1,603	185	1,788
Personnel expenses	(441)	(163)	(126)	(18)	(117)	(865)	(70)	(935)
General and administrative expenses	(200)	(86)	(62)	(19)	(208)	(575)	(62)	(637)
Depreciation, impairment and amortisation	(57)	(14)	(7)	(5)	(30)	(113)	(2)	(115)
Total operating expenses	(698)	(263)	(195)	(42)	(355)	(1,553)	(134)	(1,687)
Operating profit/(loss) before provisions	148	(99)	9	49	(57)	50	51	101
Provisions for impairment on loans and receivables	(1,177)	(2,933)	(225)	(201)	–	(4,536)	(3,325)	(7,861)
Provisions for liabilities and commitments	–	–	–	–	(11)	(11)	(6)	(17)
Provisions for impairment on financial investments available for sale	(2)	(5)	–	–	(270)	(277)	(6)	(283)
Total provisions	(1,179)	(2,938)	(225)	(201)	(281)	(4,824)	(3,337)	(8,161)
Group operating loss	(1,031)	(3,037)	(216)	(152)	(338)	(4,774)	(3,286)	(8,060)
Associated undertakings	(39)	–	2	–	–	(37)	–	(37)
Loss on disposal of property	(1)	–	–	–	–	(1)	–	(1)
Profit on disposal of businesses	10	–	–	–	28	38	–	38
Loss from continuing operations before exceptional items	(1,061)	(3,037)	(214)	(152)	(310)	(4,774)	(3,286)	(8,060)
Loss on disposal of loans								(322)
Loss on transfer of financial instruments to NAMA								(364)
Gain on redemption/remeasurement of subordinated debt and other capital instruments								3,277
Interest rate hedge volatility								(39)
Restructuring and restitution expenses								(33)
Writeback of provisions for NAMA loans								433
Total exceptional items								2,952
Loss before taxation from continuing operations								(5,108)

1 Segmental information *(continued)*

	PBB	CICB	AIB UK	Group	Total Core	Total Non-Core	2010 Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Operations by business segments							
Net interest income	719	168	229	494	1,610	234	1,844
Other income/(loss)[1]	297	73	90	(112)	348	115	463
Total operating income	1,016	241	319	382	1,958	349	2,307
Personnel expenses	(443)	(144)	(138)	(94)	(819)	(102)	(921)
General and administrative expenses	(175)	(79)	(45)	(157)	(456)	(72)	(528)
Depreciation, impairment and amortisation	(65)	(13)	(10)	(90)	(178)	(2)	(180)
Total operating expenses	(683)	(236)	(193)	(341)	(1,453)	(176)	(1,629)
Operating profit before provisions	333	5	126	41	505	173	678
Provisions for impairment on loans and receivables	(736)	(1,557)	(121)	–	(2,414)	(3,601)	(6,015)
Provisions for liabilities and commitments	–	–	–	–	–	–	–
Provisions for impairment on financial investments available for sale	(2)	(7)	–	(54)	(63)	(11)	(74)
Total provisions	(738)	(1,564)	(121)	(54)	(2,477)	(3,612)	(6,089)
Group operating (loss)/profit	(405)	(1,559)	5	(13)	(1,972)	(3,439)	(5,411)
Associated undertakings	16	–	2	–	18	–	18
Profit on disposal of property	–	–	–	46	46	–	46
Loss on disposal of businesses	–	–	–	(11)	(11)	–	(11)
(Loss)/profit from continuing - operations before exceptional items	(389)	(1,559)	7	22	(1,919)	(3,439)	(5,358)
Loss on disposal of loans							(54)
Loss on transfer of financial instruments to NAMA							(5,969)
Gain on redemption of subordinated debt and other capital instruments							372
Interest rate hedge volatility							(13)
Restructuring and restitution expenses							(20)
Provisions for NAMA loans							(1,029)
Total exceptional items							(6,713)
Loss before taxation from continuing operations							(12,071)

[1]Gain on redemption of subordinated liabilities and other capital instruments of Nil (2011: € 3,277 million; 2010: € 372 million) is recorded within the Group segment (note 7).

1 Segmental information *(continued)*

Other amounts - statement of financial position

	PBB	CICB	AIB UK	EBS	Group	Total Core	Total Non-Core	2012 Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Loans and receivables to customers	**26,794**	**16,290**	**8,341**	**12,322**	**–**	**63,747**	**9,225**	**72,972**
Loans and receivables held for sale	**–**	**–**	**–**	**–**	**–**	**–**	**353**	**353**
Interests in associated undertakings	**25**	**–**	**12**	**–**	**–**	**37**	**15**	**52**
Total assets	**29,265**	**16,500**	**13,174**	**12,399**	**41,291**	**112,629**	**9,887**	**122,516**
Customer accounts	**26,949**	**14,541**	**10,864**	**10,117**	**1,111**	**63,582**	**28**	**63,610**
Total liabilities[1]	**31,676**	**14,680**	**12,273**	**10,460**	**42,026**	**111,115**	**160**	**111,275**
Capital expenditure	**57**	**2**	**4**	**3**	**35**	**101**	**7**	**108**

	PBB	CICB	AIB UK	EBS	Group	Total Core	Total Non-Core	2011 Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Loans and receivables to customers	27,013	19,638	8,998	13,101	–	68,750	13,790	82,540
Loans and receivables held for sale	–	–	–	–	–	–	1,191	1,191
Interests in associated undertakings	24	–	12	–	–	36	14	50
Total assets	31,198	19,769	13,398	13,682	43,458	121,505	15,146	136,651
Customer accounts	28,150	13,801	10,220	8,476	–	60,647	27	60,674
Total liabilities[1]	32,234	14,019	11,399	8,817	55,420	121,889	299	122,188
Capital expenditure	49	1	–	–	–	50	–	50

1 Segmental information *(continued)*

Geographic information[2][3]	Republic of Ireland € m	United Kingdom € m	North America € m	Rest of the world € m	2012 Total € m
Net interest income	**934**	**174**	**(2)**	**–**	**1,106**
Other income/(loss)[4][5]	**(716)**	**309**	**(70)**	**(8)**	**(485)**
Non-current assets[6]	**489**	**30**	**1**	**–**	**520**

Geographic information[2][3]	Republic of Ireland € m	United Kingdom € m	North America € m	Rest of the world € m	2011 Total € m
Net interest income	1,131	199	18	2	1,350
Other income/(loss)[4][5]	3,347	(315)	(17)	(25)	2,990
Non-current assets([6]	493	41	2	–	536

Geographic information[2][3]	Republic of Ireland € m	United Kingdom € m	North America € m	Rest of the world € m	2010 Total € m
Net interest income	1,397	390	49	8	1,844
Other (loss)/income[4][5]	(5,091)	(169)	43	16	(5,201)
Non-current assets[6]	491	47	2	1	541

Revenue from external customers comprises interest income (note 2); fee income (note 5) and trading loss (note 6).

[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.

[2]The geographical distribution of net interest and other income/(loss) is based primarily on the location of the office recording the transaction.

[3]For details of significant geographic concentrations, see 3.1 Credit risk.

[4]Loss on disposal of financial assets to NAMA is recorded within the Republic of Ireland and United Kingdom.

[5]Gain on redemption of subordinated liabilities and other capital instruments is recorded in Republic of Ireland.

[6]Non-current assets comprise intangible assets and goodwill, and property, plant and equipment.

2 Interest and similar income

	2012 € m	2011 € m	2010 € m
Interest on loans and receivables to customers	**2,976**	3,418	3,837
Interest on loans and receivables to banks	**31**	69	55
Interest on trading portfolio financial assets	**1**	2	2
Interest on NAMA senior bonds	**329**	348	29
Interest on financial investments available for sale	**579**	592	686
	3,916	4,429	4,609

Interest income includes a credit of € 217 million (2011: credit of € 199 million; 2010: credit of € 526 million) removed from other comprehensive income in respect of cash flow hedges.

Total interest income calculated using the effective interest method reported above that relates to financial assets not carried at fair value through profit or loss is € 3,915 million (2011: € 4,427; 2010: € 4,607 million).

Interest income includes a credit of € 392 million (2011: € 236 million; 2010: € 277 million) in respect of the discount unwind on impaired loans.

3 Interest expense and similar charges

	2012 € m	2011 € m	2010 € m
Interest on deposits by central banks and banks	**252**	600	375
Interest on customer accounts	**1,823**	1,700	1,313
Interest on debt securities in issue	**512**	611	695
Interest on subordinated liabilities and other capital instruments	**223**	168	382
	2,810	3,079	2,765

Interest expense includes a charge of € 128 million (2011: charge of € 66 million; 2010: charge of € 135 million) removed from other comprehensive income in respect of cash flow hedges.

Included within interest expense is € 388 million (2011: € 488 million; 2010: € 306 million) in respect of the Irish Government's Eligible Liabilities Guarantee ("ELG") Scheme.

Total interest expense calculated using the effective interest method reported above that relates to financial liabilities not carried at fair value through profit or loss is € 2,810 million (2011: € 3,079 million; 2010: € 2,765 million).

4 Dividend income

Dividend income relates to income from equity shares held as financial investments available for sale and amounts to € 1 million (2011: € 4 million; 2010: € 1 million).

5 Net fee and commission income

	2012 € m	2011 € m	2010 € m
Retail banking customer fees	**321**	336	367
Credit related fees	**33**	50	94
Asset management and investment banking fees	**14**	58	81
Brokerage fees	**–**	–	18
Insurance commissions	**28**	26	25
Fee and commission income	**396**	470	585
Irish Government Guarantee Scheme expense[1]	**–**	–	(51)
Other fee and commission expense[2]	**(29)**	(29)	(37)
Fee and commission expense	**(29)**	(29)	(88)
	367	441	497

[1]Represents the charge in respect of the Credit Institutions (Financial Support) ("CIFS") Scheme which expired in 2010.

[2]Other fee and commission expense includes ATM expenses of € 8 million (2011: € 12 million; 2010: € 14 million) and credit card commissions of € 12 million (2011: € 11 million; 2010: € 11 million).

6 Net trading loss

	2012 € m	2011 € m	2010 € m
Foreign exchange contracts	**45**	52	22
Debt securities and interest rate contracts	**(75)**	(91)	(183)
Credit derivative contracts	**(38)**	(71)	(41)
Equity securities and index contracts[1]	**(32)**	(3)	1
	(100)	(113)	(201)

[1]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 (2011: € 8 million) (note 35).

The total hedging ineffectiveness on cash flow hedges reflected in the income statement amounted to a charge of € 7 million (2011: charge of € 3 million; 2010: charge of € 2 million) and is included in net trading loss.

7 Gain on redemption/remeasurement of subordinated liabilities and other capital instruments

2012

There were no redemptions of subordinated liabilities or other capital instruments in 2012.

2011

The Group was involved in a number of initiatives to increase its core tier 1 capital from 2009 onwards. In this regard, in January and June 2011, the Group completed offers to purchase for cash certain capital instruments. In addition, the date for settlement of three further instruments was 22 July 2011. These offers to purchase for cash, accounted for under IAS 39, met the requirements to be treated as an extinguishment of the original instruments.

January

This transaction comprised a tender offer by AIB for cash for certain of its tier 2 capital instruments denominated in various currencies. These instruments were purchased at 30% of their face value. It resulted in a total gain of € 1,534 million (€ 1,534 million after taxation) all of which was recorded in the income statement.

June

On 14 April 2011, the High Court issued a Subordinated Liabilities Order under section 29 of the Credit Institutions (Stabilisation) Act 2010 (the "SLO"), with the consent of AIB. The SLO changed the terms of all outstanding instruments resulting in a gain for AIB.

On 13 May 2011, AIB launched a tender offer for cash for all its outstanding subordinated liabilities and other capital instruments. Under this offer, AIB agreed to purchase the instruments at 10% to 25% of their face value. Following completion of the offer and where a certain percentage (a quorum) of the holders agreed to accept the offer, AIB had an option to redeem or purchase all of the remaining outstanding instruments at an option price of 0.001% of the nominal amount, which it exercised.

In relation to instruments settled on or before 30 June 2011 a gain amounting to € 1,343 million (€ 1,312 million after taxation) was recognised in the income statement and a gain amounting to € 387 million (€ 344 million after taxation) was recognised directly in equity.

At 30 June 2011, balances remained outstanding on six instruments. Since the terms of these instruments changed arising from the SLO which was effective from 22 April 2011, the original liabilities were derecognised and new liabilities recognised, with their remeasurement based on fair value. A gain of € 396 million arising on derecognition of the original liabilities/initial recognition of the new liabilities was recognised in the income statement. Three of the remaining instruments were settled on 22 July 2011.

The subordinated liabilities and other capital instruments of the Group are set out in note 44. Both the RCI and the LPI were redeemed in full during 2011.

7 Gain on redemption/remeasurement of subordinated liabilities and other capital instruments *(continued)*

The table below sets out the gain on redemption/remeasurement of subordinated liabilities and other capital instruments in the year to 31 December 2011.

	2011		
	Redemption € m	Remeasurement € m	Total € m
Carrying value of subordinated liabilities and other capital instruments at redemption/remeasurement	4,286	108	4,394
Carrying value of other equity interests and non-controlling interests at redemption	428	–	428
	4,714	108	4,822
Consideration paid on redemption of subordinated liabilities and other capital instruments	(1,079)	–	(1,079)
Consideration paid on redemption of other equity interests and non-controlling interests	(41)	–	(41)
Costs	(9)	–	(9)
Fair value on remeasurement of subordinated liabilities and other capital instruments	–	(29)	(29)
	(1,129)	(29)	(1,158)
Gain on redemption/remeasurement	3,585	79	3,664
Of which recognised in:			
Income statement			3,277[1]
Equity			387[2]
			3,664

[1] € 3,246 million after taxation.

[2] € 344 million after taxation.

On 29 March 2010, the Group completed the exchange of lower tier 2 capital instruments for new lower tier 2 capital qualifying securities. This exchange of debt, accounted for under IAS 39, met the requirements to be treated as an extinguishment of the original instruments. However, since the original instruments were extinguished by the issue of new subordinated capital instruments, this was a non-cash transaction except for the costs incurred in issuing the new instruments.

The following table sets out the carrying value, the consideration given including costs, and the gain on exchange:

	2010 € m
Carrying value of instruments exchanged	2,212
Carrying value of new instruments issued including costs	(1,840)
Gain on exchange of subordinated liabilities	372

These instruments were exchanged at discounts ranging from 9% to 26%.The gain of € 372 million (€ 372 million after taxation) was recorded in the income statement.

8 Profit/(loss) on transfer of financial instruments to NAMA

Following the enactment of the NAMA Act ('the Act') in November 2009 and the designation of AIB as a participating institution under the Act in February 2010, financial instruments transferred to NAMA during 2010 and 2011. The consideration received was in the form of Government Guaranteed Floating Rate Notes (senior bonds) and Floating Rate Perpetual Subordinated Bonds (subordinated bonds) issued by NAMA which were initially measured at fair value (note 56).

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 43).

The following table sets out details of the profit/loss arising in 2012, 2011 and 2010:

			2012
	Net carrying value € m	**Fair value of consideration € m**	**Profit on transfer € m**
Adjustment to previous transfers			
Financial instruments returned by NAMA	**44**	**(21)**	**23**
Other adjustments to transfers[1]			**136**
Total			**159**

[1]During 2012, NAMA resolved certain issues in relation to loans and receivables which had transferred during 2010 and 2011. This resulted in the release of provisions amounting to € 155 million which were offset by a charge of € 19 million for Section 93 claims under the NAMA Act.

			2011
	Net carrying value € m	Fair value of consideration € m	Loss on transfer € m
Transfers to NAMA	(1,232)	783	(449)
Adjustments to 2011 transfers	(55)	(83)	(138)
	(1,287)	700	(587)
Utilisation of provision for liabilities and charges			587
Writeback of provision for servicing liability			43
Adjustment to 2010 transfers			
Financial instruments returned by NAMA	40	(27)	13
Adjustments to 2010 transfers	(179)	(257)	(436)
	(139)	(284)	(423)
EBS transfers to NAMA	(36)	35	(1)
Adjustments to EBS 2010 transfers	–	17	17
	(36)	52	16
Total			(364)

			2010
	Net carrying value € m	Fair value of consideration € m	Loss on transfer € m
Transfers to NAMA	(14,010)	8,084	(5,926)
Provision for servicing liability			(43)
Total			(5,969)

8 Profit/(loss) on transfer of financial instruments to NAMA *(continued)*

The following table analyses the overall impact of financial instruments, both transferred and held for sale to NAMA[1] in the consolidated income statement:

	2012 € m	2011 € m	2010 € m
Included within			
Profit/(loss) on transfer of financial instruments to NAMA	**159**	(364)	(5,969)
Administrative expenses *(note 10)*	**(3)**	(28)	(21)
Provisions for impairment of loans and receivables	**–**	(87)	(1,497)
Provisions for liabilities and commitments[2]	**–**	**–**	(1,029)
Release of surplus provision	**–**	433	–
	156	(46)	(8,516)

[1]Excludes amounts relating to interest income, related funding and other income on the underlying financial instruments.

[2]At 31 December 2010, the transfer in 2011 of certain loans to NAMA was deemed to be unavoidable, accordingly a provision was made for the expected discount based on the loans identified for transfer and the haircut that NAMA had communicated would be applied to such loans (note 43).

Adjustments to transfers have been settled either through cash settlements, a return or issue of NAMA senior and subordinated bonds, or the creation of a receivable or a NAMA provision.

9 Other operating (loss)/income

	2012 € m	2011 € m	2010 € m
Loss on disposal of loans and receivables to customers[1]	**(962)**	(322)	(54)
Profit/(loss) on disposal of available for sale debt securities	**25**	(36)	75
Profit on disposal of available for sale equity securities	**6**	8	13
Miscellaneous operating income[2]	**19**	95	65
	(912)	(255)	99

[1]Loss on disposal of loans and receivables to customers includes the impact of deleveraging non-core assets of € 532 million (2011: loss € 322 million) and a loss of € 430 million arising on the transfer of loans at fair value to an SPV, now controlled by the pension scheme (note 12).

[2]Miscellaneous operating income includes:

- Foreign exchange gains and losses Nil (2011: credit of € 40 million; 2010: credit of € 8 million).
- Loss on disposal of equipment Nil (2011: Nil; 2010: loss of € 1 million).
- Legal proceedings Nil (2011: credit of € 61 million; 2010: Nil).
- € 2 million charge relating to terminated cash flow hedges which has been removed from equity (2011: charge of € 18 million; 2010: credit of € 12 million).

10 Administrative expenses

	2012 € m	2011 € m	2010 € m
Personnel expenses:			
Wages & salaries	**786**	757	722
Termination benefits[1]	**300**	**–**	**–**
Retirement benefits[2] *(note 12)*	**(130)**	48	92
Social security costs	**85**	80	74
Other personnel expenses	**68**	50	33
	1,109	935	921
General and administrative expenses[3]	**708**	670	548
	1,817	1,605	1,469

[1]On 21 May 2012, AIB announced the specific terms of a voluntary severance programme which includes both an early retirement scheme and a voluntary severance scheme. At 31 December 2012, a charge of € 293 million has been made to the income statement in respect of termination benefits arising from the voluntary severance programme. This amount comprises € 182 million in respect of past service costs relating to the early retirement scheme and € 140 million relating to the voluntary severance scheme (notes 12 and 43) and a credit of € 29 million in respect of a pension curtailment gain for voluntary severance employees. In addition, a provision of € 7 million has been made in respect of other termination benefits, principally, in the Isle of Man/Channel Islands.

[2]Comprises a credit of € 151 million relating to defined benefit expense (2011: charge of € 29 million; 2010: charge of € 72 million), a defined contribution expense charge of € 13 million (2011: € 12 million; 2010: € 13 million) and a long term disability payments expense charge of € 8 million (2011: € 7 million; 2010: € 7 million) (note 12).

[3]Includes external costs relating to the transfer of financial instruments to NAMA that amounted to € 3 million (2011: € 28 million; 2010: € 21 million).

Employee numbers by market segment are set out in note 65.

11 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 Save As You Earn (SAYE) Share Option Scheme UK; and
(iv) AIB Group Performance Share Plan 2005.

At 31 December 2012, the ordinary shares of Allied Irish Banks, p.l.c. were trading at € 0.05 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 2012, 2011 and 2010.

	2012		2011		2010	
	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	**8,353.7**	**13.62**	10,910.0	13.27	11,048.6	13.28
Exercised	**–**	**–**	**–**	**–**	**–**	**–**
Forfeited/lapsed	**(2,607.2)**	**13.58**	(2,556.3)	12.13	(138.6)	13.77
Outstanding at 31 December	**5,746.5**	**13.64**	8,353.7	13.62	10,910.0	13.27
Exercisable at 31 December	**5,746.5**	**13.64**	8,353.7	13.62	10,910.0	13.27

11 Share-based compensation schemes *(continued)*

(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.

A **Share Ownership Plan** ('the Plan') operates in the UK in place of a profit sharing scheme whereby employees may be awarded free shares. When the Plan was set up in 2002, it was on the basis that it would operate for a maximum period of 10 years. As this 10 year period has now come to an end, no further share awards or purchases can be made under the Plan. No shares have been awarded since 2008 under the Free Share category.

The following table summarises activity in the Free Share category during 2012, 2011 and 2010.

	2012	2011	2010
	Number of shares '000	Number of shares '000	Number of shares '000
Outstanding at 1 January	**464.1**	725.1	992.0
Granted	**–**	–	–
Forfeited	**–**	(1.6)	(8.1)
Vested	**(269.0)**	(259.4)	(258.8)
Outstanding at 31 December	**195.1**	464.1	725.1

(iii) AIB Save As You Earn (SAYE) Share Option Scheme UK

The Company operated a **Save As You Earn Share Option Scheme** ('the Scheme') in the UK. The Scheme was open to all employees of AIB Group in the UK who had completed six months continuous service at the date of grant. Options were last granted under this scheme in 2008.

The following table summarises activity during 2012, 2011 and 2010 for the SAYE Share Option Scheme UK.

	2012		2011		2010	
	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	**0.4**	**10.13**	18.3	10.84	35.3	15.58
Granted	**–**	**–**	–	–	–	–
Forfeited/lapsed	**(0.4)**	**10.13**	(17.9)	10.52	(17.0)	14.69
Exercised	**–**	**–**	–	–	–	–
Outstanding at 31 December	**–**	**–**	0.4	10.13	18.3	10.84
Exercisable at 31 December	**–**	**–**	0.4	10.13	1.7	17.93

(iv) 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 2011 and there were no awards of performance shares in 2012.

Income statement expense

The total expense arising from share-based payment transactions amounted to Nil for the year ended 31 December 2012 (2011: Nil; 2010: 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.

12 Retirement benefits

The Group operates a number of pension and retirement benefit schemes for employees, the majority of which are funded. These include both defined benefit and defined contribution schemes. The hybrid scheme includes elements of a defined benefit scheme and a defined contribution scheme.

Defined benefit schemes

Of the defined benefit schemes operated by the Group, the most significant are the AIB Group Irish Pension Scheme ('the Irish scheme') and the AIB Group UK Pension Scheme ('the UK scheme'). The Irish scheme and the UK Scheme were closed to new members from December 1997.

Staff joining the Group in the Republic of Ireland between December 1997 and December 2007 became members of the Irish Defined Contribution ("DC") scheme. A hybrid pension arrangement was introduced in Ireland in December 2007 and members of the Irish DC scheme had the option at that time to switch to the hybrid pension arrangement.

Staff joining the Group in the Republic of Ireland after December 2007 automatically join the hybrid pension arrangement.

At the year end, the Irish scheme has approximately 10,300 active members, 3,800 deferred members and 3,500 pensioners. Of the active members of the Irish scheme, c. 3,000 are non-hybrid scheme members and c. 7,300 are hybrid scheme members. Also, in the Republic of Ireland, there are three EBS schemes with a total membership of 534 active members, 420 deferred members and 57 pensioners. 50 per cent. of staff in the UK are active members of the UK scheme. Retirement benefits for the defined benefit schemes are calculated by reference to service and pensionable salary averaged over the final five years (EBS scheme: pensionable salary in final year), subject to certain conditions.

Voluntary Severance Programme

On 21 May 2012, the Group announced the specific terms of a voluntary severance programme which included an early retirement scheme. During 2012, 976 employees left AIB under the Group's Irish early retirement scheme, and approximately 160 Irish early retirements are expected in 2013. The Group has recognised a past service cost in the income statement and an increase in the benefit obligation of € 146 million (31 December 2011: Nil) for the Group's Irish early retirement scheme.

In addition, 294 employees left under the Group's UK early retirement scheme and approximately 38 UK early retirements are expected in 2013. The Group has recognised a past service cost in the income statement and an increase in the benefit obligation of € 36 million (31 December 2011: Nil) in respect of the Group's UK early retirement scheme.

During 2012, there were 380 leavers from the Irish scheme under the Group's voluntary severance scheme, with further voluntary severances expected for 2013. These have led to the recognition of a curtailment gain of € 29 million in the income statement.

Pay and Benefits Review

The Group announced a Pay and Benefits review on 14 June 2012. The main proposed change is the closure of all defined benefit pension schemes to future accrual and the transfer of all employees who are currently members of a defined benefit pension scheme (including hybrid arrangements) to a DC pension scheme. This change will have no impact on the benefits accrued up to the date of transfer. The impact of this proposed closure of the defined benefit schemes to future accrual has not been recognised as this change had not occurred by 31 December 2012 and was still subject to discussions with relevant parties.

Under the Pay and Benefits review, the payment of retirees' club subscriptions and the provision of a preferential interest rate on retirees' and future retirees' deposit accounts ceased. The liability of € 24 million previously recognised for these benefits was released to the income statement. In 2011, the Group decided to no longer pay club subscriptions for future retirees. Accordingly, the liability of € 26 million previously recognised for this benefit was credited to the income statement as a curtailment gain in 2011.

In 2012, the Group affirmed its approach to the funding of the Irish pension scheme. This led to a reduction of the defined benefit obligation of € 204 million and a credit to the income statement as a negative past service cost.

12 Retirement benefits *(continued)*

Contributions

The Irish scheme is funded by a contribution rate of 16.0 per cent. of pensionable salaries with effect from 1 January 2011. Members of the Irish scheme contribute 5 per cent. of pensionable salary except for those who do not contribute in return for lower benefits.

On 31 July 2012, AIB entered into a Contribution Deed with the Trustee of 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 an SPV owning loans and receivables previously transferred at fair value from the Group.

During 2012, AIB also transferred € 115 million into the Irish scheme to fund the Irish early retirement scheme as part of AIB's voluntary severance/early retirement cost saving initiative. In addition, AIB transferred € 25 million into the UK scheme to fund the UK early retirement scheme.

The UK scheme is funded by a contribution rate of 30.8 per cent. of pensionable salaries together with quarterly payments of Stg£ 9.7 million from 1 April 2016 increasing to Stg£ 12.6 million by 1 April 2024. A payment of Stg£ 50.8 million was paid into the UK scheme in December 2010 and a further Stg£ 102 million was paid in January 2011. Those sums are part of a schedule of contributions agreed between the Group and the Trustees and accepted by the Pensions Regulator in the United Kingdom. Members of the UK scheme contribute 5 per cent. of pensionable salary except for those who do not contribute in return for lower benefits.

The total contributions to all defined benefit pension schemes operated by the Group in 2013 is estimated to be € 215 million. As already stated, the Group is planning to close the defined benefit pension schemes to future accrual. However, as the date of closure to future accrual is uncertain, included in the estimate is an amount based on the assumption that the defined benefit pension schemes will remain open for the full year 2013. Approval was received from the Pensions Board in 2013 in relation to a funding plan with regard to regulatory Minimum Funding Standard requirements of the Irish scheme.

Pension Levy

The Irish Finance (No 2) Act 2011, which was signed into law in June 2011, imposed an annual levy of 0.6% on the market value of assets under management in Irish pension schemes, for the years 2011 to 2014 (inclusive). A levy of € 16 million (2011: € 16 million) was paid in respect of Irish defined benefit schemes. A levy of € 2 million (2011: € 2 million) was paid in respect of Irish defined contribution schemes. The payment of the levy in respect of Irish defined benefit schemes was incorporated into the expected return on pension scheme assets for 2012. In 2011, the payment of the levy was included as part of the actuarial loss on assets.

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 were carried out as at 30 June 2009 using Projected Unit Methods. The Irish scheme and the UK scheme are due to finalise actuarial valuations as at 30 June 2012 and 31 December 2011 respectively by 31 March 2013. Actuarial valuations are available for inspection by the members of the schemes.

Change in estimate

During the year, the Group, with input from its actuary, refined its estimate of the discount rate used for the computation of the defined benefit liabilities. The refinement included a significant extension of the bond data included in the population from which the discount rate is derived, as well as a refinement of the approach used to extrapolate the available bond data out to the duration of the pension scheme obligations.

The discount rate for euro schemes for 2011 would have been 4.9% under the refined methodology, a decrease of 0.2%. This change in discount rate at 31 December 2011, would have resulted in an increase in the present value of the euro schemes' liabilities of € 126 million.

12 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 2012 and 2011. The assumptions, including the expected long-term rate of return on assets, have been set based upon the advice of the Group's actuary.

Financial assumptions	**2012 %**	2011 %
Irish scheme		
Rate of increase in salaries[1]	**3.00**	3.20
Rate of increase of pensions in payment[2]	**1.60**	2.00
Expected return on scheme assets	**4.49**	5.92
Discount rate	**4.00**	5.10
Inflation assumptions	**2.00**	2.00
UK scheme		
Rate of increase in salaries[1]	**2.90**	3.60
Rate of increase of pensions in payment	**2.90**	3.00
Expected return on scheme assets	**4.90**	5.20
Discount rate	**4.50**	4.70
Inflation assumptions (RPI)	**2.90**	3.00
Other schemes		
Rate of increase in salaries	**3.0 – 3.5**	3.2 – 3.6
Rate of increase of pensions in payment	**0.0 – 3.0**	0.0 – 3.0
Expected return on scheme assets	**3.7 – 7.5**	5.5 – 8.0
Discount rate	**4.0 – 4.5**	4.7 – 5.6
Inflation assumptions	**2.0 – 2.9**	2.0 – 3.0

[1]The rate of increase in salaries includes the impact of salary scale improvements.

[2]Nil for the next 5 years and 2% per annum thereafter.

Mortality assumptions

The life expectancies underlying the value of the scheme liabilities for the Irish and UK schemes at 31 December 2012 and 2011 are shown in the following table:

		Life expectancy - years			
		Irish scheme		UK scheme	
		2012	2011	**2012**	2011
Retiring today age 63					
	Males	**25.2**	22.5	**26.2**	24.6
	Females	**26.7**	25.6	**28.4**	26.9
Retiring in 10 years at age 63					
	Males	**26.6**	25.5	**27.3**	25.7
	Females	**27.8**	28.6	**29.6**	28.2

The mortality assumptions for the Irish and UK schemes were updated in 2012. The table shows that a member of the Irish scheme retiring at age 63 on 31 December 2012 is assumed to live on average for 25.2 years for a male (26.2 years for the UK scheme) and 26.7 years for a female (28.4 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 2012 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.

12 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 for 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.

Assumption	Change in assumption	Impact on scheme liabilities[1]	
		Irish scheme	UK scheme
Inflation	Increase by 0.25%	Increase by 2.7%	Increase by 4.7%
Salary growth	Increase by 0.25%	Increase by 1.3%	Increase by 1.2%
Discount rate	Increase by 0.25%	Decrease by 4.7%	Decrease by 5.5%
Rate of mortality	Increase life expectancy by 1 year	Increase by 2.5%	Increase by 2.9%

[1]Scheme liabilities: Irish scheme € 4,165 million, UK scheme € 1,140 million.

Fair value of scheme assets

The following table sets out on a combined basis for all schemes, the fair value of the assets held by the schemes together with the long-term rate of return expected for each class of asset for the Group. The expected rates of return on individual asset classes are estimated using current and projected economic and market factors at the measurement date in consultation with the Group's actuaries.

Under IAS 19 *Employee Benefits* (revised), which the Group will adopt from 1 January 2013, the expected return on assets is replaced with an interest cost on assets which is set equal to the discount rate at the measurement date.

	2012			2011		
	Long term rate of return expected %	Value € m	Scheme assets %	Long term rate of return expected %	Value € m	Scheme assets %
Equities	**6.1**	**2,156**	**46**	7.0	2,325	62
Bonds	**3.0**	**1,543**	**32**	3.1	1,035	27
Mortgage portfolio	**5.0**	**570**	**12**	–	–	–
Property	**5.6**	**204**	**4**	5.5	204	5
Cash/other	**3.8**	**301**	**6**	4.2	235	6
Total market value of assets	**4.8**	**4,774**	**100**	5.7	3,799	100
Actuarial value of liabilities of funded schemes		**(5,552)**			(4,529)	
Deficit in the funded schemes		**(778)**[1]			(730)[1]	
Unfunded deferred benefit obligation		**(11)**			(33)	
Net pension deficit		**(789)**			(763)	

[1]Of which € 673 million deficit relates to the Irish scheme, € 30 million deficit relates to the UK scheme, € 62 million deficit relates to the EBS schemes and € 13 million deficit relates to other schemes (2011: € 754 million deficit relates to the Irish scheme, € 69 million surplus relates to the UK scheme, € 28 million deficit relates to the EBS schemes and € 17 million deficit relates to other schemes).

At 31 December 2012, the Group pension scheme assets included AIB shares amounting to Nil (2011: Nil). Included in the actuarial value of the liabilities is an amount in respect of commitments to pay annual pensions amounting to € 104,234 (2011: € 109,813) in aggregate to a number of former directors or the spouses of deceased former directors.

12 Retirement benefits *(continued)*

Defined benefit expense

The following table sets out the components of the defined benefit expense for each of the three years ended 31 December 2012, 2011 and 2010:

	2012 € m	2011 € m	2010 € m
Included in administrative expenses:			
Current service cost	**79**	70	69
Past service cost	**(218)**	3	4
Expected return on pension scheme assets	**(227)**	(235)	(215)
Interest on pension scheme liabilities	**223**	217	214
Curtailment	**(8)**	(26)	–
Cost of providing defined retirement benefits	**(151)**	29	72

The actual return on scheme assets during the year ended 31 December 2012 was € 379 million (2011: € 2 million; 2010: € 328 million).

Movement in defined benefit obligation and scheme assets

The following tables set our the movement in the defined benefit obligation and scheme assets during 2012 and 2011:

Movement in defined benefit obligation	**2012 € m**	2011 € m
Defined benefit obligation at beginning of year	**4,562**	3,939
Acquisition during the year	**–**	126
Current service cost	**79**	70
Past service cost – Termination benefits	**182**	–
– Other	**(218)**	3
Interest cost	**223**	217
Contributions by employees	**20**	18
Actuarial losses	**1,010**	301
Benefits paid	**(280)**	(119)
Curtailment – Termination	**(29)**	–
– Other	**(8)**	(26)
Translation adjustment on non-euro schemes	**22**	33
Defined benefit obligation at end of year	**5,563**	4,562

Movement in the scheme assets	**2012 € m**	2011 € m
Fair value of scheme assets at beginning of year	**3,799**	3,539
Acquisition during the year	**–**	109
Expected return[1]	**227**	235
Actuarial gains and (losses)	**152**	(233)
Contributions by employer	**830**[2]	216
Contributions by employees	**20**	18
Benefits paid	**(279)**	(119)
Translation adjustment on non-euro schemes	**25**	34
Fair value of scheme assets at end of year	**4,774**	3,799

[1]Includes payment of pension levy.

[2]Includes the transfer to the Irish scheme of interests in an SPV owning loans and receivables previously transferred at fair value from the Group.

12 Retirement benefits *(continued)*

Amount recognised in the statement of comprehensive income

The following table sets out an analysis of the amount recognised in the statement of comprehensive income for the years ended 31 December 2012, 2011 and 2010:

	2012 € m	2011 € m	2010 € m
Actual return less expected return on pension scheme assets	**152**	(233)	113
Experience gains and losses on scheme liabilities	**(81)**	31	107
Changes in demographic and financial assumptions	**(929)**[1]	(332)	(217)
Actuarial (loss)/gain recognised	**(858)**	(534)	3
Deferred tax	**118**	70	(2)
Recognised in the consolidated statement of comprehensive income [2]	**(740)**	(464)	1

[1]Principally due to reduction in discount rate and updating of mortality assumptions in 2012.

[2]The Group's share of recognised (losses)/gains in associated undertakings, includes an actuarial gain of Nil for the year ended 31 December 2012 (2011: an actuarial gain of € 4 million; 2010: an actuarial loss of € 13 million) (note 46).

History of experience gains and losses

The following table sets out an analysis of the gains and losses for the defined benefit schemes for the years ended 31 December 2008 to 31 December 2012:

	2012 € m	2011 € m	2010 € m	2009 € m	2008 € m
Difference between expected and actual return on scheme assets:					
Amount	**152**	(233)	113	150	(1,367)
Percentage of scheme assets	**3%**	6%	3%	5%	55%
Experience gains and losses on scheme liabilities:					
Amount	**(81)**	31	107	122	(51)
Percentage of scheme liabilities	**1%**	1%	3%	3%	1%
Total gross amount recognised in SOCI[1]:					
Amount	**(858)**	(534)	3	180	(807)
Percentage of scheme liabilities	**15%**	12**%**	0%	5%	22%

[1]Statement of comprehensive income.

Defined benefit pension schemes

An analysis of the pension deficit for the years ended 31 December 2008 to 31 December 2012 is set out in the following table:

	2012 € m	2011 € m	2010 € m	2009 € m	2008 € m
Funded defined benefit obligation	**5,552**	4,529	3,883	3,595	3,548
Scheme assets	**4,774**	3,799	3,539	2,939	2,499
Deficit within funded schemes	**778**	730	344	656	1,049
Unfunded defined benefit obligation	**11**	33	56	58	56
Deficit within schemes	**789**	763	400	714	1,105

12 Retirement benefits *(continued)*

IAS 19 Employee Benefits (revised)

On 16 June 2011, the IASB published an amended IAS 19 *Employee Benefits.* The changes are effective from 1 January 2013. The application of this amended standard is retrospective.

The main changes are as follows:

– Introduction of enhanced disclosures about defined benefit plans;
– Disaggregation of defined benefit costs into various components;
– Changes as regards the recognition of curtailments, past service costs and termination costs;
– Replacement of interest cost and expected return on assets with a net interest cost on the net defined benefit liability (asset); and
– Recognition of all administration expenses, with the exception of costs associated with management of scheme assets, in profit or loss.

Based on the assumption that the defined benefit schemes will remain open for the full year 2013, the Group estimates that the adoption of IAS 19 revised will increase its retirement benefit charge for 2013 by c. € 20 million. In addition, the adoption of IAS 19 revised will require the restatement in 2013 of 2012 comparative amounts. Accordingly, a charge for termination benefits of € 130 million which was recognised in 2012, will be recognised in 2013.

Defined contribution schemes

The Group operates a number of DC schemes. The defined benefit schemes in Ireland and the UK were closed to new members from December 1997. Employees joining after December 1997 joined on a defined contribution basis. Members of the DC scheme were offered the option to join the hybrid arrangement when it was introduced in December 2007. The standard contribution rate to the DC scheme was 8 per cent. during 2012 and 10 per cent. in respect of the defined contribution elements of the hybrid arrangement.

Staff joining in the UK from 1 January 2009 are eligible to become members of a new enhanced UK defined contribution scheme. Existing members of the UK defined contribution scheme were also given the opportunity to join the enhanced scheme. The enhanced scheme has employer contributions ranging from 5 per cent. to 20 per cent., increasing as the employee gets older. The member contribution rate also increases with age. All members of the UK defined contribution scheme are also accruing benefits under S2P (the UK State Second Pension).

The total cost in respect of the Irish DC scheme, the EBS DC schemes and the UK DC schemes for 2012 was € 13 million (2011: € 12 million; 2010: € 13 million). The cost in respect of defined contributions is included in administrative expenses (note 10).

Long-term disability payments

AIB provides an additional benefit to employees who suffer prolonged periods of sickness. 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 2012, the Group contributed € 8 million (2011: € 7 million; 2010: € 7 million) towards insuring this benefit. This amount is included in administrative expenses (note 10).

13 Provisions for impairment on financial investments available for sale	2012 € m	2011 € m	2010 € m
Debt securities *(note 33)*	–	164	56
Equity securities *(note 33)*	86[1]	119	18
	86	283	74

[1]Of which € 82 million (2011: € 106 million) relates to NAMA subordinated bonds.

14 Profit/(loss) on disposal of property

2012

Release of deferred profit on sale of property € 2 million.

2011

The sale of properties which were surplus to business requirements gave rise to a loss on disposal of € 1 million.

2010

The sale of properties which were surplus to business requirements gave rise to a profit on disposal of € 1 million relating to continuing operations. In addition, the Group continued with its sale and leaseback programme announced in 2006 and 29 properties were sold giving rise to a profit before tax of € 45 million (€ 33 million after tax) reported within continuing operations. The leases qualify as operating leases and the commitments in respect of the operating lease rentals (initial rent payable € 11 million per annum) are included in note 64 Commitments, operating lease rentals. There were no sales recorded within discontinued operations.

15 Profit/(loss) on disposal of businesses

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).

2011

On 30 June 2011, AIB announced that it had signed an agreement to sell its investment in AIB International Financial Services Limited and related companies. AIB's investment was derecognised at 30 November 2011, following regulatory approval for the disposal. This resulted in a profit of € 27 million before tax (tax charge: Nil). The Group also completed the disposal of an offshore subsidiary, AIB Jerseytrust Limited, on 30 September 2011. This disposal resulted in a profit before tax of € 10 million (tax charge: Nil). The Group received an additional € 1 million consideration which had been deferred in 2010 on the disposal of Goodbody Holdings Limited.

2010

On 20 September 2010, AIB announced that it had signed an agreement to sell its investment in Goodbody Holdings Limited and related companies. AIB's investment was derecognised at 31 December 2010, following the sale becoming unconditional. This resulted in a loss of € 11 million before tax (tax charge: Nil).

16 Auditor's fees

The disclosure of Auditor's fees are in accordance with (SI 220)[1] which mandates the disclosure of fees in particular categories and that fees paid to the Group Auditor only (KPMG Ireland) for services to the parent company and Group be disclosed in this format. All years presented are on that basis.

	2012 € m	2011 € m	2010 € m
Auditor's fees *(excluding VAT)*:			
Audit	**2.1**	2.3	2.7
Other assurance services	**1.5**	1.0	2.2
Taxation advisory services	**0.2**	0.3	0.2
Other non-audit services	**–**	–	0.1
	3.8	3.6	5.2

Included in the above are amounts paid to the Group Auditor (KPMG Ireland) for services provided to other Group companies:

- audit € 90,000 (2011: € 100,000; 2010: € 110,000);
- other assurance services € 187,500 (2011: € 113,510; 2010: € 53,250);
- taxation advisory services € 17,835 (2011: € 10,750; 2010: € 9,950); and
- other non–audit services Nil (2011: Nil; 2010: 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.

	2012 € m	2011 € m	2010 € m
Auditor's fees excluding KPMG Ireland *(excluding VAT):*	**0.8**	1.0	2.4

[1]SI 220 is titled the European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010.

17 Taxation

	2012 € m	2011 € m	2010 € m
Allied Irish Banks, p.l.c. and subsidiaries			
Corporation tax in Republic of Ireland			
Current tax on income for the year	–	4	6
Adjustments in respect of prior years	(2)	(1)	8
	(2)	3	14
Double taxation relief	–	–	2
	(2)	3	16
Foreign tax			
Current tax on income for the year	14	24	(30)
Adjustments in respect of prior years	(12)	13	10
	2	37	(20)
	–	40	(4)
Deferred taxation			
Origination and reversal of temporary differences	170	1,167	1,709
Adjustments in respect of prior years	13	(19)	5
	183	1,148	1,714
Total tax credit for the year	**183**	1,188	1,710
Effective tax rate	**4.8%**	23.3%	14.2%

Factors affecting the effective tax rate

The effective income tax rate for 2012 is lower (2011 higher and 2010 lower) than the weighted average of the Group's statutory corporation tax rates across its geographic locations. The differences are explained in the following table.

	2012 %	2011 %	2010 %
Weighted average corporation tax rate	14.5[1]	16.8	14.4
Effects of:			
Expenses not deductible for tax purposes	(0.3)	(0.3)	(0.1)
Exempted income, income at reduced rates and tax credits	0.1	7.9[2]	0.3
Income taxed at higher rates	–	(0.7)	(0.2)
Deferred tax assets not recognised/reversal of amounts previously not recognised	(7.2)	0.3	–
Other differences	(0.4)	0.8	(0.4)
Change in tax rates[3]	(1.8)	(1.4)	(0.1)
Tax on associated undertakings	–	–	0.1
Adjustments to tax charge in respect of previous years	(0.1)	(0.1)	0.2
Effective income tax rate	**4.8**	23.3	14.2

[1]The change in the weighted average corporation tax rate in 2012 was primarily driven by reduced tax losses in the UK tax jurisdiction as a proportion of the overall loss compared to the previous year.

[2]Exempted income substantially relates to the gain on redemption of subordinated liabilities and other capital instruments (note 7).

[3]Change in the UK tax rate.

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18 Discontinued operations

Arising from the Prudential Capital Assessment Review ("PCAR") 2010 requirement to raise additional capital, the Group announced that its investments in BZWBK, M&T Bank Corporation and Bulgarian American Credit Bank AD ("BACB") were to be disposed of.

The disposal of M&T Bank Corporation was completed on 4 November 2010. This transaction led to a loss on disposal of € 231 million. The sale of BZWBK was agreed on 10 September 2010 subject to regulatory approval and completed on 1 April 2011 and the sale of BACB completed on 17 June 2011.

There were no discontinued operations in the year to 31 December 2012.

The following tables set out income statement analysis of discontinued operations:

Profit after taxation from discontinued operations	Notes	2011 € m	2010 € m
BZWBK	(A)	1,628	254
M&T Bank Corporation	(B)	–	5
Bulgarian American Credit Bank AD	(C)	–	(60)
Total		1,628	199

(A) - BZWBK

On 1 April 2011, AIB completed the sale of its entire shareholding in BZWBK and in BZWBK Asset Management. The proceeds of the sale amounted to € 3.1 billion which gave rise to a profit on disposal of € 1.5 billion which was recorded in the income statement.

BZWBK had been accounted for as a discontinued business, the results of which are set out below to the disposal date 1 April 2011. Prior to classification as held for sale, BZWBK was accounted for as a subsidiary undertaking.

Profit from discontinued operations	**To date of disposal 1 April 2011 € m**	2010 € m
Net interest income	126	443
Dividend income	–	14
Net fee and commission income	86	324
Net trading income	9	69
Other operating income	5	(4)
Other income	100	403
Total operating income	226	846
Total operating expenses	(103)	(412)
Operating profit before provisions	123	434
Provisions for impairment on loans and receivables and other financial instruments	(24)	(105)
Operating profit	99	329
Profit before taxation from discontinued operations	99	329
Income tax expense from discontinued operations	(17)	(72)
Profit after taxation from discontinued operations	82	257
Loss recognised on the remeasurement to fair value less cost to sell[(1)]	–	(3)
Profit on disposal[(2)]	1,546	–
Profit for the period after taxation from discontinued operations	1,628	254

In 2011, € 1,608 million (2010: € 184 million) of the profit from discontinued operations of € 1,628 million (2010: € 254 million) was attributable to the owners of the parent.

18 Discontinued operations *(continued)*

Profit on disposal of BZWBK	1 April 2011 € m
Gross proceeds from sale	3,112
Less: costs of disposal	(13)
Net proceeds	3,099
Carrying value at date of disposal	1,722[2]
	1,377
Reclassification of currency translation reserves to the income statement	106
Reclassification of available for sale and cash flow hedging reserves to the income statement (net of deferred tax)	63
Profit on disposal[3]	1,546

[1]Relates to impairment of intangible assets.

[2]The carrying value of € 1,722 million at the date of disposal reflects third party assets of € 2,293 million (adjusted for intercompany liabilities due by BZWBK amounting to € 58 million) and non-controlling interests of € 513 million (note 52).

[3]No tax charge arises on this disposal.

Gross assets and liabilities of BZWBK at disposal date

At the date of disposal on 1 April 2011, gross assets amounted to € 13,774 million and gross liabilities (excluding intercompany balances) amounted to € 11,481 million.

Effect of disposal on cash flows of the Group	2011 € m
Consideration received satisfied in cash	3,112
less: costs of disposal	(13)
Cash and cash equivalents disposed of *(note 59)*	(673)
Net cash inflow	2,426

The following cash flows relate to the discontinued operations of BZWBK:

	Period to 1 April 2011 € m	2010 € m
Profit after taxation	1,628	199
Income tax	17	72
Profit before taxation	1,645	271
Net movement in non cash items from operating activities	(1,573)	111
Net cash outflow from operating assets and liabilities	(87)	(318)
Taxation paid	(34)	(56)
Net cash flows from operating activities	(49)	8
Net cash flows from investing activities	(38)	42
Net cash flows from financing activities	–	(22)
Decrease in cash and cash equivalents	(87)	28
Cash and cash equivalents at beginning of period	767	716
Cash and cash equivalents disposed of	(673)	–
Effect of exchange rates on cash and cash equivalents	(7)	23
Cash and cash equivalents at date of disposal/year end	–	767

18 Discontinued operations *(continued)*

(B) - M&T Bank Corporation

On 4 November 2010, AIB completed the disposal of 26,700,000 shares of common stock of M&T Bank Corporation. The proceeds from the sale amounted to US$ 77.50 per share, or total proceeds of € 1,467 million, after costs.

M&T was previously accounted for as an interest in associated undertakings.

	2010 € m
Profit from discontinued operations	
Share of profits from associated undertakings net of tax[1]	23
Reversal of impairment on associated undertakings	213
Results from discontinued operations, net of taxation	236
Loss on the disposal of investment in associated undertakings	(231)
Income tax on loss on disposal	–
Profit after taxation for the period from discontinued operations attributable to the owners of the parent	5

[1]The tax charge in 2010 amounted to € 11 million.

Effect of disposal on cash flows of the Group	2010 € m
Consideration received - satisfied in cash	1,487
Cash and cash equivalents disposed of	–
Net cash inflow	1,487

(C) - Bulgarian American Credit Bank AD

On 16 May 2011, the Group announced that it had signed an agreement to sell its 49.99% shareholding in Bulgarian American Credit Bank AD. The sale completed on 17 June 2011 resulting in a gain of € 0.1 million.

In 2011, the loss arising on this investment amounted to Nil.

In 2010, total loss attributable to the owners of the Parent amounted to € 60 million, of which € 10 million arose from operations and € 50 million was recognised on remeasurement of the investment to fair value less costs to sell.

19 Non-controlling interests in subsidiaries

	2012 € m	2011 € m	2010 € m
The profit attributable to non-controlling interests is analysed as follows:			
Continuing operations: other equity interests in subsidiaries (note 48)[1]	–	–	–
Discontinued operations: ordinary share interest in subsidiaries[2]	–	20	70
	–	20	70

[1]There were no distributions paid in 2011 and 2010 on the perpetual preferred securities. The outstanding amount of € 189 million on these securities was purchased in full for cash in June 2011 (note 7).

[2]The Group's interest in BZWBK was disposed of on 1 April 2011.

20 (Loss)/earnings per share

The calculation of basic earnings per unit of ordinary/convertible non-voting ("CNV") shares is based on the profit/(loss) attributable to ordinary/CNV shareholders divided by the weighted average of ordinary/CNV shares in issue, excluding treasury shares and own shares held.

The diluted earnings per share is based on the profit/(loss) attributable to ordinary/CNV shareholders divided by the weighted average ordinary/CNV shares in issue excluding treasury shares and own shares held, adjusted for the effect of dilutive potential ordinary shares.

(a) Basic	**2012 € m**	2011 € m	2010 € m
Loss attributable to equity holders of the parent from continuing operations	**(3,647)**	(3,920)	(10,361)
Gain on redemption of RCI and LPI recognised in equity *(note 7)*	**–**	344	**–**
Loss attributable to ordinary/CNV shareholders from continuing operations	**(3,647)**	(3,576)	(10,361)
Profit attributable to ordinary/CNV shareholders from discontinued operations	–	1,608	129
		Number of shares (millions)	
Weighted average number of ordinary shares in issue during the year	**515,789.0**	226,533.5	1,023.8
Weighted average number of CNV shares in issue during the year	**–**	2,787.7	258.7
Contingently issuable shares	**–**[3]	599.9[2]	531.7[1]
Weighted average number of shares	**515,789.0**	229,921.1	1,814.2
Loss per share from continuing operations – basic	**EUR (0.7c)**	EUR (1.6c)	EUR (571.1c)
Earnings per share from discontinued operations – basic	–	EUR 0.7c	EUR 7.1c

20 (Loss)/earnings per share *(continued)*

(b) Diluted	**2012 € m**	2011 € m	2010 € m
Loss attributable to ordinary/CNV shareholders from continuing operations *(note 20 (a))*	**(3,647)**	(3,576)	(10,361)
Dilutive effect of CCNs' interest charge	**–**	–	–
Profit/(loss) attributable to ordinary/CNV shareholders from discontinued operations	**–**	1,608	129
	(3,647)	(1,968)	(10,232)
Adjusted loss attributable to ordinary/CNV shareholders from continuing operations	**(3,647)**	(3,576)	(10,361)
Adjusted profit attributable to ordinary/CNV shareholders from discontinued operations	**–**	1,608	129
		Number of shares (millions)	
Weighted average number of ordinary shares in issue during the year	**515,789.0**	226,533.5	1,023.8
Weighted average number of CNV shares in issue during the year	**–**	2,787.7	258.7
Dilutive effect of options and warrants outstanding	**–**	–	–
Dilutive effect of CCNs	**–**	–	–
Contingently issuable shares	**–**[3]	599.9[2]	531.7[1]
Potential weighted average number of shares	**515,789.0**	229,921.1	1,814.2
Loss per share from continuing operations – diluted	**EUR (0.7c)**	EUR (1.6c)	EUR (571.1c)
Earnings per share from discontinued operations – diluted	**–**	EUR 0.7c	EUR 7.1c

- On 23 December 2010, AIB issued 675,107,845 ordinary shares and 10,489,899,564 CNV shares to the NPRFC. The CNV shares ranked equally with the ordinary shares in terms of dividend payment and were converted into ordinary shares on a one to one basis on 8 April 2011.
- On 27 July 2011, AIB issued 500 billion ordinary shares to the NPRFC.
- Bonus shares in lieu of the dividend on the 2009 Preference Shares were issued to the NPRFC in 2012, 2011 and 2010, amounting to: 3,623,969,972; 1,247,273,565; and 198,089,847 shares respectively. 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. Outstanding warrants were cancelled 23 December 2010.
- In July 2011, AIB issued € 1.6 billion in convertible capital notes ("CCNs"). These notes are mandatorily redeemable and will convert to AIB ordinary shares at a conversion price of € 0.01 per share (note 44) if the Core Tier 1 capital ratio breaches 8.25%. These incremental shares have not been included in calculating the diluted per share amounts because they are anti-dilutive.

Both the ordinary and CNV shares are included in the weighted average number of shares on a time apportioned basis.

[1]Contingently issuable shares were treated as outstanding from 14 December 2009, the date the 'dividend stopper' came into effect. The shares relate to the number of shares (on a time apportioned basis) that would issue to the National Pension Reserve Fund Commission ("NPRFC"), if the annual coupon on the € 3.5 billion Preference Shares was not paid in cash. These contingently issuable shares were issued on 13 May 2010 (198,089,847 shares).

[2]The 'dividend stopper' remained in force throughout 2010, accordingly, contingently issuable shares have been treated as outstanding from 13 May 2010 in respect of the dividend payment due on 13 May 2011. This dividend was satisfied through bonus shares, 484,902,878 of which were issued on 13 May 2011, leaving a residual of 762,370,687 which were issued in July 2011. Accordingly, 484,902,878 were treated as contingently issuable for the period up to 13 May 2011, with 724,252,152 being contingently issuable up to 26 July 2011. In addition, 38,118,535 contingently issuable shares have been included from 13 May to 26 July 2011 as the full issue of shares was not satisfied on the due date (note 45).

[3]The SLO, which came into effect on 14 April 2011, superseded the 'dividend stopper', with distributions now being payable by AIB in its sole discretion. Accordingly, there were no contingently issuable shares during 2012.

21 Distributions on equity shares

No dividends were paid on ordinary shares in 2012, 2011 or 2010.

22 Transfer of business from Anglo Irish Bank Corporation

On 24 February 2011, AIB announced that it had agreed, pursuant to a transfer order issued by the High Court (under the Credit Institutions (Stabilisation) Act 2010), the transfer of deposits and NAMA senior bonds from Anglo Irish Bank Corporation ('Anglo') to AIB. AIB also announced the transfer to AIB by way of a share sale of Anglo Irish Bank Corporation (International) PLC in the Isle of Man ('Anglo IOM'), which included customer deposits. In total, € 6.9 billion in deposits and € 11.9 billion in NAMA senior bonds (nominal value € 12.2 billion) transferred. In addition, a further € 1.6 billion in deposits were held in Anglo IOM. A net capital contribution of € 1.5 billion was generated on the date of the transaction.

This transaction between AIB and Anglo, both of which are under the common control of the Irish Government, was a transfer of a business (as defined by IFRS 3 *Business Combinations*). In line with the Group accounting policy for transfer of a business under common control, this acquisition was accounted for at carrying value.

Management estimates that had Anglo IOM been consolidated from 1 January 2011, it would have contributed € 2 million of additional revenue and Nil of additional profits before taxation to the Group in 2011.

The key elements of the transfer were:

	At date of acquisition € m
Identifiable assets acquired at carrying value	
NAMA senior bonds *(note 32)*	11,854
Accrued interest on NAMA senior bonds	55
Other assets	236
Identifiable liabilities acquired at carrying value	
Deposits[1]	(6,868)
Total	5,277
AIB net cash payment	3,779
Net capital contribution[2]	1,498
	5,277

[1]Included within customer accounts (note 40).

[2]The net capital contribution is recorded in the statement of changes in equity.

The statement of financial position of Anglo IOM at the date of acquisition is set out in the following table:

	31 January 2011 € m
Assets	
Loans and receivables to banks[1]	1,713
Loans and receivables to customers/prepayments and accrued income	76
Total assets	1,789
Liabilities	
Deposits by banks[2]	37
Customer accounts	1,570
Other liabilities	2
Total liabilities	1,609
Share capital	158
Retained profits	22
Shareholders' equity	180
Total shareholders' equity and liabilities	1,789

[1]Includes balances with Anglo group companies of € 1,113 million.

[2]Balances with Anglo group companies of € 37 million.

23 Acquisition of EBS Limited ("EBS")

On 31 March 2011, the Minister for Finance proposed the combination of AIB and EBS to form one of the two pillar banks in the Republic of Ireland. On 26 May 2011, AIB entered into an agreement with EBS, the Minister for Finance and the NTMA to acquire 100% of the share capital of EBS for a nominal consideration of €1. The acquisition completed on 1 July 2011 and EBS was consolidated into the AIB Group financial statements with effect from 1 July 2011.

As part of the transaction, EBS was demutualised and was issued a banking licence. EBS, which was renamed 'EBS Limited', now operates as a fully licensed, wholly-owned subsidiary of AIB, with its own branch network. The principal activities of EBS involve the provision of mortgage lending, savings, investments and insurance arrangement services to customers.

Both AIB and EBS are under the common control of the Irish Government, therefore, the acquisition was accounted for as a common control transaction under the carrying value basis in accordance with AIB Group accounting policy. The result of the transaction was recognised in equity as arising from a transaction with shareholders.

The carrying value of assets acquired and liabilities assumed as at the acquisition date are as set out hereunder:

	Notes	EBS acquisition value[1] as at 1 July 2011 € m
Assets		
Cash and balances at central banks		176
Financial assets held for sale to NAMA		34
Derivative financial instruments	27	81
Loans and receivables to banks	28	384
Loans and receivables to customers	29	15,989
Financial investments available for sale	33	1,965
NAMA senior bonds	32	301
Intangible assets and goodwill	36	21
Property, plant and equipment	37	42
Other assets		22
Current taxation		5
Deferred taxation		158
Prepayments and accrued income		42
Total assets		19,220
Liabilities		
Deposits by central banks and banks	39	4,545
Customer accounts	40	10,060
Derivative financial instruments	27	156
Debt securities in issue	41	3,410
Deferred taxation	38	10
Other liabilities		58
Provisions for liabilities and commitments		14
Accruals and deferred income		208
Retirement benefit liabilities	12	17
Total liabilities		18,478
Net assets		742

The net assets amount of € 742 million is reflected as a capital contribution in Allied Irish Banks, p.l.c.'s separate financial statements.

In AIB Group's consolidated financial statements, the capital contribution amounts to € 777 million, a difference of € 35 million to that recognised at parent company level. This difference arises from the cross holdings of investments between AIB and EBS which are eliminated at a consolidated level.

Acquisition related costs of € 0.4 million have been included in operating expenses.

[1]AIB accounting policies have been applied to EBS balances at 30 June 2011.

23 Acquisition of EBS Limited("EBS") *(continued)*

Contingent liabilities and commitments

At 1 July 2011, EBS had undrawn lending commitments of € 194 million.

Contribution from date of acquisition

Management estimates that had EBS been consolidated from 1 January 2011, it would have contributed € 531 million of additional revenue and € 31 million of additional losses before taxation to the Group in 2011.

Cashflows in respect of EBS acquisition

The aggregate net inflow of cash on acquisition of EBS was € 359 million net of transaction costs of € 0.4 million.

Additional information on EBS is set out in note m – 'Investments in Group undertakings' to the parent compnay financial statements.

24 Financial assets and financial liabilities held for sale to NAMA

On 7 April 2009, the Minister for Finance announced the Government's intention to establish a National Asset Management Agency ("NAMA") and on 22 November 2009, the NAMA Act was enacted providing for the establishment of NAMA. The participation of AIB in the NAMA programme was approved by shareholders at an Extraordinary General Meeting held on 23 December 2009. The majority of loans and receivables held for sale to NAMA transferred during 2010 with the residual below transferring in 2011. There were no loans classified as held for sale or transferring to NAMA in 2012.

The following table provides a movement analysis of loans and receivables held for sale to NAMA:

	Gross loans and receivables € m	Impairment provisions € m	Carrying value € m
At 1 January 2011	2,248	(329)	1,919
Acquisition of subsidiary[1]	74	(40)	34
Exchange translation adjustments	(13)	7	(6)
Transferred to NAMA during 2011	(1,790)	570	(1,220)
Reclassification in/out and other movements[2]	(519)	(121)	(640)
Impairment charge during 2011	–	(87)	(87)
At 31 December 2011	–	–	–

[1]Acquired on acquisition of EBS (note 23).

[2]Includes changes in eligible loans and receivables transferring during 2011, along with movements in the number of loans and receivables within the eligible pool.

The unwind of the discount on the carrying value of impaired loans amounted to € 5 million for the year ended 31 December 2011 and was included in the carrying value of loans and receivables held for sale to NAMA. This was credited to interest income.

25 Disposal groups and non-current assets held for sale

Arising from the results of the PCAR/PLAR in March 2011, AIB is required to dispose of non-core assets. Accordingly, certain of these assets are classified as held for sale at 31 December 2012. These assets do not constitute a major line of business or a geographical area of operations.

At 31 December 2012, disposal groups and non-current assets held for sale comprise non-current assets and non-current liabilities. These mainly include loans and receivables, but also included within this caption is the Group's investment in Aviva Life Holdings Ireland Limited ("ALH"), now held as an equity investment at fair value through profit or loss.

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:

	2012		2011	
	Assets € m	**Liabilities € m**	Assets € m	Liabilities € m
Loans and receivables[1]:				
Customers	**353**	**–**	1,184	–
Banks	**–**	**–**	7	–
	353	**–**	1,191	–
Associated undertakings[2][3] (note 34)	**12**	**–**	196	–
Other:				
Equity investment at fair value through profit or loss[3]	**196**	**–**	–	–
Repossessed assets	**–**	**–**	4	–
Unquoted equities	**–**	**–**	22	–
AIB Investment Managers[4]	**–**	**–**	4	–
Other	**1**	**–**[5]	5	3[5]
	197	**–**	35	3
Total disposal groups and non-current assets held for sale	**562**	**–**	1,422	3

[1]Loans and receivables held for sale are net of provisions of € 122 million (31 December 2011: € 9 million) (note 31).

[2]Associated undertakings include LaGuardia Hotel € 12 million at 31 December 2012 and ALH € 196 million at 31 December 2011.

[3]On 1 July 2012, AIB designated its investment in ALH as an equity investment at fair value through profit or loss (note 35).

[4]AIB Investment Managers was disposed of during 2012 resulting in a gain of € 2 million.

[5]Liabilities of Nil (31 December 2011: € 3 million includes deposits from banks of € 1 million and accrued fees of € 2 million).

Further details of loans and receivables held for sale are set out in the Risk management section of this report.

26 Trading portfolio financial assets

	2012 € m	2011 € m
Debt securities:		
Government securities	–	24
Bank eurobonds	–	6
Other debt securities	22	24
	22	54
Equity securities	2	2
	24	56

	2012 € m	2011 € m
Of which listed:		
Debt securities	22	54
Equity securities	1	1
Of which unlisted:		
Equity securities	1	1
	24	56

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 2012 was € 1,025 million (2011: € 1,410 million; 2010: € 2,538 million; 2009: € 4,104 million; 2008: € 5,674 million).

As of 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 2012 would have included unrealised fair value gains on reclassified trading portfolio financial assets of € 136 million (2011: gains € 91 million; 2010: gains € 38 million).

After reclassification, the reclassified assets contributed the following amounts to the income statement:

	2012 € m	2011 € m	2010 € m
Interest on financial investments available for sale	32	58	82
Provisions for impairment of financial investments available for sale	–	(27)	(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).

27 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 notional principal amount together with the positive fair value of interest rate, exchange rate, equity and credit derivative contracts for 2012 and 2011:

	2012 € m	2011 € m
Interest rate contracts[1]		
Notional principal amount	**104,431**	127,945
Positive fair value	**2,643**	2,910
Exchange rate contracts[1]		
Notional principal amount	**7,485**	7,439
Positive fair value	**71**	44
Equity contracts[1]		
Notional principal amount	**3,848**	3,962
Positive fair value	**121**	92
Credit derivatives[1]		
Notional principal amount	**114**	216
Positive fair value	**–**	–
Total notional principal amount	**115,878**	139,562
Positive fair value[2]	**2,835**	3,046

[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] 65% of fair value relates to exposures to banks (2011: 70%).

27 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 notional principal amount and positive fair value of interest rate, exchange rate, equity and credit derivative contracts by residual maturity:

	Residual maturity			
	< 1 year € m	**1 < 5 years € m**	**5 years + € m**	**Total € m**
2012				
Notional principal amount	**67,989**	**34,955**	**12,934**	**115,878**
Positive fair value	**511**	**1,364**	**960**	**2,835**
2011				
Notional principal amount	78,266	45,408	15,888	139,562
Positive fair value	428	1,163	1,455	3,046

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	
	2012 € m	2011 € m	**2012 € m**	2011 € m
Republic of Ireland	**111,194**	133,092	**2,205**	2,349
United Kingdom	**4,080**	5,165	**595**	638
United States of America	**604**	1,305	**35**	59
Rest of World	**–**	–	**–**	–
	115,878	139,562	**2,835**	3,046

27 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. Forward rate agreements are also used by the Group in its trading activities. Forward rate agreements settle in cash at a specified future date based on the difference between agreed market rates applied to a notional principal amount.

Risk management activities

In addition to meeting customer needs, the Group's principal objective in holding or issuing derivatives for purposes other than trading is the management of interest rate and foreign exchange rate risks.

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 2012 and 2011, are presented within this note.

27 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 2012 and 31 December 2011. A description of how the fair values of derivatives are determined is set out in note 56.

	2012			2011		
	Notional principal amount	**Fair values Assets**	**Liabilities**	Notional principal amount	Fair values Assets	Liabilities
	€ m	**€ m**	**€ m**	€ m	€ m	€ m
Derivatives held for trading						
Interest rate derivatives - over the counter (OTC)						
Interest rate swaps	**27,040**	**1,435**	**(1,691)**	40,707	1,709	(2,002)
Cross-currency interest rate swaps	**1,826**	**80**	**(68)**	2,193	70	(115)
Forward rate agreements	**–**	**–**	**–**	1,122	1	(1)
Interest rate options	**1,013**	**9**	**(9)**	1,762	14	(11)
Total OTC interest rate contracts	**29,879**	**1,524**	**(1,768)**	45,784	1,794	(2,129)
Interest rate derivatives - exchange traded						
Interest rate futures	**124**	**–**	**–**	4,605	–	–
Interest rate contracts total	**30,003**	**1,524**	**(1,768)**	50,389	1,794	(2,129)
Foreign exchange derivatives (OTC)						
Foreign exchange contracts	**7,266**	**69**	**(19)**	7,173	40	(93)
Currency options bought and sold	**219**	**2**	**(2)**	266	4	(4)
Foreign exchange derivatives total	**7,485**	**71**	**(21)**	7,439	44	(97)
Equity derivatives (OTC)						
Equity index options	**3,848**	**121**	**(124)**	3,962	92	(95)
Equity index contracts total	**3,848**	**121**	**(124)**	3,962	92	(95)
Credit derivatives (OTC)						
Credit derivatives	**69**	**–**	**(20)**	171	–	(109)
Credit derivatives contracts total	**69**	**–**	**(20)**	171	–	(109)
Total trading contracts	**41,405**	**1,716**	**(1,933)**	61,961	1,930	(2,430)
Derivatives designated as fair value hedges *(OTC)*						
Interest rate swaps	**15,399**	**788**	**(792)**	35,872	716	(726)
Cross currency interest rate swaps	**38**	**–**	**(3)**	39	–	(5)
Derivatives designated as cash flow hedges *(OTC)*						
Interest rate swaps	**56,621**	**308**	**(433)**	35,610	387	(402)
Cross currency interest rate swaps	**2,370**	**23**	**(94)**	6,035	13	(279)
Credit default swaps	**45**	**–**	**(1)**	45	–	(1)
Total hedging contracts	**74,473**	**1,119**	**(1,323)**	77,601	1,116	(1,413)
Total derivative financial instruments	**115,878**	**2,835**	**(3,256)**	139,562	3,046	(3,843)

27 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:

					2012
	Within 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**
Forecast receivable cash flows	**65**	**6**	**24**	**25**	**120**
Forecast payable cash flows	**15**	**10**	**35**	**32**	**92**

					2011
	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
	€ m	€ m	€ m	€ m	€ m
Forecast receivable cash flows	243	264	54	24	585
Forecast payable cash flows	137	273	114	83	607

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:

					2012
	Within 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**
Forecast receivable cash flows	**65**	**6**	**24**	**25**	**120**
Forecast payable cash flows	**64**	**57**	**128**	**67**	**316**

					2011
	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
	€ m	€ m	€ m	€ m	€ m
Forecast receivable cash flows	295	309	161	85	850
Forecast payable cash flows	137	273	114	83	607

For AIB Group, the ineffectiveness reflected in the income statement that arose from cash flow hedges is a charge of € 7 million (2011: a charge of € 3 million).

The pay fixed cash flow hedges are used to hedge the cash flows on variable rate liabilities, primarily floating rate notes. The receive fixed cash flow hedges are used to hedge the cash flows on variable rate assets, primarily the variable rate loan portfolio.

The total amount recognised in other comprehensive income net of tax during the year in respect of cash flow hedges was a charge of € 162 million (2011: a charge of € 209 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 56. The net mark to market on fair value hedging derivatives, excluding accrual and risk adjustments is negative € 37 million (2011: positive € 14 million) and the net mark to market on the related hedged items is positive € 37 million (2011: negative € 13 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.

The Group has a number of ISDA Master Agreements (netting agreements) in place which may 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 € 1,539 million (2011: € 1,369 million). The Group has Credit Support Annexes ("CSAs") in place which provide collateral for derivative contracts. At 31 December 2012, € 1,260 million (2011: € 1,904 million) of CSAs are included within financial assets and € 361 million (2011: € 612 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.

28 Loans and receivables to banks	2012 € m	2011 € m
Funds placed with central banks	**692**	1,011
Funds placed with other banks	**2,226**	4,711
Provision for impairment	**(4)**	(4)
	2,914	5,718
Amounts include:		
Reverse repurchase agreements	**61**	59

Loans and receivables to banks by geographical area[1]	2012 € m	2011 € m
Republic of Ireland	**699**	1,120
United States of America	**5**	7
United Kingdom	**2,210**	4,589
Rest of the world	**–**	2
	2,914	5,718

[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 € 1,208 million (2011: € 1,890 million) placed with derivative counterparties in relation to net derivative positions (note 27).

Under reverse repurchase agreements, the Group has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. The fair value of collateral received amounted to € 61 million (2011: € 55 million). The collateral received consisted of government securities of € 61 million (2011: € 55 million). The fair value of collateral sold or repledged amounted to Nil (2011: Nil). These transactions were conducted under terms that are usual and customary to standard reverse repurchase agreements.

29 Loans and receivables to customers

	2012 € m	2011 € m
Loans and receivables to customers	**88,123**	95,373
Amounts receivable under finance leases and hire purchase contracts *(note 30)*	**1,017**	1,208
Unquoted debt securities	**238**	891
Provisions for impairment *(note 31)*	**(16,406)**	(14,932)
	72,972	82,540
Of which repayable on demand or at short notice	**32,619**	22,930
Amounts include:		
Due from associated undertakings	**–**	1

The unwind of the discount on the carrying amount of impaired loans amounted to € 392 million (2011: € 231 million) and is included in the carrying value of loans and receivables to customers. This has been credited to interest income.

In 2009, certain financial investments available for sale amounting to € 13 million were reclassified to the 'loans and receivables to customers' category. The fair value of reclassified assets at 31 December 2012 was Nil (2011: € 1 million). As of reclassification date, the effective interest rates on reclassified available for sale financial assets were in the range 4.79% - 6.44%; the expected gross recoverable cash flows were € 18 million; and the fair value loss recognised in other comprehensive income was € 8 million. If the reclassification had not been made, the Group's statement of comprehensive income for the year ended 31 December 2012 would have included fair value gains of Nil (2011 gains of: € 3 million).

30 Amounts receivable under finance leases and hire purchase contracts

The following balances principally comprise of leasing arrangements involving vehicles, plant, machinery and equipment.

	2012 € m	2011 € m
Gross receivables		
Not later than 1 year	**362**	504
Later than one year and not later than 5 years	**691**	724
Later than 5 years	**15**	38
	1,068	1,266
Unearned future finance income	**(53)**	(61)
Deferred costs incurred on origination	**2**	3
Total	**1,017**	1,208
Present value of minimum payments analysed by residual maturity		
Not later than 1 year	**362**	493
Later than one year and not later than 5 years	**643**	680
Later than 5 years	**12**	35
Present value of minimum payments	**1,017**	1,208
Provision for uncollectible minimum payments receivable[1]	**231**	227
Unguaranteed residual values accruing to the benefit of the Group	**1**	2
Net investment in new business	**267**	273

[1]Included in the provisions for impairment on loans and receivables to customers (note 31).

31 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 provision on loans and receivables within disposal groups and non-current assets held for sale. The classification of loans and receivables into corporate/commercial, residential mortgages, and other relates to classification used in the Group's ratings tools and are explained in the 'Risk management' section.

				2012
	Corporate/ Commercial € m	**Residential mortgages € m**	**Other € m**	**Total € m**
At 1 January 2012	**11,262**	**2,648**	**1,035**	**14,945**
Exchange translation adjustments	**39**	**5**	**3**	**47**
Transfers[1]	**20**	**14**	**–**	**34**
Charge against income statement	**1,455**	**749**	**230**	**2,434**
Amounts written off	**(509)**	**(55)**	**(109)**	**(673)**
Disposals	**(108)**	**(155)**	**–**	**(263)**
Recoveries of amounts written off in previous years	**3**	**–**	**1**	**4**
Provisions on loans and receivables returned by NAMA	**4**	**–**	**–**	**4**
At 31 December 2012	**12,166**	**3,206**	**1,160**	**16,532**
Total provisions are split as follows:				
Specific	**11,408**	**2,699**	**1,082**	**15,189**
IBNR	**758**	**507**	**78**	**1,343**
	12,166	**3,206**	**1,160**	**16,532**
Amounts include:				
Loans and receivables to banks *(note 28)*				**4**
Loans and receivables to customers *(note 29)*				**16,406**
Loans and receivables of disposal groups and non-current assets held for sale *(note 25)*				**122**
				16,532

[1]Includes transfers from provisions for liabilities and commitments.

				2011
	Corporate/ Commercial € m	Residential mortgages € m	Other € m	Total € m
At 1 January 2011	6,283	665	1,028	7,976
Exchange translation adjustments	66	8	–	74
Acquisition of subsidiaries	302	436	–	738
Transferred on disposal of subsidiary	(133)	(11)	(216)	(360)
Charge against income statement:				
Continuing operations	5,966	1,582	313	7,861
Discontinued operations	9	–	15	24
	5,975	1,582	328	7,885
Amounts written off	(665)	(32)	(105)	(802)
Recoveries of amounts written off in previous years	2	–	2	4
Provisions on loans and receivables transferred to NAMA *(note 24)*	(568)	–	(2)	(570)
At 31 December 2011	11,262	2,648	1,035	14,945
Total provisions are split as follows:				
Specific	9,648	1,754	859	12,261
IBNR	1,614	894	176	2,684
	11,262	2,648	1,035	14,945
Amounts include:				
Loans and receivables to banks *(note 28)*				4
Loans and receivables to customers *(note 29)*				14,932
Loans and receivables of disposal groups and non-current assets held for sale *(note 25)*				9
				14,945

32 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 interest reset date is the second business day prior to the start of each interest period. 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:

	2012 € m	2011 € m
At 1 January	**19,856**	7,869
Purchased from Anglo Irish Bank Corporation *(notes 22 and 63(g))*	**–**	11,854
Acquisition of subsidiary – EBS (note 23)	**–**	301
Additions	**–**	803
Net returns	**(136)**	(148)
Amortisation of discount	**105**	68
Repayments	**(2,438)**	(891)
At 31 December	**17,387**	19,856

The estimated fair value of the bonds at 31 December 2012 is € 17,446 million (31 December 2011: € 20,061 million). The nominal value of the bonds is € 17,737 million (31 December 2011: € 20,311 million). Whilst these bonds do not have an external credit rating, the Group has attributed to them a rating of BBB+ (31 December 2011: BBB+) i.e. the external rating of the Sovereign.

33 Financial investments available for sale

The following table gives at 31 December 2012 and 31 December 2011, the carrying value (fair value) of financial investments available for sale by major classifications together with the unrealised gains and losses.

	Fair value € m	Unrealised gross gains € m	Unrealised gross losses € m	Net unrealised gains/(losses) € m	Tax effect € m	Net after tax € m
						2012
Debt securities						
Irish Government securities	**7,588**	**608**	**(1)**	**607**	**(76)**	**531**
Euro government securities	**1,754**	**153**	**(4)**	**149**	**(18)**	**131**
Non Euro government securities	**712**	**95**	**–**	**95**	**(12)**	**83**
Supranational banks and government agencies	**1,682**	**55**	**–**	**55**	**(7)**	**48**
Collateralised mortgage obligations	**22**	**–**	**(6)**	**(6)**	**1**	**(5)**
Other asset backed securities	**920**	**1**	**(140)**	**(139)**	**17**	**(122)**
Euro bank securities	**3,070**	**176**	**(11)**	**165**	**(21)**	**144**
Non Euro bank securities	**161**	**3**	**(5)**	**(2)**	**–**	**(2)**
Euro corporate securities	**87**	**6**	**(3)**	**3**	**(1)**	**2**
Non Euro corporate securities	**193**	**17**	**–**	**17**	**(4)**	**13**
Other investments	**12**	**–**	**–**	**–**	**–**	**–**
Total debt securities	**16,201**	**1,114**	**(170)**	**944**	**(121)**	**823**
Equity securities						
Equity securities – NAMA subordinated bonds	**47**	**–**	**–**	**–**	**–**	**–**
Equity securities – other	**96**	**16**	**(10)**	**6**	**(1)**	**5**
Total financial investments available for sale	**16,344**	**1,130**	**(180)**	**950**	**(122)**	**828**

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

33 Financial investments available for sale *(continued)*

Analysis of movements in financial investments available for sale	2012 Debt securities € m	2012 Equity securities € m	2012 Total € m	2011 Debt securities € m	2011 Equity securities € m	2011 Total € m
At 1 January	**15,145**	**244**	**15,389**	20,511	314	20,825
Acquisition of subsidiary	**–**	**–**	**–**	1,684[1]	6	1,690
Reclassification to disposal groups and non-current assets held for sale *(note 25)*	**–**	**(18)**	**(18)**	–	(22)	(22)
Exchange translation adjustments	**17**	**–**	**17**	(24)	(3)	(27)
Purchases	**5,045**	**14**	**5,059**	1,696	64	1,760
Additions[2]	**–**	**–**	**–**	–	19	19
NAMA subordinated bonds – additions	**–**	**–**	**–**	–	15	15
Return of NAMA subordinated bonds	**–**	**(3)**	**(3)**	–	(3)	(3)
Sales	**(2,981)**	**(28)**	**(3,009)**	(3,920)	(67)	(3,987)
Maturities	**(2,654)**	**–**	**(2,654)**	(4,902)	–	(4,902)
Provisions for impairment	**–**	**(86)**	**(86)**	(164)	(119)	(283)
Amortisation of discounts net of premiums	**23**	**–**	**23**	(8)	–	(8)
Movement in unrealised gains	**1,606**	**20**	**1,626**	272	40	312
At 31 December	**16,201**	**143**	**16,344**	15,145	244	15,389
Of which:						
Listed	**16,189**	**58**	**16,247**	15,133	54	15,187
Unlisted	**12**	**85**	**97**	12	190	202
	16,201	**143**	**16,344**	15,145	244	15,389

[1]Excludes intercompany debt securities amounting to € 275 million which were eliminated on consolidation.

[2]Additions relate to transfers from loans and receivables arising from debt/equity restructures and other additions.

Debt securities analysed by remaining contractual maturity	2012 € m	2011 € m
Due within one year	**1,243**	2,276
After one year, but within five years	**8,610**	6,645
After five years, but within ten years	**4,715**	3,612
After ten years	**1,633**	2,612
	16,201	15,145

33 Financial investments available for sale *(continued)*

The following table gives at 31 December 2012 and 31 December 2011, 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.

	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**
2012						
Debt securities						
Irish Government securities	**25**	**249**	**274**	**–**	**(1)**	**(1)**
Euro government securities	**–**	**188**	**188**	**–**	**(4)**	**(4)**
Collateralised mortgage obligations	**–**	**22**	**22**	**–**	**(6)**	**(6)**
Other asset backed securities	**1**	**909**	**910**	**–**	**(140)**	**(140)**
Euro bank securities	**148**	**294**	**442**	**–**	**(11)**	**(11)**
Non Euro bank securities	**–**	**42**	**42**	**–**	**(5)**	**(5)**
Euro corporate securities	**7**	**30**	**37**	**–**	**(3)**	**(3)**
Non Euro corporate securities	**11**	**8**	**19**	**–**	**–**	**–**
Total debt securities	**192**	**1,742**	**1,934**	**–**	**(170)**	**(170)**
Equity securities						
Equity securities – NAMA subordinated bonds	**–**	**–**	**–**	**–**	**–**	**–**
Equity securities – other	**4**	**37**	**41**	**(8)**	**(2)**	**(10)**
Total	**196**	**1,779**	**1,975**	**(8)**	**(172)**	**(180)**

	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
2011						
Debt securities						
Irish Government securities	2,040	2,822	4,862	(192)	(339)	(531)
Euro government securities	-	280	280	-	(62)	(62)
Non Euro government securities	23	9	32	(2)	(1)	(3)
Supranational banks and government agencies	2	70	72	-	(1)	(1)
Collateralised mortgage obligations	355	149	504	(3)	(9)	(12)
Other asset backed securities	191	1,013	1,204	(15)	(338)	(353)
Euro bank securities	174	1,210	1,384	(3)	(74)	(77)
Non Euro bank securities	194	53	247	(2)	(10)	(12)
Euro corporate securities	18	42	60	(2)	(4)	(6)
Non Euro corporate securities	35	35	70	(2)	(3)	(5)
Total debt securities	3,032	5,683	8,715	(221)	(841)	(1,062)
Equity securities						
Equity securities – NAMA subordinated bonds	–	–	–	–	–	–
Equity securities – other	39	9	48	(21)	(3)	(24)
Total	3,071	5,692	8,763	(242)	(844)	(1,086)

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 Nil (2011: € 164 million) and € 86 million (2011: € 119 million) on equity securities have been recognised as set out in note 13.

34 Interests in associated undertakings

Included in the Group income statement is the contribution from investments in associated undertakings as follows:

Income statement	2012 € m	2011 € m	2010 € m
Share of results of associated undertakings[1][4]	**15**	(1)	43
(Impairment)/reversal of impairment of associated undertakings	**–**	(36)	201
Loss recognised on the remeasurement to fair value less costs to sell of disposal groups and non-current assets held for sale	**(5)**	**–**	(50)
Loss on the disposal of investment in associated undertakings	**–**	**–**	(231)
	10	(37)	(37)
Analysed as to:			
Continuing operations	**10**	(37)	18
Discontinued operations *(note 18)*[2]	**–**	**–**	(55)
	10	(37)	(37)

Share of net assets including goodwill	2012 € m	2011 € m
At 1 January	**246**	301
Exchange translation adjustments	**–**	1
Disposal of associate held by subsidiary *(note 18)*	**–**	(18)
Additions[3]	**18**	**–**
Designation of associate as an equity investment at fair value through profit or loss[4]	**(196)**	**–**
Income for the year:		
Continuing operations	**15**	(1)
Dividends received from associates	**(14)**	(5)
Impairment on associated undertakings – Continuing operations	**(5)**	(36)
Other movements	**–**	4
At 31 December	**64**	246
Analysed as to:		
Aviva Life Holdings Ireland Limited[4] *(note 35)*	**–**	196
Other[5]	**64**	50
	64	246
Disclosed in the statement of financial position within:		
Interests in associated undertakings	**52**	50
Disposal groups and non-current assets held for sale *(note 25)*	**12**	196
	64	246
Of which listed on a recognised stock exchange	**–**	**–**

[1]Includes Aviva Life Holdings Ireland Limited of Nil (2011:€ 17 million loss (note 35)), AIB Merchant Services € 14 million profit (2011: € 13 million profit); and Other € 1 million profit (2011: € 3 million profit).

[2]At 30 March 2010, the Group announced that certain of its operations were to be sold, amongst which included M&T Bank Corporation. Subsequently, Bulgarian American Credit Bank AD ("BACB") and associate interests held by BZWBK, were considered to be held for sale. These associates were no longer accounted for using the equity method in accordance with IAS 28 *Investment in Associates* as they were classified as discontinued operations. On 4 November 2010, the sale of M&T Bank Corporation was completed with the investment derecognised from that date (note 18). The sale of BZWBK completed on 1 April 2011.The sale of BACB completed on 17 June 2011.

[3]Additions (LaGuardia Hotel) relate to transfers from financial investments available for sale arising from debt/equity restructuring.

[4]Aviva Life Holdings Ireland Limited was designated as an equity investment at fair value through profit or loss with effect from 1 July 2012. No profit or loss arose on designation as it had been held at fair value (note 35).

[5]Includes the Group's investments in Aviva Health Insurance Ireland Limited, AIB Merchant Services and LaGuardia Hotel (31 December 2011: Aviva Health Insurance Ireland Limited and AIB Merchant Services).

34 Interests in associated undertakings *(continued)*

Summarised financial information for the Group's associates which are equity accounted is as follows:

	2012 € m	2011 € m
Total assets	**725**	12,237
Total liabilities	**473**	10,805
Revenues	**396**	1,163
Net profit	**19**	(9)

In relation to associated undertakings at 31 December 2012, contingent liabilities amounted to Nil (2011: Nil) and commitments amounted to Nil (2011: Nil).

Principal associated undertakings	**Nature of business**
Zolter Services Limited (trades as AIB Merchant Services)	Provider of merchant payment solutions

Registered office: Unit 6, Belfield Business Park, Clonskeagh, Dublin 4, Ireland.

Aviva Life Holdings Ireland Limited[1]

As set out in note 35, AIB's investment in Aviva Life Holdings Ireland Limited was designated as an equity investment at fair value through profit or loss with effect from 1 July 2012. Prior to this, it had been accounted for as an associate undertaking. It continues to be held within disposal groups and non-current assets held for sale.

Other than as described above, the Group's interests in associated undertakings are non-credit institutions and are held by subsidiary undertakings.

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.

[1]The Group interest is held directly by Allied Irish Banks, p.l.c. and is now carried at fair value through profit or loss in the parent company statement of financial position. This is now classified in 'disposal groups and non-current assets held for sale'. Details of Aviva Life Holdings Ireland Limited is set out in note 35.

35 Interest in Aviva Life Holdings Ireland Limited

At 31 December 2011, AIB considered that it was highly probable that its investment in Aviva Life Holdings Ireland Limited ("ALH"), an associated undertaking, would be disposed of within twelve months following the cancellation in December 2011 of the distribution agreement between AIB and ALH and the conditions that existed in the shareholder agreement. Accordingly, ALH was classified as held for sale and included within 'Disposal Groups and non-current assets held for sale' (note 25). An impairment loss of € 36 million on remeasurement of the disposal group to the lower of its carrying amount and its fair value less costs to sell was recognised in associated undertakings in the consolidated income statement in 2011.

Arising from the exercise, in January 2012, of put options held by AIB and Aviva and the subsequent protracted negotiations between the parties to finalise the sales process of ALH and Ark Life respectively, it became increasingly obvious that AIB was no longer in the position to exercise significant influence over its investment in ALH. Accordingly, AIB designated its investment in ALH as an equity investment at fair value through profit or loss with effect from 1 July 2012. There was no profit or loss recognised on the date of designation as the investment had been held at fair value. There was nil contribution from ALH in the six months to 30 June 2012.

The sales process was not finalised at 31 December 2012, however, negotiations were at an advanced stage. The fair value of the investment in ALH at 31 December 2012 of € 196 million was determined by reference to the transaction price expected on the sale of the investment as this represented the best evidence of its fair value.

The mark to market of the related put options is negative € 40 million (2011: negative € 8 million) - note 6 and note 69.

The contribution of ALH for the years ended 31 December 2011 and 2010 is included within share of results of associated undertakings as follows:

	2011 € m	2010 € m
Share of (loss)/income of ALH	(12)	4
Impairment of associate	(36)	–
Amortisation of intangible assets	(4)	(6)
Share of loss before taxation	(52)	(2)
Taxation attributable to policyholder returns	(1)	–
Loss attributable to shareholders before taxation	(53)	(2)
Taxation	-	2
Included within associated undertakings	(53)	–

In addition to the amounts included within share of results of associated undertakings, the Group recognised fee income on the sale of ALH life insurance and investment products, through its distribution channels, amounting to € 11 million for the year ended 31 December 2012 (2011: € 23 million; 2010: € 20 million).

The assets and liabilities of ALH at 31 December 2011, accounted for in accordance with the accounting policies of the Group, are set out in the following table:

Summary of consolidated statement of financial position	2011 € m
Cash and placings with banks	1,906
Financial investments	8,424
Investment property	271
Reinsurance assets	588
Other assets	464
Total assets	11,653
Investment contract liabilities	5,605
Insurance contract liabilities	4,364
Other liabilities	498
Shareholders' equity	1,186
Total liabilities and shareholders' equity	11,653

36 Intangible assets and goodwill

	2012				2011			
	Goodwill	**Software**	**Other**	**Total**	Goodwill	Software	Other	Total
	€ m	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m
Cost								
At 1 January	**–**	**631**	**3**	**634**	3	596	3	602
Acquisition of subsidiary[1]	**–**	**–**	**–**	**–**	**–**	75	**–**	75
Disposal of subsidiary	**–**	**–**	**–**	**–**	(3)	(1)	**–**	(4)
Reclassification to disposal groups and non-current assets held for sale *(note 25)*	**–**	**–**	**–**	**–**	**–**	(9)	**–**	(9)
Additions – internally generated	**–**	**62**	**–**	**62**	**–**	27	**–**	27
– externally purchased	**–**	**9**	**–**	**9**	**–**	6	**–**	6
Amounts written off[2]	**–**	**(13)**	**–**	**(13)**	**–**	(47)	**–**	(47)
Disposals	**–**	**–**	**–**	**–**	**–**	(16)	**–**	(16)
At 31 December	**–**	**689**	**3**	**692**	**–**	631	3	634
Amortisation/impairment								
At 1 January	**–**	**455**	**3**	**458**	1	405	3	409
Acquisition of subsidiary[1]	**–**	**–**	**–**	**–**	**–**	54	**–**	54
Disposal of subsidiary	**–**	**–**	**–**	**–**	(1)	(1)	**–**	(2)
Reclassification to disposal groups and non-current assets held for sale *(note 25)*	**–**	**–**	**–**	**–**	**–**	(6)	**–**	(6)
Amortisation for the year	**–**	**58**	**–**	**58**	**–**	63	**–**	63
Impairment for the year	**–**	**2**	**–**	**2**	**–**	3	**–**	3
Amounts written off[2]	**–**	**(13)**	**–**	**(13)**	**–**	(47)	**–**	(47)
Disposals	**–**	**–**	**–**	**–**	**–**	(16)	**–**	(16)
At 31 December	**–**	**502**	**3**	**505**	**–**	455	3	458
Net book value at 31 December	**–**	**187**	**–**	**187**	**–**	176	**–**	176

[1]Relates to the acquisition of EBS Limited ("EBS") (note 23).

[2]Relates to assets which are no longer in use with a nil carrying value.

Internally generated intangible assets under construction amounted to: € 45 million (2011: € 30 million).

Internally generated software amounted to: € 375 million (2011: € 337 million).

37 Property, plant and equipment

	Property			Equipment	Total
	Freehold	Long leasehold	Leasehold under 50 years		
	€ m	€ m	€ m	€ m	€ m
Cost					
At 1 January 2012	**190**	**103**	**153**	**484**	**930**
Reclassification to disposal groups and non-current assets held for sale	**(2)**	**–**	**–**	**–**	**(2)**
Other reclassifications	**1**	**(1)**	**–**	**–**	**–**
Additions	**2**	**–**	**9**	**26**	**37**
Disposals	**(1)**	**–**	**(20)**	**(23)**	**(44)**
Amounts written off[1]	**–**	**–**	**(2)**	**(2)**	**(4)**
Exchange translation adjustments	**1**	**–**	**1**	**1**	**3**
At 31 December 2012	**191**	**102**	**141**	**486**	**920**
Depreciation/impairment					
At 1 January 2012	**53**	**27**	**101**	**389**	**570**
Reclassification to disposal groups and non-current assets held for sale	**(1)**	**–**	**–**	**–**	**(1)**
Depreciation charge for the year	**6**	**3**	**13**	**29**	**51**
Impairment for the year	**9**	**–**	**–**	**–**	**9**
Disposals	**–**	**–**	**(20)**	**(21)**	**(41)**
Amounts written off[1]	**–**	**–**	**(2)**	**(2)**	**(4)**
Exchange translation adjustments	**1**	**–**	**1**	**1**	**3**
At 31 December 2012	**68**	**30**	**93**	**396**	**587**
Net book value at 31 December 2012	**123**	**72**	**48**	**90**	**333**
Cost					
At 1 January 2011	158	90	135	479	862
Acquisition of subsidiary[2]	30	10	19	23	82
Disposal of subsidiaries	–	–	–	(2)	(2)
Reclassification from/(to) disposal groups and non-current assets held for sale	1	3	(1)	(8)	(5)
Additions	–	1	5	11	17
Disposals	–	(1)	(6)	(21)	(28)
Exchange translation adjustments	1	–	1	2	4
At 31 December 2011	190	103	153	484	930
Depreciation/impairment					
At 1 January 2011	40	22	82	370	514
Acquisition of subsidiary[2]	7	3	13	17	40
Disposal of subsidiaries	–	–	–	(1)	(1)
Reclassification to disposal groups and non-current assets held for sale	–	–	(1)	(8)	(9)
Depreciation charge for the year	6	3	10	30	49
Disposals	–	(1)	(4)	(20)	(25)
Exchange translation adjustments	–	–	1	1	2
At 31 December 2011	53	27	101	389	570
Net book value at 31 December 2011	137	76	52	95	360

[1]Relates to assets which are no longer in use with a Nil carrying value.

[2]Relates to the acquisition of EBS Limited ("EBS") (note 23).

The net book value of property occupied by the Group for its own activities was € 240 million (2011: € 263 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 (2011: € 2 million).

Property and equipment includes € 2 million for items in the course of construction (2011: Nil).

38 Deferred taxation

	2012 € m	2011 € m
Deferred tax assets:		
Provision for impairment of loans and receivables	**3**	4
Available for sale securities	**–**	148
Retirement benefits	**106**	93
Temporary difference on provisions for future commitments in relation to the funding of Icarom plc (under Administration)	**–**	1
Assets leased to customers	**17**	20
Unutilised tax losses	**3,904**	3,707
Other	**32**	–
Total gross deferred tax assets	**4,062**	3,973
Deferred tax liabilities:		
Cash flow hedges	**(5)**	(28)
Amortised income on loans	**(149)**	(204)
Assets used in business	**(24)**	(16)
Available for sale securities	**(24)**	–
Other	**–**	(33)
Total gross deferred tax liabilities	**(202)**	(281)
Net deferred tax assets	**3,860**	3,692
Represented on the balance sheet as follows:		
Deferred tax assets	**3,860**	3,692

For each of the years ended 31 December 2012 and 2011, full provision has been made for capital allowances and other temporary differences.

Analysis of movements in deferred taxation	2012 € m	2011 € m
At 1 January	**3,692**	2,384
Acquisition of subsidiary *(note 23)*	**–**	148
Exchange translation and other adjustments	**18**	23
Deferred tax through other comprehensive income	**(33)**	(11)
Income statement *(note 17)*	**183**	1,148
At 31 December	**3,860**	3,692

Comments on the basis of recognition of deferred tax assets on unused tax losses are included in ‘Critical accounting policies and estimates’ on pages 46 and 47. Comments on the prospective regulatory capital treatment of deferred tax assets are included in ‘Risk factors’ on page 63.

At 31 December 2012 recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled € 3,860 million (2011: € 3,692 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 of loans and receivables, amortised income, assets leased to customers, and assets used in the course of business.

Net deferred tax assets of € 3,854 million (2011: € 3,692 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.

38 Deferred taxation *(continued)*

As a result, the Group has not recognised deferred tax assets in respect of unused tax losses of € 1,848 million (2011: € 556 million) in Ireland, the United Kingdom and the United States of America and foreign tax credits, for Irish tax purposes, of € 4 million (2011: Nil). Of the tax losses of € 1,848 million for which no deferred tax is recognised, € 41 million expire in 2031, € 58 million expire in 2032 and the remainder have no expiry date.

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 (2011: Nil).

The net deferred tax asset on items recognised directly in other comprehensive income amounted to € 64 million (2011: € 198 million).

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	**(3,830)**	**183**	**(3,647)**	**(3,647)**
Exchange translation adjustments	**34**	**–**	**34**	**34**
Net change in cash flow hedge reserve	**(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	**(858)**	**118**	**(740)**	**(740)**
Net change in property revaluation reserve	**–**	**(2)**	**(2)**	**(2)**
Total comprehensive income for the year	**(3,372)**	**150**	**(3,222)**	**(3,222)**
Attributable to:				
Owners of the parent	**(3,372)**	**150**	**(3,222)**	**(3,222)**

					2011
	Gross	Tax	Net of tax	Non-controlling interests net of tax	Net amount attributable to owners of the parent
Continuing operations	€ m	€ m	€ m	€ m	€ m
Loss for the year	(5,108)	1,188	(3,920)	–	(3,920)
Exchange translation adjustments	(11)	–	(11)	–	(11)
Net change in cash flow hedge reserve	(242)	33	(209)	–	(209)
Net change in fair value of available for sale securities	145	(33)	112	–	112
Net actuarial losses in retirement benefit schemes	(534)	70	(464)	–	(464)
Recognised gains in associated undertakings	4	–	4	–	4
Total comprehensive income for the year	(5,746)	1,258	(4,488)	–	(4,488)
Attributable to:					
Owners of the parent	(5,746)	1,258	(4,488)	–	(4,488)
Discontinued operations					
Profit for the year	1,645	(17)	1,628	20	1,608
Exchange translation adjustments	(134)	–	(134)	(5)	(129)
Net change in cash flow hedge reserve	1	–	1	–	1
Net change in fair value of available for sale securities	(99)	25	(74)	(3)	(71)
Total comprehensive income for the year	1,413	8	1,421	12	1,409
Attributable to:					
Owners of the parent	1,401	8	1,409	–	1,409
Non-controlling interests	12	–	12	12	–
	1,413	8	1,421	12	1,409

38 Deferred taxation *(continued)*

Analysis of income tax relating to other comprehensive income

					2010
	Gross	Tax	Net of tax	Non-controlling interests net of tax	Net amount attributable to owners of the parent
Continuing operations	€ m	€ m	€ m	€ m	€ m
Loss for the year	(12,071)	1,710	(10,361)	–	(10,361)
Exchange translation adjustments	89	–	89	–	89
Net change in cash flow hedge reserve	(48)	7	(41)	–	(41)
Net change in fair value of available for sale securities	(957)	144	(813)	–	(813)
Net actuarial gains in retirement benefit schemes	3	(2)	1	–	1
Recognised losses in associated undertakings	(13)	–	(13)	–	(13)
Total comprehensive income for the year	(12,997)	1,859	(11,138)	–	(11,138)
Attributable to:					
Owners of the parent	(12,997)	1,859	(11,138)	–	(11,138)
Non-controlling interests	–	–	–	–	–
	(12,997)	1,859	(11,138)	–	(11,138)
Discontinued operations					
Profit for the year	271	(72)	199	70	129
Exchange translation adjustments	50	–	50	14	36
Net change in fair value of available for sale securities	4	(1)	3	1	2
Recognised gains in associated undertakings	218	–	218	–	218
Total comprehensive income for the year	543	(73)	470	85	385
Attributable to:					
Owners of the parent	458	(73)	385	–	385
Non-controlling interests	85	–	85	85	–
	543	(73)	470	85	385

39 Deposits by central banks and banks

	2012 € m	2011 € m
Central banks		
Securities sold under agreements to repurchase	**22,220**	30,831
Other borrowings	**–**	302
	22,220	31,133
Banks		
Securities sold under agreements to repurchase	**5,636**	5,048
Other borrowings	**586**	709
	6,222	5,757
	28,442	36,890
Of which:		
Domestic offices	**28,113**	36,166
Foreign offices	**329**	724
	28,442	36,890
Amounts include:		
Due to associated undertakings	**–**	–

Securities sold under agreements to repurchase (note 55), all of which mature within six months, (with the exception of € 11.25 billion (2011: € 3 billion) funded through the ECB three year Long Term Refinancing Operation ("LTRO")) are secured by Irish Government bonds, NAMA senior bonds, other marketable securities and eligible assets. The Group has securitised certain of its mortgage and loan portfolios as outlined below in relation to AIB Mortgage Bank and EBS Mortgage Finance. These securities, other than issued to external investors, have been pledged as collateral in addition to other securities held by the Group.

Allied Irish Banks, p.l.c. has granted a floating charge over certain residential mortgage pools, the drawings against which were € 90 million at 31 December 2012 (2011: Nil).

A subsidiary of Allied Irish Banks, p.l.c. has also granted a floating charge over certain residential mortgage pools, the drawings against which were Nil at 31 December 2012 (2011: Nil).

Deposits by central banks and banks include cash collateral of € 321 million (2011: € 576 million) received from derivative counterparties in relation to net derivative positions (note 27).

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:

	2012			2011		
	Central banks € m	**Banks € m**	**Total € m**	Central banks € m	Banks € m	Total € m
Total carrying value of financial assets pledged	**25,720**	**6,295**	**32,015**	36,944	5,678	42,622
Of which:						
Government securities[1]	**14,887**	**4,152**	**19,039**	17,868	3,082	20,950
Other securities	**10,833**	**2,143**	**12,976**	19,076	2,596	21,672

[1]Includes NAMA senior bonds.

40 Customer accounts

	2012 € m	2011 € m
Current accounts	**16,366**	15,530
Demand deposits	**9,460**	9,828
Time deposits	**37,784**[1]	35,316
	63,610	60,674
Of which:		
Non-interest bearing current accounts		
Domestic offices	**11,633**	10,147
Foreign offices	**2,053**	1,765
Interest bearing deposits, current accounts and short-term borrowings		
Domestic offices	**39,889**	37,457
Foreign offices	**10,035**	11,305
	63,610	60,674
Amounts include:		
Due to related party[2]	**1,270**	1,381

[1]Includes securities sold under agreements to repurchase amounting to € 94 million (2011: Nil). The Group pledged non-government available for sale securities with a fair value of € 105 million as collateral for these facilities.

[2]These amounts were substantially due to a subsidiary of ALH, and whilst the investment in ALH amounted to 24.99% of the ordinary share capital, it was accounted for as an equity investment at fair value through profit or loss with effect from 1 July 2012 (note 35).

41 Debt securities in issue

	2012 € m	2011 € m
Bonds and medium term notes:		
European medium term note programme	**6,268**	10,740
Bonds and other medium term notes	**4,363**	4,643
	10,631	15,383
Other debt securities in issue:		
Commercial certificates of deposit	**35**	271
	10,666	15,654

42 Other liabilities

	2012 € m	2011 € m
Notes in circulation	**467**	458
Items in transit	**157**	171
Creditors	**8**	5
Future commitments in relation to the funding of Icarom[1]	**–**	11
Fair value of hedged liability positions	**565**	507
Other	**430**	382
	1,627	1,534

[1]Obligations to Icarom were fully satisfied at 31 December 2012.

43 Provisions for liabilities and commitments

Voluntary severance programme

On 8 March 2012, AIB announced a voluntary severance programme which includes both an early retirement scheme and a voluntary severance scheme. The objective of the programme is to reduce the Group's cost base. It is expected that staff numbers will reduce by at least 2,500 following full implementation which is expected to complete by December 2013.

On 21 May 2012, AIB announced the specific terms of both the voluntary severance and early retirement schemes.

Staff who were eligible for early retirement were required to apply for consideration by 20 June 2012. Successful applicants have been scheduled to depart throughout 2012 and 2013 with a significant number having already left the Group. It is expected that a large majority of those staff who have been offered and scheduled for a 2013 departure will accept the offer. Accordingly, the Group expects that total past service costs arising under the terms of the early retirement scheme will ultimately amount to € 182 million, based on current best estimates (note 12). This provision is included within pension scheme liabilities.

AIB estimates that the cost of offering the voluntary severance scheme to eligible employees will amount to € 140 million of which € 39 million had been utilised at 31 December 2012. Since AIB is demonstrably committed to the scheme, a provision has been made amounting to € 101 million at 31 December 2012 which is based on management's best estimate of the amount required to settle the additional costs expected to arise from the scheme. The estimate is based on experience to date in relation to 'in scope' staff who have already opted to apply and the acceptance level of successful applicants.

These provisions, totalling € 322 million, have been netted with a curtailment gain of € 29 million and included in termination benefits under administrative expenses (note 10) in the income statement.

In addition, an amount of € 7 million has also been provided in respect of termination benefits payable on the winding down of AIB's interests, principally, in the Isle of Man/Channel Islands.

43 Provisions for liabilities and commitments *(continued)*

	Liabilities and charges € m	NAMA[1] constructive obligation € m	NAMA[2] provisions € m	Onerous[3] contracts € m	Legal claims € m	Other[4] provisions € m	Voluntary severance scheme € m	Total € m
31 December 2012								
At 1 January	**24**	**–**	**407**	**13**	**10**	**60**	**–**	**514**
Transfers out	**(8)**	**–**	**–**	**–**	**–**	**–**	**–**	**(8)**
Exchange translation adjustments	**–**	**–**	**2**	**–**	**–**	**1**	**–**	**3**
Amounts charged to income statement	**10**[5]	**–**	**19**[2]	**16**	**4**	**121**	**147**	**317**
Amounts released to income statement	**(1)**[5]	**–**	**(155)**[2]	**(1)**	**(4)**	**(7)**	**–**	**(168)**
Provisions utilised	**(4)**	**–**	**(242)**	**(1)**	**(1)**	**(19)**	**(39)**	**(306)**
At 31 December	**21**	**–**	**31**	**27**	**9**	**156**	**108**	**352**

	Liabilities and charges € m	NAMA[1] constructive obligation € m	NAMA[2] provisions € m	Onerous[3] contracts € m	Legal claims € m	Other[4] provisions € m	Total € m
31 December 2011							
At 1 January	17	1,026	–	7	5	86	1,141
Acquisition of subsidiary[6]	–	–	–	2	1	11	14
Exchange translation adjustments	–	(6)	4	1	–	1	–
Amounts charged to income statement	17	–	403	5	6	52	483
Amounts released to income statement	–	(433)	–	(2)	(1)	(54)	(490)
Provisions utilised	(10)	(587)	–	-	(1)	(36)	(634)
At 31 December	24	–	407	13	10	60	514

The total provisions for liabilities and commitments expected to be settled within one year amount to € 289 million (2011: € 464 million).

[1]At 31 December 2010, the transfer in 2011 of certain loans to NAMA at a discount was deemed unavoidable, accordingly a provision of € 1,026 million being a constructive obligation was made for the expected discount.

[2]NAMA provisions represent amounts due to NAMA in respect of adjustments to transfers which had not been settled at 31 December 2011. At 31 December 2012, € 155 million of this provision was released to the income statement. This followed the resolution with NAMA of certain issues relating to transfers which had taken place in earlier periods. In addition, € 19 million was charged to the income statement in respect of Section 93 claims i.e. new claims under the NAMA Act.

[3]Provisions for the unavoidable costs expected to arise from branch closures.

[4]Includes provisions for refunds to customers in respect of payment protection insurance in both Ireland and the UK (total € 52 million), interest rate hedge products in the UK (€ 49 million), restructuring and reorganisation costs.

[5]Included in charge/(writeback) of provisions for liabilities and commitments in income statement.

[6]Relates to the acquisition of EBS (note 23).

44 Subordinated liabilities and other capital instruments	Notes	2012 € m	2011 € 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		**84**	24
	(a)	**1,237**	1,177
Dated loan capital – European Medium Term Note Programme:			
€ 500m Callable Step-up Floating Rate Notes due October 2017 (maturity extended to 2035 as a result of the SLO)	(b)	**7**	7
Stg£ 368m 12.5% Subordinated Notes due June 2019 (maturity extended to 2035 as a result of the SLO)	(c)	**27**	25
Stg£ 500m Callable Fixed/Floating Rate Notes due March 2025 (maturity extended to 2035 as a result of the SLO)	(d)	**–**	–
		34	32
		1,271	1,209

Maturity of dated loan capital	2012 € m	2011 € m
Dated loan capital outstanding is repayable:		
In 5 years or more	**34**	32

Following on the liability management exercises in 2011 and the 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 outstanding instruments. 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 (note 7).

€ 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 49). 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 the Core Tier 1 capital ratio (the CET Ratio after the CRD IV implementation date) falls below the Trigger ratio of 8.25%, the CCNs are immediately and mandatorily redeemable and will convert to ordinary shares of AIB at a conversion price of € 0.01 per share.

44 Subordinated liabilities and other capital instruments *(continued)*

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.

During 2010, the Group redeemed certain of these capital instruments, and in 2011, all outstanding amounts were either purchased for cash or derecognised following a Subordinated Liabilities Order ("SLO"), details of which are set out in note 63(g).

Residual balances remained outstanding on the instruments set out below following redemption/derecognition as follows:

(b) In relation to the € 500 million Callable Subordinated Step-Up Floating Rate Notes, the Group redeemed € 332.5 million of these in March 2010, leaving € 167.5 million outstanding. Of this outstanding amount, € 142 million was purchased for cash during 2011 with the remainder being derecognised following the introduction of the SLO. A new instrument was subsequently recognised and measured at a fair value of € 7 million (note 7).

(c) Of the Stg£ 368 million Subordinated Notes, Stg£ 289 million was purchased for cash during 2011 with the remainder, amounting to Stg£ 79 million, being derecognised following the introduction of the SLO. A new instrument was subsequently recognised and measured at a fair value of Stg£ 20 million (note 7).

(d) The Stg£ 500 million Subordinated Callable Fixed/Floating Rate Notes were partially redeemed (Stg£ 481 million) in March 2010, leaving Stg£ 19 million outstanding. Of this outstanding amount, Stg£ 18 million was purchased for cash during 2011, with the remainder amounting to Stg£ 1 million being derecognised following the introduction of the SLO. A new instrument was subsequently recognised and measured at a fair value of Stg£ 0.3 million (note 7).

45 Share capital

	Authorised		Issued	
	2012 m	2011 m	**2012 m**	2011 m
Ordinary share capital				
Ordinary shares of € 0.01 each	**702,000.0**	702,000.0	**517,152.8**	513,528.8
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**	403,775.2	**–**	–

Ordinary share capital/share premium

2012

(i) On 1 May 2012, the Irish High Court confirmed an application by AIB for a reduction of the share premium account by € 2,000 million in addition to a reduction of € 3,958 million of its capital redemption reserves (note 50). This resulted in a transfer from these reserve accounts to revenue reserves.

(ii) On 14 May 2012, arising from the non-payment of dividend amounting to € 280 million on the 2009 Preference Shares, the National Pensions Reserve Fund Commission ("NPRFC") became entitled to bonus shares in lieu and the Company issued 3,623,969,972 new ordinary shares of € 0.01 each by way of a bonus issue to the NPRFC in settlement of the dividend. In accordance with the Company's Articles of Association, an amount of € 36 million, equal to the nominal value of the shares issued, was transferred from share premium to ordinary share capital.

2011

(i) On 31 March 2011, following completion of the Central Bank of Ireland's Prudential Capital Assessment Review and the Prudential Liquidity Assessment Review, the Central Bank of Ireland announced the requirement for the Company to raise equity capital of € 9.1 billion in addition to the requirement of approximately € 4.2 billion deferred from February 2011, bringing the total capital which AIB would be required to raise to € 13.3 billion.

(ii) On 1 April 2011, the company completed the sale of its stake in Bank Zachodni WBK S.A., following which on 7 April 2011, the NPRFC issued a Conversion Order to convert all of its CNV Shares (total shares 10,489,899,564 (€ 3,357 million)) into ordinary shares. The conversion was completed on 8 April 2011.

(iii) On 13 May 2011, arising from the non-payment of dividend amounting to € 280 million on the 2009 Preference Shares, the NPRFC became entitled to bonus shares in lieu and the Company issued 484,902,878 new ordinary shares by way of a bonus issue to the NPRFC in part settlement of the dividend. In accordance with the Company's Articles of Association, an amount of € 155 million, equal to the nominal value of the shares issued, was transferred from share premium to ordinary share capital. The remainder of the bonus shares due to the NPRFC of 762,370,687 were issued to the NPRFC following the required approvals by the shareholders at the Extraordinary General Meeting ("EGM") on the 26 July 2011. This issue included an additional 38,118,535 shares being prescribed by the Company's Articles of Association as a result of the 2011 annual cash dividend not being satisfied in full on the due date. This issue of shares resulted in € 8 million (the nominal value of the shares issued was € 0.01 each per share) being transferred from share premium to ordinary share capital.

(iv) On 26 July 2011, following the passing of shareholder resolutions at the EGM:

- the ordinary shares of the Company were renominalised, each ordinary share of € 0.32 was subdivided into one ordinary share of € 0.01 each carrying the same rights and obligations as an existing ordinary share and thirty one deferred shares of € 0.01. The deferred shares created on the renominalisation had no voting or dividend rights and had no economic value;
- 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 € 3,958 million transferring from share capital to a capital redemption reserve fund; and
- all of the authorised but unissued preference shares denominated in Euro, sterling, US dollars and yen (other than the 2009 Preference Shares),were cancelled.

(v) On 27 July 2011, the Company issued 500 billion ordinary shares of € 0.01 each to the NPRFC at a subscription price of € 0.01 per share (€ 5 billion in total) as part of the capital raising transaction agreed with the Irish Government.

45 Share capital *(continued)*

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 over ordinary shares (the '2009 Warrants'), to the NPRFC for an aggregate subscription price of € 3.5 billion. The Government's national pensions reserve fund, is controlled by the NPRFC 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 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 in 2010, in 2011 and on 14 May 2012. In accordance with the Company's Articles of Association, an amount of € 36 million (2011: € 163 million), equal to the nominal value of the shares issued, was transferred from the share premium to the ordinary share capital account (see below).

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, for the first five years after the date of issue for the subscription price of € 1.00 per share and thereafter at redemption or purchase price of 125 per cent. of the subscription price, subject at all times to the consent of the Central Bank of Ireland.

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 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.

45 Share capital *(continued)*

The following tables show the movements in share capital in the statement of financial position during the year:

Issued share capital	2012 € m	2011 € m
At 1 January	**5,170**	3,965
Ordinary shares in lieu of dividend on 2009 Preference Shares	**36**	163
CNV shares converted to ordinary shares	**–**	(3,357)
Ordinary shares issued on conversion of CNV shares	**–**	3,357
Ordinary shares of € 0.32 each renominalised	**–**	(4,085)
Ordinary shares of € 0.01 each arising on renominalisation	**–**	127
Deferred shares of € 0.01 each arising on renominalisation	**–**	3,958
Cancellation of deferred shares	**–**	(3,958)
Ordinary shares issued to the NPRFC	**–**	5,000
At 31 December	**5,206**	5,170
Of which:		
Ordinary shares	**5,171**	5,135
2009 Preference shares	**35**	35
	5,206	5,170

Share premium	2012 € m	2011 € m
At 1 January	**4,926**	5,089
Transfer to ordinary share capital in respect of ordinary shares issued in lieu of dividend on 2009 Preference Shares	**(36)**	(163)
Reduction and transfer to revenue reserves	**(2,000)**	-
At 31 December	**2,890**	4,926

Structure of the Company's share capital as at 31 December 2012	Authorised share capital %	Issued share capital %
Class of share		
Ordinary share capital	**63.3**	**99.3**
2009 Preference Shares	**0.3**	**0.7**
Deferred shares	**36.4**	**–**

The following table shows the Group's capital resources at 31 December 2012 and 31 December 2011:

Capital resources	2012 € m	2011 € m
Shareholders' equity	**11,241**	14,463
Contingent capital notes *(note 44)*	**1,237**	1,177
Dated capital notes *(note 44)*	**34**	32
Total capital resources	**12,512**	15,672

46 Analysis of selected other comprehensive income

Continuing operations	2012 Gross €m	2012 Tax €m	2012 Net €m	2011 Gross €m	2011 Tax €m	2011 Net €m	2010 Gross €m	2010 Tax €m	2010 Net €m
Foreign currency translation reserves									
Change in foreign currency translation reserves	**34**	**–**	**34**	(11)	–	(11)	89	–	89
Total	**34**	**–**	**34**	(11)	–	(11)	89	–	89
Cash flow hedging reserves									
Fair value (gains) transferred to income statement	**(87)**	**10**	**(77)**	(115)	14	(101)	(403)	52	(351)
Fair value (losses)/gains taken to other comprehensive income	**(98)**	**13**	**(85)**	(127)	19	(108)	355	(45)	310
Total	**(185)**	**23**	**(162)**	(242)	33	(209)	(48)	7	(41)
Available for sale securities reserves									
Fair value losses/(gains) transferred to income statement	**55**	**7**	**62**	443	(54)	389	(15)	5	(10)
Fair value gains/(losses) taken to other comprehensive income	**1,412**	**(179)**	**1,233**	(298)	21	(277)	(942)	139	(803)
Total	**1,467**	**(172)**	**1,295**	145	(33)	112	(957)	144	(813)

Discontinued operations	2012 Gross €m	2012 Tax €m	2012 Net €m	2011 Gross €m	2011 Tax €m	2011 Net €m	2010 Gross €m	2010 Tax €m	2010 Net €m
Foreign currency translation reserves									
Transferred to income statement on disposal of foreign operation	**–**	**–**	**–**	(106)	–	(106)	–	–	–
Change in foreign currency translation reserves	**–**	**–**	**–**	(28)	–	(28)	50	–	50
Total	**–**	**–**	**–**	(134)	–	(134)	50	–	50
Cash flow hedging reserves									
Fair value losses transferred to income statement	**–**	**–**	**–**	4	(1)	3	29	(6)	23
Fair value (losses) taken to other comprehensive income	**–**	**–**	**–**	(3)	1	(2)	(29)	6	(23)
Total	**–**	**–**	**–**	1	–	1	–	–	–
Available for sale securities reserves									
Fair value (gains) transferred to income statement	**–**	**–**	**–**	(82)	16	(66)	(2)	–	(2)
Fair value (losses)/gains taken to other comprehensive income	**–**	**–**	**–**	(17)	9	(8)	6	(1)	5
Total	**–**	**–**	**–**	(99)	25	(74)	4	(1)	3

46 Analysis of selected other comprehensive income *(continued)*

Analysis of total comprehensive income included within statement of changes in equity

2012

	Revaluation reserves	Available for sale securities reserves	Cash flow hedging reserves	Revenue reserves: Net actuarial gains/(losses) in retirement benefit schemes	Revenue reserves: Other revenue reserves	Foreign currency translation reserves	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Parent and subsidiaries	**(2)**	**1,295**	**(162)**	**(740)**	**(3,647)**	**34**	**(3,222)**
Associated undertakings	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**(2)**	**1,295**	**(162)**	**(740)**	**(3,647)**	**34**	**(3,222)**
Non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Attributable to equity holders of the parent	**(2)**	**1,295**	**(162)**	**(740)**	**(3,647)**	**34**	**(3,222)**

2011

	Revaluation reserves	Available for sale securities reserves	Cash flow hedging reserves	Revenue reserves: Net actuarial gains/(losses) in retirement benefit schemes	Revenue reserves: Other revenue reserves	Foreign currency translation reserves	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Parent and subsidiaries	–	38	(208)	(464)	(2,292)	(145)	(3,071)
Associated undertakings	–	–	–	4	–	–	4
Total	–	38	(208)	(460)	(2,292)	(145)	(3,067)
Non-controlling interests	–	3	–	–	(20)	5	(12)
Attributable to equity holders of the parent	–	41	(208)	(460)	(2,312)	(140)	(3,079)

47 Own shares

Ordinary shares previously purchased under shareholder authority and held as Treasury Shares are as follows:

Treasury shares	2012	2011
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

The Group sponsors a number of employee share plans whereby purchases of shares are made in the open market to satisfy commitments under the schemes.

At 31 December 2012, 1.5 million shares (2011: 2.6 million) were held by trustees with a book value of € 23 million (2011: € 25.6 million), and a market value of € 0.1 million (2011: € 0.2 million). The book value is deducted from revenue reserves while the shares continue to be held by the Group.

The Group sponsors SAYE schemes for eligible employees in the UK, the Isle of Man and Channel Islands. The trustees of the schemes have borrowed funds from Group companies, interest free, to enable them to purchase Allied Irish Banks, p.l.c. ordinary shares in the open market. These shares are used to satisfy commitments arising under the schemes. The cost of providing these shares is charged to the income statement on a systematic basis over the period that the employees are expected to benefit. At 31 December 2012, 1.5 million shares (2011: 1.5 million) were held by the trustees with a book value of € 22.9 million (2011: € 23.1 million) and a market value of € 0.1 million (2011: € 0.2 million). The book value is deducted from revenue reserves.

In 2001, the AIB Group Employee Share Trust was established to satisfy commitments arising under the AIB Group Long-Term Incentive Plan ("LTIP"). Funds were provided to the trustees to enable them to purchase Allied Irish Banks, p.l.c. ordinary shares in the open market. The trustees have waived their entitlement to dividends. At 31 December 2012, 0.01 million shares (2011: 0.01 million shares) were held by the trustees with a book value of € 0.1 million (2011: € 0.1 million) and a market value of € 0.001 million (2011: € 0.002 million).

At 31 December 2012, Nil (2011: 1.2 million) ordinary shares were held by the trust with a cost of Nil (2011: € 2.4 million) and a market value of Nil (2011:Nil) in relation to the Allfirst Stock Option Plans.[1]

[1]Prior to its disposal to M&T Bank Corporation, Allfirst Financial, Inc. sponsored the Allfirst Stock Option Plans, for the benefit of key employees of Allfirst.

48 Other equity interests

Reserve capital instruments ("RCI")	2011 € m
At 1 January	239
Redemption of RCI *(note 7)*	(239)
At 31 December 2011	–

RCIs

At 1 January 2011, € 239 million remained outstanding on RCIs following the redemption in June 2009 of € 258 million of the RCI. The outstanding amount of € 239 million was purchased in full for cash in June 2011 at a discount of 90.4% to nominal value resulting in a gain of € 216 million which was recognised in equity.

The coupon, which was due to be paid on the RCI on 28 February 2011, was not paid.

49 Capital reserves

	2012			2011		
	Capital contribution reserves € m	**Other capital reserves € m**	**Total € m**	Capital contribution reserves € m	Other capital reserves € m	Total € m
At 1 January	**2,632**	**253**	**2,885**	**–**	253	253
Capital contributions						
Anglo business transfer *(note 22)*	**–**	**–**	**–**	1,498	**–**	1,498
EBS acquisition *(note 23)*	**–**	**–**	**–**	777	**–**	777
CCNs issuance *(note 44)*	**–**	**–**	**–**	447	**–**	447
	–	**–**	**–**	2,722	**–**	2,722
Transfer to revenue reserves:						
Anglo business transfer	**(187)**	**–**	**(187)**	(66)	**–**	(66)
CCNs issuance *(note 44)*	**(60)**	**–**	**(60)**	(24)	**–**	(24)
	(247)	**–**	**(247)**	(90)	**–**	(90)
At 31 December	**2,385**	**253**	**2,638**	2,632	253	2,885

The capital contributions are 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.

In addition to the capital contributions above, in 2011 AIB also received capital contributions in cash amounting to € 6,054 million which are included in revenue reserves (note 51).

50 Capital redemption reserves

On 26 July 2011, the ordinary shares of Allied Irish Banks, p.l.c. were renominalised which resulted in the creation of ordinary shares of € 0.01 each, totalling € 127 million and deferred shares of € 0.01 each, totalling € 3,958 million. The deferred shares were acquired by AIB for Nil consideration and immediately cancelled which resulted in € 3,958 million transferring from share capital to capital redemption reserves (note 45).

On 1 May 2012, the Irish High Court confirmed an application by AIB for a reduction of its capital redemption reserve fund, accordingly, € 3,958 million was transferred to revenue reserves from this account.

51 Contributions from the Minister for Finance and the NPRFC

On 28 July 2011, the Minister for Finance ('the Minister') and the NPRFC 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 core tier 1 capital for regulatory purposes and are included within 'Revenue reserves'. Neither the Minister nor the NPRFC has an entitlement to seek repayment of these capital contributions.

52 Non-controlling interests in subsidiaries

	2011 € m
Equity interest in subsidiaries	
At 1 January	501
Movement during the year	12
Extinguishment of equity interests	(513)
At 31 December	–
Non-cumulative Perpetual Preferred Securities ("LPI")	
At 1 January	189
Purchase of Non-cumulative Perpetual Preferred Securities	(189)
At 31 December	–
	–

Equity interests in subsidiaries

On 1 April 2011, AIB disposed of its 70.36% shareholding in BZWBK (note 18).

Non-cumulative Perpetual Preferred Securities

At 1 January 2011, € 189 million remained outstanding following the redemption in June 2009 of € 801 million of the Preferred Securities. In June 2011 the remaining outstanding amount was purchased in full for cash (note 7).

53 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	
	2012 € m	2011 € m
Contingent liabilities[1] – **credit related**		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	**980**	1,414
Other contingent liabilities	**581**	595
	1,561	2,009
Commitments[2]		
Documentary credits and short-term trade-related transactions	**27**	29
Undrawn note issuance and revolving underwriting facilities	**–**	–
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year[3]	**6,977**	7,240
1 year and over[4]	**1,970**	2,593
	8,974	9,862
	10,535	11,871

[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	
	2012 € m	2011 € m	**2012 € m**	2011 € m
Concentration of exposure				
Republic of Ireland	**822**	1,023	**7,784**	8,277
United Kingdom	**492**	504	**1,149**	1,352
United States of America	**247**	475	**41**	185
Rest of the world	**–**	7	**–**	48
Total	**1,561**	2,009	**8,974**	9,862

53 Memorandum items: contingent liabilities and commitments, and contingent assets *(continued)*

The credit rating of contingent liabilities and commitments as at 31 December 2012 and 2011 are set out in the following table. Details of the Group's rating profiles and masterscale ranges are set out in the 'Risk management' section.

Masterscale grade	**2012 € m**	2011 € m
1 to 3	**3,652**	5,334
4 to 10	**2,875**	2,800
11 to 13	**1,925**	1,834
Unrated	**2,083**	1,903
	10,535	11,871

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 or profitability 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, AIB 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 AIB (note 43).

(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

Allied Irish Banks, p.l.c. ("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 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; and

(ii) each of the eligible securities included from time to time in the Eligible Securities Schedule furnished by AIB to the Central Bank of Ireland

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 (adopted from time to time by the Central Bank of Ireland), including, without limitation, liabilities to the Central Bank of Ireland, 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 of Ireland, 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.

54 Off-balance sheet arrangements

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

Securitisations

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

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

AIB has primarily been an investor in securitisations issued by other credit institutions. The most significant investment in securitisations has been through Treasury's purchases of senior tranches of predominantly AAA-rated prime Residential Mortgage Backed Securities ("RMBS"), holdings of which have continued to reduce during 2012.This portfolio was originally purchased as part of Treasury's primary interest rate and liquidity management objective, subject to qualifying criteria, including loan-to-value ("LTV"), seasoning, location and quality of originator. A smaller proportion of the overall portfolio is held in other asset classes which are reported in the available for sale portfolio.

At 31 December 2012, the Group also has a small residual portfolio of investments in securitisations which are classified as non-core. The portfolio consists of both cash and synthetic structures across a variety of asset classes, including RMBS, Commercial Mortgage Backed Securities ("CMBS") and CDOs.

Arising from the acquisition of EBS on 1 July 2011, AIB controls certain special purpose vehicles which had been set-up by EBS (note m Investments in Group undertakings to the parent company financial statements).

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 11 of the notes to the consolidated financial statements
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55 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 predominantly with central banks and banks. The obligation to pay the repurchase price is recognised within 'Deposits by central banks and banks' (note 39) and 'Customer accounts' (note 40). 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. 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.

Securities sold under agreements to repurchase (notes 39 and 40), all of which mature within six months, (with the exception of € 11.25 billion (2011: € 3 billion) funded through the ECB three year Long Term Refinancing Operation ("LTRO")) are secured by Irish Government bonds, NAMA senior bonds, other marketable securities and eligible assets. The Group has securitised certain of its mortgage and loan portfolios as outlined below in relation to AIB Mortgage Bank and EBS Mortgage Finance. These securities, other than issued to external investors, have been pledged as collateral in addition to other securities held by the Group.

The Group has granted a floating charge over certain residential mortgage pools, the drawings against which were Nil at 31 December 2012 (2011: Nil).

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 of the risks and rewards of these mortgage loans 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 41). The Group remains exposed to credit risk and interest rate risk on the financial assets sold. As the Group sells the contractual rights to the cash flows of the financial assets it does not have the ability to use the transferred assets during the term of the arrangement. However, of the total debt securities issued amounting to € 13.4 billion, internal Group companies hold € 10.1 billion which are eliminated on consolidation. These internally issued bonds are used by AIB Group as part of sale and repurchase agreements with the Central Bank of Ireland as outlined above.

Securitisations

Securitisations are transactions in which the Group sells financial assets to special purpose entities ("SPEs"), which, in turn, issue notes to external investors. The notes issued by the SPEs are on terms which result in the Group retaining the majority of ownership risks and rewards and therefore, the financial assets 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 financial assets sold. The liability in respect of the cash received from the external investors is included within 'Debt securities in issue' (note 41). Under the terms of the securitisations, the rights of the investors are limited to the financial assets in the securitised portfolios and any related income generated by the portfolios, without recourse to the Group. The Group does not have the ability to use the financial 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 market 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 financial statements. 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 41) on the statement of financial position. At 31 December 2012, the carrying amount of the assets which the Group continues to recognise is € 467 million and the carrying amount of the associated liabilities is € 316 million.

55 Transfer of financial assets *(continued)*

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 p.l.c.; Emerald Mortgages No. 5; and Mespil 1 RMBS Limited.

Emerald Mortgages No.4 plc

The total carrying value of the original residential mortgages transferred by EBS Limited to Emerald Mortgages No.4 plc ('Emerald 4') as part of the securitisation amounts to € 1,500 million. The amount of transferred secured loans that the Group has recognised at 31 December 2012 is € 868 million. The carrying amount of the bonds issued by Emerald 4 to third party investors amounts to € 846 million and is included within 'Debt securities in issue' (note 41).

Neither Emerald Mortgages No. 5 nor Mespil 1 RMBS Limited have external investors.

The following table sets out the carrying value of financial assets which did not qualify for derecognition and their associated financial liabilities:

					2012
	Carrying amount of transferred assets	Carrying amount of associated liabilities[2]	Fair value of transferred assets € m	Fair value of associated liabilities € m	Net position € m
Sale and repurchase agreements	**32,120**[1]	**27,950**	**32,166**	**27,950**	**4,216**
Issuance of covered bonds[3]	**5,584**	**3,315**	**4,635**	**3,434**	**1,201**
Securitisations[3]	**1,178**	**1,162**	**1,071**	**709**	**362**

[1] Includes NAMA senior bonds.

[2] Relates to third party investors only.

[3] The carrying value and fair value of transferred assets have been apportioned between external investors and internal investors with that portion relating to external investors recorded in this table.

(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 an SPV owning loans and receivables previously transferred at fair value from the Group. The loans and receivables which had a carrying value of € 1,024 million transferred at fair value to the SPV resulting in a loss on disposal of € 430 million. The loans and receivables were derecognised in the Group's financial statements (note 12).

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 2012, the Group recognised € 0.5 million (cumulative € 0.5 million) in the income statement for the servicing of the loans and receivables transferred.

55 Transfer of financial assets *(continued)*

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 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 2012, the Group recognised € 16 million (cumulative € 37 million) in the income statement for the servicing of financial assets transferred to NAMA.

56 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 amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. 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 table 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 2012.

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

		31 December 2012		31 December 2011	
	Notes	**Carrying amount € m**	**Fair value € m**	Carrying amount € m	Fair value € m
Financial assets					
Cash and balances at central banks	a	**4,047**	**4,047**	2,934	2,934
Items in course of collection	a	**192**	**192**	202	202
Disposal groups and non-current assets held for sale net of liabilities	c	**549**	**435**	1,212	1,012
Trading portfolio financial assets	b	**24**	**24**	56	56
Derivative financial instruments	b	**2,835**	**2,835**	3,046	3,046
Loans and receivables to banks	d	**2,914**	**2,914**	5,718	5,719
Loans and receivables to customers	e	**72,972**	**64,138**	82,540	68,846
NAMA senior bonds	f	**17,387**	**17,446**	19,856	20,061
Financial investments available for sale	b	**16,344**	**16,344**	15,389	15,389
Fair value hedged asset positions	g	**–**	**–**	17	–
Financial liabilities					
Deposits by central banks and banks	h	**28,442**	**28,442**	36,890	36,890
Customer accounts	h	**63,610**	**64,435**	60,674	61,101
Derivative financial instruments	b	**3,256**	**3,256**	3,843	3,843
Debt securities in issue	i	**10,666**	**11,019**	15,654	13,025
Subordinated liabilities and other capital instruments	i	**1,271**	**1,650**	1,209	1,120
Fair value hedged liability positions	g	**565**	**–**	507	–

Financial instruments recorded at fair value in the financial statements

(a) The fair value of these financial instruments is considered equal to the carrying value. These instruments are either carried at market value or have minimal credit losses.

(b) Financial instruments reported at fair value include trading portfolio financial assets and financial liabilities, derivative financial instruments and financial investments available for sale. The fair value of trading and available for sale debt securities, together with quoted equity shares are based on quoted prices or bid/offer quotations sourced from external securities dealers, where these are available on an active market. Where securities and derivatives are traded on an exchange, the fair value is based on prices from the exchange. The fair value of unquoted equity shares, debt securities not quoted in an active market, and over-the-counter derivative financial instruments is calculated using valuation techniques, as described in accounting policy number 16.

56 Fair value of financial instruments *(continued)*

Financial instruments with fair value information presented separately in the notes to the financial statements

(c) The fair value of loans and receivables held for sale has been estimated based on expected sale proceeds. Available for sale equity securities and equity securities designated as at fair value through profit or loss have been included at their carrying value. The fair value of certain other assets within disposal groups and non-current assets held for sale has not been included, as these are not financial assets.

(d) 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.

(e) 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, applying market rates where practicable and the expected cash flows from deleveraging activity.
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 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 2012 took account of the Group's expectation of credit losses over the life of the loans.

(f) 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 required an increased use of management judgement which included, but was not limited to, evaluating available market information, determining the cashflows generated by the instruments, identifying a risk free discount rate and applying an appropriate credit spread.

(g) The fair value of the hedged asset and liability positions are included in the fair value of the relevant assets and liabilities being hedged.

(h) 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.

(i) 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.

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 53. 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.

56 Fair value of financial instruments *(continued)*

Fair value hierarchy

The fair values of financial instruments are measured according to the following fair value hierarchy:

Level 1 – financial assets and liabilities measured using quoted market prices (unadjusted).

Level 2 – financial assets and liabilities measured using valuation techniques which use observable market data.

Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable market data.

The following table sets out the carrying value of financial instruments measured at fair value across the three levels of the fair value hierarchy at 31 December 2012 and at 31 December 2011:

				2012
	Level 1 € m	**Level 2 € m**	**Level 3 € m**	**Total € m**
Financial assets				
Disposal groups and non-current assets held for sale	**–**	**–**	**196**	**196**
Trading portfolio financial assets	**23**	**1**	**–**	**24**
Derivative financial instruments	**–**	**2,835**	**–**	**2,835**
Financial investments available for sale – debt securities	**16,128**	**61**	**12**	**16,201**
– equity securities	**58**	**1**	**84**	**143**
	16,209	**2,898**	**292**	**19,399**
Financial liabilities				
Derivative financial instruments	**_**	**3,236**	**20**	**3,256**
	–	**3,236**	**20**	**3,256**

				2011
	Level 1 € m	Level 2 € m	Level 3 € m	Total € m
Financial assets				
Disposal groups and non-current assets held for sale	–	–	22	22
Trading portfolio financial assets	50	6	–	56
Derivative financial instruments	–	3,046	–	3,046
Financial investments available for sale – debt securities	13,720	1,413	12	15,145
– equity securities	54	10	180	244
	13,824	4,475	214	18,513
Financial liabilities				
Derivative financial instruments	–	3,734	109	3,843
	–	3,734	109	3,843

56 Fair value of financial instruments *(continued)*

Significant transfers between Level 1 and Level 2 of the fair value hierarchy

	2012		
	Financial assets		
	Trading portfolio € m	Debt securities € m	Total € m
Transfer into Level 1 from Level 2	–	908	908
Transfer into Level 2 from Level 1	–	–	–

Transfers into Level 1 from Level 2 occurred due to increased availability of reliable quoted market prices which were not previously available.

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:

	2012						
	Financial assets					Financial liabilities	
	Disposal groups and non-current assets held for sale € m	Derivatives € m	AFS		Total € m	Derivatives € m	Total € m
			Debt securities € m	Equity securities € m			
At 1 January 2012	22	–	12	180	214	109	109
Designated to fair value through profit or loss	196	–	–	–	196	–	–
Transfers out of level 3	–	–	–	(18)	(18)	–	–
Total gains or losses in:							
Profit or loss	(2)	–	–	(86)	(88)	39	39
Other comprehensive income	(7)	–	–	5	(2)	–	–
Net NAMA subordinated bonds	–	–	–	(3)	(3)	–	–
Purchases	–	–	–	8	8	–	–
Sales	(13)	–	–	(2)	(15)	–	–
Settlements	–	–	–	–	–	(128)	(128)
At 31 December 2012	196	–	12	84	292	20	20

Transfers out of Level 3 occurred because of increased observability in the market prices of these instruments.

Losses included in profit or loss for the year in the above tables are presented in the income statement and are recognised as:

	2012 € m
Net trading loss	(39)
Provisions for impairment of financial investments available for sale	(86)
Other operating loss	(2)
Total	(127)

Losses for the year included in the income statement relating to financial assets and liabilities held at the end of the year:

	2012 € m
Net trading loss	(6)
Provisions for impairment of financial investments available for sale	(85)
Total	(91)

56 Fair value of financial instruments *(continued)*

Significant transfers between Level 1 and Level 2 of the fair value hierarchy

	2011		
	Financial assets		
	Trading portfolio € m	Debt securities € m	Total € m
Transfer into Level 1 from Level 2	–	61	61
Transfer into Level 2 from Level 1	–	178	178

Transfers into Level 1 from Level 2 occurred due to increased availability of reliable quoted market prices which were not previously available.

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:

	2011						
	Financial assets					Financial liabilities	
	Disposal groups and non-current assets held for sale € m	Derivatives € m	AFS		Total € m	Derivatives € m	Total € m
			Debt securities € m	Equity securities € m			
At 1 January 2011	–	–	12	263	275	122	122
Acquisition of subsidiaries	–	–	–	6	6	–	–
Reclassified to disposal groups and non-current assets held for sale	22	–	–	(22)	–	–	–
Transfers out of Level 3	–	–	–	–	–	(4)	(4)
Total gains or losses in:							
Profit or loss	–	–	–	(105)	(105)	71	71
Other comprehensive income	–	–	–	43	43	3	3
Net NAMA subordinated bonds additions	–	–	–	12	12	–	–
Additions	–	–	–	19	19	–	–
Purchases	–	–	–	6	6	–	–
Sales	–	–	–	(42)	(42)	–	–
Settlements	–	–	–	–	–	(83)	(83)
At 31 December 2011	22	–	12	180	214	109	109

Transfers out of Level 3 occurred because of increased observability in the market prices of these instruments.

Losses included in profit or loss for the year in the above tables are presented in the income statement and are recognised as:

	2011 € m
Net trading loss	(71)
Provisions for impairment of financial investments available for sale	(113)
Other operating loss	8
Total	(176)

Losses for the year included in the income statement relating to financial assets and liabilities held at the end of the year:

	2011 € m
Net trading loss	(50)
Provisions for impairment of financial investments available for sale	(113)
Total	(163)

56 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, including the impact of changing credit spread assumptions for debt securities:

	2012			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Financial investments available for sale – debt securities	**–**	**–**	**–**	**–**
– equity securities	**–**	**(47)**	**146**	**–**
Total	**–**	**(47)**	**146**	**–**
Classes of financial liabilities				
Derivative financial instruments	**3**	**(3)**	**–**	**–**
Total	**3**	**(3)**	**–**	**–**

In relation to the investment in ALH which is designated as an equity investment at fair value through profit or loss (and categorised as held for sale) this transaction was concluded in March 2013 (note 69).

	2011			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Financial investments available for sale – debt securities	–	–	–	–
– equity securities	–	–	236	(52)
Total	–	–	236	(52)
Classes of financial liabilities				
Derivative financial instruments	58	(58)	–	–
Total	58	(58)	–	–

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.

57 Classification and measurement of financial assets and financial liabilities

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The accounting policy for financial assets (number 18), describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of the financial assets and liabilities by category as defined in IAS 39 *Financial Instruments: Recognition and Measurement* and by statement of financial position heading.

							2012
	At fair value through profit and loss		At fair value through equity		At amortised cost		Total
	At fair value through profit and loss € m	Fair value hedge derivatives € m	Cashflow hedge derivatives € m	Available for sale securities € m	Loans and receivables € m	Other € m	€ m
Financial assets							
Cash and balances at central banks	–	–	–	–	3,481	566[1]	4,047
Items in the course of collection	–	–	–	–	192	–	192
Disposal groups and non-current assets held for sale	196[2]	–	–	–	353	–	549
Trading portfolio financial assets	24	–	–	–	–	–	24
Derivative financial instruments	1,716	788	331	–	–	–	2,835
Loans and receivables to banks	–	–	–	–	2,914	–	2,914
Loans and receivables to customers	–	–	–	–	72,972	–	72,972
NAMA senior bonds	–	–	–	–	17,387	–	17,387
Financial investments available for sale	–	–	–	16,344	–	–	16,344
Other financial assets	–	–	–	–	–	522	522
	1,936	788	331	16,344	97,299	1,088	117,786
Financial liabilities							
Deposits by central banks and banks	–	–	–	–	–	28,442	28,442
Customer accounts	–	–	–	–	–	63,610	63,610
Derivative financial instruments	1,933	795	528	–	–	–	3,256
Debt securities in issue	–	–	–	–	–	10,666	10,666
Subordinated liabilities and other capital instruments	–	–	–	–	–	1,271	1,271
Other financial liabilities	–	–	–	–	–	537	537
	1,933	795	528	–	–	104,526	107,782

[1]Comprises cash on hand.

[2]Designated on initial recognition as at fair value through profit or loss. All other financial assets/financial liabilities in this column are held for trading.

57 Classification and measurement of financial assets and financial liabilities *(continued)*

	At fair value through profit and loss		At fair value through equity		At amortised cost		2011 Total
	Held for trading	Fair value hedge derivatives	Cashflow hedge derivatives	Available for sale securities	Loans and receivables	Other	
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets							
Cash and balances at central banks	–	–	–	–	2,344	590[1]	2,934
Items in the course of collection	–	–	–	–	202	–	202
Disposal groups and non-current assets held for sale	–	–	–	22	1,191	–	1,213
Trading portfolio financial assets	56	–	–	–	–	–	56
Derivative financial instruments	1,930	716	400	–	–	–	3,046
Loans and receivables to banks	–	–	–	–	5,718	–	5,718
Loans and receivables to customers	–	–	–	–	82,540	–	82,540
NAMA senior bonds	–	–	–	–	19,856	–	19,856
Financial investments available for sale	–	–	–	15,389	–	–	15,389
Other financial assets	–	–	–	–	–	734	734
	1,986	716	400	15,411	111,851	1,324	131,688
Financial liabilities							
Deposits by central banks and banks	–	–	–	–	–	36,890	36,890
Customer accounts	–	–	–	–	–	60,674	60,674
Derivative financial instruments	2,430	731	682	–	–	–	3,843
Debt securities in issue	–	–	–	–	–	15,654	15,654
Subordinated liabilities and other capital instruments	–	–	–	–	–	1,209	1,209
Other financial liabilities	–	–	–	–	–	489	489
	2,430	731	682	–	–	114,916	118,759

[1]Comprises cash on hand.

58 Interest rate sensitivity

The net interest rate sensitivity of the Group at 31 December 2012, 2011, 2010, 2009 and 2008 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 each year's table.

For 2010, assets and liabilities of 'Disposal groups and non-current assets held for sale' have been shown as interest rate insensitive since the sale of a substantial element of these, (BZWBK), had been agreed.

Non-interest bearing amounts relating to financial assets held for sale to NAMA, loans and receivables to banks and loans and receivables to customers include provisions for impairment. Prior periods have been amended to reflect this.

58 Interest rate sensitivity *(continued)*

2012

	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	Total € m
Assets											
Disposal groups and non-current assets held for sale	323	100	52	–	–	–	–	–	87	–	562
Trading portfolio financial assets	–	–	–	–	–	–	–	–	–	24	24
Loans and receivables to banks	2,367	15	–	–	–	–	–	–	532	–	2,914
Loans and receivables to customers	75,011	7,485	2,591	1,332	967	574	260	1,158	(16,406)	–	72,972
NAMA senior bonds	–	17,387	–	–	–	–	–	–	–	–	17,387
Financial investments available for sale	943	1,123	785	1,478	2,913	2,148	1,550	5,257	147	–	16,344
Other assets	3,285	–	–	–	–	–	–	–	7,312	1,716	12,313
Total assets	81,929	26,110	3,428	2,810	3,880	2,722	1,810	6,415	(8,328)	1,740	122,516
Liabilities											
Deposits by central banks and banks	25,906	2,528	–	–	–	–	–	–	8	–	28,442
Customer accounts	27,035	5,759	13,174	1,733	709	955	521	38	13,686	–	63,610
Debt securities in issue	–	2,461	1,031	849	3,658	–	1,675	992	–	–	10,666
Subordinated liabilities and other capital instruments	7	–	–	–	–	1,237	–	27	–	–	1,271
Other liabilities	–	–	–	–	–	–	–	–	5,353	1,933	7,286
Shareholders' equity	–	–	–	–	–	–	–	–	11,241	–	11,241
Total liabilities and shareholders' equity	52,948	10,748	14,205	2,582	4,367	2,192	2,196	1,057	30,288	1,933	122,516
Derivatives affecting interest rate sensitivity	1,318	13,152	(14,277)	(927)	(243)	(147)	(2,053)	3,177	–	–	–
Interest sensitivity gap	27,663	2,210	3,500	1,155	(244)	677	1,667	2,181	(38,616)	(193)	
Cumulative interest sensitivity gap	27,663	29,873	33,373	34,528	34,284	34,961	36,628	38,809	193	–	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	17,843	2,027	3,660	1,250	(310)	144	1,575	1,919	(29,323)	249	
Cumulative interest sensitivity gap	17,843	19,870	23,530	24,780	24,470	24,614	26,189	28,108	(1,215)	(966)	
(US$ in euro equivalents)	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	
Interest sensitivity gap	1,143	(572)	(23)	3	–	(5)	9	14	(809)	(7)	
Cumulative interest sensitivity gap	1,143	571	548	551	551	546	555	569	(240)	(247)	
(Stg£ in euro equivalents)	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	
Interest sensitivity gap	8,470	654	(201)	(114)	46	538	76	248	(8,533)	(425)	
Cumulative interest sensitivity gap	8,470	9,124	8,923	8,809	8,855	9,393	9,469	9,717	1,184	759	
(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	207	101	64	16	20	–	7	–	49	(10)	
Cumulative interest sensitivity gap	207	308	372	388	408	408	415	415	464	454	

58 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	2011 Total € m
Assets											
Disposal groups and non-current assets held for sale	428	585	41	64	–	22	–	–	282	–	1,422
Trading portfolio financial assets	–	–	–	–	–	–	–	–	–	56	56
Loans and receivables to banks	5,284	50	12	–	–	–	–	–	372	–	5,718
Loans and receivables to customers	79,457	6,691	3,199	2,957	1,457	846	629	2,236	(14,932)	–	82,540
NAMA senior bonds	–	19,856	–	–	–	–	–	–	–	–	19,856
Financial investments available for sale	1,761	2,259	593	1,093	2,430	1,257	1,410	4,342	244	–	15,389
Other assets	2,344	–	–	–	–	–	–	–	7,396	1,930	11,670
Total assets	89,274	29,441	3,845	4,114	3,887	2,125	2,039	6,578	(6,638)	1,986	136,651
Liabilities											
Disposal groups held for sale	–	–	–	–	–	–	–	–	3	–	3
Deposits by central banks and banks	34,243	2,647	–	–	–	–	–	–	–	–	36,890
Customer accounts	27,232	5,974	8,406	4,392	1,421	553	743	41	11,912	–	60,674
Debt securities in issue	2,451	2,695	2,081	2,870	750	3,017	–	1,790	–	–	15,654
Subordinated liabilities and other capital instruments	–	–	–	–	–	–	1,177	32	–	–	1,209
Other liabilities	–	–	–	–	–	–	–	–	5,328	2,430	7,758
Shareholders' equity	–	–	–	–	–	–	–	–	14,463	–	14,463
Total liabilities and shareholders' equity	63,926	11,316	10,487	7,262	2,171	3,570	1,920	1,863	31,706	2,430	136,651
Derivatives affecting interest rate sensitivity	(9,358)	21,089	(9,724)	(2,944)	1,126	(1,886)	(17)	1,714	–	–	–
Interest sensitivity gap	34,706	(2,964)	3,082	(204)	590	441	136	3,001	(38,344)	(444)	
Cumulative interest sensitivity gap	34,706	31,742	34,824	34,620	35,210	35,651	35,787	38,788	444	–	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	29,008	(2,957)	3,053	(369)	487	137	43	1,278	(26,565)	947	
Cumulative interest sensitivity gap	29,008	26,051	29,104	28,735	29,222	29,359	29,402	30,680	4,115	5,062	
(US$ in euro equivalents)	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	
Interest sensitivity gap	(272)	(128)	55	87	13	1	14	28	(2,570)	(56)	
Cumulative interest sensitivity gap	(272)	(400)	(345)	(258)	(245)	(244)	(230)	(202)	(2,772)	(2,828)	
(Stg£ in euro equivalents)	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	
Interest sensitivity gap	5,794	32	(111)	49	68	279	76	1,689	(8,796)	(1,400)	
Cumulative interest sensitivity gap	5,794	5,826	5,715	5,764	5,832	6,111	6,187	7,876	(920)	(2,320)	
(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	176	89	85	29	22	24	3	6	(413)	65	
Cumulative interest sensitivity gap	176	265	350	379	401	425	428	434	21	86	

58 Interest rate sensitivity *(continued)*

2010

	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	Total € m
Assets											
Financial assets held for sale to NAMA	1,233	950	36	1	20	7	–	1	(326)	15	1,937
Disposal groups and non-current assets held for sale	–	–	–	–	–	–	–	–	13,911	–	13,911
Trading portfolio financial assets	–	–	–	–	–	–	–	–	–	33	33
Loans and receivables to banks	2,558	2	1	–	–	–	–	–	382	–	2,943
Loans and receivables to customers	66,825	10,620	3,811	2,230	1,822	952	850	6,488	(7,248)	–	86,350
–	–	–	–	–	–	–	–	7,869			
Financial investments available for sale	3,585	4,260	2,041	1,944	1,013	2,369	813	4,486	314	–	20,825
Other assets	3,086	–	–	–	–	–	–	–	6,391	1,877	11,354
Total assets	77,287	23,701	5,889	4,175	2,855	3,328	1,663	10,975	13,424	1,925	145,222
Liabilities											
Disposal groups held for sale	–	–	–	–	–	–	–	–	11,548	–	11,548
Deposits by central banks and banks	40,578	9,143	148	–	–	–	–	–	–	–	49,869
Customer accounts	31,851	5,783	6,273	789	396	374	343	316	6,264	–	52,389
Debt securities in issue	1,973	4,249	835	1,272	2,820	750	2,000	1,765	–	–	15,664
Subordinated liabilities & capital instruments	376	242	–	–	–	–	68	3,645	–	–	4,331
Other liabilities	–	–	–	–	–	–	–	–	5,523	2,239	7,762
Shareholders' equity	–	–	–	–	–	–	–	–	3,659	–	3,659
Total liabilities and shareholders' equity	74,778	19,417	7,256	2,061	3,216	1,124	2,411	5,726	26,994	2,239	145,222
Derivatives affecting interest rate sensitivity	5,934	9,758	(10,553)	(661)	(2,563)	1,156	(919)	(2,152)	–	–	–
Interest sensitivity gap	(3,425)	(5,474)	9,186	2,775	2,202	1,048	171	7,401	(13,570)	(314)	
Cumulative interest sensitivity gap	(3,425)	(8,899)	287	3,062	5,264	6,312	6,483	13,884	314	–	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	(10,413)	(5,143)	7,716	2,326	1,863	913	147	5,693	(5,041)	(227)	
Cumulative interest sensitivity gap	(10,413)	(15,556)	(7,840)	(5,514)	(3,651)	(2,738)	(2,591)	3,102	(1,939)	(2,166)	
(US$ in euro equivalents)	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	
Interest sensitivity gap	972	(479)	255	(244)	78	24	6	64	(875)	(89)	
Cumulative interest sensitivity gap	972	493	748	504	582	606	612	676	(199)	(288)	
(Stg£ in euro equivalents)	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	
Interest sensitivity gap	5,845	(71)	1,011	665	229	92	2	1,617	(8,649)	26	
Cumulative interest sensitivity gap	5,845	5,774	6,785	7,450	7,679	7,771	7,773	9,390	741	767	
(Other currencies in euro equivalents)	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	
Interest sensitivity gap	16	–	–	–	–	–	–	–	586	(158)	
Cumulative interest sensitivity gap	16	16	16	16	16	16	16	16	602	444	

58 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	2009 Total € m
Assets											
Financial assets held for sale to NAMA	12,969	9,669	133	129	41	47	44	163	(4,108)	125	19,212
Trading portfolio financial assets	–	–	–	–	–	–	–	–	–	296	296
Loans and receivables to banks	8,218	508	2	–	–	–	–	–	365	–	9,093
Loans and receivables to customers	73,705	16,520	4,430	2,594	2,114	1,435	903	4,627	(2,987)	–	103,341
Financial investments available for sale	5,423	6,485	1,980	3,153	1,932	534	1,104	4,398	327	–	25,336
Financial investments held to maturity	–	77	1,509	–	–	–	–	–	–	–	1,586
Other assets	3,569	–	–	–	–	–	–	–	7,247	4,634	15,450
Total assets	103,884	33,259	8,054	5,876	4,087	2,016	2,051	9,188	844	5,055	174,314
Liabilities											
Financial liabilities held for sale to NAMA	–	–	–	–	–	–	–	–	–	3	3
Deposits by central banks and banks	13,522	11,813	7,990	8	–	–	–	–	–	–	33,333
Customer accounts	52,322	12,865	9,263	548	429	339	341	163	7,683	–	83,953
Trading portfolio financial liabilities	–	–	–	–	–	–	–	–	–	23	23
Debt securities in issue	9,047	9,891	7,191	39	1,000	1,000	746	1,740	–	–	30,654
Subordinated liabilities & capital instruments	846	454	–	–	–	–	–	3,286	–	–	4,586
Other liabilities	–	–	–	–	–	–	–	–	6,193	4,860	11,053
Shareholders' equity	–	–	–	–	–	–	–	–	10,709	–	10,709
Total liabilities and shareholders' equity	75,737	35,023	24,444	595	1,429	1,339	1,087	5,189	24,585	4,886	174,314
Derivatives affecting interest rate sensitivity	11,917	9,771	(16,873)	309	(744)	(1,660)	(34)	(2,686)	–	–	–
Interest sensitivity gap	16,230	(11,535)	483	4,972	3,402	2,337	998	6,685	(23,741)	169	
Cumulative interest sensitivity gap	16,230	4,695	5,178	10,150	13,552	15,889	16,887	23,572	(169)	–	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	16,672	(12,369)	(1,066)	4,110	2,779	1,962	872	5,729	(17,356)	(1,251)	
Cumulative interest sensitivity gap	16,672	4,303	3,237	7,347	10,126	12,088	12,960	18,689	1,333	82	
(US$ in euro equivalents)	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	
Interest sensitivity gap	(5,051)	(2,258)	(10)	235	33	75	43	80	(734)	(88)	
Cumulative interest sensitivity gap	(5,051)	(7,309)	(7,319)	(7,084)	(7,051)	(6,976)	(6,933)	(6,853)	(7,587)	(7,675)	
(Stg£ in euro equivalents)	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	
Interest sensitivity gap	6,283	3,746	445	325	289	144	(3)	819	(5,398)	55	
Cumulative interest sensitivity gap	6,283	10,029	10,474	10,799	11,088	11,232	11,229	12,048	6,650	6,705	
(Other currencies in euro equivalents)	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	
Interest sensitivity gap	(2,039)	(906)	1,426	241	250	102	70	23	(363)	991	
Cumulative interest sensitivity gap	(2,039)	(2,945)	(1,519)	(1,278)	(1,028)	(926)	(856)	(833)	(1,196)	(205)	

58 Interest rate sensitivity *(continued)*

2008

	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	Total € m
Assets											
Trading portfolio financial assets	–	–	–	–	–	–	–	–	–	401	401
Loans and receivables to banks	5,691	263	–	–	–	–	–	126	186	–	6,266
Loans and receivables to customers	90,038	22,164	7,037	3,096	2,175	1,871	1,562	3,838	(2,292)	–	129,489
Financial investments available for sale	6,857	7,589	2,043	1,549	3,349	1,123	977	5,250	287	–	29,024
Financial investments held to maturity	–	76	1,423	–	–	–	–	–	–	–	1,499
Other assets	1,565	–	–	–	–	–	–	-	8,492	5,438	15,495
Total assets	104,151	30,092	10,503	4,645	5,524	2,994	2,539	9,214	6,673	5,839	182,174
Liabilities											
Deposits by central banks and banks	16,013	7,491	1,843	74	9	–	–	–	148	–	25,578
Customer accounts	57,723	14,347	10,610	731	486	384	331	354	7,638	–	92,604
Trading portfolio financial liabilities	–	–	–	–	–	–	–	–	–	111	111
Debt securities in issue	12,401	13,916	4,674	4,098	41	4	1,000	1,680	–	–	37,814
Subordinated liabilities and capital instruments	858	400	200	–	–	–	–	3,068	–	–	4,526
Other liabilities	–	–	–	–	–	–	–	–	7,129	5,443	12,572
Shareholders' equity	–	–	–	–	–	–	–	–-	8,969	–	8,969
Total liabilities and shareholders' equity	86,995	36,154	17,327	4,903	536	388	1,331	5,102	23,884	5,554	182,174
Derivative financial instruments affecting interest rate sensitivity	4,706	9,096	(8,151)	(2,303)	(462)	(42)	37	(2,881)	–	–	–
Interest sensitivity gap	12,450	(15,158)	1,327	2,045	5,450	2,648	1,171	6,993	(17,211)	285	
Cumulative interest sensitivity gap	12,450	(2,708)	(1,381)	664	6,114	8,762	9,933	16,926	(285)	–	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	20,835	(7,202)	1,258	1,108	3,362	1,781	379	5,814	(14,526)	(426)	
Cumulative interest sensitivity gap	20,835	13,633	14,891	15,999	19,361	21,142	21,521	27,335	12,809	12,383	
(US$ in euro equivalents)	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	
Interest sensitivity gap	(8,454)	(4,710)	(2,033)	411	421	195	232	478	667	(3)	
Cumulative interest sensitivity gap	(8,454)	(13,164)	(15,197)	(14,786)	(14,365)	(14,170)	(13,938)	(13,460)	(12,793)	(12,796)	
(Stg£ in euro equivalents)	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	Stg£ m	
Interest sensitivity gap	3,167	(2,935)	(267)	339	1,388	556	444	1,086	(4,153)	430	
Cumulative interest sensitivity gap	3,167	232	(35)	304	1,692	2,248	2,692	3,778	(375)	55	
(Other currencies in euro equivalents)	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	PLN m	
Interest sensitivity gap	(3,545)	(741)	2,155	130	109	69	60	(457)	562	229	
Cumulative interest sensitivity gap	(3,545)	(4,286)	(2,131)	(2,001)	(1,892)	(1,823)	(1,763)	(2,220)	(1,658)	(1,429)	

59 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:

	2012 € m	2011 € m	2010 € m
Cash and balances at central banks	**4,047**	2,934	3,686
Loans and receivables to banks	**1,879**	4,439	1,875
Short term investments	**–**	–	151
	5,926	7,373	5,712

The Group is required to maintain balances with the Central Bank of Ireland which amounted to € 107 million at 31 December 2012 (2011: € 142 million; 2010: € 118 million).

The Group is required by law to maintain reserve balances with the Bank of England and during 2011 and 2010 also with central banks in Latvia, Lithuania and Estonia. At 31 December 2012, these amounted to € 586 million (2011: € 1,676 million; 2010: € 1,630 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.

Cash flows in respect of acquisitions

The aggregate net outflow of cash arising from the acquisition of Anglo deposit business (note 22) and EBS (note 23) in 2011 is as follows:

	2011 € m
Cash consideration paid on acquisition of Anglo business	(3,779)
Cash and cash equivalent acquired on acquisition of EBS	359
Net cash outflow on acquisitions	(3,420)

60 Financial assets and financial liabilities by contractual residual maturity

	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	2012 Total
	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets						
Financial assets of disposal groups[1][2][4]	**237**	**–**	**17**	**26**	**195**	**475**
Trading portfolio financial assets[2]	**–**	**2**	**–**	**15**	**5**	**22**
Derivative financial instruments[3]	**–**	**248**	**263**	**1,364**	**960**	**2,835**
Loans and receivables to banks[4]	**2,083**	**748**	**87**	**–**	**–**	**2,918**
Loans and receivables to customers[4]	**32,619**	**1,675**	**4,761**	**8,319**	**42,023**	**89,397**
NAMA senior bonds[5]	**–**	**17,387**	**–**	**–**	**–**	**17,387**
Financial investments available for sale[2]	**4**	**283**	**956**	**8,610**	**6,348**	**16,201**
Other financial assets	**5**	**517**	**–**	**–**	**–**	**522**
	34,948	**20,860**	**6,084**	**18,334**	**49,531**	**129,757**
Financial liabilities						
Deposits by central banks and banks	**337**	**16,605**	**–**	**11,500**	**–**	**28,442**
Customer accounts	**25,896**	**19,009**	**12,522**	**5,194**	**989**	**63,610**
Derivative financial instruments[3]	**–**	**223**	**205**	**962**	**1,866**	**3,256**
Debt securities in issue	**–**	**2,350**	**984**	**6,413**	**919**	**10,666**
Subordinated liabilities and other capital instruments	**–**	**–**	**–**	**1,237**	**34**	**1,271**
Other financial liabilities	**534**	**3**	**–**	**–**	**–**	**537**
	26,767	**38,190**	**13,711**	**25,306**	**3,808**	**107,782**

	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	2011 Total
	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets						
Financial assets of disposal groups[1][2]	5	26	263	671	226	1,191
Trading portfolio financial assets[2]	–	8	–	35	11	54
Derivative financial instruments[3]	–	238	190	1,163	1,455	3,046
Loans and receivables to banks[4]	3,353	2,246	123	–	–	5,722
Loans and receivables to customers[4]	22,930	2,601	6,696	12,467	52,798	97,492
NAMA senior bonds[5]	–	19,856	–	–	–	19,856
Financial investments available for sale[2]	–	942	1,334	6,645	6,224	15,145
Other financial assets	2	732	–	–	–	734
	26,290	26,649	8,606	20,981	60,714	143,240
Financial liabilities						
Deposits by central banks and banks	711	33,079	–	3,100	–	36,890
Customer accounts	26,177	18,683	10,947	4,810	57	60,674
Derivative financial instruments[3]	–	575	305	941	2,022	3,843
Debt securities in issue	–	2,139	3,654	7,196	2,665	15,654
Subordinated liabilities and other capital instruments	–	–	–	1,177	32	1,209
Other financial liabilities	474	15	–	–	–	489
	27,362	54,491	14,906	17,224	4,776	118,759

[1]Only disposal groups that contain financial assets and financial liabilities have been included.

[2]Excluding equity shares.

[3]Shown by maturity date of contract.

[4]Shown gross of provisions for impairment, unearned income and deferred costs.

[5]New notes will be issued at each maturity date, with the next maturity date being 1 March 2013. Upon maturity, the issuer has the option to settle in cash or issue new notes and to date has issued new notes.

61 Financial liabilities by undiscounted contractual maturity

The balances in the table below include the undiscounted cash flows relating to principal and interest on financial liabilities and as such will not agree directly with the balances on the consolidated statement of financial position. All derivative financial instruments with the exception of interest rate swaps have been included in the '3 months or less but not repayable on demand' category at their mark to market value. Interest rate swaps have been analysed based on their contractual maturity undiscounted cash flows.

In the daily management of liquidity risk, the Group adjusts the contractual outflows on customer deposits to reflect inherent stability of these deposits. Offsetting the liability outflows are cash inflows from the assets on the statement of financial position. Additionally, the Group holds a stock of high quality liquid assets, which are held for the purpose of covering unexpected cash outflows.

The following table analyses, on an undiscounted basis, financial liabilities by remaining contractual maturity:

						2012
	Repayable on demand	**3 months or less but not repayable on demand**	**1 year or less but over 3 months**	**5 years or less but over 1 year**	**Over 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Financial liabilities[1]						
Derivative financial instruments	**–**	**572**	**480**	**1,584**	**1,722**	**4,358**
Deposits by central banks and banks	**337**	**16,614**	**2**	**11,763**	**–**	**28,716**
Customer accounts	**25,921**	**19,299**	**12,918**	**5,674**	**1,048**	**64,860**
Debt securities in issue	**–**	**2,539**	**1,177**	**7,005**	**942**	**11,663**
Subordinated liabilities and other capital instruments	**–**	**–**	**160**	**2,080**	**123**	**2,363**
Other financial liabilities	**534**	**3**	**–**	**–**	**–**	**537**
	26,792	**39,027**	**14,737**	**28,106**	**3,835**	**112,497**

						2011
	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[1]						
Disposal groups held for sale	–	–	–	–	–	–
Derivative financial instruments	–	1,027	532	1,625	1,807	4,991
Deposits by central banks and banks	712	33,124	–	3,195	–	37,031
Customer accounts	26,065	19,072	11,315	5,212	152	61,816
Debt securities in issue	–	2,357	3,916	7,912	2,829	17,014
Subordinated liabilities and other capital instruments	–	–	160	2,240	121	2,521
Other financial liabilities	474	15	–	–	–	489
	27,251	55,595	15,923	20,184	4,909	123,862

[1]Financial liabilities included within disposal groups are based on their undiscounted contractual maturity.

61 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.

						2012
	Payable on demand	**3 months or less but not repayable on demand**	**1 year or less but over 3 months**	**5 years or less but over 1 year**	**Over 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Contingent liabilities	**1,561**	**–**	**–**	**–**	**–**	**1,561**
Commitments	**8,974**	**–**	**–**	**–**	**–**	**8,974**
	10,535	**–**	**–**	**–**	**–**	**10,535**

						2011
	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	2,009	–	–	–	–	2,009
Commitments	9,862	–	–	–	–	9,862
	11,871	–	–	–	–	11,871

62 Report on directors' remuneration and interests

Commentary on the Company's policy with respect to directors' remuneration is included in the Corporate Governance Statement on pages 179 to 181.

Directors' remuneration

The following tables detail the total remuneration of the Directors in office during 2012 and 2011:

						2012
Remuneration	Directors' fees Parent and Irish subsidiary companies[1] € 000	Directors' fees Non-Irish subsidiary companies[2] € 000	Salary € 000	Annual taxable benefits[3] € 000	Pension contribution[4] € 000	Total € 000
Executive Directors						
Bernard Byrne*			**399**	**44**	**110**	**553**
David Duffy*			**475**	**–**	**71**	**546**
			874	**44**	**181**	**1,099**
Non-Executive Directors						
Simon Ball	**61**					**61**
Declan Collier *(resigned as Director on 28 June 2012)*	**40**					**40**
Tom Foley *(appointed 13 September 2012)*	**21**					**21**
Peter Hagan *(appointed 26 July 2012)*	**27**					**27**
David Hodgkinson[1(a)] *(Chairman)*	**275**					**275**
Jim O'Hara	**92**					**92**
Dr Michael Somers[1(b)] *(Deputy Chairman)*	**150**					**150**
Dick Spring	**66**					**66**
Tom Wacker[5]	**83**	**25**				**108**
Catherine Woods	**173**					**173**
	988	**25**				**1,013**
Former Directors						
Kieran Crowley[6]		**49**				**49**
Stephen L Kingon[6]		**46**				**46**
Anne Maher[7]	**50**					**50**
David Pritchard[6]		**99**				**99**
Other[8]						**104**
Total						**2,460**

*A reduction of 15% in total remuneration was applied to Bernard Byrne and David Duffy with effect from 1 September 2012.

62 Report on directors' remuneration and interests *(continued)*

Remuneration	Directors' fees - Parent and Irish subsidiary companies € 000	Directors' fees - Non-Irish subsidiary companies € 000	Remuneration for other activities on behalf of the Company € 000	Salary € 000	Annual taxable benefits € 000	Pension contribution € 000	2011 Total € 000
Executive Directors							
Bernard Byrne							
(appointed 24 June 2011)				213	29	38	280
David Duffy							
(appointed 15 December 2011)				23		3	26
David Hodgkinson							
(remuneration as Executive Chairman from 1 January to 11 December 2011)				473	108		581
				709	137	41	887
Non-Executive Directors							
Simon Ball							
(appointed 13 October 2011)	6						6
Declan Collier	71						71
David Hodgkinson							
(remuneration as Non-Executive Chairman from 12 to 31 December 2011)	15						15
Stephen L Kingon							
(resigned as Director on 26 July 2011)	76	37					113
Anne Maher							
(resigned as Director on 26 July 2011)	85	11					96
Jim O'Hara	65						65
David Pritchard							
(resigned as Director on 26 July 2011)	47	92					139
Dr Michael Somers							
(Deputy Chairman)	150						150
Dick Spring	59						59
Tom Wacker							
(appointed 13 October 2011)	12						12
Catherine Woods	138		138				276
	724	140	138				1,002
Former Directors							
Kieran Crowley	24	47					71
Other							110
Total							2,070

62 Report on directors' remuneration and interests *(continued)*

(1) Fees paid to Non-Executive Directors:

(a) Mr David Hodgkinson was appointed Non-Executive Chairman with effect from 12 December 2011 and is paid a non-pensionable flat fee of € 275,000 per annum which includes remuneration for other services as a director of Allied Irish Banks, p.l.c.;

(b) Dr Michael Somers is Deputy Chairman and Chairman of the Board Risk Committee and is paid a non-pensionable flat fee of € 150,000 per annum which includes remuneration for other services as a director of Allied Irish Banks, p.l.c.; and

(c) All other Non-Executive Directors are paid a basic, non-pensionable fee in respect of service as a Director, payable at a rate of € 27,375 per annum (voluntarily reduced from € 36,500 between December 2008 and February 2009), and additional non-pensionable remuneration (subject also to an equivalent reduction) paid to any Non-Executive Director who: is the Chairman of the Audit Committee or the Remuneration Committee; is the Senior Independent Director, or performs additional services, such as through membership of Board Committees or the board of a subsidiary company;

(2) Non-Executive Directors of the Parent Company who also serve as Directors of non-Irish subsidiaries are separately paid a non-pensionable flat fee, which is independently agreed and paid by the subsidiaries, in respect of their service as a Director of those companies;

(3) 'Annual Taxable Benefits' includes the payment of a car allowance, medical insurance and club subscriptions for part of the year. Following a comprehensive review of Pay and Benefits, undertaken during 2012 to assist in reducing the Group's overall cost, allowances have been reduced or removed and company cars discontinued unless warranted by business mileage levels;

(4) 'Pension Contribution' represents agreed payments to provide post-retirement pension benefits for Executive Directors from normal retirement date. The fees of the Chairman, Deputy Chairman and Non-Executive Directors are non-pensionable;

(5) Mr Tom Wacker was appointed a Non-Executive Director of AIB Group (UK) plc on 12 April 2012 in respect of which he earns fees as outlined at (2) above;

(6) Mr Kieran Crowley, Mr Stephen L Kingon and Mr David Pritchard are former Non-Executive Directors of Allied Irish Banks, p.l.c. who have, since their resignations, continued as Non-Executive Directors of AIB Group (UK) plc, of which Mr Pritchard is Chairman, in relation to which they continue to earn fees as outlined at (2) above;

(7) 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 continues to earn fees as outlined at (2) above;

(8) '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.

62 Report on directors' remuneration and interests *(continued)*

Interests in shares

The beneficial interests of the Directors and the Secretary in office at 31 December 2012, and of their spouses and minor children, in the Company's ordinary shares are as follows:

Ordinary shares	31 December 2012	1 January 2012*
Directors:		
Simon Ball	**–**	–
Bernard Byrne	**–**	–
David Duffy	**–**	–
Tom Foley	**100**	100
Peter Hagan	**–**	–
David Hodgkinson	**–**	–
Jim O'Hara	**–**	–
Dr Michael Somers	**13,437**	13,437
Dick Spring	**–**	–
Tom Wacker	**–**	–
Catherine Woods	**–**	–
Secretary:		
David O'Callaghan	**7,490**	7,490

*or date of appointment, if later

Throughout 2012, the Directors were again prohibited from trading in the Company's shares due to significant ongoing corporate activity and close periods in advance of public disclosures.

The following table sets forth the beneficial interests of the Directors and Leadership Team members of AIB as a group (including their spouses and minor children) at 31 December 2012.

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	53,553	*

* The total shares in issue at 31 December 2012, excluding 35,680,114 treasury shares, was 517,117,096,249.

62 Report on directors' remuneration and interests *(continued)*

Share options

There were no options to subscribe for ordinary shares outstanding in favour of the Executive Directors at 31 December 2012. Details of the Secretary's options to subscribe for ordinary shares are given below. Information on the Share Option Schemes, including policy on the granting of options, is given in note 11. The vesting of these options is dependent on Earnings Per Share ("EPS") targets being met. Subject thereto, the options outstanding at 31 December 2012 are exercisable at various dates in 2013 and 2014. Details are shown in the Register of Directors' and Secretary's Interests, which may be inspected by shareholders at the Company's Registered Office.

Secretary:	Date of grant	Number of shares	Option Price €	Vested/ unvested	Exercise period
David O'Callaghan	23.04.2003	2,500	13.30	Vested	23.04.2006 - 2013
	28.04.2004	2,500	12.60	Vested	28.04.2007 - 2014

No share options were granted or exercised during 2012.

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 2012 in the names of executive directors and members of the Leadership Team ('Senior Executive Officers'), was 40,000 as follows:

Outstanding as at 31 December 2011:	**124,985**
Add: Options held by Senior Executive Officers appointed during 2012	**–**
Add: Options granted during 2012	**–**
Less: Options exercised during 2012	**–**
Less: Options lapsed during 2012	**(18,500)**
Less: Options held by Senior Executive Officers who left office during 2012	**(66,485)**
Options outstanding as at 31 December 2012	**40,000**

Performance shares

There were no conditional grants of awards of ordinary shares outstanding to Executive Directors or the Secretary at 31 December 2012.

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 2012 and 26 March 2013.

The year-end closing price, on the Enterprise Securities Market of the Irish Stock Exchange, of the Company's ordinary shares was € 0.05 per share; during the year, the price ranged from € 0.05 to € 0.14.

Service contracts

There are no service contracts in force for any Director with the Company or any of its subsidiaries.

63 Related party transactions

Related parties of the Group and 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.

(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 h, k, m, q and r to the parent company financial statements. In accordance with IAS 27 *Consolidated and Separate Financial Statements*, transactions with subsidiaries have been eliminated on consolidation.

(b) Associated undertakings and joint ventures

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 h to the parent company financial statements, while deposits from associates are set out in notes q and r.

(c) Sale and leaseback of Blocks E, F, G and H Bankcentre to Aviva Life and Pensions Ireland Limited. ("ALP")

On 9 June 2006, the Group agreed the sale and leaseback of blocks E, F, G, and H at Bankcentre. The lease is for 20 years. The blocks were sold to ALP for a total consideration of € 170.5 million. AIB hold a 24.99% share of Aviva Life Holdings Ireland Ltd. ("ALH") which is the holding company for Ark Life and ALP. The agreed annual rent payable on blocks E, F, G and H is € 7.1 million. The rent is paid through Wallkav Ltd, a wholly owned subsidiary of AIB.

(d) Provision of banking and related services to Group Pension schemes, unit trusts and investment funds managed by Group companies

The Group provides certain banking and financial services including asset management and money transmission services for the AIB Group Pension schemes and also for unit trusts and investment funds managed by Group companies. 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 the year, 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 an 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 55).

(e) 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 168 to 170). The figures shown below include (a) the figures separately reported in respect of Directors' remuneration in the 'Report on Directors' Remuneration and Interests' in note 62, (b) in respect of five former Senior Executive Officers, their remuneration for the period between the conclusion of their membership of the Leadership Team and their departure from the organisation or 31 December 2012.

	Group		Allied Irish Banks, p.l.c.	
	2012 € m	2011 € m	**2012 € m**	2011 € m
Short-term employee benefits[1]	**5.7**	5.1	**4.9**	4.7
Post-employment benefits[2]	**0.7**	0.3	**0.5**	0.2
Termination benefits[3]	**0.5**	–	**0.5**	–
Total	**6.9**	5.4	**5.9**	4.9

[1]Comprises (a) in the case of Executive Directors and Senior Executive Officers: salary, medical insurance, benefit-in-kind arising from preferential loans and use of company car (or payment in lieu), and other short-term benefits; and (b) in the case of Non-Executive Directors: directors' fees.

[2]Comprises payments to defined benefit or defined contribution pension schemes, in accordance with actuarial advice, to provide post-retirement pensions from normal retirement date.

[3]Comprises severance payments made on benefit accrued to two Senior Executive Officers who left during 2012 under the voluntary severance programme.

63 Related party transactions *(continued)*

(f) Transactions with Key management personnel

At 31 December 2012, 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 € 10.0 million (2011: € 6.6 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 2012 and 2011 are as follows:

(i) Current Directors

					2012
	Balance at 31 December 2011 € 000	Amounts advanced during 2012 € 000	Amounts repaid during 2012 € 000	Currency movements € 000	Balance at 31 December 2012 € 000
David Duffy:					
Loans	**1,432**	**–**	**84**	**–**	**1,348**
Overdraft/Credit card*	**1**	**n/a**	**n/a**	**n/a**	**3**
Total	**1,433**	**n/a**	**n/a**	**n/a**	**1,351**
Interest charged during 2012					**21**
Maximum debit balance during 2012					**1,468**
Tom Foley:					
Loans	**–**	**–**	**–**	**–**	**–**
Overdraft/Credit card*	**5**	**n/a**	**n/a**	**n/a**	**–**
Total	**5**	**n/a**	**n/a**	**n/a**	**–**
Interest charged during 2012					**–**
Maximum debit balance during 2012					**6**
Jim O'Hara:					
Loans	**–**	**–**	**–**	**–**	**–**
Overdraft/Credit card*	**–**	**n/a**	**n/a**	**n/a**	**–**
Total	**–**	**n/a**	**n/a**	**n/a**	**–**
Interest charged during 2012					**1**
Maximum debit balance during 2012					**36**
Dr Michael Somers:					
Loans	**–**	**–**	**–**	**–**	**–**
Overdraft/Credit card*	**2**	**n/a**	**n/a**	**n/a**	**1**
Total	**2**	**n/a**	**n/a**	**n/a**	**1**
Interest charged during 2012					**–**
Maximum debit balance during 2012					**3**
Dick Spring:					
Loans	**–**	**–**	**–**	**–**	**–**
Overdraft/Credit card*	**7**	**n/a**	**n/a**	**n/a**	**9**
Total	**7**	**n/a**	**n/a**	**n/a**	**9**
Interest charged during 2012					**–**
Maximum debit balance during 2012					**17**

*Amounts advanced and repaid are not shown for overdraft/credit card facilities as such facilities are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).

63 Related party transactions *(continued)*

(i) Current Directors

	Balance at 31 December 2011 € 000	Amounts advanced during 2012 € 000	Amounts repaid during 2012 € 000	Currency movements € 000	2012 Balance at 31 December 2012 € 000
Catherine Woods:					
Loans	**106**	**–**	**9**	**–**	**97**
Overdraft/Credit card*	**–**	**n/a**	**n/a**	**n/a**	**–**
Total	**106**	**n/a**	**n/a**	**n/a**	**97**
Interest charged during 2012					**2**
Maximum debit balance during 2012					**106**

As at 31 December 2012, 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 2012.

(ii) Former Directors who were in office during the year

Declan Collier had no facilities with the Group during 2012.

(iii) Senior Executive Officers in office during the year

(Aggregate of 14 persons (2011: 9))**:**

	Balance at 31 December 2011 € 000	Amounts advanced during 2012 € 000	Amounts repaid during 2012 € 000	Currency movements € 000	2012 Balance at 31 December 2012 € 000
Loans	**1,739**	**51**	**234**	**–**	**1,556**
Overdraft/Credit card*	**74**	**n/a**	**n/a**	**n/a**	**39**
Total	**1,813**	**n/a**	**n/a**	**n/a**	**1,595**
Interest charged during 2012					**56**
Maximum debit balance during 2012					**1,905**

(iv) Aggregate amounts outstanding at year-end

	Loans, overdrafts/credit cards	
	31 December 2012 € 000	31 December 2011 € 000
Directors (2012: 6 persons; 2011: 5 persons)	**1,458**	1,563
Senior Executive Officers (2012: 9 persons; 2011: 9 persons)	**1,595**	2,377
	3,053	3,940

As at 31 December 2012, guarantees entered into by 1 Director and 2 Senior Executive Officers in favour of the Group amounted to € 1.4 million in aggregate (2011: € 1.9 million by 1 Director and 3 Senior Executive Officers). As at 31 December 2012, one Senior Executive Officer had entered into a foreign exchange forward contract for £120,000.

(v) Connected persons

The aggregate of loans to connected persons of Directors in office as at 31 December 2012, as defined in Section 26 of the Companies Act 1990, are as follows (aggregate of 18 persons; 2011: 17 persons):

	Balance at 31 December 2011 € 000	Amounts advanced during 2012 € 000	Amounts repaid during 2012 € 000	Currency movements € 000	2012 Balance at 31 December 2012 € 000
Loans	**1,055**	**–**	**224**	**–**	**831**
Overdraft/Credit card*	**107**	**n/a**	**n/a**	**n/a**	**22**
Total	**1,162**	**n/a**	**n/a**	**n/a**	**853**
Interest charged during 2012					**34**
Maximum debit balance during 2012					**1,183**

No impairment charges or provisions have been recognised 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.

*Amounts advanced and repaid are not shown for overdraft/credit card facilities as such facilities are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).

63 Related party transactions *(continued)*

(i) Directors in office during the year 2011

					2011
	Balance at 31 December 2010 € 000	Amounts advanced during 2011 € 000	Amounts repaid during 2011 € 000	Currency movements € 000	Balance at 31 December 2011 € 000
David Duffy:					
Loans	1,512	–	80	–	1,432
Overdraft/Credit card*	14	n/a	n/a	n/a	1
Total	1,526	n/a	n/a	n/a	1,433
Interest charged during 2011					27
Maximum debit balance during 2011					1,551
Jim O'Hara:					
Loans	–	–	–	–	–
Overdraft/Credit card*	–	n/a	n/a	n/a	–
Total	–	n/a	n/a	n/a	–
Interest charged during 2011					–
Maximum debit balance during 2011					–
Dr Michael Somers:					
Loans	–	–	–	–	–
Overdraft/Credit card*	3	n/a	n/a	n/a	2
Total	3	n/a	n/a	n/a	2
Interest charged during 2011					-
Maximum debit balance during 2011					5
Dick Spring:					
Loans	–	–	–	–	–
Overdraft/Credit card*	5	n/a	n/a	n/a	7
Total	5	n/a	n/a	n/a	7
Interest charged during 2011					-
Maximum debit balance during 2011					14
Catherine Woods:					
Loans	115	–	9	–	106
Overdraft/Credit card*	–	n/a	n/a	n/a	–
Total	115	n/a	n/a	n/a	106
Interest charged during 2011					2
Maximum debit balance during 2011					115

As at 31 December 2011, guarantees entered into by Catherine Woods in favour of the Group amounted to € 0.1 million.

Simon Ball, Bernard Byrne, Declan Collier, David Hodgkinson and **Tom Wacker** had no facilities with the Group during 2011.

*Amounts advanced and repaid are not shown for overdraft/credit card facilities as such facilities are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).

63 Related party transactions *(continued)*

(ii) Former Directors who were in office during the year

					2011
	Balance at 31 December 2010 € 000	Amounts advanced during 2011 € 000	Amounts repaid during 2011 € 000	Currency movements € 000	Balance at 31 December 2011 € 000
Stephen Kingon:					
Loans	28	–	28	–	–
Overdraft/Credit card*	12	n/a	n/a	n/a	15
Total	40	n/a	n/a	n/a	15
Interest charged during 2011					1
Maximum debit balance during 2011					44

Anne Maher and **David Pritchard** had no facilities with the Group during 2011.

(iii) Senior Executive Officers in office during the year

(Aggregate of 9 persons; (2010: 10))**:**

					2011
	Balance at 31 December 2010 € 000	Amounts advanced during 2011 € 000	Amounts repaid during 2011 € 000	Currency movements € 000	Balance at 31 December 2011 € 000
Loans	2,651	–	347	1	2,303
Overdraft/Credit card*	53	n/a	n/a	n/a	74
Total	2,704	n/a	n/a	n/a	2,377
Interest charged during 2011					83
Maximum debit balance during 2011					2,776

(iv) Aggregate amounts outstanding at year-end

	Loans, overdrafts/credit cards	
	31 December 2011 € 000	31 December 2010 € 000
Directors (2012: 6 persons; 2011: 5 persons)	1,563	2,857
Senior Executive Officers (2012: 9 persons; 2011: 9 persons)	2,377	3,054
	3,940	5,911

As at 31 December 2011, guarantees entered into by 1 Director and 3 Senior Executive Officers in favour of the Group amounted to € 1.9 million in aggregate (2010: € 1.1 million).

*Amounts advanced and repaid are not shown for overdraft/credit card facilities as such facilities are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).

63 Related party transactions *(continued)*

(v) Connected persons

The aggregate of loans to connected persons of Directors in office as at 31 December 2011, as defined in Section 26 of the Companies Act 1990, are as follows (aggregate of 17 persons (2010: 18)):

					2011
	Balance at 31 December 2010 € 000	Amounts advanced during 2011 € 000	Amounts repaid during 2011 € 000	Currency movements € 000	Balance at 31 December 2011 € 000
Loans	1,100	–	53	–	1,047
Overdraft/Credit card*	32	n/a	n/a	n/a	107
Total	1,132	n/a	n/a	n/a	1,154
Interest charged during 2011					47
Maximum debit balance during 2011					1,244

No impairment charges or provisions have been recognised 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.

*Amounts advanced and repaid are not shown for overdraft/credit card facilities as such facilities are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).

(g) 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 the NPRFC 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;

63 Related party transactions *(continued)*

The relationship of the Irish Government with AIB is outlined under the following headings:

- 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

There have been no significant changes to the various aspects of this relationship since 31 December 2011.

- ***Capital investments***

  Ordinary shares

  At 31 December 2012, the Irish Government, through the NPRFC, held 99.8% of the ordinary share capital in AIB (2011: 99.8%). However, the number of shares held increased by 3.624 billion since 2011 through the non-payment of the dividend of € 280 million on the preference share capital as noted below. The NPRFC now holds 516.2 billion ordinary shares (31 December 2011: 512.6 billion shares). See note 45 for details of the Government's investment in the ordinary shares of AIB.

  2009 Preference Shares

  At 31 December 2012, the Irish Government, through the NPRFC, held € 3.5 billion capital (2011: €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 2012 or 2011, however, the dividend entitlement was satisfied by way of a Bonus issue of 3.624 billion ordinary shares (2011: 1.247 billion). The terms and conditions attaching to the 2009 Preference Shares are outlined in note 45.

  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 44.

  Capital contributions

  On 28 July 2011, the Minister and the NPRFC made capital contributions totalling € 6.054 billion to AIB for nil consideration. For further details, see note 51.

- ***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 is outlined below.

  ELG Scheme

  The ELG Scheme is a temporary measure which was introduced in response to the financial crisis.

  On 21 January 2010, Allied Irish Banks, p.l.c., including its international branches and subsidiaries, AIB Group (UK) p.l.c., AIB Bank (CI) Limited and Allied Irish Banks North America Inc., became participating institutions for the purposes of the ELG Scheme. The Minister stands as guarantor of all guaranteed liabilities of a participating institution. The ELG Scheme is intended to facilitate the ability of participating credit institutions in Ireland to issue certain debt securities and take deposits with a maturity of up to five years for pre-defined periods. To date, the ELG Scheme has been reviewed on a six monthly basis to determine whether the financial support provided by the ELG Scheme continues to be necessary. However, on 26 February 2013, the Minister announced that the ELG Scheme will end for all new liabilities, with effect from midnight on 28 March 2013 (note 69).

  Eligible liabilities under the ELG Scheme comprise the following:
  - all deposits to the extent not covered by deposit protection schemes in Ireland or in any other jurisdiction;
  - senior unsecured certificates of deposit;
  - senior unsecured commercial paper;
  - other senior unsecured bonds and notes; and
  - other forms of senior unsecured debt which may be specified by the Minister consistent with European Union State aid rules and the European Commission's Banking Communication (2008/C 270/02) and subject to prior consultation with the European Commission.

  Dated subordinated debt and asset-covered securities issued after a covered institution joined the ELG Scheme are not guaranteed under the ELG Scheme.The total liabilities guaranteed under the ELG Scheme at 31 December 2012 amounted to € 34 billion (€ 40 billion at 31 December 2011).

63 Related party transactions *(continued)*

– ***Guarantee schemes***

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 2012 and 2011 are set out in note 3. Participating institutions will also be 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.

AIB Group (UK) plc and AIB Offshore commenced withdrawal from the ELG Scheme effective 18 August 2012 and 30 August, 2012, respectively. However, deposits opened before these dates have been guaranteed for the remainder of their maturity.

– ***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 subordinated NAMA bonds which are detailed in notes 8, 32 and 33. 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), details of which are set out in notes 22 and 23. AIB also acquired € 6 million in subordinated NAMA bonds, as part of the EBS transaction (note 23). 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 53.

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 2012 of € 6 million), with the remainder invested on behalf of clients.

– ***Funding support***

AIB received funding from the Central Bank throughout the year through the ECB Monetary Policy Operation Sale and Repurchase Agreements. The total funding amounted to € 22.2 billion at 31 December 2012 (2011: € 30.8 billion). These agreements were for maturities of between 7 days and 3 months, apart from the € 11.25 billion (2011: € 3billion) in the three year LTRO (note 39) which will mature in January and February 2015. The interest rates on these facilities are set by the Central Bank and advised to AIB. 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 of Ireland published the 'Financial Measures Programme Report' which detailed the outcome of its review of the capital (PCAR) and funding requirements (PLAR) of the domestic Irish banks. The PCAR/PLAR assessments followed the announcement of the EU-IMF Programme for Ireland in November 2010, in which the provision of an overall amount of € 85 billion in financial support for the sovereign was agreed in principle. Up to € 35 billion of this support was earmarked for the banking system, € 10 billion of which was for immediate recapitalisation of the banks with the remaining € 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.

– ***Credit Institutions (Stabilisation) Act 2010***

The Credit Institutions (Stabilisation) Act 2010 was passed into Irish law on 21 December 2010. The Act provides the legislative basis for the reorganisation and restructuring of the Irish banking system agreed in the joint EU/IMF Programme for Ireland ('the Programme'). This will allow the Minister to take the actions required to bring about a domestic retail banking system that is proportionate to and focused on the Irish economy.

The Act provides broad powers to the Minister (in consultation with the Governor of the Central Bank) to act on financial stability grounds to effect the restructuring actions and recapitalisation measures envisaged in the Programme. The Act applies to banks which have received financial support from the State, building societies and credit unions. Given the exceptional nature of the powers contained in the Act, the powers are time-limited and were scheduled to expire on 31 December 2012. However, in January 2013, the Minister extended the period of effectiveness of the Act for a further period of two years until 31 December 2014.

63 Related party transactions *(continued)*

– ***Credit Institutions (Stabilisation) Act 2010***

The powers provided in the Act allow the Minister to implement key aspects of the agreed Programme for bank restructuring and include the issue of direction orders, special management orders, subordinated liabilities orders and transfer of assets and liabilities orders. In addition, the Act gives the Minister broad powers in relation to directors and officers and their appointment/removal/duties. Various other terms are also imposed on relevant financial institutions as a condition for financial support.

Since the enactment of this legislation, the Minister has invoked certain of his powers under the Act in relation to AIB as follows:

(i) Direction Order

On 23 December 2010, the Irish High Court, on application from the Minister, directed AIB, inter alia, to increase its authorised share capital; to issue ordinary and CNV shares to the NPRFC; to cancel its listing on the Main Securities Market and to apply for listing on the Enterprise Securities Market ("ESM") of the Irish Stock Exchange; and to complete the sale of its Polish interests to Banco Santander (note 18). Arising from this Order, on 23 December 2010, AIB issued ordinary and CNV shares to the NPRFC for net proceeds of €3.7 billion.

(ii) Transfer Order

On 24 February 2011, following an application by the Minister, the Irish High Court issued a transfer order for the immediate transfer of certain deposits and corresponding assets from Anglo Irish Bank Corporation to AIB (note 22).

(iii) Subordinated Liabilities Order

On 14 April 2011, following an application by the Minister under section 29 of the Credit Institutions (Stabilisation) Act 2010, the Irish High Court issued a Subordinated Liabilities Order (the "SLO") in relation to all outstanding subordinated liabilities and other capital instruments (including certain tier 1 capital instruments), with the consent of AIB. The Irish High Court declared the SLO effective as of 22 April 2011. The effect of the SLO was to amend the terms of certain subordinated liabilities and other capital instruments. Details of the SLO are set out in note 44.

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 cquire EBS for a consideration of € 1 (one euro). The acquisition was effective from 1 July 2011. Details of this transaction are set out in note 23.

– ***Central Bank and Credit Institutions (Resolution) Act 2011***

The Central Bank and Credit Institutions (Resolution) Act 2011 was signed into law on 20 October 2011 and became effective on 28 October 2011. This legislation provides the Central Bank with additional powers to achieve an effective and efficient resolution regime for credit institutions that are failing or likely to fail and that is effective in protecting the Exchequer and the stability of the financial system and the economy.

The Act gives the Central Bank power to take control of banks, appoint managers to run them and remove directors, staff and consultants, and to move their deposits and loans to other banks. It provides for the establishment of a Credit Institution Resolution Fund which would provide a source of funding for the resolution of financial instability or in the event of an imminent serious threat to the financial stability of an authorised credit institution. Authorised credit institutions will be obliged to contribute to the resolution fund.

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.

The legislation which provides for a permanent statutory regime under which the Central Bank may exercise intervention powers when a relevant credit institution is in difficulty is expected, in due course, to replace the temporary emergency provisions of the Credit Institutions (Stabilisation) Act 2010 outlined above.

– ***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.

63 Related party transactions *(continued)*

Funding support

Throughout the financial crisis, the Irish Government has provided guarantees under the CIFS (expired September 2010) and ELG schemes as outlined on the previous page. In addition, through the Central Bank, the Irish Government has provided direct funding to the Irish banking sector 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 € 22.2 billion (2011: € 30.8 billion). AIB Mortgage Bank has Nil (2011: Nil) with the Central Bank under the same facility.
– At 31 December 2012, AIB had no borrowings from the Central Bank under non-standard liquidity facilities.

The interest rate on these facilities is set by the Central Bank and advised to AIB on each rollover date and at 31 December 2012 was 0.75%, being the current ECB refinancing rate..

At 31 December 2012, the amounts outstanding totalling € 22.2 billion (2011: € 30.8 billion) are included within Deposits by central banks and banks in the table below. See note 39 for details of collateral.

The following table outlines the balances held with Irish Government entities[1] at 31 December 2012 and 31 December 2011, together with the highest balances held at any point during the year.

		2012		2011	
	Note	**Balance € m**	**Highest[2] balance held € m**	Balance € m	Highest[2] balance held € m
Assets					
Cash and balances at central banks	a	**118**	**4,250**	228	2,618
Derivative financial instruments		**107**	**112**	104	106
Loans and receivables to banks	b	**107**	**5,019**	423	2,137
Loans and receivables to customers		**4**	**4**	11	19
NAMA senior bonds	c	**17,387**	**19,860**	19,856	19,975
Financial investments available for sale	d	**7,635**	**7,697**	5,349	6,151
Total assets		**25,358**		25,971	

		2012		2011	
		Balance € m	**Highest[2] balance held € m**	Balance € m	Highest[2] balance held € m
Liabilities					
Deposits by central banks and banks	e	**22,220**	**37,836**	31,133	47,916
Customer accounts		**1,220**	**1,493**	176	11,846
Derivative financial instruments		**53**	**80**	15	31
Subordinated liabilities and other capital instruments	f	**1,237**	**1,237**	1,177	1,177
Total liabilities		**24,730**		32,501	

[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 2012 was € 552 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. These are detailed in notes 32, 22 and 23 and under 'NAMA Programme' above.

63 Related party transactions *(continued)*

Funding support

d Financial investments available for sale comprise € 7,588 million (2011: € 5,217 million) in Irish Government securities held in the normal course of business and NAMA subordinated bonds which have a fair value at 31 December 2012 of € 47 million (31 December 2011: € 132 million) detailed above under 'NAMA Programme'.

e This relates to funding received from the Central Bank which is detailed under 'Funding Support' above, the total of which amounts to € 22,220 million (2011: € 30,831 million).

f 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 44).

All other balances, both assets and liabilities are carried out in the ordinary course of banking business on normal terms and conditions.

Local government[1]

During 2012 and 2011, 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 2012, 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.

63 Related party transactions *(continued)*

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 institutions are controlled by the Irish Government:

- Irish Bank Resolution Corporation Limited (In Special Liquidation);
- Permanent tsb plc; and
- Irish Life Group

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 2012 and 31 December 2011, the following balances were outstanding in total to these financial institutions:

	2012 Balance € m	2011 Balance € m
Assets		
Derivative financial instruments	**78**	140
Loans and receivables to banks[1]	**80**	122
Financial investments available for sale[2][3]	**845**	648
Liabilities		
Deposits by central banks and banks[4]	**58**	108
Derivative financial instruments[5]	**47**	92
Customer deposits	**114**	–

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 indemnified AIB Group for certain liabilities pursuant to a Transfer Support Agreement dated 23 February 2011. AIB Group has made a number of claims on IBRC pursuant to the indemnity in an aggregate amount of c. € 75 million.

During 2012, AIB entered into a distribution agreement with Irish Life Group which will see Irish Life distribute its products through AIB's nationwide retail banking network.

[1]The highest balance in loans and receivables to banks amounted to € 616 million in respect of funds placed during the year (2011: € 1,885 million).

[2]During 2012, AIB incurred an impairment loss of Nil (2011: € 132 million) due to liability management exercises by Irish banks, where either cash or equity was received in exchange for debt.

[3]Includes equity securities issued in lieu of debt of € 37 million (2011: € 36 million).

[4]The highest balance in deposits by central banks and banks amounted to € 842 million in respect of funds received during the year (2011: € 1,570 million).

[5]The highest balance in customer deposits amounted to € 121 million in respect of funds received during the year (2011: Nil).

63 Related party transactions *(continued)*

(h) Indemnities

On 2 February 2004, AIB Capital Markets plc, a wholly-owned subsidiary, extended the terms of an indemnity previously given to certain former directors, officers and employees of Govett Investment Management Ltd. ("Govett") - now "AIB Investment Management Limited" - to Mr Michael Buckley, the former Group Chief Executive, and Mr Colm Doherty, the former Group Managing Director; Mr Buckley is a former director of a split capital trust managed by Govett, and Mr Doherty is a former director of Govett. The aggregate liability of AIB Capital Markets plc under the aforementioned indemnity is € 10 million.

The purpose of the indemnity is to protect the indemnified parties (or any of them) against any civil liability, loss and defence costs which they (or any of them) may suffer by reason of any claim made against them relating to certain split capital or highly leveraged trusts previously managed by Govett and which previously would have been covered by insurance.

Prior to July 2003, the Group's professional indemnity and directors' and officers' liability insurance provided cover in respect of the eventualities mentioned in the previous paragraph. However, on renewal of that insurance on 1 July 2003, and in line with a general change introduced by the insurance industry, exclusions were imposed that removed that cover. By virtue of the terms of the above mentioned indemnity, the indemnified parties now stand in the position they would have been in if those exclusions had not been imposed, except that the aggregate limit of liability under the indemnity is € 10 million rather than the higher amount previously provided by the insurance.

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.

(i) ALH investment

Deposits received from ALH are set out in note 40.

64 Commitments

Capital expenditure	2012 € m	2011 € m
Estimated outstanding commitments for capital expenditure not provided for in the financial statements	**7**	11
Capital expenditure authorised but not yet contracted for	**29**	40

Operating lease rentals

The total of future minimum lease payments under non-cancellable operating leases are set out in the following table.

	2012 € m	2011 € m
One year	**73**	80
One to two years	**68**	69
Two to three years	**67**	65
Three to four years	**64**	64
Four to five years	**60**	62
Over five years	**507**	557
Total	**839**	897

Following a programme of sale and leaseback transactions, the Group now 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 three separate lease arrangements and also has a leasehold interest in the 'AIB International Centre' located in Dublin's International Financial Services Centre ("IFSC").

The minimum lease terms remaining on the most significant leases vary from 1 years to 18 years. The average lease length outstanding until a break clause in the lease arrangements is approximately 9 years with the final contractual remaining terms ranging from 4 years to 35 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 € 8 million (2011: € 6 million).

Operating lease payments recognised as an expense for the year were € 94 million (2011: € 67 million). Sublease income amounted to € 6 million (2011: € 1 million).

For details of the sale and leaseback arrangements see note 14.

65 Employees

The average number of employees by market segment for 2012 is set out below (excluding employees on career breaks and other unpaid long term leaves). The figures for Group segment include the following centralised functions: Group Services and Transformation;Chief Financial Office; Chief Risk Office; Non-Core Unit; Corporate Affairs and Marketing; Office of Law Agent; and Office of Group Internal Audit.

In 2011, average employee numbers for discontinued operations and EBS reflect the fact that these were employees of the Group for only part of 2011 and are, accordingly, time apportioned.

	2012	2011
Continuing operations		
PBB	**6,285**	6,017
CICB	**1,620**	1,752
AIB UK	**2,234**	2,282
EBS	**604**	288
Group	**3,965**	3,943
	14,708	14,282
Discontinued operations		
BZWBK	**–**	2,434
Total	**14,708**	16,716

The 12 month average above of 14,708 is higher than the actual December 2012 figure of 13,429[(1)]. This variance is a result of the impact that voluntary severance and early retirements, predominantly in the fourth quarter, have had on year end numbers.

The geographical analysis of average employees for 2012 is as follows:

– Republic of Ireland – 12,094;
– United Kingdom – 2,523;
– United States of America – 66; and
– Rest of World – 25.

See also page 402 in Additional information.

[(1)]This figure excludes employees who departed between 19 December and 31 December 2012.

66 Regulatory compliance

During 2012, Allied Irish Banks, p.l.c. was in breach of the 25% limit for ECB repo funding. These breaches were due to the difficult funding environment and the Central Bank was advised as appropriate.

EBS Mortgage Finance ("EBS MF") breached the 25% single counterparty large exposures limit during December 2011. The excess was corrected in January 2012 and EBS MF is no longer in breach.

67 Financial and other information

	2012	2011	2010
Operating ratios			
Operating expenses/operating income	**311.9%**	39.6%	(49.1)%
Operating expenses/operating income before exceptional items	**122.1%**	94.4%	70.6%
Other income/operating income	**(78.1)%**	68.9%	154.9%
Other income/operating income before exceptional items	**22.3%**	24.5%	20.1%
Rates of exchange			
€/US$			
Closing	**1.3194**	1.2939	1.3362
Average	**1.2850**	1.3924	1.3259
€/Stg£			
Closing	**0.8161**	0.8353	0.8608
Average	**0.8110**	0.8682	0.8578
€/PLN			
Closing	**4.0740**	4.4580	3.9750
Average	**4.1839**	4.1188	3.9943

	Assets		**Liabilities and equity**	
	2012	2011	**2012**	2011
Currency information	**€ m**	€ m	**€ m**	€ m
Euro	**99,110**	106,468	**102,768**	107,443
Other	**23,406**	30,183	**19,748**	29,208
	122,516	136,651	**122,516**	136,651

68 Average balance sheets and interest rates

The following table shows interest rates prevailing at 31 December 2012 together with average prevailing interest rates, gross yields, spreads and margins for the years ended 31 December 2012, 2011 and 2010.

	As at 31 December	Average interest rates for Years ended 31 December		
Interest rates	**2012 %**	**2012 %**	**2011 %**	**2010 %**
Ireland				
AIB Group's prime lending rate	**0.63**	**0.85**	1.69	1.38
European inter-bank offered rate				
One month euro	**0.11**	**0.33**	1.18	0.81
Three month euro	**0.19**	**0.58**	1.12	1.02
United Kingdom				
AIB Group's base rate	**0.50**	**0.50**	0.50	0.50
London inter-bank offered rate				
One month sterling	**0.49**	**0.62**	0.65	0.65
Three month sterling	**0.52**	**0.83**	0.88	0.80
Poland				
One month zloty	**4.23**	**4.78**	4.36	3.52
United States				
Prime rate	**3.25**	**3.25**	3.25	3.25
Gross yields, spreads and margins[1][2]				
Gross yield[3]				
Group		**2.98**	3.22	3.16
Domestic		**3.07**	3.16	2.85
Foreign		**2.58**	2.97	3.09
Interest rate spread[4]				
Group		**0.25**	0.66	1.12
Domestic		**0.24**	0.49	0.64
Foreign		**0.57**	1.25	1.79
Net interest margin[5]				
Group		**0.91%**	1.03%	1.31%
Domestic		**0.78%**	0.73%	0.69%
Foreign		**1.47%**	2.17%	2.19%

	2012	2011	2010
Average interest earning assets	**€ m**	€ m	€ m
Group	**122,200**	131,038	141,093
Domestic	**99,580**	103,539	107,626
Foreign	**22,620**	27,499	33,467

[1]The gross yields, spreads and margins presented in this table are extracted from the average balance sheets and interest rates on the following pages and this breakdown into domestic and foreign has been compiled on the basis of location of office. The gross yields, spreads and margins are presented on a continuing operations basis.

[2]The average balance sheet is presented on a continuing operations basis. Comparative figures have also been re-presented on this basis.

[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. Net interest margin is presented on a continuing operations basis only.

68 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 2012, 2011 and 2010. 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. The average balance sheet is presented on a continuing operations basis.

	Year ended 31 December 2012			Year ended 31 December 2011			Year ended 31 December 2010		
Assets	**Average balance € m**	**Interest € m**	**Average rate %**	Average balance € m	Interest €m	Average rate %	Average balance € m	Interest € m	Average rate %
Trading portfolio financial assets									
Domestic offices	**14**	**–**	**2.5**	28	1	2.5	54	1	1.9
Foreign offices	**23**	**1**	**3.7**	24	1	4.4	13	1	3.8
Loans and receivables to banks									
Domestic offices	**1,349**	**7**	**0.5**	2,712	33	1.2	4,453	32	0.7
Foreign offices	**6,344**	**24**	**0.4**	5,123	36	0.7	3,550	19	0.5
Loans and receivables to customers[1]									
Domestic offices	**65,268**	**2,161**	**3.3**	68,015	2,380	3.5	80,899	2,415	3.0
Foreign offices	**15,735**	**540**	**3.4**	20,555	697	3.4	27,535	919	3.3
NAMA senior bonds									
Domestic offices	**18,957**	**329**	**1.7**	17,980	348	1.9	2,230	29	1.3
Financial investments available for sale									
Domestic offices	**13,992**	**560**	**4.0**	14,804	508	3.4	19,990	590	2.9
Foreign offices	**518**	**19**	**3.7**	1,797	84	4.7	2,369	96	4.1
Average interest earning assets									
Domestic offices	**99,580**	**3,057**	**3.1**	103,539	3,270	3.2	107,626	3,067	2.8
Foreign offices	**22,620**	**584**	**2.6**	27,499	818	3.0	33,467	1,035	3.1
Net interest on swaps		**130**			137			369	
Total average interest earning assets	**122,200**	**3,771**	**3.1**	131,038	4,225	3.2	141,093	4,471	3.2
Non-interest earning assets	**9,767**			6,723			8,352		
Total average assets	**131,967**	**3,771**	**2.9**	137,761	4,225	3.1	149,445	4,471	3.0
Percentage of assets applicable to foreign activities			**18.5**			21.2			24.8

[1]Includes loans and receivables held for sale to NAMA as at 31 December 2010.

68 Average balance sheets and interest rates *(continued)*

Liabilities & shareholders' equity	2012 Average balance € m	2012 Interest € m	2012 Average rate %	2011 Average balance € m	2011 Interest € m	2011 Average rate %	2010 Average balance € m	2010 Interest € m	2010 Average rate %
Due to central banks and banks									
Domestic offices	**33,060**	**251**	**0.8**	42,121	593	1.4	35,402	368	1.0
Foreign offices	**462**	**1**	**0.2**	870	7	0.8	1,722	7	0.4
Due to customers									
Domestic offices	**39,110**	**1,445**	**3.7**	40,421	1,296	3.2	43,827	924	2.1
Foreign offices	**11,524**	**233**	**2.0**	11,173	200	1.8	17,719	251	1.4
Other debt issued									
Domestic offices	**12,027**	**500**	**4.2**	15,342	597	3.9	21,533	650	3.0
Foreign offices	**267**	**12**	**4.5**	296	14	4.8	3,700	45	1.2
Subordinated liabilities									
Domestic offices	**1,240**	**223**	**18.0**	1,810	172	9.5	4,284	382	8.9
Foreign offices	**–**	**–**	**–**	295	(4)	(1.4)	127	–	–
Average interest earning liabilities									
Domestic offices	**85,437**	**2,419**	**2.8**	99,694	2,658	2.7	105,046	2,324	2.2
Foreign offices	**12,253**	**246**	**2.0**	12,634	217	1.7	23,268	303	1.3
Total average interest earning liabilities	**97,690**	**2,665**	**2.7**	112,328	2,875	2.6	128,314	2,627	2.0
Non-interest earning liabilities	**20,899**			15,248			14,428		
Total average liabilities	**118,589**	**2,665**	**2.2**	127,576	2,875	2.3	142,742	2,627	1.8
Shareholders' equity	**13,378**			10,185			6,703		
Total average liabilities and shareholders' equity	**131,967**	**2,665**	**2.0**	137,761	2,875	2.1	149,445	2,627	1.8
Percentage of liabilities applicable to foreign operations			**13.1**			12.6			18.9

68 Average balance sheets and interest rates *(continued)*

The following table allocates changes in net interest income between volume and rate for the year ended 31 December 2012 compared with the year ended 31 December 2011 and the year ended 31 December 2011 compared with the year ended 31 December 2010. Volume and rate variances have been calculated based on the movements in average balances over the year and changes in interest rates on average interest earning assets and average interest bearing liabilities respectively. Changes due to a combination of volume and rate are allocated ratably to volume and rate.

	December 2012 over December 2011 Increase/(decrease) due to changes in			December 2011 over December 2010		
	Average Volume €m	**Average Rate €m**	**Net Change €m**	Average Volume €m	Average Rate €m	Net Change €m
Interest earning assets						
Trading portfolio financial assets						
Domestic offices	**(1)**	**–**	**(1)**	–	–	–
Foreign offices	**–**	**–**	**–**	–	–	–
Loans and receivables to banks						
Domestic offices	**(17)**	**(9)**	**(26)**	(6)	7	1
Foreign offices	**10**	**(22)**	**(12)**	8	9	17
Loans and receivables to customers[1]						
Domestic offices	**(96)**	**(123)**	**(219)**	(291)	256	(35)
Foreign offices	**(162)**	**5**	**(157)**	(240)	18	(222)
NAMA senior bonds						
Domestic offices	**19**	**(38)**	**(19)**	205	114	319
Financial investments available for sale						
Domestic offices	**(24)**	**76**	**52**	(172)	90	(82)
Foreign offices	**(60)**	**(5)**	**(65)**	(21)	9	(12)
Total interest income	**(331)**	**(116)**	**(447)**	(517)	503	(14)
Interest bearing liabilities						
Due to central banks and banks						
Domestic offices	**(127)**	**(215)**	**(342)**	67	158	225
Foreign offices	**(4)**	**(2)**	**(6)**	–	–	–
Due to customers						
Domestic offices	**(41)**	**190**	**149**	(71)	443	372
Foreign offices	**6**	**27**	**33**	(98)	47	(51)
Other debt issued						
Domestic offices	**(128)**	**31**	**(97)**	(202)	149	(53)
Foreign offices	**–**	**(2)**	**(2)**	(42)	11	(31)
Subordinated liabilities						
Domestic offices	**(53)**	**104**	**51**	(221)	11	(210)
Foreign offices	**4**	–	**4**	–	(4)	(4)
Total interest expense	**(343)**	**133**	**(210)**	(567)	815	248
Net interest income						
Domestic offices	**230**	**(204)**	**26**	163	(294)	(131)
Foreign offices	**(218)**	**(45)**	**(263)**	(113)	(18)	(131)
Net interest income (interest earning assets and interest bearing liabilities)	**12**	**(249)**	**(237)**	50	(312)	(262)
Net interest on swaps			**(7)**			(232)
Net interest income			**(244)**			(494)

[1]Includes loans and receivables held for sale to NAMA at 31 December 2010.

69 Non-adjusting events after the reporting period

The following are the significant non-adjusting events that have taken place since 31 December 2012:

Minimum Funding Standard funding plan

Approval was received from the Pensions Board in 2013 in relation to a funding plan up to January 2018 with regard to regulatory Minimum Funding Standard requirements of the AIB Group Irish Pension Scheme.

Eligible Liabilities Guarantee Scheme 2009

On 26 February 2013, the Minister for Finance announced that the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 ("ELG Scheme") will end for all new liabilities with effect from midnight on 28 March 2013. After this date, no new liabilities will be guaranteed under the ELG Scheme. This follows the withdrawal of AIB UK (AIB GB and FTB) from the ELG Scheme in August 2012, which had a negligible effect on deposit balances.

The existing deposit guarantee scheme, which guarantees deposits of up to €100,000 per qualifying depositor, is unaffected by this announcement.

The cost of the ELG scheme has been significant, € 388 million in 2012 and € 488 million in 2011.

Disposal of 24.99% investment in ALH, acquisition of 100% of Ark Life

During March 2013, AIB concluded discussions with Aviva Group Ireland p.l.c. on the exercise of the put options and completed the disposal of its interest in Aviva Life Holdings Ireland Limited ("ALH") and the acquisition of 100% of Ark Life Assurance Company Limited ('Ark Life' or 'Ark').

AIB's investment in ALH at 31 December 2012 was designated as an 'equity investment at fair value through profit or loss in the Held for Sale category (notes 34 and 35).

AIB has considered its long term strategy with regard to this newly acquired subsidiary, and has taken the necessary steps that entitles it to designate Ark as a 'subsidiary held exclusively with a view to resale' on acquistion. Accordingly, the investment in Ark will be considered a disposal group.

Following a net cash outlay, which was in line with the assumptions that supported the year end valuations, the investment in Ark will be initially measured at fair value less costs to sell, being a market related valuation of Ark's MCEV of € 447 million. The fair value of liabilities acquired amounted to € 3.8 billion while the fair value of assets acquired amounted to € 4.1 billion. At each subsequent reporting date, the investment will be valued at fair value less costs to sell.

70 Dividends

No final dividend will be paid in respect of the year ended 31 December 2012.

71 Approval of financial statements

The financial statements were approved by the Board of Directors on 26 March 2013.

Allied Irish Banks, p.l.c.
Parent company financial statements and notes

Statement of financial position

Statement of cash flows

Statement of changes in equity

Accounting policies

Note

a Administrative expenses

b Retirements benefits

c Financial assets and financial liabilities held for sale to NAMA

d Disposal groups and non-current assets held for sale

e Trading portfolio financial assets

f Derivative financial instruments

g Loans and receivables to banks

h Loans and receivables to customers

i Amounts receivable under finance leases and hire purchase contracts

j Provisions for impairment on loans and receivables

k NAMA senior bonds

l Financial investments available for sale

m Investments in Group undertakings

n Intangible assets

o Property, plant and equipment

p Deferred taxation

q Deposits by central banks and banks

r Customer accounts

s Debt securities in issue

t Other liabilities

u Provisions for liabilities and commitments

v Subordinated liabilities and other capital instruments

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aa Memorandum items: Contingent liabilities and commitments and contingent assets

ab Transfer of financial assets

ac Fair value of financial instruments

ad Classification and measurement of financial assets and financial liabilities

ae Statement of cash flows

af Financial assets and financial liabilities by contractual residual maturity

ag Related party transactions

ah Commitments

Statement of financial position – Allied Irish Banks, p.l.c.

as at 31 December 2012

	Notes	2012 € m	2011 € m
Assets			
Cash and balances at central banks	ae	**1,076**	1,067
Items in course of collection		**95**	100
Disposal groups and non-current assets held for sale	d	**561**	1,169
Trading portfolio financial assets	e	**24**	56
Derivative financial instruments	f	**2,768**	3,025
Loans and receivables to banks	g	**31,284**	36,028
Loans and receivables to customers	h	**37,234**	42,074
NAMA senior bonds	k	**17,082**	19,509
Financial investments available for sale	l	**14,930**	13,336
Interests in associated undertakings		**3**	3
Investments in Group undertakings	m	**2,735**	2,361
Intangible assets	n	**168**	154
Property, plant and equipment	o	**267**	278
Other assets		**110**	292
Current taxation		**6**	44
Deferred taxation	p	**2,931**	2,738
Prepayments and accrued income		**469**	571
Total assets		**111,743**	122,805
Liabilities			
Deposits by central banks and banks[1]	q	**39,389**	46,150
Customer accounts	r	**48,751**	46,774
Disposal groups held for sale	d	**–**	1
Derivative financial instruments	f	**3,541**	4,061
Debt securities in issue	s	**5,142**	9,902
Current taxation		**14**	–
Other liabilities	t	**520**	416
Accruals and deferred income		**826**	744
Retirement benefit liabilities	b	**690**	794
Provisions for liabilities and commitments	u	**276**	436
Subordinated liabilities and other capital instruments	v	**1,271**	1,209
Total liabilities		**100,420**	110,487
Shareholders' equity			
Share capital	w	**5,206**	5,170
Share premium	w	**2,890**	4,926
Reserves		**3,227**	2,222
Total shareholders' equity		**11,323**	12,318
Total liabilities and shareholders' equity		**111,743**	122,805

[1]This includes € 19,760 million of borrowings from central banks (2011: € 27,268 million).

David Hodgkinson, Chairman; David Duffy, Chief Executive Officer; Catherine Woods, Director; David O'Callaghan, Company Secretary.

Statement of cash flows – Allied Irish Banks, p.l.c.

for the year ended 31 December 2012

	Notes	**2012 € m**	2011 € m	2010[4] € m
Reconciliation of loss before taxation to net cash outflow from operating activities				
Loss for the year from continuing operations before taxation		**(1,668)**	(4,516)	(8,448)
Adjustments for:				
Gain on redemption/remeasurement of subordinated liabilities and other capital instruments		**–**	(3,154)	(372)
Profit on disposal of businesses		**(1)**	–	–
(Profit)/loss on disposal of property, plant and equipment		**(2)**	1	(42)
Loss on disposal of financial assets		**276**	286	51
Dividend income		**(280)**	(2,205)	(1,161)
Impairment of associated undertakings		**5**	–	52
Impairment of subsidary undertakings	m	**(136)**	3,813	–
Profit on disposal of associated undertakings		**–**	–	(577)
Gain on designation of associate as an equity investment at fair value through profit or loss		**(184)**	–	–
Provisions for impairment on loans and receivables	j	**1,353**	5,306	4,991
Loss on transfer of financial instruments held for sale to NAMA		**(67)**	403	5,599
Writeback of provisions/provisions for liabilities and commitments		**9**	(129)	294
Provisions for impairment on financial investments available for sale		**79**	275	58
Change in other provisions		**166**	35	59
Depreciation, amortisation and impairment		**95**	101	170
Interest on subordinated liabilities and other capital instruments		**223**	172	382
Loss/(profit) on disposal of financial investments available for sale		**74**	42	(87)
Amortisation of premiums and discounts		**(125)**	(65)	(12)
Change in prepayments and accrued income		**103**	(18)	250
Change in accruals and deferred income		**81**	37	(453)
		1	384	754
Change in deposits by central banks and banks		**(6,993)**	(27,895)	10,136
Change in customer accounts[1]		**1,871**	(9,784)	(24,507)
Change in loans and receivables to customers[2]		**4,224**	15,781	3,138
Change in NAMA senior bonds		**2,395**	886	–
Change in loans and receivables to banks		**4,707**	9,747	7,483
Change in trading portfolio financial assets/liabilities		**33**	(22)	81
Change in derivative financial instruments		**(655)**	593	189
Change in items in course of collection		**4**	34	(7)
Change in debt securities in issue		**(4,765)**	(2,783)	(11,280)
Change in other assets		**186**	(139)	112
Change in other liabilities		**(49)**	(36)	(1,276)
Effect of exchange translation and other adjustments[3]		**(881)**	(272)	(632)
Net cash outflow from operating assets and liabilities		**77**	(13,890)	(16,563)
Net cash outflow from operating activities before taxation		**78**	(13,506)	(15,809)
Taxation paid		**42**	15	(2)
Net cash outflow from operating activities		**120**	(13,491)	(15,811)
Investing activities *(note a)*		**(617)**	1,601	5,648
Financing activities *(note b)*		**(160)**	11,333	3,446
Change in cash and cash equivalents		**(657)**	(557)	(6,717)
Opening cash and cash equivalents		**3,092**	3,618	10,139
Effect of exchange translation adjustments		**(1)**	31	196
Closing cash and cash equivalents		**2,434**	3,092	3,618

Statement of cash flows – Allied Irish Banks, p.l.c. *(continued)*

for the year ended 31 December 2012

	Notes	**2012 € m**	2011 € m	2010 € m
(a) Investing activities				
Net cash outflow on acquisition of business combinations		**–**	(3,779)	–
Purchase of financial investments available for sale	l	**(4,522)**	(2,378)	(5,930)
Proceeds from sales and maturity of financial investments available for sale	l	**4,320**	8,251	8,939
Additions to property, plant and equipment	o	**(32)**	(16)	(21)
Disposal of property, plant and equipment		**2**	2	81
Additions to intangible assets	n	**(68)**	(31)	(23)
Disposal of intangible assets		**–**	–	1
Disposal of investment in associated undertakings		**–**	–	1,467
Investment in Group undertakings	m	**(600)**	(2,660)[4]	(27)
Dividends received from subsidiary companies		**264**	2,205[5]	1,118
Disposal/redemption of investment in businesses and subsidiaries		**10**	7	–
Dividends received from associated undertakings		**9**	–	43
Cash flows from investing activities		**(617)**	1,601	5,648
(b) Financing activities				
Proceeds of issue of CCNs	v	**–**	1,600	–
Proceeds of issue of share capital to NPRFC	w	**–**	5,000	3,698
Capital contributions from the Minister for Finance and the NPRFC	z	**–**	6,054	–
Redemption of subordinated liabilities and other capital instruments		**–**	(1,089)	–
Cost of redemption of capital instruments		**–**	(9)	(5)
Interest paid on subordinated liabilities and other capital instruments		**(160)**	(223)	(247)
Cash flows from financing activities		**(160)**	11,333	3,446

[1]Includes deposits placed by the NTMA € 1,127 million (2011: € 27 million; 2010:Nil).

[2]Includes financial assets held for sale to NAMA and loans and receivables to customers within disposal groups and non-current assets held for sale.

[3]Included within the effect of exchange translation and other adjustments are amounts in respect of pension contributions of € 187 million (2011: € 73 million; 2010: € 293 million). In addition, included within this caption is a charge of € 146 million in respect of past service costs relating to the early retirement scheme; a credit of € 29 million in respect of a curtailment gain for voluntary severance employees; and a credit of € 160 million in respect of defined benefits, all of which are non-cash movements.

[4]Additions to investment in Group undertakings of € 600 million (2011: € 3,637 million) (note m) include non-cash transactions of Nil (2011: € 977 million in relation to investments in EBS Limited and Anglo Irish Bank Corporation (International) plc.

[5]Dividends include € 2,180 million from AIB European Investments Limited, which was the holding company of BZWBK. The proceeds of sale of BZWBK were remitted by AIB European Investments Limited to Allied Irish Banks, p.l.c. by way of dividend.

Statement of changes in equity – Allied Irish Banks, p.l.c.

for the year ended 31 December 2012

	Share capital	Share premium	Other equity interests	Capital reserves	Capital redemption reserves	Revaluation reserves	Available for sale securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Treasury shares	Share based payments reserves	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2012	**5,170**	**4,926**	**–**	**2,011**	**3,958**	**15**	**(948)**	**122**	**(2,355)**	**(68)**	**(549)**	**36**	**12,318**
Loss for the year	–	–	–	–	–	–	–	–	**(1,418)**	–	–	–	**(1,418)**
Other comprehensive income	–	–	–	–	–	**(2)**	**1,217**	**(157)**	**(633)**	**(2)**	–	–	**423**
Total comprehensive income for the year	–	–	–	–	–	**(2)**	**1,217**	**(157)**	**(2,051)**	**(2)**	–	–	**(995)**
Capital contributions	–	–	–	**(247)**	–	–	–	–	**247**	–	–	–	–
Reduction of capital *(notes w and y)*	–	**(2,000)**	–	–	**(3,958)**	–	–	–	**5,958**	–	–	–	–
Ordinary shares issued in lieu of dividend *(note w)*	**36**	**(36)**	–	–	–	–	–	–	–	–	–	–	–
Other movements	–	–	–	–	–	–	-	–	–	–	–	–	–
At 31 December 2012	**5,206**	**2,890**	**–**	**1,764**	**–**	**13**	**269**	**(35)**	**1,799**	**(70)**	**(549)**	**36**	**11,323**

	Share capital	Share premium	Other equity interests	Capital reserves	Capital redemption reserves	Revaluation reserves	Available for sale securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Treasury shares	Share based payments reserves	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2011	3,965	5,089	239	156	–	11	(997)	376	(5,353)	(67)	(549)	42	2,912
Loss for the year	–	–	–	–	–	–	–	–	(3,674)	–	–	–	(3,674)
Other comprehensive income	–	–	–	–	–	–	49	(254)	(436)	(1)	–	–	(642)
Total comprehensive income for the year	–	–	–	–	–	–	49	(254)	(4,110)	(1)	–	–	(4,316)
Capital contributions *(notes y and z)*	–	–	–	2,687	–	–	–	–	6,054	–	–	–	8,741
Ordinary shares issued in lieu of dividend *(note w)*	163	(163)	–	–	–	–	–	–	–	–	–	–	–
Issue of ordinary shares *(note w)*	5,000	–	–	–	–	–	–	–	–	–	–	–	5,000
Cancellation of deferred shares *(notes w and y)*	(3,958)	–	–	–	3,958	–	–	–	–	–	–	–	–
Redemption of capital instruments	–	–	(239)	–	–	–	–	–	216	–	–	–	(23)
Share based payments	–	–	–	–	–	–	–	–	6	–	–	(6)	–
Other movements	–	–	–	(832)[1]	–	4	–	–	832	–	–	–	4
At 31 December 2011	5,170	4,926	–	2,011	3,958	15	(948)	122	(2,355)	(68)	(549)	36	12,318

[1]See Parent company note 'x'.

Accounting Policies

The accounting policies adopted by Allied Irish Banks, p.l.c. are the same as those of the Group as set out on pages 193 to 217 where applicable.

a Administrative expenses

	2012 € m	2011 € m	2010 € m
Personnel expenses:			
Wages & salaries	**630**	610	565
Termination benefits[1]	**230**	–	–
Retirement benefits[2]	**(146)**	35	74
Social security costs	**68**	64	58
Other personnel expenses	**7**	(5)	(11)
	789	704	686
General and administrative expenses[3]	**424**	471	339
	1,213	1,175	1,025

[1]On 21 May 2012, AIB announced the specific terms of a voluntary severance programme which includes both an early retirement scheme and a voluntary severance scheme. At 31 December 2012, a provision of € 229 million has been made in respect of termination benefits arising from the voluntary severance programme. This amount comprises € 146 million in respect of past service costs relating to the early retirement scheme and € 112 million relating to the voluntary severance scheme (notes b and u) and a credit of € 29 million in respect of a pension curtailment gain. In addition, a provision of € 1 million has been made in respect of termination benefits in Allied Irish America.

[2]The amount comprises a credit of € 160 million relating to defined benefit expense (2011: charge of € 22 million; 2010: charge of € 61 million), a defined contribution expense of € 7 million (2011: € 6 million; 2010: € 6 million) and a long term disability payments expense of € 7 million (2011: € 7 million; 2010: € 7 million).

[3]Includes external costs relating to the transfer of financial instruments to NAMA that amounted to € 3 million (2011: € 28 million; 2010: € 21 million).

b Retirement benefits

AIB p.l.c operates a number of pension and retirement benefit schemes for employees, the majority of which are funded. These include both defined benefit and defined contribution schemes. The hybrid scheme includes elements of a defined benefit scheme and a defined contribution scheme.

Defined benefit schemes

Of the defined benefit schemes operated by AIB p.l.c., the most significant is the AIB Group Irish Pension Scheme ('the Irish scheme'), further details of which are provided in the Group's retirement benefits note (note 12).

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 12 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 AIB p.l.c. pension schemes. A sensitivity analysis for the key assumptions for the Irish scheme is set out in the Group's retirement benefits note (note 12).

Fair value of scheme assets

The following table sets out on a combined basis for all schemes, the fair value of the assets held by the schemes together with the long-term rate of return expected for each class of asset for AIB p.l.c.. The expected rates of return on individual asset classes were estimated using current and projected economic and market factors at the measurement date in consultation with the Group's actuaries.

Under IAS 19 *Employee Benefits* (revised), which AIB p.l.c. will adopt from 1 January 2013, the expected return on assets is replaced with an interest cost on assets which is set equal to the discount rate at the measurement date.

	2012			2011		
	Long term rate of return expected	**Value**	**Scheme assets**	Long term rate of return expected	Value	Scheme assets
	%	**€ m**	**%**	%	€ m	%
Equities	**5.9**	**1,608**	**46**	6.9	1,758	67
Bonds	**2.8**	**884**	**25**	3.1	469	18
Mortgage portfolio	**5.0**	**570**	**16**	–	–	–
Property	**5.5**	**186**	**5**	5.4	186	7
Cash/other	**4.3**	**264**	**8**	4.5	215	8
Total market value of assets	**4.8**	**3,512**	**100**	5.9	2,628	100
Actuarial value of liabilities of funded schemes		**(4,191)**			(3,389)	
Deficit in the funded schemes		**(679)**[1]			(761)[1]	
Unfunded deferred benefit obligation		**(11)**			(33)	
Net pension deficit		**(690)**			(794)	

[1]Of which € 673 million deficit relates to the Irish scheme and € 6 million deficit relates to other schemes (2011: € 754 million deficit relates to the Irish scheme; € 7 million deficit relates to other schemes).

At 31 December 2012, the pension scheme assets included AIB shares amounting to Nil (2011: Nil). Included in the actuarial value of the liabilities is an amount in respect of commitments to pay annual pensions amounting to € 104,234 (2011: € 109,813) in aggregate to a number of former directors or the spouses of deceased former directors.

Movement in defined benefit obligation during the year	**2012 € m**	2011 € m
Defined benefit obligation at beginning of year	**3,422**	3,046
Current service cost	**62**	55
Past service cost – Termination benefits	**146**	–
– Other	**(218)**	3
Interest cost	**169**	167
Contributions by employees	**17**	16
Actuarial losses	**851**	252
Benefits paid	**(209)**	(93)
Curtailment – Termination benefits	**(29)**	–
– Other	**(8)**	(26)
Translation adjustment on non-euro schemes	**(1)**	2
Defined benefit obligation at end of year	**4,202**	3,422

b Retirement benefits *(continued)*

Movement in the scheme assets during the year	2012 € m	2011 € m
Fair value of scheme assets at beginning of year	**2,628**	2,704
Expected return[1]	**165**	174
Actuarial gains/(losses)	**129**	(248)
Contributions by employer	**781**[2]	73
Contributions by employees	**17**	16
Benefits paid	**(208)**	(93)
Translation adjustment on non-euro schemes	**–**	2
Fair value of scheme assets at end of year	**3,512**	2,628

[1]Includes payment of pension levy.

[2]Includes the transfer to the Irish scheme of interests in an SPV owning loans and receivables previously transferred at fair value from the Group.

Amount recognised in the statement of comprehensive income	2012 € m	2011 € m	2010 € m
Actual return less expected return on pension scheme assets	**129**	(248)	73
Experience gains and losses on scheme liabilities	**(10)**	24	85
Changes in demographic and financial assumptions	**(841)**[1]	(276)	(173)
Actuarial loss recognised	**(722)**	(500)	(15)
Deferred tax	**89**	64	3
Recognised in the statement of comprehensive income	**(633)**	(436)	(12)

[1]Principally due to reduction in discount rate and updating of mortality assumptions in 2012.

History of experience gains and losses	2012 € m	2011 € m	2010 € m	2009 € m	2008 € m
Difference between expected and actual return on scheme assets:					
Amount	**129**	(248)	73	114	(1,208)
Percentage of scheme assets	**4%**	9%	3%	5%	62%
Experience gains and losses on scheme liabilities:					
Amount	**(10)**	24	85	64	(54)
Percentage of scheme liabilities	**0%**	1%	3%	2%	2%
Total gross amount recognised in SOCI[1]:					
Amount	**(722)**	(500)	(15)	293	(812)
Percentage of scheme liabilities	**17%**	15%	1%	10%	27%

[1] Statement of comprehensive income.

Defined benefit pension schemes	2012 € m	2011 € m	2010 € m	2009 € m	2008 € m
Funded defined benefit obligation	**4,191**	3,389	2,990	2,777	2,928
Scheme assets	**3,512**	2,628	2,704	2,261	1,941
Deficit within funded schemes	**679**	761	286	516	987
Unfunded defined benefit obligation	**11**	33	56	49	48
Deficit within schemes	**690**	794	342	565	1,035

Defined contribution schemes

AIB p.l.c. operates a defined contribution ("DC") scheme, further details of which are provided in the Group's retirement benefits note (note 12). The total cost in respect of the DC scheme for 2012 was € 7 million (2011: € 6 million; 2010: € 6 million). The cost in respect of defined contributions is included in administrative expenses (note 10).

Long-term disability payments

AIB p.l.c. provides an additional benefit to employees who suffer prolonged periods of sickness. 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 2012, AIB p.l.c. contributed € 7 million (2011: € 7 million; 2010: € 7 million) towards insuring this benefit. This amount is included in administrative expenses (note 10).

c Financial assets and financial liabilities held for sale to NAMA

The following table provides a movement analysis of loans and receivables held for sale to NAMA:

	Gross loans and receivables € m	Impairment provisions € m	Carrying value € m
At 1 January 2011	712	(137)	575
Exchange translation adjustments	(1)	1	–
Transferred to NAMA during 2011	(573)	309	(264)
Reclassification in/out and other movements[1]	(138)	(139)	(277)
Impairment charge during 2011	–	(34)	(34)
At 31 December 2011	–	–	–

[1]Includes changes in eligible loans and receivables transferring during 2011, along with movements in the number of loans and receivables within the eligible pool.

There were no loans classified as held for sale or transferring to NAMA in 2012.

d Disposal groups and non-current assets held for sale

At 31 December 2012, disposal groups and non-current assets held for sale comprise non-current assets and non-current liabilities held for sale. These mainly include loans and receivables, but also included within this caption is AIB's investment in Aviva Life Holdings Ireland Limited ("ALH").

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:

	2012		2011	
	Assets € m	**Liabilities € m**	Assets € m	Liabilities € m
Loans and receivables[1]:				
Customers	**353**	**–**	1,122	–
Banks	**–**	**–**	7	–
	353	**–**	1,129	–
Associated undertakings[2][3]	**12**	**–**	12	–
Other:				
Repossessed assets	**–**	**–**	3	–
Equity investment at fair value through profit or loss[3]	**196**	**–**	–	–
AIB Investment Managers[4]	**–**	**–**	23	–
Other	**–**	**–**[5]	2	1[5]
	196	**–**	28	1
Total disposal groups and non-current assets held for sale	**561**	**–**	1,169	1

[1]Loans and receivables held for sale are net of provisions of € 122 million (31 December 2011: € 9 million) (note j).

[2]Associated undertakings include LaGuardia Hotel € 12 million at 31 December 2012 and ALH € 12 million at 31 December 2011.

[3]AIB's investment in ALH is now held as an equity investment and has been designated as at fair value through profit or loss (note 35 to the consolidated financial statements).

[4]AIB Investment Managers was disposed of during 2012 resulting in a gain of € 2 million.

[5]Liabilities of Nil (31 December 2011: € 1 million) which relates to deposits from banks.

Further details of loans and receivables held for sale are set out in the Risk management section of this report.

e Trading portfolio financial assets

	2012 € m	2011 € m
Debt securities:		
Government securities	–	24
Bank eurobonds	–	6
Other debt securities	22	24
	22	54
Equity securities	2	2
	24	56

	2012 € m	2011 € m
Of which listed:		
Debt securities	22	54
Equity securities	1	1
Of which unlisted:		
Equity securities	1	1
	24	56

f Derivative financial instruments

Details of derivative transactions entered into and their purpose are described in note 27 to the consolidated financial statements.

The following table presents the notional principal amount together with the positive fair value of interest rate, exchange rate, equity and credit derivative contracts for 2012 and 2011.

	2012 € m	2011 € m
Interest rate contracts[1]		
Notional principal amount	**132,053**	149,886
Positive fair value	**2,576**	2,888
Exchange rate contracts[1]		
Notional principal amount	**7,539**	7,545
Positive fair value	**71**	45
Equity contracts[1]		
Notional principal amount	**3,833**	3,962
Positive fair value	**121**	92
Credit derivatives[1]		
Notional principal amount	**114**	216
Positive fair value	**–**	–
Total notional principal amount	**143,539**	161,609
Positive fair value	**2,768**	3,025

[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:

	Residual maturity			
	< 1 year € m	**1 < 5 years € m**	**5 years + € m**	**Total € m**
2012				
Notional principal amount	**71,897**	**36,529**	**35,113**	**143,539**
Positive fair value	**463**	**1,270**	**1,035**	**2,768**

	Residual maturity			
	< 1 year € m	1 < 5 years € m	5 years + € m	Total € m
2011				
Notional principal amount	77,779	41,766	42,064	161,609
Positive fair value	275	1,167	1,583	3,025

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**	
	2012 € m	2011 € m	**2012 € m**	2011 € m
Republic of Ireland	**140,364**	156,983	**2,356**	2,553
United Kingdom	**2,571**	3,321	**377**	413
United States of America	**604**	1,305	**35**	59
Rest of World	**–**	–	**–**	–
	143,539	161,609	**2,768**	3,025

f 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 2012 and 31 December 2011.

	2012			2011		
	Notional principal amount	**Fair value**		Notional principal amount	Fair value	
	Assets	**Liabilities**		Assets	Liabilities	
	€ m	**€ m**	**€ m**	€ m	€ m	€ m
Derivatives held for trading						
Interest rate derivatives - over the counter (OTC)						
Interest rate swaps	**24,987**	**1,383**	**(1,623)**	38,783	1,763	(1,944)
Cross-currency interest rate swaps	**1,826**	**80**	**(68)**	2,193	70	(115)
Forward rate agreements	**–**	**–**	**–**	1,122	1	(1)
Interest rate options	**1,015**	**9**	**(9)**	1,765	14	(11)
Total OTC interest rate contracts	**27,828**	**1,472**	**(1,700)**	43,863	1,848	(2,071)
Interest rate derivatives - exchange traded						
Interest rate futures	**124**	**–**	**–**	4,605	–	–
Interest rate contracts total	**27,952**	**1,472**	**(1,700)**	48,468	1,848	(2,071)
Foreign exchange derivatives (OTC)						
Foreign exchange contracts	**7,320**	**69**	**(19)**	7,279	41	(95)
Currency options bought and sold	**219**	**2**	**(2)**	266	4	(4)
Foreign exchange derivatives total	**7,539**	**71**	**(21)**	7,545	45	(99)
Equity derivatives (OTC)						
Equity index options	**3,833**	**121**	**(123)**	3,962	92	(95)
Equity index contracts total	**3,833**	**121**	**(123)**	3,962	92	(95)
Credit derivatives (OTC)						
Credit derivatives	**69**	**–**	**(20)**	171	–	(109)
Credit derivatives contracts total	**69**	**–**	**(20)**	171	–	(109)
Total trading contracts	**39,393**	**1,664**	**(1,864)**	60,146	1,985	(2,374)
Derivatives designated as fair value hedges *(OTC)*						
Interest rate swaps	**34,110**	**352**	**(732)**	55,300	254	(656)
Cross currency interest rate swaps	**–**	**–**	**–**	–	–	–
Derivatives designated as cash flow hedges *(OTC)*						
Interest rate swaps	**67,621**	**729**	**(850)**	40,083	773	(751)
Cross currency interest rate swaps	**2,370**	**23**	**(94)**	6,035	13	(279)
Currency swaps	**–**	**–**	**–**	–	–	–
Credit default swaps	**45**	**–**	**(1)**	45	–	(1)
Total hedging contracts	**104,146**	**1,104**	**(1,677)**	101,463	1,040	(1,687)
Total derivative financial instruments	**143,539**	**2,768**[1]	**(3,541)**[2]	161,609	3,025[1]	(4,061)[2]

[1]Includes exposure to subsidiary undertakings of € 293 million (2011: € 356 million).

[2]Includes amounts due to subsidiary undertakings of € 485 million (2011: € 448 million).

f 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:

	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	2012 Total
	€ m	**€ m**	**€ m**	**€ m**	**€ m**
Forecast receivable cash flows	**82**	**25**	**71**	**36**	**214**
Forecast payable cash flows	**18**	**16**	**78**	**41**	**153**

	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	2011 Total
	€ m	€ m	€ m	€ m	€ m
Forecast receivable cash flows	218	59	133	60	470
Forecast payable cash flows	116	58	180	115	469

The table below set out the hedged cash flows, including amortisation of terminated cashflow hedges, which are expected to impact the income statement in the following periods:

	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	2012 Total
	€ m	**€ m**	**€ m**	**€ m**	**€ m**
Forecast receivable cash flows	**82**	**25**	**71**	**36**	**214**
Forecast payable cash flows	**48**	**45**	**126**	**57**	**276**

	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	2011 Total
	€ m	€ m	€ m	€ m	€ m
Forecast receivable cash flows	248	86	192	88	614
Forecast payable cash flows	116	58	180	116	470

g Loans and receivables to banks

	2012 € m	2011 € m
Funds placed with central banks	**89**	405
Funds placed with other banks	**31,199**	35,627
Provision for impairment	**(4)**	(4)
	31,284	36,028
Of which:		
Due from third parties	**1,575**	2,587
Due from subsidiary undertakings[1]	**29,709**	33,441
	31,284	36,028
Amounts include:		
Reverse repurchase agreements	**61**	59

Loans and receivables to banks by geographical area[2]	2012 € m	2011 € m
Republic of Ireland	**29,530**	31,894
United States of America	**4**	7
United Kingdom	**1,750**	4,125
Poland	**–**	2
	31,284	36,028

[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 € 1,186 million (2011: € 1,838 million) placed with derivative counterparties in relation to net derivative positions (note f).

h Loans and receivables to customers

	2012 € m	2011 € m
Loans and receivables to customers	**47,559**	50,964
Amounts receivable under finance leases and hire purchase contracts *(note i)*	**456**	521
Unquoted debt securities	**224**	786
Provisions for impairment *(note j)*	**(11,005)**	(10,197)
	37,234	42,074
Of which:		
Due from third parties	**25,343**	30,206
Due from subsidiary undertakings[1]	**11,891**	11,868
	37,234	42,074
Of which repayable on demand or at short notice	**24,195**	19,410
Amounts include:		
Due from associated undertakings	**–**	1

[1]Amounts due from subsidiary undertakings may include repurchase agreements.

i Amounts receivable under finance leases and hire purchase contracts

The following balances principally comprise of leasing arrangements involving vehicles, plant, machinery and equipment.

	2012 € m	2011 € m
Gross receivables		
Not later than 1 year	**131**	163
Later than one year and not later than 5 years	**362**	392
Later than 5 years	**11**	20
	504	575
Unearned future finance income	**(50)**	(56)
Deferred costs incurred on origination	**2**	2
Total	**456**	521
Present value of minimum payments analysed by residual maturity		
Not later than 1 year	**130**	160
Later than one year and not later than 5 years	**317**	345
Later than 5 years	**9**	16
Present value of minimum payments	**456**	521
Provision for uncollectible minimum payments receivable[1]	**104**	104
Net investment in new business	**155**	158

[1]Included in the provisions for impairment on loans and receivables to customers (note j).

j 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 into corporate/ commercial, residential mortgages, and other relates to classification used in the Group's ratings tools and are explained in the 'Risk management' section of this report.

				2012
	Corporate/ Commercial € m	**Residential mortgages € m**	**Other € m**	**Total € m**
At 1 January 2012	**9,367**	**174**	**669**	**10,210**
Exchange translation adjustments	**(4)**	**–**	**–**	**(4)**
Transfers[1]	**29**	**(17)**	**–**	**12**
Charge against income statement	**1,179**	**(6)**	**180**	**1,353**
Amounts written off	**(341)**	**(4)**	**(90)**	**(435)**
Disposals	**(6)**	**–**	**–**	**(6)**
Recoveries of amounts written off in previous years	**1**	**–**	**–**	**1**
At 31 December 2012	**10,225**	**147**	**759**	**11,131**
Total provisions are split as follows:				
Specific	**9,672**	**125**	**695**	**10,492**
IBNR	**553**	**22**	**64**	**639**
	10,225	**147**	**759**	**11,131**
Amounts include:				
Loans and receivables to banks *(note g)*				**4**
Loans and receivables to customers *(note h)*				**11,005**
Loans and receivables of disposal groups and non-current assets held for sale *(note d)*				**122**
				11,131

[1]Includes transfers from provisions for liabilities and commitments.

				2011
	Corporate/ Commercial € m	Residential mortgages € m	Other € m	Total € m
At 1 January 2011	5,267	146	527	5,940
Exchange translation adjustments	14	1	–	15
Charge against income statement	4,929	143	234	5,306
Amounts written off	(536)	(10)	(92)	(638)
Recoveries of amounts written off in previous years	2	–	–	2
Provisions on loans and receivables transferred to NAMA	(309)	–	–	(309)
Provisions on mortgage business transferred to subsidiary	–	(106)	–	(106)
At 31 December 2011	9,367	174	669	10,210
Total provisions are split as follows:				
Specific	8,144	109	516	8,769
IBNR	1,223	65	153	1,441
	9,367	174	669	10,210
Amounts include:				
Loans and receivables to banks *(note g)*				4
Loans and receivables to customers *(note h)*				10,197
Loans and receivables of disposal groups and non-current assets held for sale *(note d)*				9
				10,210

k NAMA senior bonds

During 2011 and 2010, 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:

	2012 € m	2011 € m
At 1 January	**19,509**	7,869
Purchased from Anglo Irish Bank Corporation	**–**	11,854
Additions	**–**	769
Net returns	**(136)**	(165)
Amortisation of discount	**104**	68
Repayments	**(2,395)**	(886)
At 31 December	**17,082**	19,509

l Financial investments available for sale

The following table gives at 31 December 2012 and 31 December 2011, the carrying value (fair value) of financial investments available for sale by major classifications together with the unrealised gains and losses:

						2012
	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	**7,172**	**496**	**(1)**	**495**	**(62)**	**433**
Euro government securities	**1,754**	**153**	**(4)**	**149**	**(18)**	**131**
Non Euro government securities	**666**	**95**	**–**	**95**	**(12)**	**83**
Supranational banks and government agencies	**1,682**	**55**	**–**	**55**	**(7)**	**48**
Collateralised mortgage obligations	**22**	**–**	**(6)**	**(6)**	**1**	**(5)**
Other asset backed securities	**920**	**1**	**(140)**	**(139)**	**17**	**(122)**
Euro bank securities	**2,195**	**50**	**(11)**	**39**	**(5)**	**34**
Non Euro bank securities	**126**	**3**	**–**	**3**	**–**	**3**
Euro corporate securities	**87**	**6**	**(3)**	**3**	**(1)**	**2**
Non Euro corporate securities	**193**	**17**	**–**	**17**	**(4)**	**13**
Other investments	**12**	**–**	**–**	**–**	**–**	**–**
Total debt securities	**14,829**	**876**	**(165)**	**711**	**(91)**	**620**
Equity securities						
Equity securities - NAMA subordinated bonds	**45**	**–**	**–**	**–**	**–**	**–**
Equity securities - other	**56**	**4**	**(8)**	**(4)**	**1**	**(3)**
Total financial investment available for sale	**14,930**	**880**	**(173)**	**707**	**(90)**	**617**

I Financial investments available for sale *(continued)*

	Fair value	Unrealised gross gains	Unrealised gross losses	Net unrealised gains/(losses)	Tax effect	2011 Net after tax
	€ m	€ m	€ m	€ m	€ m	€ m
Debt securities						
Irish Government securities	4,861	–	(330)	(330)	41	(289)
Euro government securities	1,830	101	(62)	39	(5)	34
Non Euro government securities	696	95	(3)	92	(12)	80
Supranational banks and government agencies	1,147	10	(1)	9	(1)	8
Collateralised mortgage obligations	509	–	(12)	(12)	2	(10)
Other asset backed securities	1,210	–	(353)	(353)	44	(309)
Euro bank securities	2,054	15	(92)	(77)	10	(67)
Non Euro bank securities	424	4	(2)	2	–	2
Euro corporate securities	110	4	(6)	(2)	–	(2)
Non Euro corporate securities	279	15	(5)	10	(2)	8
Other investments	12	–	–	–	–	–
Total debt securities	13,132	244	(866)	(622)	77	(545)
Equity securities						
Equity securities - NAMA subordinated bonds	127	–	–	–	–	–
Equity securities - other	77	5	(21)	(16)	3	(13)
Total financial investments available for sale	13,336	249	(887)	(638)	80	(558)

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 Nil (2011: € 164 million) and € 79 million (2011: € 111 million) on equity securities have been recognised.

Analysis of movements in financial investments available for sale

	2012			2011		
	Debt securities	**Equity securities**	**Total**	Debt securities	Equity securities	Total
	€ m	**€ m**	**€ m**	€ m	€ m	€ m
At 1 January	**13,132**	**204**	**13,336**	19,082	237	19,319
Reclassification to disposal groups and non-current assets held for sale	**–**	**(18)**	**(18)**	–	–	–
Exchange translation adjustments	**–**	**–**	**–**	(13)	(1)	(14)
Purchases	**4,516**	**6**	**4,522**	2,321	57	2,378
Additions[1]	**–**	**–**	**–**	–	18	18
NAMA subordinated bonds - additions	**–**	**–**	**–**	–	14	14
Return of NAMA subordinated bonds	**–**	**(3)**	**(3)**	–	(3)	(3)
Sales	**(2,249)**	**(24)**	**(2,273)**	(3,903)	(34)	(3,937)
Maturities	**(2,047)**	**–**	**(2,047)**	(4,314)	–	(4,314)
Provisions for impairment	**–**	**(79)**	**(79)**	(164)	(111)	(275)
Amortisation of discounts net of premiums	**21**	**–**	**21**	(3)	–	(3)
Movement in unrealised gains	**1,456**	**15**	**1,471**	126	27	153
At 31 December	**14,829**	**101**	**14,930**	13,132	204	13,336
Of which:						
Listed	**14,817**	**53**	**14,870**	13,120	48	13,168
Unlisted	**12**	**48**	**60**	12	156	168
	14,829	**101**	**14,930**	13,132	204	13,336

[1]Additions relate to transfers from loans and receivables arising from debt/equity restructures and other additions.

l Financial investments available for sale *(continued)*

Debt securities analysed by remaining contractual maturity	2012 € m	2011 € m
Due within one year	**798**	2,007
After one year, but within five years	**7,912**	5,633
After five years, but within ten years	**4,715**	3,349
After ten years	**1,404**	2,143
	14,829	13,132

m Investments in Group undertakings

	2012 € m	2011 € m
Equity		
At 1 January	**1,691**	1,897
Additions[1]	**600**	3,637
Liquidations	**(6)**	(7)
Reclassification to disposal groups and non-current assets held for sale	**–**	(35)
Reversal of impairment/(impairment)	**150**	(3,801)[2]
At 31 December	**2,435**	1,691
Subordinated debt		
At 1 January	**670**	660
Redeemed	**(370)**	–
Exchange translation adjustments	**–**	10
At 31 December	**300**	670
Total	**2,735**	2,361
Of which:		
Credit institutions	**2.348**	1,598
Other	**387**	763
Total – all unquoted	**2,735**	2,361

[1] In 2012, additions include € 400 million investment in EBS Limited and € 200 million investment in AIB Mortgage Bank. In 2011, additions relate to investments (cash) in subsidiaries of € 2,660 million, non-cash investments of € 742 million in EBS and € 235 million in Anglo IOM.

[2] An impairment charge of € 12 million was made for AIB Investment Managers Limited in 2011 which was classified as held for sale and not included here (note d).

The investments in Group undertakings are included in the financial statements on an historical cost basis.

Letters of financial support

Allied Irish Banks, p.l.c. has provided letters of financial support to the Board of Directors of the following subsidiaries: AIB Mortgage Bank; EBS Limited; AIB Group (UK) plc; AIB Holdings (NI) Limited and AIB UK Loan Management Limited.

Impairment losses reversed/recognised in Group undertakings

At both 31 December 2012 and 31 December 2011, the carrying value of investments in subsidiary undertakings of the parent company, Allied Irish Banks p.l.c., was reviewed for impairment in accordance with IAS 36 *Impairment of assets*. These impairment reviews were carried out for the purpose of the parent's separate financial statements where the accounting policy is to carry investments in subsidiaries at cost less provisions for impairment.

During 2012 and 2011, there was a requirement for the parent company to inject additional capital into certain subsidiaries arising from further losses which had been incurred. This necessitated an impairment review in accordance with the methodology set out below as there were indications that impairment losses may have occurred.

In respect of each of the subsidiaries set out below, 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.

m Investments in Group undertakings *(continued)*

Impairment losses recognised in Group undertakings

The key assumptions used for determining value-in-use for each subsidiary are as follows:

AIB Mortgage Bank

During 2012, AIB invested a further € 200 million into AIB Mortgage Bank. Arising from this capital injection, AIB reviewed its investment for impairment. The recoverable amount of the investment was determined using cash flow projections based on financial plans approved by management and covering a three year period up to 31 December 2015 with a terminal growth rate of 2% applied into perpetuity. The forecast cash flows were discounted at a rate of 11%. Based on these assumptions, the carrying value of the investment is in line with the forecast cash flows. Therefore, no impairment loss has been recognised (2011: impairment loss of € 994 million).

The results of this valuation are sensitive to changes in the growth and discount rates. Increasing the discount rate to 12% and reducing the growth rate into perpetuity from 2015 to 1% would result in an impairment loss of € 161 million. If the discount rate was reduced to 10% and the growth rate increased to 3% from 2015, the impairment loss would reverse by € 294 million.

AIB Holdings (N.I.) Limited

The net asset value of AIB Holdings (N.I.) Limited is negative following the impairment in 2011 of its investment in AIB Group UK p.l.c.. Accordingly, the investment by Allied Irish Banks, p.l.c. in AIB Holdings (N.I) Limited was written down to Nil in 2011 arising from the negative asset value in this subsidiary. There was no change to the valuation in 2012 arising from the impairment review.

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 is expected that the business will be wound up in the next twelve to twenty four months, with no residual value. This subsidiary received a capital injection of Stg£ 580 million in December 2011 which is available to cover forecasted losses in winding up the business.

EBS Limited ("EBS")

100% of the share capital of EBS was acquired for a consideration of € 1 on 1 July 2011. The transaction was accounted for under the carrying value basis resulting in a capital contribution of € 742 million (see Parent company note 'x'). This Day 1 capital contribution was recorded as an investment in the subsidiary in the books of Allied Irish Banks p.l.c..

During 2012, AIB invested € 400 million in this subsidiary. Impairment reviews were carried out both at 31 December 2012 and 31 December 2011. At 31 December 2012, the recoverable amount of the investment was determined using cash flow projections based on financial plans approved by management and covering a three year period up to 31 December 2015 with a terminal growth rate of 2% applied into perpetuity. The forecast cash flows have been discounted at a rate of 11%. Based on these assumptions, AIB reversed an impairment loss amounting to € 150 million in EBS Limited, which had been recognised in 2011. This impairment reversal arose from an appreciable increase in the carrying value of the subsidiary's available for sale debt securities portfolio due to changed market conditions. At 31 December 2011, AIB recognised an impairment loss of € 1,042 million using the same methodology as in 2012.

The results of this valuation are sensitive to increases in the growth and decreases in the discount rate. If the discount rate was reduced to 10% and the growth rate increased to 3% from 2015, the impairment loss would reduce by a further € 164 million.

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. 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.

m Investments in Group undertakings *(continued)*

Principal subsidiary undertakings incorporated in the Republic of Ireland

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 the 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 2012, the total amount of principal outstanding in respect of mortgage covered securities issued was € 10.3 billion (2011: € 12.4 billion) of which € 3.3 billion was held by debt investors (2011: 2.8 billion), € 1 billion by Allied Irish Banks, p.l.c. (2011: € 3.2 billion) and € 6 billion was self issued to AIB Mortgage Bank (2011: € 6.4 billion). The bonds issued to Allied Irish Banks, p.l.c. and to AIB Mortgage Bank were held by the Central Bank of Ireland under sale and repurchase agreements at 31 December 2012 and 31 December 2011. At the same date, the total amount of principal outstanding in the covered assets pool including mortgage loans and cash was € 17.3 billion (2011: € 19.1 billion).

EBS Limited ("EBS")

EBS, which is regulated by the Central Bank of Ireland, became a wholly owned subsidiary of Allied Irish Banks, p.l.c. on 1 July 2011. Prior to becoming part of AIB Group, EBS had traded as a building society for over 75 years. In May 2010, EBS was recapitalised by the Minister for Finance ('the Minister') in an amount of € 875 million, and, in March 2011, the Minister announced that EBS Building Society was to be merged with AIB Group to form one of the two 'pillar banks' in Ireland. Accordingly, on 1 July 2011, EBS Building Society underwent a demutualisation pursuant to an acquisition conversion scheme under the Building Societies Act 1989 (as amended), the effect of which was that the building society became a limited company and obtained a banking licence. The special investment shares that had been invested in EBS Building Society by the Irish Government converted into € 625 million of ordinary shares held by the Minister, who transferred the entire issued share capital (€ 625 million ordinary shares) in EBS to AIB on 1 July 2011. Under and in accordance with the Building Societies Act 1989 (as amended), on the conversion of EBS Building Society to EBS Limited, the business, property, rights and liabilities of EBS Building Society vested in EBS Limited. AIB operates EBS as a standalone, separately branded subsidiary of AIB with its own branch network. EBS will continue to operate as a mortgage and savings business.

EBS Group had consolidated total assets of € 16 billion as at 31 December 2012, EBS has a countrywide network of 82 outlets, comprising 14 branches, 42 tied branch agencies and 26 tied agencies in Ireland. EBS also has 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. It had a 0.7 per cent. share of the retail savings market in 2012 and an 11 per cent. share of outstanding retail mortgage balances. At 31 December 2012, the Tier 1 and total capital ratios for EBS were 8.62 per cent. and 9.87 per cent., respectively.

In December 2007, EBS established Haven Mortgages Limited ('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 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. 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 licence. 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 2012, the total amount of principal outstanding in the covered assets pool, including mortgage loans and cash was € 5.8 billion (2011: € 6.8 billion).

In December 2008, EBS Mortgage Finance launched a € 6 billion Mortgage Covered Securities Programme. As at 31 December 2012, the total amount of principal outstanding in respect of the mortgage covered securities issued was € 3.15 billion (2011: € 3.6 billion) of which € 0.05 billion was held by debt investors. The remaining € 3.1 billion was issued to EBS.

m Investments in Group undertakings *(continued)*

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:* 4 Queen's Square, Belfast, BT1 3DJ	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.

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.

Guarantees given to subsidiaries by Allied Irish Banks, p.l.c.

Each of the companies listed below, and consolidated into these accounts, 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
AIB Venture Capital Limited
Allied Combined Trust Limited
Allied Irish Banks (Holdings & Investments) Limited
Allied Irish Finance Limited
Allied Irish Nominees Limited
Eyke Limited
First Venture Fund Limited
Hengram Limited
The Hire Purchase Company of Ireland Limited
Blogram Limited
Sanditon Limited
S. & M. (Limerick) Limited
AIB International Finance
AIB Investment Company
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
Skobio
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

m Investments in Group undertakings *(continued)*

Acquisition of subsidiary

Included in the Group's consolidated loans and receivables to customers is € 3,539 million (2011: € 3,899 million) of loans held through securitisation vehicles Emerald No.4, Emerald No.5 and Mespil 1 RMBS Limited. These were acquired by AIB as part of the acquisition of EBS Limited.

Emerald Mortgages No.4 plc

The total carrying amount of the original residential mortgages transferred by EBS Limited to Emerald Mortgages No.4 plc ('Emerald 4') as part of the securitisation amounts to € 1,500 million. The amount of transferred secured loans that the Group has recognised at 31 December 2012 is € 868 million. The carrying amount of the bonds issued by Emerald 4 to third party investors amounts to € 846 million. The carrying amount of the loan note in EBS issued to Emerald 4 amounts to € 872 million and is included within customer accounts (note r).

Emerald Mortgages No.5

The total carrying amount of original residential mortgages transferred by EBS Limited to Emerald Mortgages No.5 ('Emerald 5') as part of the securitisation amounts to € 2,500 million. The amount of transferred secured loans that the Group has recognised at 31 December 2012 is € 1,716 million. Bonds were issued by Emerald 5 to EBS but these are not shown in the Group's financial statements, as these bonds are eliminated on consolidation.

Mespil 1 RMBS Limited ('Mespil')

The total carrying amount of secured loans that the Group has recognised as at 31 December 2012 is € 955 million in relation to the transfers from EBS Limited and Haven Mortgages Limited. The bonds issued by Mespil to EBS are not shown in the Group's financial statements, as these bonds are eliminated on consolidation.

			2012			2011
n Intangible assets	**Software € m**	**Other € m**	**Total € m**	Software € m	Other € m	Total € m
Cost						
At 1 January	**532**	**3**	**535**	562	3	565
Additions – internally generated	**59**	**–**	**59**	25	–	25
– externally purchased	**9**	**–**	**9**	6	–	6
Amounts written off[1]	**–**	**–**	**–**	(46)	–	(46)
Disposals	**–**	**–**	**–**	(15)	–	(15)
At 31 December	**600**	**3**	**603**	532	3	535
Amortisation/impairment						
At 1 January	**378**	**3**	**381**	377	3	380
Amortisation for the year	**52**	**–**	**52**	59	–	59
Impairment for the year	**2**	**–**	**2**	3	–	3
Amounts written off[1]	**–**	**–**	**–**	(46)	–	(46)
Disposals	**–**	**–**	**–**	(15)	–	(15)
At 31 December	**432**	**3**	**435**	378	3	381
Net book value at 31 December	**168**	**–**	**168**	154	–	154

[1]Relates to assets which are no longer in use with a nil carrying value.

Internally generated intangible assets under construction amounted to: € 44 million (31 December 2011: € 30 million).

Internally generated software amounted to: € 300 million (31 December 2011: € 264 million).

o Property, plant and equipment

	Property			Equipment	Total
	Freehold	Long leasehold	Leasehold under 50 years		
	€ m	€ m	€ m	€ m	€ m
Cost					
At 1 January 2012	**125**	**85**	**84**	**407**	**701**
Reclassifications	**1**	**(1)**	**–**	**–**	**–**
Additions	**1**	**–**	**7**	**24**	**32**
Disposals	**(1)**	**–**	**(9)**	**(14)**	**(24)**
Amounts written off[1]	**–**	**–**	**(1)**	**(2)**	**(3)**
At 31 December 2012	**126**	**84**	**81**	**415**	**706**
Depreciation/impairment					
At 1 January 2012	**31**	**20**	**48**	**324**	**423**
Depreciation charge for the year	**4**	**2**	**8**	**25**	**39**
Impairment for the year	**2**	**–**	**–**	**–**	**2**
Disposals	**–**	**–**	**(9)**	**(13)**	**(22)**
Amounts written off[1]	**–**	**–**	**(1)**	**(2)**	**(3)**
At 31 December 2012	**37**	**22**	**46**	**334**	**439**
Net book value at 31 December 2012	**89**	**62**	**35**	**81**	**267**

	Property			Equipment	Total
	Freehold	Long leasehold	Leasehold under 50 years		
	€ m	€ m	€ m	€ m	€ m
Cost					
At 1 January 2011	118	82	85	416	701
Reclassification from disposal groups and non-current assets held for sale	1	3	–	–	4
Additions	–	1	4	11	16
Transfer of business[2]	6	–	–	–	6
Disposals	–	(1)	(5)	(20)	(26)
At 31 December 2011	125	85	84	407	701
Depreciation/impairment					
At 1 January 2011	26	19	46	315	406
Depreciation charge for the year	4	2	6	27	39
Transfer of business[2]	1	–	–	–	1
Disposals	–	(1)	(4)	(18)	(23)
At 31 December 2011	31	20	48	324	423
Net book value at 31 December 2011	94	65	36	83	278

[1]Relates to assets which are no longer in use with a Nil carrying value.

[2]Internal transfer from a subsidiary.

The net book value of property occupied by Allied Irish Banks, p.l.c. for its own activities was € 185 million (2011: € 195 million).

Property and equipment includes € 2 million for items in the course of construction (2011:Nil).

p Deferred taxation

	2012 € m	2011 € m
Deferred tax assets:		
Provision for impairment of loans and receivables	**–**	1
Available for sale securities	**–**	135
Retirement benefits	**92**	105
Temporary difference on provisions for future commitments in relation to the funding of Icarom plc (under Administration)	**–**	1
Cash flow hedges	**8**	–
Unutilised tax losses	**2,800**	2,513
Other	**87**	3
Total gross deferred tax assets	**2,987**	2,758
Deferred tax liabilities:		
Cash flow hedges	**–**	(14)
Assets used in business	**(15)**	(6)
Available for sale securities	**(41)**	–
Total gross deferred tax liabilities	**(56)**	(20)
Net deferred tax assets	**2,931**	2,738
Represented on the balance sheet as follows:		
Deferred tax assets	**2,931**	2,738

For each of the years ended 31 December 2012 and 2011, full provision has been made for capital allowances and other temporary differences.

Analysis of movements in deferred taxation	**2012 € m**	2011 € m
At 1 January	**2,738**	1,836
Exchange translation and other adjustments	**–**	(1)
Deferred tax through other comprehensive income	**(66)**	97
Income statement	**259**	806
At 31 December	**2,931**	2,738

Comments on the basis of recognition of deferred tax assets on unused tax losses are included in ‘Critical accounting policies and estimates’ on pages 46 and 47. Comments on the prospective regulatory capital treatment of deferred tax assets are included in ‘Risk factors’ on page 63.

At 31 December 2012, recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled € 2,931 million (2011: € 2,738 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 of loans and receivables, amortised income, assets leased to customers, and assets used in the course of business.

q Deposits by central banks and banks

	2012 € m	2011 € m
Central banks		
Securities sold under agreements to repurchase	**19,760**	26,966
Other borrowings	**–**	302
	19,760	27,268
Banks		
Securities sold under agreements to repurchase	**5,414**	4,706
Other borrowings	**14,215**	14,176
	19,629	18,882
	39,389	46,150
Of which:		
Due to third parties	**25,752**	32,675
Due to subsidiary undertakings[1]	**13,637**	13,475
	39,389	46,150
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 55 to the Group's financial statements.

Allied Irish Banks, p.l.c. has granted a floating charge over certain residential mortgage pools, the drawings against which were € 90 million at 31 December 2012 (2011: 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:

	2012			2011		
	Central banks € m	Banks € m	Total € m	Central banks € m	Banks € m	Total € m
Total carrying value of financial assets pledged	**22,984**	**6,807**	**29,791**	32,832	5,350	38,182
Of which:						
Government securities[1]	**14,795**	**4,835**	**19,630**	17,685	3,082	20,767
Other securities	**8,189**	**1,972**	**10,161**	15,147	2,268	17,415

[1]Includes NAMA senior bonds.

r Customer accounts

	2012 € m	2011 € m
Current accounts	**12,193**	11,522
Demand deposits	**6,312**	6,332
Time deposits	**30,246**	28,920
	48,751	46,774
Of which:		
Non-interest bearing current accounts		
Domestic offices	**11,633**	10,147
Foreign offices	**214**	191
Interest bearing deposits, current accounts and short-term borrowings		
Domestic offices	**34,631**	33,970
Foreign offices	**2,273**	2,466
	48,751	46,774
Of which:		
Due to third parties	**42,363**	39,910
Due to subsidiary undertakings[1]	**6,388**	6,864
	48,751	46,774
Amounts include:		
Due to associated undertakings	**1,259**	1,373

[1]Amounts due to subsidiary undertakings may include repurchase agreements.

s Debt securities in issue

	2012 € m	2011 € m
Bonds and medium term notes:		
European medium term note programme	**5,142**	9,689
Other debt securities in issue:		
Commercial certificates of deposit	**–**	213
	5,142	9,902

t Other liabilities

	2012 € m	2011 € m
Items in transit	**20**	28
Creditors	**3**	–
Future commitments in relation to the funding of Icarom[1]	**–**	11
Fair value of hedged liability positions	**165**	128
Other	**332**	249
	520	416

[1]Obligations to Icarom were fully satisfied at 31 December 2012.

u Provisions for liabilities and commitments

Voluntary severance programme

Details of the Group's voluntary severance programme are set out in note 43 to the consolidated financial statements and these details apply equally to Allied Irish Banks p.l.c..

Allied Irish Banks p.l.c. expects that total past service costs arising under the terms of the early retirement scheme will ultimately amount to € 146 million, based on current best estimates (note b). This provision is included within pension scheme liabilities.

The cost of offering the voluntary severance scheme to eligible employees is estimated to amount to € 112 million of which € 35 million had been utilised at 31 December 2012. Therefore, a provision has been made amounting to € 77 million at 31 December 2012 which is based on Managements' best estimate of the amount required to settle the additional costs expected to arise from the scheme.

These provisions, totalling € 258 million, have been netted with a curtailment gain of € 29 million and included in termination benefits under administrative expenses (note a) in the income statement.

u Provisions for liabilities and commitments

	31 December 2012							
	Liabilities and charges € m	**NAMA[1] constructive obligation € m**	**NAMA[2] provisions € m**	**Onerous[3] contracts € m**	**Legal claims € m**	**Other[4] provisions € m**	**Voluntary severance scheme € m**	**Total € m**
At 1 January	**24**	**–**	**298**	**6**	**5**	**103**	**–**	**436**
Transfer out	**(8)**	**–**	**–**	**–**	**–**	**–**	**–**	**(8)**
Exchange translation adjustments	**–**	**–**	**–**	**–**	**–**	**1**	**–**	**1**
Amounts charged to income statement	**10[5]**	**–**	**18[2]**	**6**	**1**	**54**	**112**	**201**
Amounts released to income statement	**(1)[5]**	**–**	**(88)[2]**	**(1)**	**(1)**	**(5)**	**–**	**(96)**
Provisions utilised	**(4)**	**–**	**(207)**	**(1)**	**–**	**(11)**	**(35)**	**(258)**
At 31 December	**21**	**–**	**21**	**10**	**5**	**142**	**77**	**276**

	2011						
	Liabilities and charges € m	NAMA[1] constructive obligation € m	NAMA[2] provisions € m	Onerous contracts € m	Legal claims € m	Other[2] provisions € m	Total € m
At 1 January	17	293	–	3	4	69	386
Acquisition of subsidiary[6]	–	–	–	–	–	73	73
Amounts charged to income statement	17[4]	–	298	5	1	39	360
Amounts released to income statement	–	(146)	–	(2)	–	(50)	(198)
Provisions utilised	(10)	(147)	–	–	–	(28)	(185)
At 31 December	24	–	298	6	5	103	436

The total provisions for liabilities and commitments expected to be settled within one year amount to € 230 million (31 December 2011 € 408 million).

[1] At 31 December 2010, the transfer in 2011 of certain loans to NAMA at a discount was deemed unavoidable, accordingly a provision of € 293 million being a constructive obligation was made for the expected discount.

[2] NAMA provisions represent amounts due to NAMA in respect of adjustments to transfers which had not been settled at 31 December 2011. At 31 December 2012, € 88 million of this provision was released to the income statement. This followed the resolution with NAMA of certain issues relating to transfers which had taken place in earlier periods. In addition, € 18 million was charged to the income statement in respect of Section 93 claims i.e. new claims under the NAMA Act.

[3] Provisions for the unavoidable costs expected to arise from branch closures.

[4] Includes provisions for refunds to customers in respect of payment protection insurance, restructuring and reorganisation costs.

[5] Included in charge/(writeback) of provisions for liabilities and commitments in income statement.

[6] Relates to the acquisition of Anglo IOM.

v 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 44 to the consolidated financial statements.

w Share capital

The share capital and share premium of Allied Irish Banks, p.l.c., are detailed in note 45 to the consolidated financial statements, all of which relates to Allied Irish Banks, p.l.c..

x Capital reserves

	2012			2011		
	Capital contribution reserves € m	**Other capital reserves € m**	**Total € m**	Capital contribution reserves € m	Other capital reserves € m	Total € m
At 1 January	**1,855**	**156**	**2,011**	–	156	156
Capital contributions:						
Anglo business transfer *(note 22)**	**–**	**–**	**–**	1,498	–	1,498
EBS acquisition[1] *(note 23)**	**–**	**–**	**–**	742	–	742
CCNs issuance *(note v)*	**–**	**–**	**–**	447	–	447
	–	**–**	**–**	2,687	–	2,687
Transfer to revenue reserves:						
Anglo business transfer	**(187)**	**–**	**(187)**	(66)	–	(66)
EBS acquisition	**–**	**–**	**–**	(742)	–	(742)
CCNs issuance *(note v)*	**(60)**	**–**	**(60)**	(24)	–	(24)
	(247)	**–**	**(247)**	(832)	–	(832)
At 31 December	**1,608**	**156**	**1,764**	1,855	156	2,011

***** To the consolidated financial statements

[1] The capital contribution is higher for Group than at Allied Irish Banks, p.l.c. level due to the elimination of negative mark to market on intercompany investments between Allied Irish Banks, p.l.c. and EBS.

The capital contributions are 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.

y Capital redemption reserves

All capital redemption reserves are held by Allied Irish Banks p.l.c. and are detailed in note 50 to the consolidated financial statements.

z Contributions from the Minister for Finance and the NPRFC

Capital contributions from the Minister for Finance and the NPRFC to Allied Irish Banks p.l.c. are detailed in note 51 to the consolidated financial statements.

aa 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 m).

Details of contingent liabilities and commitments entered into by AIB Group are set out in note 53 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 53 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	
	2012 € m	2011 € m
Contingent liabilities - credit related		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	**761**	1,218
Other contingent liabilities	**334**	357
	1,095	1,575
Commitments		
Documentary credits and short-term trade-related transactions	**16**	17
Undrawn note issuance and revolving underwriting facilities	**–**	**–**
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year[1]	**6,144**	6,255
1 year and over[2]	**1,530**	1,997
	7,690	8,269
	8,785	9,844

[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.

	Contingent liabilities[1]		Commitments	
	2012 € m	2011 € m	**2012 € m**	2011 € m
Concentration of exposure				
Republic of Ireland	**848**	1,073	**7,517**	7,859
United Kingdom	**–**	20	**132**	177
United States of America	**247**	475	**41**	185
Rest of the world	**–**	7	**–**	48
Total	**1,095**	1,575	**7,690**	8,269

[1]Included in exposures are amounts relating to Group subsidiaries of € 27 million (2011: € 50 million).

Masterscale grade

The credit ratings of contingent liabilities and commitments as at 31 December 2012 and 31 December 2011 are set out in the following table.

	2012 € m	2011 € m
1 to 3	**3,596**	5,147
4 to 10	**2,832**	2,609
11 to 13	**1,646**	1,496
Unrated	**711**	592
	8,785	9,844

ab Transfer of 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. Details of these transactions are set out in note 55 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:

					2012
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Fair value of transferred assets	Fair value of associated liabilities	Net position
			€ m	€ m	€ m
Sale and repurchase agreements	**29,791**[1]	**25,174**	**29,837**	**25,174**	**4,663**

[1] Includes NAMA senior bonds.

(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 55 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 2012, Allied Irish Banks, p.l.c. recognised € 16 million (cumulative € 37 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 2012, Allied Irish Banks, p.l.c. recognised € 58 million (cumulative € 280 million) in the income statement for the provision of services under this agreement.

ac Fair value of financial instruments

Details of the methodologies employed by AIB in measuring fair value are set out in note 56 to the consolidated financial statements.

Readers of these financial statements are advised to use caution when using the data in the following table 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 2012.

		31 December 2012		31 December 2011	
	Notes[1]	**Carrying amount € m**	**Fair value € m**	Carrying amount € m	Fair value € m
Financial assets					
Cash and balances at central banks	a	**1,076**	**1,076**	1,067	1,067
Items in course of collection	a	**95**	**95**	100	100
Disposal groups and non-current assets held for sale	c	**549**	**435**	1,128	944
Trading portfolio financial assets	b	**24**	**24**	56	56
Derivative financial instruments	b	**2,768**	**2,768**	3,025	3,025
Loans and receivables to banks	d	**31,284**	**31,337**	36,028	36,081
Loans and receivables to customers	e	**37,234**	**34,759**	42,074	38,427
NAMA senior bonds	f	**17,082**	**17,139**	19,509	19,711
Financial investments available for sale	b	**14,930**	**14,930**	13,336	13,336
Fair value hedged asset positions	g	**–**	**–**	13	–
Financial liabilities					
Deposits by central banks and banks	h	**39,389**	**39,439**	46,150	46,161
Customer accounts	h	**48,751**	**49,238**	46,774	47,096
Derivative financial instruments	b	**3,541**	**3,541**	4,061	4,061
Debt securities in issue	i	**5,142**	**5,207**	9,902	8,801
Subordinated liabilities and other capital instruments	i	**1,271**	**1,650**	1,209	1,120
Fair value hedged liability positions	g	**165**	**–**	128	–

[1]A description of the fair value methodologies is detailed in note 56 to the consolidated financial statements.

ac Fair value of financial instruments *(continued)*

Fair value hierarchy

The following table sets out, by financial instrument measured at fair value, the valuation methodologies[1] adopted in the financial statements as at 31 December 2012 and as at 31 December 2011.

				2012
	Level 1 € m	**Level 2 € m**	**Level 3 € m**	**Total € m**
Financial assets				
Disposal groups and non-current assests held for sale	**–**	**–**	**196**	**196**
Trading portfolio financial assets	**23**	**1**	**–**	**24**
Derivative financial instruments	**–**	**2,768**	**–**	**2,768**
Financial investments available for sale – debt securities	**14,753**	**64**	**12**	**14,829**
– equity securities	**53**	**1**	**47**	**101**
	14,829	**2,834**	**255**	**17,918**
Financial liabilities				
Derivative financial instruments	**–**	**3,521**	**20**	**3,541**
	–	**3,521**	**20**	**3,541**

				2011
	Level 1 € m	Level 2 € m	Level 3 € m	Total € m
Financial assets				
Trading portfolio financial assets	50	6	–	56
Derivative financial instruments	–	3,025	–	3,025
Financial investments available for sale – debt securities	11,881	1,239	12	13,132
– equity securities	48	10	146	204
	11,979	4,280	158	16,417
Financial liabilities				
Derivative financial instruments	–	3,952	109	4,061
	–	3,952	109	4,061

[1]Valuation methodologies in the fair value hierarchy:

(a) Level 1 – financial assets and liabilities measured using quoted market prices (unadjusted).

(b) Level 2 – financial assets and liabilities measured using valuation techniques which use observable market data.

(c) Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable market data.

ac Fair value of financial instruments *(continued)*

Significant transfers between Level 1 and Level 2 of the fair value hierarchy

Financial assets	2012 Trading portfolio € m	2012 Debt securities € m	2012 Total € m	2011 Trading portfolio € m	2011 Debt securities € m	2011 Total € m
Transfer into Level 1 from Level 2	–	**908**	**908**	–	61	61
Transfer into Level 2 from Level 1	–	–	–	–	178	178

Transfers into Level 1 from Level 2 occurred due to increased availability of reliable quoted market prices which were not previously available.

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 the years ended 31 December 2012 and 31 December 2011 for fair value measurements in Level 3 of the fair value hierarchy:

	2012 Financial assets					2012 Financial liabilities	
	Trading portfolio € m	Derivatives € m	AFS Debt securities € m	AFS Equity securities € m	Total € m	Derivatives € m	Total € m
At 1 January 2012	–	–	**12**	**146**	**158**	**109**	**109**
Designated at fair value through profit or loss	–	–	–	**196**	**196**	–	–
Transfers out of level 3	–	–	–	**(18)**	**(18)**	–	–
Total gains or losses in:							
Profit or loss	–	–	–	**(78)**	**(78)**	**39**	**39**
Other comprehensive income	–	–	–	–	–	–	–
Net NAMA subordinated bonds		–	–	**(3)**	**(3)**	–	–
Settlements	–	–	–	–	–	**(128)**	**(128)**
At 31 December 2012	–	–	**12**	**243**	**255**	**20**	**20**

Transfers out of Level 3 occurred because of increased observability in the market prices of these instruments.

	2011 Financial assets					2011 Financial liabilities	
	Trading portfolio € m	Derivatives € m	AFS Debt securities € m	AFS Equity securities € m	Total € m	Derivatives € m	Total € m
At 1 January 2011	–	–	12	195	207	122	122
Transfers out of Level 3	–	–	–	–	–	(4)	(4)
Total gains or losses in:							
Profit or loss	–	–	–	(106)	(106)	71	71
Other comprehensive income	–	–	–	51	51	3	3
Net NAMA subordinated bonds additions	–	–	–	11	11	–	–
Additions	–	–	–	18	18	–	–
Sales	–	–	–	(23)	(23)	–	–
Settlements	–	–	–	–	–	(83)	(83)
At 31 December 2011	–	–	12	146	158	109	109

Transfers out of Level 3 occurred because of increased observability in the market prices of these instruments.

ac Fair value of financial instruments *(continued)*

Losses included in profit or loss for the year in the previous tables are presented in the income statement and are recognised as:

	2012 € m	2011 € m
Net trading loss	**(39)**	(71)
Provisions for impairment of financial investments available for sale	**(78)**	(106)
Total	**(117)**	(177)

Losses for the year included in the income statement relating to financial assets and liabilities held at the end of the year:

	2012 € m	2011 € m
Net trading income	**(6)**	(50)
Provisions for impairment of financial investments available for sale	**(78)**	(106)
Total	**(84)**	(156)

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, including the impact of changing credit spread assumptions for debt securities.

	2012			
	Level 3			
	Effect on income statement		**Effect on other comprehensive income**	
	Favourable € m	**Unfavourable € m**	**Favourable € m**	**Unfavourable € m**
Classes of financial assets				
Financial investments available for sale – debt securities	**–**	**–**	**–**	**–**
– equity securities	**–**	**(45)**	**140**	**–**
Total	**–**	**(45)**	**140**	**–**
Classes of financial liabilities				
Derivative financial instruments	**3**	**(3)**	**–**	**–**
Total	**3**	**(3)**	**–**	**–**

In relation to the investment in ALH which is designated as an equity investment at fair value through profit or loss (and categorised as held for sale) this transaction was concluded in March 2013 (note 69 to the consolidated financial statements).

	2011			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Financial investments available for sale – debt securities	–	–	–	–
– equity securities	–	–	233	(54)
Total	–	–	233	(54)
Classes of financial liabilities				
Derivative financial instruments	58	(58)	–	–
Total	58	(58)	–	–

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.

ad Classification and measurement of financial assets and financial liabilities

The following table analyses the carrying amounts of the financial assets and financial liabilities by category as defined in IAS 39 *Financial Instruments: Recognition and Measurement* and by statement of financial position heading.

							2012
	At fair value through profit and loss		At fair value through equity		At amortised cost		Total
	At fair value through profit and loss € m	Fair value hedge derivatives € m	Cashflow hedge derivatives € m	Available for sale securities € m	Loans and receivables € m	Other € m	€ m
Financial assets							
Cash and balances at central banks	–	–	–	–	558	518[1]	1,076
Items in the course of collection	–	–	–	–	95	–	95
Disposal groups and non-current assets held for sale	196[2]	–	–	–	353	–	549
Trading portfolio financial assets	24	–	–	–	–	–	24
Derivative financial instruments[3]	1,664	352	752	–	–	–	2,768
Loans and receivables to banks[4]	–	–	–	–	31,284	–	31,284
Loans and receivables to customers[5]	–	–	–	–	37,234	–	37,234
NAMA senior bonds	–	–	–	–	17,082	–	17,082
Financial investments available for sale	–	–	–	14,930	–	–	14,930
Other financial assets	–	–	–	–	–	418	418
	1,884	352	752	14,930	86,606	936	105,460
Financial liabilities							
Deposits by central banks and banks[6]	–	–	–	–	–	39,389	39,389
Customer accounts[7]	–	–	–	–	–	48,751	48,751
Derivative financial instruments[8]	1,864	732	945	–	–	–	3,541
Debt securities in issue[9]	–	–	–	–	–	5,142	5,142
Subordinated liabilities and other capital instruments	–	–	–	–	–	1,271	1,271
Other financial liabilities	–	–	–	–	–	330	330
	1,864	732	945	–	–	94,883	98,424

ad Classification and measurement of financial assets and financial liabilities *(continued)*

2011

	At fair value through profit and loss		At fair value through equity		At amortised cost		
	Held for trading	Fair value hedge derivatives	Cashflow hedge derivatives	Available for sale securities	Loans and receivables	Other	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets							
Cash and balances at central banks	–	–	–	–	527	540[1]	1,067
Items in the course of collection	–	–	–	–	100	–	100
Disposal groups and non-current assets held for sale	–	–	–	–	1,129	–	1,129
Trading portfolio financial assets	56	–	–	–	–	–	56
Derivative financial instruments[3]	1,985	254	786	–	–	–	3,025
Loans and receivables to banks[4]	–	–	–	–	36,028	–	36,028
Loans and receivables to customers[5]	–	–	–	–	42,074	–	42,074
NAMA senior bonds	–	–	–	–	19,509	–	19,509
Financial investments available for sale	–	–	–	13,336	–	–	13,336
Other financial assets	–	–	–	–	–	600	600
	2,041	254	786	13,336	99,367	1,140	116,924
Financial liabilities							
Deposits by central banks and banks[6]	–	–	–	–	–	46,150	46,150
Customer accounts[7]	–	–	–	–	–	46,774	46,774
Derivative financial instruments[8]	2,374	656	1,031	–	–	–	4,061
Debt securities in issue[9]	–	–	–	–	–	9,902	9,902
Subordinated liabilities and other capital instruments	–	–	–	–	–	1,209	1,209
Other financial liabilities	–	–	–	–	–	240	240
	2,374	656	1,031	–	–	104,275	108,336

[1]Comprises cash on hand.

[2]Designated on initial recognition as at fair value through profit or loss. All other financial assets/financial liabilities in this column are held for trading.

[3]Includes exposure to subsidiary undertakings of € 293 million (2011: € 356 million).

[4]Includes exposure to subsidiary undertakings of € 29,709 million (2011: € 33,441 million).

[5]Includes exposure to subsidiary undertakings of € 11,891 million (2011: € 11,868 million).

[6]Includes amounts due to subsidiary undertakings of € 13,637 million (2011: € 13,475 million).

[7]Includes amounts due to subsidiary undertakings of € 6,388 million (2011: € 6,864 million).

[8]Includes amounts due to subsidiary undertakings of € 485 million (2011: € 448 million).

[9]Includes amounts due to subsidiary undertakings of € 46 million (2011:€ 47 million).

ae 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:

	2012 € m	2011 € m	2010 € m
Cash and balances at central banks	**1,076**	1,067	2,007
Loans and receivables to banks	**1,358**	2,025	1,611
	2,434	3,092	3,618

af Financial assets and financial liabilities by contractual residual maturity

	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	2012 Total
	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets						
Financial assets of disposal groups[1][3]	**237**	**–**	**17**	**26**	**195**	**475**
Trading portfolio financial assets[1]	**–**	**2**	**–**	**15**	**5**	**22**
Derivative financial instruments[2]	**–**	**202**	**261**	**1,270**	**1,035**	**2,768**
Loans and receivables to banks[3]	**16,794**	**5,373**	**1,140**	**7,734**	**247**	**31,288**
Loans and receivables to customers[3]	**24,195**	**5,326**	**3,540**	**5,224**	**10,031**	**48,316**
NAMA senior bonds[4]	**–**	**17,082**	**–**	**–**	**–**	**17,082**
Financial investments available for sale[1]	**4**	**157**	**637**	**7,912**	**6,119**	**14,829**
Other financial assets	**–**	**418**	**–**	**–**	**–**	**418**
	41,230	**28,560**	**5,595**	**22,181**	**17,632**	**115,198**
Financial liabilities						
Deposits by central banks and banks	**7,179**	**17,973**	**2,219**	**11,948**	**70**	**39,389**
Customer accounts	**21,653**	**16,326**	**8,343**	**2,412**	**17**	**48,751**
Derivative financial instruments[2]	**–**	**171**	**223**	**1,266**	**1,881**	**3,541**
Debt securities in issue[5]	**–**	**2,368**	**–**	**2,774**	**–**	**5,142**
Subordinated liabilities and other capital instruments	**–**	**–**	**–**	**1,237**	**34**	**1,271**
Other financial liabilities	**330**	**–**	**–**	**–**	**–**	**330**
	29,162	**36,838**	**10,785**	**19,637**	**2,002**	**98,424**

	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	2011 Total
	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets						
Financial assets of disposal groups[1][3]	5	26	212	671	215	1,129
Trading portfolio financial assets[1]	–	8	–	35	11	54
Derivative financial instruments[2]	–	96	179	1,167	1,583	3,025
Loans and receivables to banks[3]	15,607	7,804	2,515	9,824	282	36,032
Loans and receivables to customers[3]	19,410	5,439	5,074	9,978	12,460	52,361
NAMA senior bonds[4]	–	19,509	–	–	–	19,509
Financial investments available for sale[1]	–	1,018	989	5,633	5,492	13,132
Other financial assets	2	598	–	–	–	600
	35,024	34,498	8,969	27,308	20,043	125,842
Financial liabilities						
Deposits by central banks and banks	6,136	33,344	2,477	4,141	52	46,150
Customer accounts	21,801	14,096	5,791	4,601	485	46,774
Derivative financial instruments[2]	–	405	272	1,017	2,367	4,061
Debt securities in issue[5]	–	2,091	2,638	5,173	–	9,902
Subordinated liabilities and other capital instruments	–	–	7	1,177	25	1,209
Other financial liabilities	240	–	–	–	–	240
	28,177	49,936	11,185	16,109	2,929	108,336

[1]Excluding equity shares.

[2]Shown by maturity date of contract.

[3]Shown gross of provisions for impairment and unearned income.

[4]New notes will be issued at each maturity date, with the next maturity date being 1 March 2013. Upon maturity, the issuer has the option to settle in cash or issue new notes and to date has issued new notes.

[5]Includes € 46 million issued to subsidiary companies in both 2012 and 2011.

The balances shown above for Allied Irish Banks, p.l.c. include exposures to subsidiary undertakings.

af Financial assets and financial liabilities by contractual residual maturity *(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 have 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.

						2012
	Payable on demand	**3 months or less but not repayable on demand**	**1 year or less but over 3 months**	**5 years or less but over 1 year**	**Over 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Contingent liabilities[1]	**1,095**	**–**	**–**	**–**	**–**	**1,095**
Commitments	**7,690**	**–**	**–**	**–**	**–**	**7,690**
	8,785	**–**	**–**	**–**	**–**	**8,785**

						2011
	Payable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Contingent liabilities[1]	1,575	–	–	–	–	1,575
Commitments	8,269	–	–	–	–	8,269
	9,844	–	–	–	–	9,844

[1]Included in exposure are amounts relating to Group subsidiaries of € 27 million (2011: € 50 million).

ag 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 63 to the consolidated financial statements.

ah Commitments

Capital expenditure	**2012 € m**	2011 € m
Estimated outstanding commitments for capital expenditure not provided for in the financial statements	**7**	11
Capital expenditure authorised but not yet contracted for	**29**	39

Operating lease rentals

The total of future minimum lease payments under non-cancellable operating leases are set out in the following table.

	2012 € m	2011 € m
One year	**66**	69
One to two years	**63**	62
Two to three years	**62**	59
Three to four years	**55**	59
Four to five years	**35**	52
Over five years	**149**	173
Total	**430**	474

Operating lease payments recognised as an expense for the year were € 67 million (2011: € 60 million). Sublease income amounted to Nil (2011: Nil). Included in the lease payments is € 41 million (2011: € 42 million) paid to other Group subsidiaries. Future minimum lease payments due to subsidiaries of Allied Irish Banks, p.l.c. amount to € 180 million excluding VAT (2011: € 229 million excluding VAT) and are included in the total of € 430 million in 2012 (2011: € 474 million).

Details of the sale and leaseback arrangements of AIB Group are set out in note 14 to the consolidated financial statements.

Statement of Directors' responsibilities in relation to the Accounts

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

The Directors are responsible for preparing the Annual Report and 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 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 2012. The Directors have also elected to prepare the Group accounts in accordance with International Financial Reporting Standards 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 2012 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 IFRS as adopted by the EU and IFRS 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 2012. 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.

The Directors that are listed on page 168 to 170 confirm, to the best of their knowledge and belief, that:
- the Group financial statements, prepared in accordance with IFRS as issued by the IASB and as adopted by the EU, give a true and fair view, in accordance with IFRSs as issued by the IASB and as adopted by the EU, of the state of the Group's affairs as at 31 December 2012 and of its loss for the year then ended;
- the Company financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Company's affairs as at 31 December 2012 and of its loss for the year then ended; and
- the Directors' report and the Financial 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.

On behalf of the Board

David Hodgkinson
Chairman

David Duffy
Chief Executive Officer

Independent Auditor's Report

Independent Auditor's Report to the Members of Allied Irish Banks, p.l.c.

We have audited the Group and parent company financial statements ("financial statements") of Allied Irish Banks, p.l.c. for the year ended 31 December 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and company statements of cash flows, the consolidated and company statements of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union and International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB"), and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Acts 1963 to 2012.

This report is made solely to the Company's members, as a body, in accordance with section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 381, the directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Ethical Standards for Auditors issued by the Auditing Practices Board.

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 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. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion

In our opinion:

– the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2012 and of its loss for the year then ended;
– the parent company statement of financial position gives a true and fair view, in accordance with IFRSs as adopted by the EU, as applied in accordance with the provisions of the Companies Acts 1963 to 2012, of the state of the parent company's affairs as at 31 December 2012; and
– the financial statements have been properly prepared in accordance with the Companies Acts, 1963 to 2012 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs

As explained in accounting policy number 2, the Group, in addition to complying with its legal obligation to comply with International Financial Reporting Standards as adopted by the EU, has also complied with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB"). In our opinion the Group's financial statements comply with International Financial Reporting Standards as issued by the IASB.

Matters on which we are required to report by the Companies Acts, 1963 to 2012

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
The parent company's statement of financial position is in agreement with the books of account and, in our opinion, proper books of account have been kept by the Company.

In our opinion the information given in the Directors' Report 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.

The net assets of the Company, as stated in the parent company statement of financial position, are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2012 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Acts, 1963 to 2012 we are required to report to you if, in our opinion, the disclosures of Directors' remuneration and transactions specified by law are not made.

N Marshall
For and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
1 Harbourmaster Place
International Financial Services Centre
Dublin 1
Ireland

26 March 2013

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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 2012.

Capital Structure

The authorised share capital of the Company is € 11,092,752,297 divided into 702,000,000,000 Ordinary Shares of € 0.01 each ('Ordinary Shares'), 3,500,000,000 2009 Non-Cumulative Preference Shares of €0.01 each ('2009 Preference Shares') and 403,775,229,679 Deferred Shares of € 0.01 each ('Deferred Shares'). The issued share capital of the company is 517,152,776,363 Ordinary Shares and 3,500,000,000 2009 Preference Shares.

For so long as the National Pensions Reserve Fund Commission ("NPRFC") 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, being 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 Rights and Obligations of the Ordinary Shares and the 2009 Preference Shares are contained in a summary of the Memorandum and Articles of Association on pages 388 to 394.

Percentage of Total Share Capital Represented by Each Class of Share

The Ordinary Shares represent approximately 63% of the authorised share capital and approximately 99.3% of the issued share capital of the Company. The 2009 Preference Shares represent approximately 0.3% of the authorised share capital and approximately 0.7% of the issued share capital of the Company. The Deferred Shares represents appromimately 36.4% of the authorised share capital none of which is in issue.

Restrictions on the Transfer of Shares

Save as set out below there are no limitations in Irish law 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;
  (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 under 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, 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 (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.

Rules Concerning the Appointment and Replacement of Directors of the Company (continued)

- 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, he or she resigns their office by a written notice given to the Company; 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.
- See note 63 to the consolidated financial statements regarding the power of the Minister for Finance 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.

Additional information

Memorandum & Articles of Association

A summary of the Memorandum & Articles of Association of Allied Irish Banks, p.l.c. is set out below.

Objects and Registration Details

Allied Irish Banks, p.l.c. ("AIB") is a public limited company that was incorporated as a limited company in 1966 and was subsequently re-registered as a public limited company in 1985. Objects and purposes are set out in its Memorandum of Association. The principal objects of AIB are to carry on the business of banking in all or any of its branches and departments and to undertake all manner of financial services.

Directors

Any Director who is in any way, whether directly or indirectly, interested in a contract or arrangement with AIB must declare his/her interest at a meeting of the Directors at which the question of entering into such contract/arrangement first arises, if his interest then exists, or in any other case at the first meeting of the Directors after he becomes so interested. The Articles of Association also require that a Director may not vote in respect of any such contract or arrangement or any other proposal whatsoever in which he has a material interest. Nothing in the Articles of Association will restrict a Government Appointee from participating fully in any meeting of the Directors or voting on any matter unless the Government Appointee has an interest in the matter which concerns him personally (for example, the fact that he or she was appointed by the Government Shareholder, the fact that a Government Preference Shareholder or a Government Body may have an interest in the matter or the fact that the matter relates to a matter that requires the consent of the Government Preference Shareholder shall not be regarded as giving rise to such an interest). Interests in shares or debentures or other securities of, or otherwise in or through, AIB are disregarded for the purpose. This prohibition on voting is disapplied in respect of resolutions concerning the following matters (amongst others):

- where a Director is to be given security or indemnified in respect of money lent or obligations incurred by him for the benefit of AIB or any of its subsidiaries;
- the giving of security or indemnifying a third party in respect of a debt or obligation of AIB or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- any proposal concerning an offer of shares, debentures or securities of or by AIB or any of its subsidiaries in which a Director is interested as an underwriter or sub-underwriter;
- regarding any proposal concerning any other company in which a Director is interested, directly or indirectly, provided that he does not hold or is not beneficially interested in 1% or more of any class of the equity share capital of that company (or of any third company through which his interest is derived) or of the voting rights available to members of the relevant company (any such interest being deemed for the purposes of this Article to be a material interest in all circumstances);
- any proposal concerning the adoption, modification or operation of any superannuation fund or retirement benefits plan under which he might benefit and which has been approved by or is subject to and conditional upon approval by the Revenue Commissioners; and
- relating to any other arrangement for the benefit of employees of AIB or any of its subsidiaries under which a Director benefits or stands to benefit in a similar manner as the employees concerned and which does not accord to any Director as such any privilege or advantage not generally accorded to the employees to whom the arrangement relates.

The remuneration of the Directors is determined from time to time by AIB in General Meeting. Any Director while holding the office of Chairman or Deputy Chairman is entitled to such additional remuneration as may be determined from time to time by the Directors. Remuneration granted may be by way of fees, salary, commission, participation in profits, or all or any of such modes, or by such other mode as AIB may from time to time consider appropriate. All remuneration fixed or granted accrues from day to day. Any Director who serves on any Committee or devotes special attention to the business of the Company or who otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director may be paid such extra remuneration by way of salary, commission, participation in profits or otherwise as the Directors may determine. A Director holding an executive office shall receive such remuneration, whether in addition to or in substitution for his ordinary remuneration as a Director and whether by way of salary, commission, participation in profits or otherwise or partly in one way and partly in another, as the Directors may determine.

The Directors may exercise all the borrowing powers of AIB and the power to give mortgages and charges over its assets and to issue debentures, debenture stock and other securities whether outright or as security for any debts or liabilities of AIB or any third party.

Under the Articles, retirement of Directors, other than Government Appointees, is by rotation at each Annual General Meeting and one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then not less than one-third shall retire from office at each Annual General Meeting.

Rights and Restrictions Attaching to Shares

The authorised share capital of AIB is € 11,092,752,297 divided into 702,000,000,000 Ordinary Shares, 3,500,000,000 2009 Preference Shares and 403,775,229,679 Deferred Shares. Subject to the Companies Acts and to any special rights of existing shares, any share in the Company may be issued with such preferred, deferred or other special rights or restrictions and unless otherwise determined by the Directors in relation to any particular preference shares prior to allotment, preference shares may be issued on the terms and in such manner as the Company may by Special Resolution determine.

Rights and Obligations of Ordinary Shares

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 Auditors' 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.

Rights and Obligations of 2009 Preference Shares

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:
  - (a) these shall not be exercisable 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, 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 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 per cent 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

- will not be redeemable at the option of the holder.
- may be redeemed or purchased, in whole or in part, at any time subject to the consent of Central Bank and that the redemption or purchase is made up of distributable profit and/or the proceeds of an issue of shares constituting core tier 1 capital.
- 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.
- 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 consent.
- 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.

Rights and Obligations of the Deferred Shares

The Deferred Shares have no voting or dividend rights. On a winding-up of the Company or other return of capital (other than a redemption or purchase of shares of any class in the capital of the Company), holders of Deferred Shares have the right to receive the nominal value of those shares only after the holders of Ordinary Shares have received payment of such amount as is paid up or credited as paid up in respect of those Ordinary Shares plus € 10 million per share.

The Deferred Shares are not transferable, other than with the prior written consent of the Directors. The Company has, however, the right at any time, without the consent of the holder, to instruct the Company Secretary to acquire the Deferred Shares for nil consideration and the Company acquired and cancelled 395,759,506,824 Deferred Shares on 27 July 2011 resulting from the renominalisation of the ordinary share capital of the Company from € 0.32 each to € 0.01 each following the passing of a Special Resolution to this effect on 26 July 2011.

Dividend Rights

Under Irish law, and under the Articles, dividends are payable only out of income available for distribution. Holders of the shares of the Company are entitled to receive such dividends as may be declared by the Company by Ordinary Resolution provided that the dividend cannot exceed the amount recommended by the Directors.

Subject to any preferential or other special rights for the time being attached to any class of shares, the income to be distributed by way of dividend is to be applied in payment of dividends upon the shares of the Company in proportion to the amounts paid up thereon otherwise than in advance of calls.

The Company may pay such interim dividends as appear to the Directors to be justified by the income of the Company available for distribution.

Under Article 46 the Company may by Ordinary Resolution convert any paid up shares into stock and re-convert any stock into paid-up shares of any denomination. Any dividend which has remained unclaimed for 12 years from the date of its declaration may be forfeited and cease to remain owing by the Company.

Voting Rights

Voting at any General Meeting is by a show of hands unless a poll is properly demanded. On a show of hands, every member who is present in person or by proxy has one vote regardless of the number of shares held by him. On a poll, every member who is present in person or by proxy has one vote for each share of which he is the holder. A poll may be demanded by the Chairman of the meeting or by at least five members having the right to vote at the meeting or by a member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or by a member or members holding shares in the Company conferring a right to vote at the meeting, being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

All business is deemed special that is transacted at an Extraordinary General Meeting. All business that is transacted at an Annual General Meeting is also deemed special with the exception of declaring a dividend, receiving the accounts, statements of financial position and reports of the Directors and Auditors, electing Directors in the place of those retiring, voting additional remuneration for the Directors, appointing Auditors and fixing of the remuneration of the Auditors.

No business may be transacted at any General Meeting unless a quorum is present at the time when the meeting proceeds to business. Ten members present in person and entitled to vote at such meeting constitutes a quorum. In the case of an Annual General Meeting or of a meeting for the passing of a Special Resolution or the appointment of a Director, twenty-one clear days' notice at the least, and in any other case fourteen clear days' notice at the least, needs to be given in writing in the manner provided for in the Articles to all the members (other than those who, under the provisions of the Articles or the conditions of issue of the shares held by them, are not entitled to receive the notice) and to the Auditors for the time being of the Company.

Variation of Class Rights

The rights, privileges, limitations or restrictions attached to the 2009 Preference Shares may be varied, altered or abrogated, either whilst the Company is a going concern or during or in contemplation of a winding up, with the written consent of the holders of not less than $66^{2/3}$% in nominal value of such class of shares or with the sanction of a resolution passed at a class meeting of holders of such classes of shares provided that the holders of not less than $66^{2/3}$% in nominal value of such class of shares vote in favour of such resolution.

Article 7 provides that whenever the capital of the Company is divided into different classes of shares, the special rights attached to any class may, subject to the provisions of the Companies Acts 1963-2009 and subject as otherwise provided in the Articles be varied or abrogated, either whilst the Company is a going concern or during or in contemplation of a winding up, with the sanction of a Special Resolution passed at a Class Meeting of the holders of the shares of the class but not otherwise.

Convening of General Meetings

AIB must hold a General Meeting in each year as its Annual General Meeting in addition to any other meetings in that year and no more than fifteen months may elapse between the date of one Annual General Meeting and that of the next. The Annual General Meeting will be held at such time and place as the Directors determine. All General Meetings other than Annual General Meetings, are called Extraordinary General Meetings. The Directors may at any time call an Extraordinary General Meeting. Extraordinary General Meetings shall also be convened by the Directors on the requisition of members holding, at the date of the requisition, not less than one-tenth of the paid up capital carrying the right to vote at General Meetings and in default of the Directors within twenty one clear days, convening such a meeting to be held within two months, the requisitionists (or more then half of them) may but only within three months themselves convene a meeting.

Disclosure of Share Ownership

Article 13(b) provides that the Directors may by notice in writing sent to any member require such member to inform the Company in writing not more than 14 days after service of the notice of the capacity in which such member holds any share otherwise than as beneficial owner to furnish in writing, so far as it is within the member's knowledge, the name and address of the person on whose behalf the member holds such share or, such particulars as will enable or assist in the identification of such person and the nature of the interest of such person in such shares. Failure to respond to such notice within the prescribed period of time will result in the member not being entitled to attend meetings of the Company not to exercise the voting rights attached to such share, and, if the member holds 0.25% or more of the issued Ordinary shares of the Company, the Directors are entitled to withhold payment of any dividend payable on such shares and the member shall not be entitled to transfer such shares except by sale through a Stock Exchange to a bona fide unconnected third party.

Material Contracts

The following are all the contracts (not being contracts entered into in the ordinary course of business) that have been entered into by members of the AIB Group: (i) within two years immediately preceding the date of this document which are, or may be, material to the Group; or (ii) at any time and contain obligations or entitlements which are, or may be, material to the Group as at the date of this document:

1 The Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 and the Eligible Liabilities Guarantee Scheme Agreements. On 20 January 2010, the Company and its subsidiaries, AIB Group (UK) p.l.c., AIB Bank (CI) Limited and Allied Irish Banks North America Inc. each executed an Eligible Liabilities Guarantee Scheme Agreement and on 21 January 2010 were each issued with a Participating Institution Certificate under the Eligible Liabilities Guarantee Scheme. EBS and AIB International Savings Limited (formerly Anglo Irish Bank Corporation (International) plc and which is an Isle of Man company that was acquired by AIB in February 2011), both also hold a Participating Institution Certificate under the Eligible Liabilities Guarantee Scheme.

2 Arrangements in relation to The National Pensions Reserve Fund Commission ("NPRFC")

(i) The Subscription Agreement

(a) Pursuant to the terms of the Subscription Agreement between AIB, the Minster for Finance (the 'Minister') and the NPRFC dated 13 May 2009, AIB agreed to issue the 2009 Preference Shares and the 2009 Warrants to the NPRFC at an aggregate subscription price of € 3.5 billion.

(b) AIB gave the NPRFC and the Minster certain warranties relating to the business and operation of the Group. These warranties are considered standard for this type of agreement and cover issues such as the Company's issued share capital, accuracy and completeness of certain information, accuracy of audited financial statements, payment of taxes, possession of all material licences and absence of material litigation.

(c) AIB provided various undertakings to the NPRFC and the Minster, including agreeing to commit to the Minster's 'Bank Customer Package'. This includes, inter alia, obligations on AIB to:

A increase lending capacity to small to medium-sized enterprises by 10 per cent. and provide an additional 30 per cent capacity for lending to first-time buyers during each quarter of the financial year when compared to the corresponding quarter in the year commencing 1 January 2008;

B establish a € 100 million fund to support environmentally friendly investment and innovations in clean energy;

C comply with the Code of Conduct for Business Lending to Small and Medium Enterprises and the Code of Conduct for Mortgage Arrears published by the Central Bank;

D make every effort to avoid repossessions and, in any case, not commence court proceedings for the repossession of a principal private residence within 12 months of arrears appearing, where the customer maintains contact and co-operates reasonably with AIB;

E fund and co-operate with an 'Independent Review of Credit Availability'; and

F work closely with the IDA Ireland, Enterprise Ireland and with other Irish state agencies to ensure the supply of appropriate finance to contractors engaged on major projects sponsored by those agencies.

AIB also agreed to submit a restructuring plan to the Minster, including an assessment of AIB's business model's viability and details of how AIB intends to repay the State aid provided. This restructuring plan, which was prepared by the Group, has now been submitted to the European Commission by the Government. In addition, AIB agreed to accept restrictions on the amount of remuneration Directors would receive.

AIB also agreed that, on request from the NPRFC, it would undertake all necessary acts in order to facilitate the placing, offering to the public or admission to listing of the 2009 Preference Shares or any Ordinary Shares acquired as a result of the 2009 Warrants or the 2009 Preference Shares.

Under the terms of the Subscription Agreement, AIB must consult with the Minister or his nominee prior to taking any material action which may be reasonably expected to have a public interest dimension.

(d) On 13 May 2009, the NPRFC paid to AIB € 3.5 billion (less an arrangement fee of € 30 million paid by AIB to the NPRFC) in respect of the issue to it of the 2009 Preference Shares and the 2009 Warrants.

(e) AIB undertook in the Subscription Agreement that application would be made in due course for the Warrant Shares and any Bonus Shares to be admitted to trading on a regulated market.

(f) In addition to agreeing to allow the Government Entities to make use of any public offer prospectus issued by the Company for the purposes of placing such Ordinary Shares with investors, the Company also undertook to co-operate in the preparation and issue of a public offer prospectus where this is required for the purposes of an offering to the public, a placing or listing of the 2009 Preference Shares or any Ordinary Shares acquired as a result of holding 2009 Preference Shares or 2009 Warrants.

(ii) 2010 Placing Agreement

(a) Pursuant to the terms of the Placing Agreement between the Minister, the NPRFC, the National Treasury Management Agency ("NTMA") and AIB, dated 23 December 2010, AIB agreed to issue 675,107,845 new Ordinary Shares to the NPRFC at an aggregate subscription price of € 3,818,438,297.

(b) To the extent that the NPRFC subscription for these shares would result in it holding more than 49.9% of the Ordinary Shares in issue, CNV Shares were to be allotted to the NPRFC so that, following such allotment, the NPRFC did not acquire more than 49.9% of the Ordinary Shares then in issue. In April 2011, AIB converted into ordinary shares on a one-for-one basis the 10,489,899,564 CNV Shares issued to the NPRFC in connection with the 2010 Placing Agreement, following completion of the disposal of AIB's interests in BZWBK.

(c) The obligations of the Minister, the NPRFC and the NTMA were conditional on AIB having complied, and continuing to comply, with letters from the Minister dated 13 and 22 December 2010, stating that the provision of further state funding to AIB was conditional on the Board's decision not to pay any bonuses to staff no matter when they may have been earned, since AIB could not be in a position to pay without state support, past, present and future save that nothing in the Agreement was to prevent AIB meeting its obligations on foot of a Court Order.

(d) The cancellation of the 294,251,819 warrants over new Ordinary Shares held by the NPRFC in return for the payment to it by AIB of approximately € 52 million;

(e) AIB gave the Minister, the NPRFC and the NTMA certain warranties relating to the business and operation of the Group. These warranties are considered standard for this kind of agreement and cover issues such as the Company's issued share capital, accuracy and completeness of certain information, accuracy of audited financial statements, payment of taxes, possession of all material licenses, absence of material litigation and absence of breach of material change of control provisions.

(f) AIB entered into various covenants with the Minister, the NPRFC, the NTMA, the National Asset Management Agency or any other state entity to use all reasonable efforts to comply, and procure compliance by the Group, with various commitments including:

A Meeting a lending target of € 3 billion per annum for new or increased credit facilities to SMEs in each of the two twelve month periods commencing on 1 January 2011 and 2012.

B Providing € 20 million for seed capital to Enterprise Ireland supported ventures and € 100 million for environmental, clean energy and innovation projects (in addition to the commitments under the Subscription Agreement).

C Working with Enterprise Ireland and the Irish Bankers Federation to develop sectoral expertise in the modern growth sectors of the economy, and with Enterprise Ireland to develop a range of banking services to meet the needs of Irish SMEs trading internationally.

D Taking actions, agreed with the Minister, to develop new credit products in areas where cash flow, rather than property or assets, is the basis for business lending.

(g) AIB also agreed to co-operate fully with the Minster and the European Commission in connection with the Commission's assessment of the Group's restructuring plan under EU State aid rules and to implement fully the final restructuring plan when approved by the NTMA and the Commission.

(h) AIB repeated and extended undertakings in the Subscription Agreement relating to matters concerning the remuneration of its directors, senior executives and employees.

(i) AIB undertook various obligations in respect of the CNV Shares, relating to the issue of securities, the modification of rights attaching to securities and the transferability of the CNV Shares.

(iii) EBS Acquisition Agreement

Pursuant to the terms of an Acquisition Agreement between the Minister, the NTMA, EBS Building Society and AIB, dated 26 May 2011, AIB agreed to acquire the entire issued share capital of EBS. The EBS merger completed on 1 July 2011 (following its conversion into a private company and receipt of all requisite regulatory approvals) and was effected pursuant to an acquisition conversion scheme mechanism under Part XI of the Building Societies Act 1989 (as amended) whereby EBS was first demutualised by conversion from a building society into a private limited company, called EBS Limited, the entire issued share capital of which was held by the Minister prior to the acquisition of that share capital by AIB. As AIB and EBS respectively are substantially owned by the State, the consideration payable by AIB for the EBS Merger was a nominal cash payment of € 1.00.

(iv) 2011 Placing Agreement, Capital Contribution and Minister's Letter

(a) Pursuant to the terms of the Placing Agreement between the Minister, the NPRFC, the NTMA and AIB, dated 1 July 2011, AIB agreed to issue 500,000,000,000 new Ordinary Shares to the NPRFC at an aggregate subscription price of € 5 billion. On 28 July 2011, the Minister and the NPRFC agreed to make capital contributions of € 2,283,146,860 and € 3,770,970,659 respectively to AIB for no consideration and AIB is not legally obliged to repay the capital contributions. The capital contributions were made in order to enable AIB to meet its regulatory capital requirements.

(b) The Company agreed to give certain covenants and undertakings to the Minister, the NTMA and the NPRFC, including in relation to its reserves, dividends, disclosure of information, matters of public interest, use of proceeds and future material transactions, together with additional covenants and undertakings in relation to the availability of credit, the Group's

restructuring plan, corporate governance and remuneration. In addition, the Company gave certain representations and warranties and indemnities to the Minister, the NTMA and the NPRFC and the liability of the Company in respect of any breach of those representations, warranties and indemnities is unlimited as to time and amount.

(c) The continued provision of State funding and support to AIB is dependent on enforcement by AIB of a wide restriction on payment of employment bonuses by the Group, details of which are contained in a letter from the Minister to AIB dated 25 July 2011. The Minister's Letter contains undertakings in relation to measures to promote the availability of credit, AIB's restructuring plan, related party transactions, corporate governance and remuneration and fees payable to directors, senior executives, employees and service providers of AIB.

(v) Contingent Capital Note Purchase Agreement

(a) Pursuant to the terms of the Note Purchase Agreement between the Minister and AIB, dated 26 July 2011, AIB agreed to issue € 1.6 billion of contingent tier 2 capital notes to the Minister, issued at par with a five year and one day maturity, with an aggregated principal amount of € 1.6 billion.

(b) The Contingent Capital Notes will convert mandatorily in their entirety into Ordinary Shares in the event that the core tier 1 capital ratio of AIB falls below 8.25% or (following implementation of the Capital Requirements Directive IV in Ireland), AIB's common equity tier 1 ratio falls below 8.25% or, if the Central Bank, in its sole discretion, notifies AIB that it has determined that the Group's financial and solvency condition is deteriorating in such a way that a fall below the ratios described above is likely to occur in the short term and AIB is incapable of restoring the Group's capital ratio to a level above 8.25% during the following 90 days. The Contingent Capital Notes will also convert immediately and mandatorily into Ordinary Shares in the event that a non-viability event occurs (including in the event of the Group becoming insolvent, bankrupt, unable to pay its debts as they fall due, ceases to carry on its business or fails to meet minimum capital adequacy requirements).

(c) Following a conversion event, the Contingent Capital Notes will be immediately converted into a fixed number of Ordinary Shares that is determined by dividing the principal amount of each Contingent Capital Note by the conversion price of € 0.01 per Ordinary Share. The Contingent Capital Notes also include certain anti-dilution adjustments.

(d) The Contingent Capital Notes carry a fixed annual mandatory interest rate of 10% of the principal amount. The Minister may, where it remains the holder of 100 per cent. of the Contingent Capital Notes, in order to facilitate the sale of the Contingent Capital Notes to third party investors, at any time (but becoming effective only from the date of such sale being completed and settled) increase the interest rate to a new level determined by an independent remarketing agent nominated by the Minister, but not exceeding 18 per cent. per annum. In addition, AIB will provide, at the request of the Minister, sufficient disclosure to allow for the Contingent Capital Notes to be listed and to be sold to third party investors. AIB will have the option, prior to any such sale of the Contingent Capital Notes being completed and settled, to source third party investors at a potentially lower interest rate, but only if it has sourced sufficient investors to purchase an amount equal to the principal amount paid by the Minister for the Contingent Capital Notes on overall better terms. The Minister will have discretion as to whether or not to sell to any such investors. Admission of the Contingent Capital Notes to the Official List of the Irish Stock Exchange and to trading on its Global Exchange Market, an exchange-regulated market, occurred on 27 October 2011.

(e) The Contingent Capital Notes constitute direct, unsecured and subordinated obligations of the Group and rank junior to unsubordinated obligations of the Group and pari passu without any preference among themselves and equally with all other dated subordinated obligations of the Group which rank or are expressed to rank equally with the Contingent Capital Notes (if any). The Contingent Capital Notes rank senior to other obligations of the Group that are expressed to rank junior to the Contingent Capital Notes.

(vi) 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.

Reporting currency and exchange rates

AIB Group publishes consolidated financial statements in euro (€). In this Annual Financial Report, references to 'US dollars', 'dollars', 'US$', 'cents' or '¢' are to United States currency, references to 'EUR', 'euro', '€' or 'c' are to euro currency, references to 'sterling' or 'Stg£' are to British currency, references to 'zloty', 'PLN' or 'zl' are to Polish currency and references to 'Yen' are to Japanese currency.

The following table shows, for the periods and dates indicated, certain information regarding the noon buying rate, expressed in US dollars per euro.

	Period end[1]	Average rate[2]	High	Low
Year ended 31 December 2008	1.3919	1.4688	1.6010	1.2446
Year ended 31 December 2009	1.4332	1.3936	1.5100	1.2547
Year ended 31 December 2010	1.3269	1.3302	1.4536	1.1959
Year ended 31 December 2011	1.2973	1.3946	1.4875	1.2926
Year ended 31 December 2012	1.3186	1.2921	1.3463	1.2062

[1]The noon buying rate at such dates differed from the rates used in the preparation of AIB Group's consolidated financial statements, which were US$ 1.3917, US$ 1.4406 US$ 1.3362, US$ 1.2939 and US$ 1.3194 to € 1.00 at 31 December 2008, 2009, 2010, 2011 and 2012 respectively.

[2]The average rate for each period is the average of the noon buying rates on the last day of each month during that period.

On 22 March 2013 the noon buying rate was € 1.00 = US$ 1.2996

The accounting policy in respect of the translation of gains and losses arising in foreign locations is set out on page 198. Details of the exchange rates used in the preparation of the consolidated financial statements are set out in note 67 of this report.

Offer and listing details

Trading market for Ordinary shares of AIB

0n 26 January, 2011 AIB ordinary shares commenced trading on the Enterprise Securities Market ("ESM") of the Irish Stock Exchange ("ISE"). This followed a direction to AIB by the Irish High Court on 23 December 2010, under the Credit Institutions (Stabilisation) Act 2010, to apply to cancel its listing of ordinary shares on the Main Securities Market of the ISE ('Irish Main Market Delisting') and to apply for admission to trading on the ESM of the ISE.

The High Court also directed AIB to apply to cancel the admission of its ordinary shares to the Official List maintained by the UK Financial Services Authority and to cancel trading on the main market of the London Stock Exchange ('UK Delisting').

AIB traded on the New York Stock Exchange ("NYSE") in the form of American Depositary Shares ("ADS"). Each ADS, which comprised 10 ordinary shares, traded under the symbol "AIB" and was evidenced by an American Depositary Receipt ("ADR"). On 25 August AIB delisted from the NYSE, from which time AIB's ADSs were no longer traded on the NYSE.

At 31 December 2012, AIB had outstanding 517,117,096,249 ordinary shares of € 0.01 each, of which 35,680,114 were held as Treasury Shares (note 47). At that date, outstanding ADSs amounting to 27,072,592, evidenced by ADRs, represented less than 0.1% of total outstanding ordinary shares (see page 397 for further information).

The following table sets forth the high and low sales prices of the ordinary shares during the periods indicated, based on midmarket prices at close of business on the Irish Stock Exchange and the high and low sales prices for ADS, as reported on the NYSE composite tape.

	Ordinary shares[1]		American Depositary Shares[2]	
	High	Low	High	Low
	(Euro)		(Dollars)	
Year ended 31 December				
2008	15.98	1.65	47.14	4.59
2009	3.37	0.27	9.84	0.76
2010	1.79	0.27	4.95	0.83
2011	0.33	0.04	4.48	0.41
2012	0.14	0.05	–	–
Calendar year				
2011				
First quarter	0.31	0.19	4.48	2.40
Second quarter	0.33	0.14	4.34	2.05
Third quarter	0.14	0.04	2.13	0.46
Fourth quarter	0.10	0.04	–	–
2012				
First quarter	0.14	0.06	–	–
Second quarter	0.09	0.06	–	–
Third quarter	0.07	0.05	–	–
Fourth quarter	0.06	0.05	–	–

[1]On 26 July 2011, the nominal value of each ordinary share was reduced from € 0.32 to € 0.01 per share.

[2]An American Depositary Share ("ADS") represented two ordinary shares up to 22 February 2011. On 23 February 2011, AIB changed the ratio whereby one ADS represents ten ordinary shares.

Bonus Issue

On 30 April 2012, Allied Irish Banks p.l.c., announced that it was obliged under its Articles of Association to issue Ordinary Shares by way of bonus issue to the NPRFC as a result of the non payment of the annual cash dividend payable on the 2009 Preference Shares on 13 May 2012. 3,623,969,972 ordinary shares were issued and allotted to the NPRFC on 14 May 2012.

American Depositary Receipts

The Company's listing of the ordinary shares, in the form of ADSs, was obtained on the NYSE effective 28 November 1990. Each ADS, which comprised two ordinary shares, traded under the symbol "AIB" and is evidenced by an ADR. The ADR depositary is The Bank of New York Mellon ('the Depositary'). On 7 February 2011, AIB announced its intention to change the ratio of one ADS representing two ordinary shares to one ADS representing ten ordinary shares. The effective date of this change was 23 February 2011.

On 4 August 2011, AIB announced that its Board of Directors had resolved to delist its ADSs, each representing ten ordinary shares, par value € 0.01 per share, from the NYSE, terminate the deposit agreement governing the ADSs ('the Deposit Agreement') with the Depositary and, in due course, terminate the registration of AIB's securities with the US Securities and Exchange Commission ('the SEC') under the US Securities Exchange Act of 1934 ('the Exchange Act'), in each case after the completion of the required legal steps. The Board of Directors made the decision in light of the increase in the Irish Government's shareholding (through the NPRFC) to 99.8% on 27 July 2011, and the savings in costs and administrative efforts that would result from the delisting and any subsequent deregistration under the Exchange Act.

AIB filed the related Form 25 with the SEC on 15 August 2011. The delisting became effective at the close of business on 25 August 2011, from which time AIB's ADSs were no longer traded on the NYSE. On 10 October 2011, AIB terminated the ADS facility by terminating the ADS deposit agreement between AIB and the Depositary.

In April 2012, the Depositary commenced the sale of the ordinary shares underlying the ADSs on the ESM. Because of the limited liquidity in the ordinary shares on the ESM, this disposal process has extended over a significant period and is continuing.

AIB has not arranged for listing and/or registration on another US national securities exchange or for quotation of its securities in a US quotation medium, but expects that its ordinary shares will continue to trade on the ESM of the ISE.

Fees incurred in Past Annual Period

There were no NYSE listing fees paid in 2012 as AIB delisted in 2011.

Taxation

This is a summary of the principal tax consequences for Irish resident individual holders and Eligible United States ("US") Holders, as defined below, of AIB Ordinary Shares or American Depositary Shares ("ADSs") representing such Ordinary Shares, held as capital assets. It also covers Irish Dividend Withholding Tax ("DWT") in general. It is not a comprehensive analysis of all potential tax consequences and does not cover all categories of investors. Investors are advised to consult their own tax advisors in relation to the tax consequences of the purchase, ownership and disposal of AIB Ordinary Shares or ADSs, including any foreign, state or local tax law.

Underlying this summary is the Double Taxation Convention between Ireland and the US ('the Tax Treaty') and the tax laws, judicial decisions, regulations and administrative rulings and practices of Ireland and the US currently in effect, which are subject to change at any time.

Irish Dividend Withholding Tax ("DWT") - General

In general, DWT is deducted from dividends paid by Irish resident companies at the standard rate of income tax (currently 20%).

Certain classes of shareholders are exempt from DWT provided they return a properly completed declaration (certified as required) to AIB's Registrar, prior to the relevant dividend payment record date.

Potentially-exempt shareholders include Irish resident companies, pension schemes, charities and certain non-resident persons. For a full exemption listing see the Irish Revenue website http://www.revenue.ie/en/tax/dwt/exemptions.html

Declaration forms to claim exemption may be obtained either from AIB's Registrar at:
Computershare Investor Services (Ireland) Ltd, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland.
Telephone: +353-1-2475411. Facsimile: +353-1-2163151.
Email: web.queries@computershare.ie

or from the Irish Revenue Commissioners at:
Dividend Withholding Tax Unit, Collector General's Division, Government Offices, Nenagh, Co. Tipperary, Ireland.
Telephone: +353-67-63400. Facsimile: +353-67-33822.
Email: infodwt@revenue.ie
Website: http://www.revenue.ie/en/tax/dwt/index.html

Taxation of Irish Resident Individual Shareholders:

Taxation of Dividends

(i) Irish Income Tax and Dividend Withholding Tax Credit

Shareholders who are individuals are liable to Irish income tax at their marginal rate on the amount of the dividend before deduction of DWT, and the DWT is available either for offset against the income tax liability, or for repayment, where it exceeds the total income tax liability. Such shareholders will normally also be liable to PRSI contribution (if regarded as 'self-employed' or a 'modified PRSI rate payer') and to the Universal Social Charge. All shareholders will be liable to PRSI contribution from 1 January 2014.

(ii) Back-up Withholding Tax

An Irish resident holder of ADSs is subject to US withholding tax at the rate of 15% with respect to dividends paid on ADSs or the proceeds of sale of ADSs. Unless the holder has provided to the withholding agent the applicable completed Form W-8 ('Certificate of Foreign Status') the dividends or the proceeds of sale of the ADSs may be subject to US back-up withholding tax which will increase the total withholding tax to 28%.

Irish Capital Gains Tax

When shares are disposed of a capital gain may result if the sales proceeds less selling costs are greater than the base cost of the shares sold and allowable deductions. Capital gains tax is charged at 33% on chargeable gains arising on disposals on or after 6 December 2012 (previously 30%).

Stamp Duty

The Irish stamp duty implications of transactions in shares or ADSs are the same as for Eligible US Holders. See 'Irish Stamp Duty' in the 'Taxation of Eligible US Holders' section.

Taxation of a gift or an inheritance

Capital acquisitions tax ("CAT"), comprising gift tax and inheritance tax, is charged in Ireland where the value of the aggregate taxable gifts and inheritances received by an individual on or after 5 December 1991 exceeds the tax free threshold applicable. The tax free threshold applicable is determined by the relationship between the parties. From 6 December 2012, amounts in excess of the threshold are taxed at 33% (previously 30%).

Taxation of Eligible US Holders:

An 'Eligible US Holder', for the purpose of this discussion, is a beneficial owner of ordinary shares or ADSs who is (a) a resident of the United States for the purposes of US federal income tax, (b) not a resident of Ireland for the purposes of Irish taxes and (c) not engaged in trade or business in Ireland through a permanent establishment, and (d) eligible for benefits under the Tax Treaty.

Eligible US Holders of ADSs are treated as the owners, as appropriate, of the underlying ordinary shares for US federal income tax purposes and for the purposes of the Tax Treaty.

Irish Tax

(i) Irish Income Tax

An Eligible US Holder is not liable to Irish income tax on dividends paid by AIB where the recipient is:

– a person, other than a company, who is not ordinarily resident in Ireland in a year of assessment; or
– a company that is not under the control (direct or indirect) of a person or persons who are Irish resident.
– a company, the principal class of shares of which (or of its 75% parent or of a collection of companies which own 100% of that company) are substantially and regularly traded on a recognised stock exchange.

(ii) Irish Dividend Withholding Tax and Related Tax Treaty Provisions

Generally an exemption from Irish DWT is available where the Eligible US Holder provides AIB's Registrar with the relevant declaration, certified as required and, in the case of an individual, is not ordinarily resident in Ireland.

For further detail in relation to claims for exemption, see above under Irish Dividend Withholding Tax ("DWT") – General.

Eligible US Holders who have DWT deducted from their dividend may, subject to certain conditions, be entitled to a refund by making an application to the Irish Revenue Commissioners at the address shown above. Where entitlement to repayment under Irish domestic law cannot be established, the provisions of the Tax Treaty may apply. The provisions of the Tax Treaty can limit the Irish tax liability of an Eligible US Holder, who is unable to claim repayment of the full DWT deducted from the dividend, to 15% of the aggregate of the cash dividend and related DWT (the 'gross amount'). In such circumstances, the Eligible US Holder may claim repayment from the Irish Revenue Commissioners under the provisions of the Tax Treaty of the amount of DWT in excess of 15% of the gross amount of the dividend.

(iii) Gains on Sale, Exchange or Other Disposal

A gain realised on the sale, exchange or other disposal of the AIB ordinary shares or ADSs by an Eligible US Holder who is not ordinarily resident in Ireland for Irish tax purposes is not subject to Irish capital gains tax.

(iv) Irish Stamp Duty

In the case of a transfer or sale of AIB ordinary shares, stamp duty will generally be charged at the rate of 1% of the value of the shares.

The surrender of ADSs to the Depositary in return for ordinary shares, where the surrender does not relate to a sale or contemplated sale or mortgage of such AIB ordinary shares, will generally not be chargeable to the 1% stamp duty. Where there is a surrender of the ADSs to the Depositary in return for ordinary shares which is done as a conveyance on sale or in contemplation of sale, then stamp duty is payable at the rate of 1% of the value of the shares.

(v) Taxation of a gift or an inheritance

Capital acquisitions tax ("CAT"), comprising gift tax and inheritance tax, applies to gifts and bequests of Irish situate assets. CAT may also apply to non-Irish situate assets depending on the tax residence, ordinary residence and domicile positions of the donor and the successor or donee. As such, CAT applies to gifts and bequests of AIB ordinary shares. It is not entirely clear whether ADSs representing ordinary shares are regarded as non-Irish situate assets. As such, CAT may also apply to gifts and bequests of ADSs representing ordinary shares regardless of the residence, ordinary residence or domicile of the donor and successor or donee. For further details of CAT see 'Taxation of Irish Shareholders - Taxation of a Gift or an Inheritance'.

US Tax

(i) US Federal Income Taxation

An Eligible US Holder is subject to US Federal income taxation on the gross amount of any dividend paid by AIB out of AIB's current or accumulated earnings and profits (as determined for US federal income tax purposes). Dividends received by individuals before 1 January 2013, that constitute qualified dividend income, are taxed at a maximum federal tax rate of 15%, subject to certain holding requirements. Holders of Ordinary Shares or ADSs must have held their shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date. Subject to the same holding requirements, beginning in 2013, dividends received by individuals, with taxable income above certain threshold amounts, are taxed at a maximum federal tax rate of 20%.

Dividends paid by AIB with respect to ordinary shares or ADSs will be qualified dividend income for US tax purposes if AIB was not in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend was paid, a passive foreign investment company ("PFIC"). Based on our current and projected financial data, we believe AIB should not be treated as a PFIC for US federal income tax purposes with respect to tax years 2011 and 2012 and we do not anticipate that AIB would be treated as a PFIC for the 2013 year.

Dividends paid by AIB to US corporate stockholders with respect to ordinary shares and ADSs, will not qualify for the dividend received deduction otherwise generally allowed to such stockholders. The amount of the dividend to be included in income will be the US dollar value of the euro payment made, determined at the spot US dollar/euro exchange rate on the date of actual or constructive receipt by the Eligible US Holder in the case of ordinary shares, or by the Depositary in the case of ADSs, regardless of whether the payment is actually converted into US dollars. Any gain or loss recognised by an Eligible US Holder on the sale or disposal of euros as a result of currency exchange fluctuations during the period from the date the dividend payment is includable in income to the date the payment is converted into US Dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income.

Distributions in excess of current or accumulated earnings and profits would be treated as a non-taxable return of capital to the extent of the Eligible US Holder's basis in his AIB ordinary shares or ADSs and would reduce the US Holder's basis in his AIB ordinary shares or ADSs. Any remaining excess would be treated for US federal tax purposes as capital gains, provided the AIB ordinary shares or ADSs are capital assets in the hands of such Eligible US Holder.

Subject to various limitations, Eligible US Holders who have Irish DWT applied to their dividend may be entitled to a credit against their US federal income tax liability. Under US tax law, the limitation on foreign taxes eligible for credit is calculated separately with respect to separate classes of income. Dividends paid by AIB are foreign source "passive category income" or "general category income" depending on the holder's circumstances. In either case, foreign tax credits allowable with respect to each category of income cannot exceed the US federal income tax otherwise payable with respect to such category of income. No foreign tax credit is allowed to the extent a refund of DWT is available to the Eligible US Holder.

(ii) US Withholding Tax

A holder of ADSs may, under certain circumstances, be subject to US backup withholding tax with respect to dividends paid on ADSs or the proceeds of sale of ADSs. A US holder of ADSs is subject to backup withholding tax unless such holder: (i) is a corporation or comes within the certain other exempt categories and, when required, certifies this fact; or (ii) provides a correct tax-payer identification number ("TIN"), certifies that such holder is not subject to backup withholding tax and otherwise complies with applicable requirements of the backup withholding tax rules. Subject to certain limitations, amounts withheld under the US backup withholding tax rules may be creditable against the holder's US federal income tax liability.

(iii) US State and local taxes

State and local taxes may apply to distributions received by holders of AIB ordinary shares or ADSs.

(iv) Gains on sale, exchange or other disposal

Upon the sale, exchange or other disposal of AIB ordinary shares or ADSs, a US Holder will recognise a gain or loss, if any, equal to the difference between the amount realised upon the sale, exchange, or disposal and the US Holder's tax basis. Generally, a holder's tax basis in AIB ordinary shares or ADSs will be the US Holder's cost. Such gain or loss will generally be capital gain or loss. Capital gains recognised by non-corporate US Holders before 1 January 2013, on shares held longer than one year, are taxed at a maximum rate of 15%. Beginning in 2013, capital gains recognized by non-corporate US Holders, with taxable income above certain threshold amounts, are taxed at a maximum tax rate of 20%. Any gain will generally be treated as income from sources within the US for foreign tax credit limitation purposes.

Effective 10 October 2011 AIB terminated its ADR facility. A US Holder of ADSs could surrender their ADSs and receive underlying AIB ordinary shares. A US Holder does not recognise gain or loss on the surrender of ADSs and receipt of AIB ordinary shares. The US Holder's tax basis in the ordinary shares received is equal to the tax basis in the ADSs surrendered. A US Holder that does not surrender their ADSs ultimately will receive proceeds in connection with the termination and, at that point, under current law, would be treated as having sold their shares, recognising gain or loss equal to the difference between the amount realised and the US Holder's tax basis. As discussed above such gain or loss would generally be capital gain or loss.

(v) Taxation of a gift or an inheritance

The 1951 estate tax convention between Ireland and the US is accepted by both countries' revenue authorities as applying to Irish inheritance tax, but not gift tax. Under this convention and US tax law any such inheritance tax payable in Ireland generally will be allowed as a credit, subject to certain limitations, against so much of the US federal estate tax as is payable on the same property. Transfers of AIB ordinary shares or ADSs upon death may be subject to US federal estate tax subject to certain threshold exemptions. US federal gift tax may apply to gifts of AIB ordinary shares or ADSs subject to certain thresholds and exemptions. No credit is allowable against Federal gift tax for Irish gift tax paid on the same property.

Exchange controls

Under Article 63 of the Treaty on the Functioning of the European Union, all restrictions on the movements of capital between member states of the European Union and between such member states and third countries are prohibited.

Under Article 66 of the Treaty where, in exceptional circumstances, movements of capital to or from third countries cause, or threaten to cause, serious difficulties for the operation of economic and monetary union, the Council of the European Union, on a proposal from the European Commission, and after consulting the European Central Bank, may take safeguard measures with regard to third countries for a period not exceeding six months if such measures are strictly necessary.

Under Article 75 of the Treaty, where is necessary to prevent and combat terrorism and related activities, the European Parliament and the Council, acting by means of regulations are to define a framework for administrative measures with regard to capital movements and payments, such as the freezing of funds, financial assets or economic gains belonging to, or owned or held by, natural or legal persons, groups or non-State entities.

There are no restrictions under AIB's Articles of Association or under Irish law, as currently in force, that limit the right of non-resident or foreign owners, as such, to hold securities of AIB freely or, when entitled, to vote such securities freely. There are currently no restrictions under Irish law, decrees, or regulations affecting the remittance of dividends or other payments to non-resident holders of AIB securities except in respect of United Nations and/or European Union sanctions.

Employees

At year end December 2012, AIB Group had 13,429[1] full time equivalent staff in payment (end of month average staff in payment full time equivalent, excluding career breaks and other unpaid long-term leaves) on a worldwide basis, mainly in the Republic of Ireland, Northern Ireland, Great Britain, USA.

AIB Group offers a wide range of employee relations programmes in each of the areas in which it operates. AIB, and the Irish Bank Officials' Association ("IBOA") which is the principal recognised trade union for bank employees conduct their employee relations in keeping with agreed Partnership Principles, which, since February 2000, have underpinned the approach taken in employee and industrial relations.

The AIB Code of Conduct, which was extensively revised in 2012, sets out the standards of conduct and behaviour required from staff. This Code is subject to review annually. AIB encourages its staff to raise any concerns of wrongdoing through a number of channels, both internal and external. One such channel, the AIB Speak-Up policy, includes a confidential external helpline. Staff are assured that if they raise a concern in good faith, AIB will not tolerate any victimisation or unfair treatment of the staff member as a result.

Pay developments in 2012 reflected the financial position of the Group and ongoing pressure to retain key staff and skills in light of extensive restructuring of the Group's activities, the implementation of pay and benefit reductions and the introduction of Early Retirement and Voluntary Severance Schemes. Remuneration spend was tightly managed within tight budgetary parameters. There were no general salary increases or increments paid in 2012 and there were no bonus or share schemes in operation. Specific pay increases awarded during the year reflected the need to retain staff in critical areas and in recocognition of additional responsibilities undertaken following the Group's restructuring and significant staff numbers departing under the early retirement and voluntary severance programmes.

The average number of employees by market segment for 2012 and 2011 and by division for 2010 (excluding employees on career breaks, long term absences or any other unpaid leaves) are described in the table below. See also note 65 to the consolidated financial statements.

	Years ended 31 December			
	2012	**2011**		**2010**
Continuing operations			**Continuing operations**	
PBB	**6,285**	6,017	AIB Bank ROI	6,850
CICB	**1,620**[4]	1,752[5]	Capital Markets[5][7]	2,177
AIB UK	**2,234**	2,282	AIB Bank UK	2,342
EBS[2]	**604**	288	Central & Eastern Europe[8]	N/A
Group	**3,965**[3]	3,943	Group[8]	2,886
	14,708	14,282		14,255
Discontinued operations			**Discontinued operations**	
BZWBK	**–**	2,434[6][9]	BZWBK[6][9]	9,631
Total	**14,708**[1]	16,716		23,886

[1]The 12 month average above of 14,708 is higher than the actual December 2012 figure of 13,429 (excludes leavers from 19 December to 31 December 2012). The variance is a result of the impact that voluntary severance and early retirements, predominantly in quarter 4, have had on the actual AIB figures.

[2]EBS was acquired on 1 July 2011, accordingly, staff numbers have been time apportioned in 2011.

[3]The figures for Group include the following centralised functions: Group Services and Transformation; Chief Financial Office; Chief Risk Office; Non Core Unit; Corporate Affairs & Marketing; Office of Law Agent and Office of Group Internal Audit.

[4]AIB Investment Managers was disposed of on 1 June 2012, data has been included for January to May 2012.

[5]AIB's investment in Goodbodys was derecognised at 31 December 2010, therefore its employees are not included from that date.

[6]Central and Eastern Europe division ceased operations in 2010, following the classification of BZWBK and BACB as a discontinued operation during the year.

[7]In 2010, Treasury segment employees of BZWBK were no longer included in Capital Markets.

[8]In 2010, the Group segment included employees in AmCredit and assignees based in BZWBK and BACB, which had previously been included within the Central and Eastern Europe division.

[9]BZWBK includes all staff in BZWBK and its subsidiaries, excluding assignees from AIB.

Description of property

As at 31 December 2012, AIB operated from an estate of circa 290 branches/outlets, and 28 offices. These are held principally in the Republic of Ireland, Northern Ireland, Great Britain, Isle of Man, and the Channel Islands. The estate is held under a combination of freehold/long leasehold and short lease tenures. AIB also holds a large number of ATM locations under lease and licence agreements in the Republic of Ireland.

Over the course of 2012, AIB undertook a large scale branch consolidation programme resulting in the closure of 52 branches and sub offices in the Republic of Ireland, and five in Northern Ireland. A further 17 branches in the Republic of Ireland will close over the first half of 2013. These properties, depending on tenure, will be placed on the market for sale, or surrendered back to landlords over the course of the year.

AIB's headquarters is located at Bankcentre, Ballsbridge, Dublin 4. This is a large campus style complex of interlinked office buildings on a site of approximately 14 acres. The complex houses most of AIB's support functions, in addition to car parking, meeting and staff welfare facilities. AIB holds this site under a number of separate lease arrangements.

AIB also holds an office under lease at AIB International Centre located in Dublin's International Financial Services Centre ("IFSC"), which it will exit mid-2013. In addition, AIB has a number of other head office properties in principal towns nationwide including Dublin, Naas, Cork, Limerick, Waterford and Galway.

In Northern Ireland, AIB's First Trust Bank head office is located at First Trust Centre, 92 Ann Street, Belfast. First Trust also holds a large property at Queen's Square, Belfast and has a branch network comprising 42 locations.

AIB's UK headquarters is located at Tenterden Street, West London which is held under lease. In addition, AIB has a further nine leasehold properties in and around London, with another 15 locations nationwide. An additional 12 closed premises are also held under management which are to be reviewed over the course of 2013. The lease on AIB UK's previous head office location, Bankcentre, Uxbridge, expired and was vacated in December 2012.

EBS is largely accommodated across the AIB Bankcentre campus. The former EBS headquarters, at 2 Burlington Road, Dublin 4, is now an integrated part of the AIB head office estate. This is a modern 80,000 square foot facility held under lease. EBS also leased a 7,000 square foot unit on Amiens Street, Dublin 2 which ceased in September 2012. The branch estate comprises 62 outlets which are leased or owned by EBS with a further 24 locations held by tied agents and franchisees.

Other shareholder information

1. 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.

2. 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.

3. 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**

4. Shareholding analysis

The National Pensions Reserve Fund Commission hold 516,237,363,722 ordinary shares of € 0.01 each in the share capital of Allied Irish Banks, p.l.c..

Additional information

Financial calendar

Annual General Meeting: 20 June 2013, at the Company's Head office at Bankcentre, Ballsbridge, Dublin 4.

Interim results

Unaudited interim results for the half-year ending 30 June 2013 will be announced towards the end of July/early August 2013 and will be available on the Company's website – **www.aibgroup.com**.

Shareholder's enquires regarding Ordinary Shares should be addressed to:

Computershare Investor Services (Ireland) Ltd.,
Heron House,
Corrig Road,
Sandyford Industrial Estate,
Dublin 18, Ireland
Telephone: +353 1 247 5411
Facsimile: +353 1 216 3151
Website: **www.computershare.com**
or
www.investorcentre.com/ie/contactus
or
www.aibgroup.com

Glossary of terms

ABS	Asset backed securities are securities which are collateralised by income producing assets other than mortgage loans. 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.
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 consisting of all exposures which are not in the trading book. Banking book positions are typically structural in nature (i.e. when arises as a consequence of the size and composition of the Group's balance sheet) or relates to investment positions being maintained by the Group's Treasury function (e.g. Available for Sale securities portfolios). These positions attract regulatory capital requirements that reflect inherent credit and interest rate risks.
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 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.

Glossary of terms

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.
Delinquency	Failure by a customer to repay an obligation when due or as agreed. In the case of loans and credit cards, this will arise when a payment of either capital and/or interest is 1 day or more overdue. Overdrafts are deemed to be delinquent if an approved limit is exceeded for 1 day or more.
Earnings constraint	Within the Group, market risk portfolios are controlled from a risk (using VaR limits) and financial perspective. The Earnings constraint is the Group's primary financial limit. It is an expression of the Group's tolerance for gross income loss in any financial period (i.e. utilisation against the Earnings Constraint Limit is based on cumulative gross income in each half year).
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 represents the seventeen European Union countries that have adopted the euro as their common currency.
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. Sub-headings under forbearance include: **Split mortgages** A split mortgage is one of the forbearance solutions that may be offered to customers in arrears whose mortgages are unsustainable. The loan is split in to two parts, a sustainable element and an unsustainable element which are subject to separate repayment schedules. **Negative equity trade down** A forbearance solution which allows a customer to sell their residential property and subsequently purchase a new property and transfer the negative equity portion to a new loan secured on the new property.

Glossary of terms

	Voluntary sale for loss A forbearance solution which may be offered to residential mortgage customers in financial difficulty. This operates on a voluntary basis whereby the customer agrees to sell the mortgage property and repay any residual debt outstanding.
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.
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 ("LCR") is the ratio of the stock of high quality liquid assets to expected net cash outflows over the following 30 days. The Basel III rules require this ratio to be at least 100% with effect from 2015. The Liquidity coverage ratio is designed to ensure that financial institutions have the necessary assets on hand to ride out short-term liquidity disruptions.
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 to customers as presented in the statement of financial position compared to customer accounts.
Loan workout	Loan workout is the process whereby once an advance is deemed to be criticised (i.e. 'Watch', 'Vulnerable' or 'Impaired'), the Group monitors and reviews the advance 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.

Glossary of terms

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 falls or increases in the loan carrying amount if repayments are not made and interest is capitalised onto the outstanding loan balance.
MCEV	Market consistent embedded value (“MCEV") of a life insurance company represents the shareholders' interests in the earnings distributable from assets allocated to the covered business after sufficient allowance for the aggregate risks in the covered business has been made.
Medium term notes	Medium term notes (“MTNs”) are notes issued by the Group across a range of maturities under European Medium Term Note Programme.
Monte Carlo Simulation	A mathematical modelling process or analytical technique for solving a problem by performing a large number of trial runs, called simulations, and inferring a solution from the collective results of the trial runs. It is a standard method for calculating the probability distribution of possible outcomes and has particular application in determining the ‘Value at Risk’ (“VaR”) of portfolios containing option products.
Mortgage covered securities	Mortgage covered securities (also known as covered bonds) are debt securities backed by cash flows from mortgages. They are issued for the purpose of financing loans secured on residential property.
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
NSFR	The Net Stable Funding Ratio (NSFR), a significant part of the Basel III bank liquidity regime. The NSFR aims to ensure banks are able to survive an extended closure of wholesale funding markets. It establishes a minimum acceptable amount of stable funding based on the liquidity characteristics of a bank’s assets and activities over a one year horizon. The Basel III rules require this ratio to be over 100% with effect from 2018. The NSFR is still subject to an observation period and review to address any unintended consequences.
Optionality risk	A type of market risk associated with option features that are embedded within assets or 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 mathematical way of identifying patterns in data. It is used to analyse interest rate shock scenarios by decomposing the interest rate term structure into its principal components.
PD	Probability of Default (“PD”) is the likelihood that a borrower will default on an obligation to repay.
Prime loan	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	Repricing 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.
SPE	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.

Glossary of terms

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 a 'worst case' 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 Goup's portfolio of interest rate instruments.

Principal addresses

Ireland & Britain

Group Headquarters
Bankcentre, PO Box 452,
Ballsbridge, Dublin 4.
Telephone: + 353 1 660 0311
Website: http://www.aibgroup.com

AIB Bank - Personal, Business & Corporate Banking
Bankcentre, Ballsbridge,
Dublin 4.
Telephone: + 353 1 660 0311
Facsimile: + 353 1 660 3063

First Trust Bank
First Trust Centre, 92 Ann Street,
Belfast BT1 3HH.
Telephone: + 44 28 9032 5599
From RoI: 048 9032 5599

Allied Irish Bank (GB)
4 Tenterden Street, Off Hanover Square
London W1S 1TE
Telephone: + 44 20 7647 3300
Facsimile: + 44 20 7629 2376

AIB Corporate Banking
AIB Bankcentre, Ballsbridge,
Dublin 4.
Telephone: + 353 1 660 0311
Facsimile: + 353 1 668 2508

AIB Finance & Leasing
AIB Bankcentre, Ballsbridge,
Dublin 4.
Telephone: + 353 1 660 0311
Facsimile: + 353 1 668 2508

AIB Customer Treasury Services
AIB Bankcentre, Ballsbridge,
Dublin 4.
Telephone: + 353 1 660 0311
Facsimile: + 353 1 641 2201

AIB Business Banking
AIB Bankcentre, Ballsbridge,
Dublin 4.
Telephone: + 353 1 6411603
Facsimile: + 353 1 7721221

AIB Commercial Finance Limited
AIB Bankcentre, Ballsbridge,
Dublin 4.
Telephone: + 353 1 667 0233
Facsimile: + 353 1 667 0250

AIB Corporate Banking Britain
St Helen's, 1 Undershaft,
London EC3A 8AB.
Telephone: + 44 207 090 7130
Facsimile: + 44 207 090 7100

EBS Limited
The EBS Building,
2 Burlington Road,
Dublin 4.
Telephone: + 353 1 665 9000
Facsimile: + 353 1 874 7416

AIB Financial Solutions Group
Bankcentre, PO Box 452,
Ballsbridge, Dublin 4
Telephone: + 353 1 660 0311

AIB Arrears Support Unit
Bankcentre, PO Box 452,
Ballsbridge, Dublin 4
Telephone: + 353 1 660 0311

AIB Enterprise Lending Services
Bankcentre, PO Box 452,
Ballsbridge, Dublin 4
Telephone: + 353 1 660 0311

AIB Transactions and Non Core
Bankcentre, PO Box 452,
Ballsbridge, Dublin 4
Telephone: + 353 1 660 0311

AIB Third Party Servicing
Bankcentre, PO Box 452,
Ballsbridge, Dublin 4
Telephone: + 353 1 660 0311

USA

AIB Corporate Banking North America
1166 Avenue of the Americas, 18th floor,
New York, NY 10036.
Telephone: + 1 212 339 8000
Facsimile: + 1 212 515 6710

AIB Customer Treasury Services
1166 Avenue of the Americas, 18th floor,
New York, NY 10036.
Telephone: + 1 212 339 8000
Facsimile: + 1 212 339 8006

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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AIB Group, Bankcentre, PO Box 452, Dublin 4, Ireland.
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