Annual Financial Report 2015

For the financial year ended 31 December 2015

Allied Irish Banks, p.l.c.

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Forward Looking Statements

This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of AIB Group and certain of the plans and objectives of the Group. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as 'aim', 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'may', 'could', 'will', 'seek', 'continue', 'should', 'assume', or other words of similar meaning. Examples of forward-looking statements include, among others, statements regarding the Group's future financial position, capital structure, Government shareholding in the Group, income growth, loan losses, business strategy, projected costs, capital ratios, estimates of capital expenditures, and plans and objectives for future operations. Because such statements are inherently subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking information. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These are set out in the Principal Risk and Uncertainties on pages 50 to 59 in the 2015 Annual Financial Report. In addition to matters relating to the Group's business, future performance will be impacted by Irish, UK and wider European and global economic and financial market considerations. Any forward-looking statements made by or on behalf of the Group speak only as of the date they are made. The Group cautions that the list of important factors on pages 50 to 59 of the 2015 Annual Financial Report is not exhaustive. Investors and others should carefully consider the foregoing factors and other uncertainties and events when making an investment decision based on any forward-looking statement.

2015 Financial Highlights

Operating performance

Profit before tax
€1,914m €803m ▲
Increased profitability from higher income, lower costs and higher net credit provision. Outturn for the year includes a net charge of €296 million from exceptional items and income of €163 million from other items.

Net interest margin ("NIM")[1]
1.97% 28bps ▲
Continuing positive momentum in NIM mainly due to lower funding costs and reduction in low yielding assets. There was an exit NIM[2] for 2015 of 2.02%.

Total income[3]
€2,623m €93m ▲
Increases in net interest income of €240 million (lower funding costs and ELG charge). Other income €147 million lower (reductions on gains on NAMA senior bonds and reduced profits on disposals of AFS securities partly offset by higher net trading and fee & commission income).

Pre-provision operating profit[3][4]
€1,327m €200m ▲
Positive contribution from business segments with €1,133 million from AIB Ireland, €185 million from AIB UK and €9 million from Group & International.

Operating expenses[3]
€1,296m 8% ▼
Cost reductions in line with expectation. €107 million reduction with all major expense lines reducing, reflecting further improvement on prior year reductions. Cost income ratio[3] for 2015 was 49% compared to 55% for 2014.

Credit provision writeback
€925m €740m ▲
Net writeback of €925 million compared to a net writeback of €185 million, an increase of €740 million, reflecting improved economic conditions and progress on debt restructuring.

Balance Sheet / Capital

CET 1 transitional capital ratio[5]
15.9% 0.5% ▼

CET 1 fully loaded capital ratio[5]
13.0% 7.1% ▲
Strong capital position with the positive effect of profits generated and capital reorganisation[6] in the year.

New lending drawdowns[4]
€8.7bn 49% ▲
Strong growth in new lending drawdowns with increases across all segments. New lending from AIB Ireland of €5.0 billion up 41%, AIB UK of €2.6 billion up 60% and Group and International of €1.1 billion up 59% compared to 2014.

Customer deposits
€63.4bn €0.6bn ▼
Customer deposits remain stable at €63.4 billion with the average cost down from 130 bps to 97 bps.

Impaired loans
€13.1bn €9.1bn ▼
41% reduction reflecting the implementation of sustainable restructure solutions for customers and improved economic conditions. Impaired loans are 19% of total gross loans compared to 29% in 2014.

Provision coverage ratio[7]
47% 4% ▼
Continued progress on restructuring impaired loans. Coverage rate remains at robust levels.

Liquidity coverage ratio ("LCR")
113% 3% ▼
The LCR reflects the overall quality of the funding profile with high quality liquid assets and a strong retail deposit base that meets regulatory requirements.

[1]Net interest margin excluding eligible liabilities guarantee ("ELG") charge.
[2]Exit NIM is the average net interest margin excluding ELG for Q4 2015.
[3]Before bank levies and exceptional items. Exceptional items are detailed on page 23.
[4]Segment descriptions are detailed on page 37.
[5]Common equity tier 1 ("CET 1").
[6]For detail on capital reorganisation see page 43.
[7]Specific provisions as a percentage of impaired loans.
[8]38bps excluding impact of provision writebacks.

Financial Targets Delivered

	Medium Term Targets	December 2015	
Franchise growth	No.1 Irish Bank	No. 1 market shares	✓
New lending approvals	€7bn - €10bn p.a.	€14.4bn	✓
Net interest margin[1]	>2%	1.97% - exit NIM[2] 2.02%	✓
Cost / income ratio	<50%	49%[3]	✓
Credit impairment charge	<65bps	(126bps) / 38bps[8]	✓
Loan / deposit ratio	100% - 120%	100%	✓
CET 1 fully loaded capital ratio[5]	>10%	13.0%	✓

"These very solid results reflect the scale of AIB's financial transformation to sustainable profitability over the past number of years. Our strengthened capital position and ongoing improving risk profile reinforces our progress and paves the way for the State to potentially sell part of its shareholding in AIB. The bank is working very hard to demonstrate to our personal and business customers that they can rely on us to operate to the highest level of professionalism, integrity and service. We remain focused on supporting them and Ireland's economy."

Chairman's Statement

Richard Pym
Chairman

In the context of AIB's recovery, 2015 proved to be a milestone year and a decisive turning point in the bank's recent history.

Having strengthened and simplified the capital structure, the bank returned €1.7 billion of capital to the State in December 2015 following the partial redemption of the 2009 Preference Shares. It was a hugely symbolic step and paves the way for the State to potentially sell part of its shareholding in AIB.

AIB's re-establishment as a stable, customer-focused institution, supporting Ireland's economic revival was achieved through huge State support. Returning in full the State's investment of €20.8 billion over time is a key ambition of the bank. In July 2016, the scheduled maturity of the Contingent Capital Notes will result in a further payment of €1.8 billion to the State.

I am particularly conscious that rebuilding customer trust is one of the most difficult challenges still facing the banking sector. Regaining customers' confidence can only be achieved if they experience a bank that operates to the highest level of professionalism, integrity and service. Only then will people be persuaded that AIB really is an institution they can trust and we are

working very hard indeed to demonstrate to our 2.6 million customers that they can rely on us to take care of their interests and respect their needs.

Meanwhile, assisting customers in financial difficulty remained a priority in 2015 and tangible results were achieved. AIB's impaired loan book has dropped to €13 billion, down from approximately €30 billion in early 2013.

Given the interdependent relationship between the national economy and AIB, Ireland's improved macro-economic environment has impacted very positively on the bank's performance. Growing GDP, falling unemployment and increased consumer spending all led to Ireland being the fastest-growing economy in Europe and, as a bank, we benefited from that momentum through 2015. In return, we will continue to play a central role in that national growth narrative.

In 2015, the bank achieved a profit before tax of €1.9 billion, a remarkable transformation from previous years.

Leadership

Bernard Byrne took over as CEO of AIB in May 2015, following the resignation of David Duffy. I thank David for his leadership and commitment to the bank during his three year tenure.

Bernard has been a very effective and energetic Chief Executive and has already made a marked impact on the bank. I look forward to his continued contribution over the coming years.

Board Changes

We are pleased to welcome Helen Normoyle to the Board – she joined at the end of the year and brings with her a depth of experience in marketing and consumer issues. She will be leading the Board's sustainability agenda.

A short biography and background of all our Directors is set out on pages 166 to 169.

We are also looking to add two additional directors in 2016 and to raise the female representation on the Board during the year.

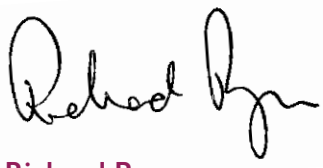
Thanks

The support that we have received from our customers and stakeholders through very challenging times cannot be overstated and continues to be deeply appreciated by AIB. Without our customers and the Irish tax payer, we would not be here today and that is why we are working so diligently to ensure the State's investment is repaid in full.

Since I joined this organisation in 2014, I have been deeply impressed by the commitment shown by my colleagues in bringing the bank back to good financial health.

To the staff of the bank who have worked so hard through this unprecedented period of challenge and change, I say a big "thank you".

I also want to acknowledge, and express thanks for their assistance, to the officials at the Department of Finance, the Central Bank of Ireland and the European Central Bank during what was a particularly busy year. We look forward to continuing that work together to restore AIB to its full and positive potential.



Richard Pym
Chairman
2 March 2016

"There can be no doubt that the Group's financial performance has confirmed our transition from a work-in-progress to a fully functioning sustainable well-capitalised bank. This bank is now well-positioned to enable the State to recover its full investment of €20.8bn.

Our strong profitability, significant increased lending, material reductions in impaired loans, normalised capital structure and significant payments to the State made 2015 a milestone year for AIB."

Chief Executive's Review

Bernard Byrne
Chief Executive Officer

Introduction

As CEO reporting on my first full year's results for AIB, I am pleased to be able to present a very strong set of results and to highlight a number of significant achievements for AIB during 2015. There can be no doubt that the Group's financial performance confirms our transition from a work in progress to a fully functioning, customer-focused, sustainable and well capitalised bank.

Our financial performance

In the year, our total operating income is up 4%, our costs are down 8% and our profit before tax, at €1.9 billion, is up 72%. This €1.9 billion comprises c. €1 billion of underlying profitability and c. €900 million of net additional credits, arising, in the main, from provision writebacks as we continue to resolve the significant legacy impaired loan portfolios. This strong profitability combined with the strengthening and simplification of our capital has positioned us well, with a robust fully loaded CET 1 ratio of 13.0% (transitional 15.9%). We now have a sound capital base, comfortably above minimum regulatory requirements, from which to grow our business, leaving us well-positioned for the future.

In 2015, we saw significant growth in new lending. There are a number of internal initiatives and external variables which have contributed to this, including the ongoing recovery of the Irish economy. We approved €14.4 billion in new lending during 2015 across ROI and the UK, with actual customer drawdowns, at €8.7 billion, 49% higher than 2014 levels and encouragingly, increasing across all business segments. In Ireland, mortgages were up 32%, personal lending was up 40%, business lending was up 28%, corporate lending was up 63% and in our UK business, drawdowns were up 60%.

Adopting a fair and equitable approach to customers in difficulty is fundamental to maintaining sustainable working relationships. Our impaired loan balances of €13.1 billion have been reduced by €9.1 billion since 2014 and by €15.8 billion since 2013. The impaired loan balances are €6.9 billion net of specific provision cover of 47%. We maintain significant momentum in the resolution of these difficult cases and are working hard to achieve satisfactory outcomes for our customers and the bank at an impressive run rate. We expect to maintain this momentum for the year ahead by which time the quantum of impaired loans will reduce to more normalised levels.

Our total costs for the year, at €1.296 billion, represent a €107 million reduction on 2014 levels and €450 million reduction on 2012. We are focused on simplifying our business by concentrating our efforts on true customer needs and eliminating complexity and related cost. We continue to invest heavily in new technology and we are in the middle of a 3 year, €870 million investment programme which is delivering resilience, agility and a simple and efficient operating model focused on improving customer experience.

Our net interest margin at 1.97% and cost income ratio at 49% are 28bps and 6 percentage points, respectively, favourable on 2014.

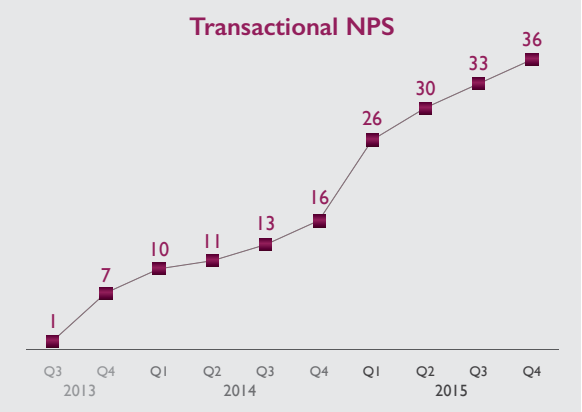
In summary, we have a business that is well capitalised, growing its profitability within agreed risk appetite parameters, managing its costs efficiently, investing in its future and successfully addressing significant legacy issues. All of this is being achieved by putting the customer at the heart of what we do whilst managing financial and regulatory requirements. We have a lot more to do but we are on the right path to deliver a bank that everyone can believe in.

Our customers

Putting our customers first is at the heart of our business. Over the long term, the most successful companies are those that have earned the trust, respect and loyalty of their customers. In AIB, we have, over the past number of years gone about rebuilding our business and organising ourselves with this long term truth at the heart of our plans. To do this, we are and must continue to focus on understanding our customers' needs, ensuring we deliver what they need, when and how they need it. In essence we must be useful to our customers, and if we are, we will be at the heart of their financial lives.

We know we have a long way to travel and on occasion, we may disappoint our customers with our delivery. We are cognisant that legacy issues still have the potential to affect our reputation and we remain active in competently managing any issues that arise. I would like to thank our customers for their business and loyalty to AIB over the past number of years.

The good news is that we are making real progress and we are delivering better and more convenient services to our customers all the time. Our Transactional Net Promoter Score[1] (NPS) increased by 20 points, to 36, since quarter 4 2014. Within this overall NPS score, we continually track specific customer engagement journeys. Examples where we have made good progress are Complaint Resolution, Card Replacement, Mobile Banking and Personal New Current Account. The results from these engagement journeys are really encouraging because we can see a definitive correlation between them and specific initiatives we have delivered during the year. Our NPS scores also tell us where we need to do better and this is something we are continually focused on.



Personal customers

It's not just about better service or better understanding of customer needs, it's also about being fair. As we have reduced our funding and operating costs we have sought to pass these benefits on to all customers, both new and existing. We believe that our existing customers should know they, along with new customers, will get the best value. We also think they should not have to work hard to get it. To that end we reduced our Standard Variable Rates (SVRs) for all mortgage customers across AIB, EBS and Haven by up to 75bps over the past 15 months. This benefited c. 155,000 customers. No other bank in Ireland has come close to matching this. No other bank in Ireland has sought to share these benefits, automatically, with its customers. With our EBS brand we launched our 'anytime anywhere' mortgage proposition, meaning that our customers can meet a mortgage advisor at a time and place that suits them seven days a week.

To reward our customers' loyalty, we have also introduced fee-free banking for our AIB Mortgage customers, again both new and existing. This is our way of acknowledging their commitment to the bank. Our mortgage approvals now last for 12 months reflecting the time needed to find a new home. Customers can also apply for their mortgage online and enjoy a full end-to-end online decision process. We also have a multi brand approach, offering choice to customers and allowing us to tailor products to their needs.

The benefits of focusing on the real needs of customers are clear. During 2015, we enhanced our overall personal lending proposition and streamlined underlying processes. Our personal lending drawdowns increased by 40% on 2014 levels and as at quarter 4 2015, we have achieved NPS scores of 68 for 'personal loans successful' and 69 for 'personal new current account' journeys.

During the year, we also launched a new personal loan proposition called 'first loan' for customers who have started in their first full-time job. In every branch, we now have a dedicated personal loan advisor. Online, we have aided customers by making a personal loan affordability calculator available.

Business & corporate customers

We continue to support our business customers by providing a large range of business products and our sector specialist approach resulted in growth in key sectors in 2015 including agriculture, tourism, retail and manufacturing. In addition, our 48 hour decision for SME loans less than €30,000 and extended opening hours also benefited business customers during the year. In February, we partnered with the Strategic Banking Corporation of Ireland (SBCI), launching a €200 million fund to SMEs at a market leading rate of 4.5%. This represents a 2% reduction on the standard business loan rate, the reduction being shared between AIB and the SBCI. Following the success of the first tranche, we were very pleased to announce, in November, a further fund of €200 million at the same rate. Our business lending drawdowns increased by 28% in 2015.

[1]The Net Promoter Score or NPS is a measurement program that tracks customers' loyalty and advocacy and ranges from -100 to 100.

Our Corporate Banking team provides tailored solutions and sector expertise to premium customers. The performance in 2015 is reflective of increased business activity in an improving Irish economy, resulting in lending growth of 63% to €2.8 billion in the year. We remain the number one bank for Foreign Direct Investment (FDI) in Ireland.

AIB UK customers

In AIB UK, our differentiated service model provides specialist industry and sectoral expertise to Owner Managed Businesses (OMBs) and the Corporate sector. We launched the Owner Managed Business Outlook, a bi-annual survey that details the concerns and views of OMBs on the wider marketplace. We want to enhance our understanding of our customers' businesses and operating environments and continue to develop services to meet their needs. In First Trust Bank (FTB), we serve our customers through our focused challenger bank strategy, lending to niche SME sectors, providing sectoral expertise and offering a full banking service, in branch, online and through mobile to our customers.

Legacy customer challenges

We acknowledge that challenges will continue to arise as a result of legacy issues. As and when they emerge, we are committed to dealing with and resolving these challenges in a fair and equitable way for our customers. In December 2015, the Central Bank of Ireland (CBI) launched an industry wide examination of tracker mortgage related issues. We had already mobilised to address this issue before the examination was launched. We are committed to meeting all requirements of the CBI examination on a complete and timely basis. Where we have identified areas where redress is relevant, we will work through the various steps associated with this review to ensure we deliver the right customer outcomes. Further details are available on page 23.

Our market position

When we think about how strong our market position is, we consider a significant number of factors. For example, how clearly defined is the market, how many customers do we have in that market and how active are these customers? When it comes to considering credit we think about the size of our current lending to each sector in the market and our share of the flow of new business. We measure the level of approvals and drawdowns but focus on the movements in balance sheet and the size of the overall commitment.

This gives us real comfort that when it comes to Personal, Business and Corporate markets in Ireland, in all key respects we are the number one bank. This is because we have more customers and more balance sheet commitment in Ireland than any other provider in the marketplace.

We hold key leading market shares across personal and business lines as follows:

Strong market share positions in retail and business banking

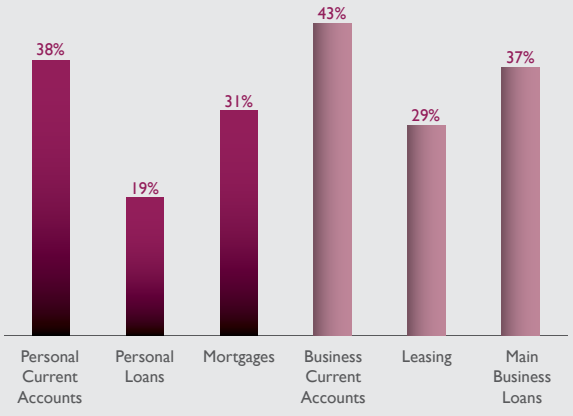
#1 Mortgages

#1 Personal & Business Current Accounts

#1 Personal[1] & Business Loans

#1 Business Leasing[2]

#1 Personal & Business Credit cards



Ipsos MRBI Q1 – Q4 2015 except mortgages per Central Bank of Ireland - December 2015

[1]Amongst Banks

[2]Main business leasing agreement

Digital and distribution

Our market leading digital offerings enable our customers to bank with us how and when they wish. We now have over one million active digital customers, with 530,000 customers active on mobile banking. 60% of our personal loans are now applied for online and 50% of key products are now purchased via online channels. In 2015, we asked our customers how we could improve our mobile banking app and we used their feedback to enhance this proposition. The customer response to this initiative has exceeded expectations, with average monthly customer logins on mobile rising from 13 to 27. Our innovative digital offerings will be an area of continued focus and investment into the future.

We were excited to open new branches during 2015, ensuring that our branch footprint throughout the country remains strong. We opened three branches at centres in Dublin and Cork, which will continue to strengthen our community presence.

Our people

In AIB, our people and our values are the cornerstones on which our culture and ongoing success are built. Collectively, we are all working hard to get the right culture in the bank. I was delighted that our employee engagement scores continued on a significant upward trajectory this year.

The dedication of our staff has been of paramount importance to AIB's survival and transformation over the last number of years. After the unprecedented crisis of 2008, the bank's workforce has more than halved and those who remained on and have joined since, were charged with turning AIB into a stable, profitable bank, positively contributing to the recovery of the Irish economy. This demanded a deep-seated commitment with personal and professional investment of significant time, effort and emotional resilience. That level of dedication continues to pay off as is evidenced in these financial results and our improving brand positions. It is important that I acknowledge and thank our staff for their ongoing hard work and commitment.

Our shareholders

There were a number of very important actions during 2015 that materially impacted on our shareholders and established an investable capital structure for the bank.

Firstly, the capital reorganisation in December resulted in the normalisation of our capital structure. This entailed the conversion of Government owned preference shares into equity capital and the repayment of €1.7 billion of capital to the Irish Government. A cash payment of accrued dividends on the preference shares of €166 million was also made. The EBS Promissory Note was also cancelled as part of this process.

Secondly, there was a share consolidation process which resulted in a significant reduction in the number of ordinary shares in issue to 2.7 billion from 523.4 billion.

At the same time we executed two market transactions totalling €1.25 billion. We issued €750 million Tier 2 notes and €500 million of AT1 capital. Encouragingly, both issuances, which were executed within days of each other, were heavily oversubscribed by an internationally diverse investor base.

These events have addressed the remaining legacy capital instruments in the bank and ensure we have a capital structure that is not only fit for purpose in the current regulatory environment but allowed us to start the process of repaying the State. We remain deeply conscious of the State's support in recent years and we were very pleased to make significant repayments in 2015. This will continue into 2016 when we will make a further material repayment of c. €1.8 billion upon the maturity of our Contingent Capital Note. This will bring the total payments to the State to c. €6.5 billion by mid-2016.

Outlook and priorities for 2016

Ireland's projected economic growth of 5% for next year will continue to provide a positive domestic environment for the bank. However, there are a number of macro uncertainties which we still face. The prospect of an exit by Britain from the EU is fraught with economic uncertainty and the full impact cannot be predicted. Global economic uncertainty and geopolitical risk may also increase volatility. On the domestic front, the subdued yet very competitive mortgage market presents a challenge to us, as does the prevailing low interest rate environment.

For our part, we will continue to play a critical role in supporting economic growth, protecting employment and fuelling job creation. Our long term success will be based on the strength of our culture. A robust, risk aware, commercial and customer focused culture will win out in the long term. That is what we are building.

Our ambition is to be at the heart of our customers' financial lives by always being useful, always informing and always providing an exceptional customer experience. We will deliver a bank with compelling, sustainable capital returns and a considered, transparent and controlled risk profile.

To help us achieve this we have worked hard to enhance our strategy and prioritise the key areas of focus where we will differentiate ourselves. These areas of focus will determine the initiatives we pursue and deliver.

Our four key areas of focus and our aspirations for each are set out in more detail below. We will measure our success against key metrics, ensuring we are focused on what we need to achieve.

Customer first

- Transforming the customer experience to deliver advocacy and mutual value as measured over the lifetime of our customers
- Differentiating through customer-led innovation enabled by deep customer insight
- Focusing first on our core customer segments with whom we will have the ability to develop deep relationships
- Addressing legacy customer challenges

Simple and efficient

- Focus process and technology improvements on the elements that have most impact on our customers' experience and deliver value for the bank
- Deliver standardised, repeatable, de-risked, straight-through processes and procedures
- Deliver simplicity and uniformity in systems and our process architecture enabling resilient, intuitive, transparent customer processes and outcomes whilst minimising complexity
- Appropriately utilise customer data to generate insights.

Risk and Capital Management

- Effective and dynamic Risk Appetite Statement that will drive and inform business strategy and risk-taking
- In the context of ICAAP* and risk appetite, allocate capital consistently across the Group to optimise sustainable risk-adjusted returns
- Individual lending, pricing and investment decisions taken based on consistent Group-wide standards and models

Talent and culture

- A vibrant, risk-aware, diverse and progressive culture that consistently puts the customer first, aligned to our AIB Brand Values
- An employee experience, that creates and retains a highly engaged, inspired, talented workforce, to deliver an exceptional customer experience

Acknowledgments

It has been a successful year. Our business has performed well and we have the leading position in all key markets that matter to us in Ireland, with clear niche positions in Northern Ireland and Great Britain. I am proud of what we have delivered and the significant progress we have made. I am also thankful to the Board, Leadership Team and my colleagues for the support I have received since I took up the role of CEO in May. Together, we are confident that we can deliver a better bank - a bank that our colleagues, customers and stakeholders can truly believe in.

Bernard Byrne
Chief Executive Officer
2 March 2016

**Internal Capital Adequacy Assessment Process*

Governance at a glance

Our Governance Framework

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

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

The Board and its Committees

Supported by the Governance Framework, the Board oversees:

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

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

The Chief Executive Officer

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

The Leadership Team

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

Sustainable Banking

Introduction

For AIB, sustainable banking means working through our business to bring about positive and lasting change in the markets we operate in.

We create value in our business by providing products and services that are useful for our customers, and that they can trust.

The long-term success of our business depends on our long-term relationship with our stakeholders, and in particular our customers. In turn, their long-term wellbeing depends on the society and environment they live in. As a pillar bank in Ireland, with 2.3 million customers, and over 300,000 customers across Northern Ireland and Great Britain, we have the opportunity to shape that long-term future through our core business activities, contributing not only to the financial wellbeing of our customers, but also making choices that contribute to a thriving society, and a sustainable environment.

Our world is changing. Being useful to our customers means we have to be ready to anticipate change, and help them, too, to meet the challenges ahead with confidence. In 2016, AIB will be developing its sustainable banking strategy, and reporting on our progress.

As a large employer with a significant reach into the markets and the communities we serve, our business has the potential to make a significant impact on our stakeholders. Our approach to sustainable banking looks at how we can make a positive impact for our customers, our communities, our people, our environment and our suppliers.

How we do business

Our approach to sustainable banking is not just about what we do, but how we do it.

AIB has a robust corporate governance structure, which is detailed on pages 12 and 13 of this report. However, responsibility for how we conduct our business is shared among every member of our staff. Everyone who works for AIB is bound by our Code of Conduct, which sets out what it means for us as individuals, and as an organisation, to do business responsibly and ethically.

Tackling financial fraud and corruption

Our Code of Conduct is supported by a range of policies and procedures to ensure that our staff and Directors adhere to best practice in avoiding potential conflicts of interest, corrupt practices or the facilitation of criminal behaviour such as money laundering or terrorist financing. These policies and procedures establish the norms that AIB expects from all its staff and Directors. They are supplemented with a confidential reporting ("Speak-Up") process that allows issues to be escalated by individual staff members, independently of line management if necessary, to ensure that the bank's operations are conducted compliantly and transparently. These policies are reviewed annually, and training and awareness of their operation is provided for all staff. Our Board receives an annual report on the effectiveness of AIB's anti-money laundering and terrorist financing controls.

Managing risk

Managing risk effectively is critical to AIB being a sustainable business. Our approach to risk is set out extensively in the risk management section of this report.

Our customers

Fair products

Our policy means that all new products being designed by AIB have to meet the test of having fair outcomes for the customers who avail of them – a process which is overseen by our Products and Conduct Committee.

Dealing with complaints

Following a period of profound difficulty for the bank and many of our customers, AIB is working hard to improve our customers' experience. In 2015, we received 50,063 complaints; this compares to 66,577 in 2014, a 25% reduction. In response to feedback from our customers, 2015 saw the introduction of dedicated complaint resolver roles across our branch network. These dedicated 'Resolvers' are empowered to resolve a customer complaint on the spot, subject to certain limits.

Helping customers in difficulty

As a bank, we know that for some customers in difficulty, finding a workable solution to their situation can be difficult. That is why, as part of our efforts to find solutions for as many of our customers as possible, we have partnered with the voluntary organisation, the Irish Mortgage Holders Organisation (IMHO), to provide another channel for them to engage with AIB. To year end 2015, c.2,370 customers have achieved a resolution with AIB via the IMHO, with 779 achieved during 2015.

Supporting our business customers

We understand that supporting business networks is important. During 2015, AIB has been an active sponsor of women's business and entrepreneurial networks, including the Network Ireland Partnership, the Female Founders Programme at the National Digital Research Centre, and the Illuminate Female Entrepreneurship Programme at the Drogheda Enterprise Centre.

As a community bank, we are active in local business networks through our representation on the councils of 22 of the 31 Local Enterprise Offices, through regional chambers of commerce, and through our engagement with our farming customers. In 2015, AIB supported the Teagasc Farm Business Plan of the Year Awards, the Teagasc Greenfield Open Day, Macra na Feirme's Young Farmer's Positive Forum, the AIB National Livestock Show and the Irish Grassland Association Dairy Summer Tour.

Supporting start-ups

AIB is the largest bank seed fund investor in Ireland, and a significant provider of venture and growth capital funding, with commitments currently totalling €105 million across seven funds. These funds have invested in 138 companies to date, creating 1,775 Irish jobs. In 2015, more than €12.7 million was contributed to seed funds for onward investment in Irish SMEs.

In August 2015, AIB announced a five-year partnership with Galway City Innovation District – a new initiative supporting start-ups and business innovation in Galway city and the west of Ireland. AIB is proud to sponsor PorterShed – the first accommodation to open as part of this new initiative. PorterShed will house an accelerator programme, high potential start-ups and entrepreneurs, as well as providing co-working space and an open area for workshops and seminars.

Our communities

Supporting social investment

AIB has a dedicated nonprofits sector team to support customers operating in the nonprofit sector since January 2014. This team is actively providing support to organisations operating within this diverse sector which includes social housing and community development, charities, health and education, sports, arts and culture, religious orders and professional associations.

During 2015, AIB co-financed the €80 million construction and operation of four new Irish schools. These post-primary schools and sports pitches will accommodate c. 3,000 students, and are located in Louth, Clare, Tipperary and Cork.

In the UK market, AIB GB has over twenty-five years' experience of lending for social and voluntary housing, managing c.£200 million worth of lending to the sector. In Ireland, AIB is currently actively supporting Approved Housing Bodies (AHBs) to build and renovate social housing.

Supporting sustainable communities

AIB sponsors the Sustainable Energy Authority of Ireland 'One Good Idea' competition for primary and secondary schools. Last year, 888 primary and secondary school pupils entered the competition with their campaigns to raise awareness in their school or community about climate change and energy efficiency. 2015 was also the third year of our partnership with "Grow it Yourself" to fund their "Get Ireland Growing Campaign", an initiative to support food growing projects by schools, local communities and nonprofit groups.

"The Sustainable Energy Authority of Ireland (SEAI) is delighted to be working with AIB on the One Good Idea Schools Project, which educates students on climate change by encouraging them to run energy awareness campaigns. Due to the generous support of AIB, SEAI was able to expand this annual competition from post-primary schools to include all primary schools in the country. With AIB's support, SEAI launched a nationwide campaign which comprised of the four winning teams developing posters for display on bus shelters and in public transport around the country, as well as digital displays in all AIB branches."

Emer Barry, Education Executive, SEAI

Supporting education

2015 is the second year of a seven-year partnership with UCD to support research and educational initiatives that will contribute to Ireland's social and economic well-being. The flagship of this partnership is the establishment of a Chair in Behavioural Economics at UCD, together with a PhD scholarship programme, an MSc programme in Behavioural Economics and the creation of a new UCD-AIB Behavioural Economics Lab at the UCD Geary Institute.

In keeping with our commitment to support new and emerging sciences, AIB also partnered with Dublin City University to establish the AIB Chair in Data Analytics.

In January 2015, AIB signed a three-year partnership agreement with the DCU Centre for Family Business, together with leading accountancy and law firms, PwC and William Fry. As a bank with a deep commitment to family-owned businesses, we will be working with DCU to develop a centre for excellence for Irish family businesses, providing education and advice on best practice in management of family firms, for this generation and the next.

First Trust Bank was also proud to partner with the William J Clinton Leadership Institute at Queen's University Belfast to establish a bespoke corporate leadership programme, which will support the development of the next generation of business leaders in Northern Ireland.

Financial literacy is critically important to social inclusion. In 2015, AIB together with a panel of teachers developed a non-partisan financial education programme to develop practical financial literacy skills among primary and secondary school pupils. Last year, the 'Future Me' programme ran in 373 primary schools and 111 secondary schools, supported by local AIB branches.

AIB is also a long-standing partner of the Junior Achievement programme, where our staff volunteer their time to encourage young people in their career development, and a founding sponsor of College Awareness Week, which aims to inspire, encourage and inform students on the importance of having a post-secondary education plan.

Many businesses and governments already incorporate the insights of behavioural economics into their activities. The AIB Chair in Behavioural Economics will locate UCD at the cutting edge of the field in advancing behavioural economics theory and evaluating real-world applications. AIB's foresight in supporting this initiative at UCD will ensure extensive benefits to business, government and society through both research and education."

Professor Colin Scott, Principal UCD College of Social Sciences and Law

Supporting young people

In 2015, AIB entered into a three-year partnership with Soar, a social enterprise which creates and delivers early intervention mental and emotional wellbeing programmes for young people aged 12 to 18. That partnership will cover the period 2016-2018.

Supporting art in the community

AIB has an extensive art lending programme, with artworks constantly on loan to public institutions. During 2015, 286 artworks went on loan to 15 public venues nationwide.

As an Irish bank, we are proud to have supported Irish artists over several decades, and to bring their works to a wider audience. In May 2015, works from the AIB and Crawford Art Gallery Collections made up the 'Art of a Nation' exhibition in London. This was the first major exhibition of Irish art in London for over 30 years, featuring over 70 artworks, and attracting an estimated 15,000 visitors.

In September 2015, over 2,500 people viewed 30 artworks from the AIB collection on display during the annual Clifden Arts Festival, while in November 42 artworks from the AIB collection went on display in our branch at 66 South Mall, Cork, as part of its centenary celebrations. AIB also participated in Culture Night 2015, opening its doors in Bankcentre to provide art tours to the public.

AIB is a supporter and patron of Business to Arts, through our Private Banking unit.

Supporting club and county

2015 was the 24th year of AIB's sponsorship of the GAA Senior Club Championships, which includes Junior, Intermediate and Senior grades in hurling, football and camogie. In February 2015, AIB announced a new sponsorship of the Football All-Ireland Senior Championship, cementing our support of the GAA in both club and county.

As part of that support in 2015, we engaged with over 1,600 GAA clubs in Ireland and provided training equipment to over 150 clubs who were successful in winning county titles in hurling, football and camogie.

Our people

Engaging our staff

At AIB, employee engagement is about our people feeling listened to, involved, valued and energised about their work and the part they play in delivering our strategy. In recent years we have invested a significant level of time and resources in raising employee engagement as a core element of our overall people strategy. Since 2013, we have worked closely with Gallup, using their proven approach to help us drive engagement, particularly at local team level. In 2015, 86% of our employees took part in our engagement survey – up 6% from last year. Based on Gallup's Q12 engagement survey, we have made significant strides in increasing employee engagement across the bank. When compared to Gallup's worldwide database, AIB has made more than eight years' worth of significant increases in just two years, the biggest two year increase that Gallup has ever seen among its European clients.

Employee relations

AIB has positive working relations with all three of its employee representative unions IBOA, SIPTU and Unite. An initiative is underway with IBOA, the largest union, focused on enhancing working relations between management and union representatives at all levels across the organisation and promoting more effective processes of local engagement.

Diversity and Equal Opportunities

In 2015, AIB put in place a Diversity and Inclusion Code, which sets out our approach to embedding diversity across our organisation. In February 2015, the Board also adopted a Board diversity policy, which includes the objective of achieving a minimum of 25% female representation on the Board by the end of 2016 and thereafter.

Over the last year, we have launched an internal networking programme for women under our Diversity and Inclusion programme, simplified our flexible working policies, and started to roll out 'unconscious bias' training for 120 top leaders in the bank.

Training and development

On average, our staff completed approximately 25 hours of accredited training during the year via our iLearn Learning Service.

Work-life balance

We actively support diversity within our organisation and as such we recognise that our people may need flexibility in their work patterns at certain times in their career when balancing priorities between their personal and work life. AIB provides a wide variety of flexible working options, including reduced hours, specific options for parents, career breaks, special absence breaks and agile working policies.

Environment

Supporting sustainability through business lending

AIB has a dedicated fund of €100 million for energy efficiency investment in SMEs. We understand the benefits to the bottom line for businesses who introduce energy saving measures, and we factor those benefits into our credit decision process.

Projects sanctioned by our business banking team during 2015 will generate 32.1MW of energy, or 95,790,000 kWh per annum, which is enough to provide clean electricity for c.19,000 Irish households every year.

To support future champions, AIB has also pledged €5 million in equity funding for start-up companies in the sustainable technologies sector.

AIB is committed to being a leader in the solar energy sector in Ireland, but we know that it is important for businesses to see the demonstration effect of investing in energy efficiency. That is why, in 2015, we announced our intention to construct our own rooftop Solar PV plant at our Dublin headquarters, one of the largest projects of its kind in Ireland.

Supporting sustainable investment by homeowners

In 2015, we launched a new initiative for customers taking out Home Improvement Loans, where they can benefit from a free Building Energy Rating certificate and a personalised advisory report, to encourage investment in home energy efficiency.

Reducing our own environmental footprint

AIB made good progress in 2015 in reducing its overall environmental footprint, winning 'Large Green Organisation of the Year 2015', a 'Pakman Professional Services Award' and the 'Overall Pakman award for environmental performance'. We were also finalists in the SEAI Energy Leadership awards and the Envirocom water and waste reduction awards.

We successfully rolled out our ISO50001 international energy management system to four of our head office sites in the Republic of Ireland. AIB also became one of the first organisations in Ireland to operate to the newest version of the Environmental Management Standard (ISO14001:2015).

AIB maintained its purchase of electricity in the Republic of Ireland and Northern Ireland from 100% renewable resources in 2015. Investment in strategic projects reduced overall energy consumption in the Republic of Ireland by 9% in 2015.

All waste generated at AIB head offices is diverted from landfill, with 65% being recycled, with our focus for 2016 to be on an overall reduction in waste being generated at source.

As a large employer, we can make a difference by making our staff more aware of their own environmental impact. In 2015, we developed a bespoke online interactive energy awareness course. So far, over 10,000 AIB staff have undertaken this training, and we have licensed it to the ISI Centre and Skillnets for distribution to the wider corporate community.

Our environmental reporting

AIB reports annually to the Carbon Disclosure Project (CDP). AIB exceeded its target score for its annual carbon footprint submission in 2015, achieving an excellent score of 98% disclosure and a 'Band B' position for performance, retaining its position as a 'Carbon Leader'. Based on 2014 data, AIB's total reported carbon footprint was 25,853 tCO2eq, a drop of 1.2% from the previous year.

Our Suppliers

As a large Irish company, AIB has a wide and diverse supplier base of approximately 2,600 suppliers. Our relationship with our suppliers is governed by our Group Sourcing and Supplier Relationship Management Policy.

Last year, we implemented a Supplier Relationship Management programme, which governs engagement between AIB and its suppliers. This governance and oversight extends from the Board to individual Supplier Relationship Managers and business owners. During 2016, we will be extending our capacity to allow our suppliers to provide 360 degree feedback on their experience and to rate AIB's performance.

We understand the importance to SMEs of prompt payment. In 2015, our average time of payment was 28 days. Looking ahead to 2016, we will be implementing e-invoicing for all suppliers to improve our payment process times and make it easier for our suppliers to work with AIB.

Business review

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Business review - 1. Operating and financial review

Summary income statement	2015 € m	2014 € m	% change
Net interest income	**1,927**	1,687	*14*
Business income	**533**	406	*31*
Other items	**163**	437	*-63*
Other income	**696**	843	*-17*
Total operating income	**2,623**	2,530	*4*
Personnel expenses	**(725)**	(767)	-5
General and administrative expenses	**(497)**	(551)	*-10*
Depreciation, impairment and amortisation	**(74)**	(85)	*-13*
Total operating expenses	**(1,296)**	(1,403)	*-8*
Operating profit before levies and provisions	**1,327**	1,127	*18*
Bank levies	**(68)**	(60)	*13*
Writeback of provisions for impairment on loans and receivables	**925**	185	*400*
(Provisions)/writeback of provisions for liabilities and commitments	**(2)**	4	-
Provisions for impairment on financial investments available for sale	**-**	(1)	-
Total writeback of provisions	**923**	188	*391*
Operating profit	**2,182**	1,255	*74*
Associated undertakings	**25**	23	*9*
Profit on disposal of property	**3**	6	*-50*
Profit from continuing operations before exceptional items	**2,210**	1,284	*72*
Restitution and restructuring expenses	**(250)**	(151)	-
Gain on transfer of financial instruments	**5**	2	-
Termination benefits	**(37)**	(24)	-
Other exceptional items	**(14)**	-	-
Total exceptional items	**(296)**	(173)	-
Profit before taxation from continuing operations	**1,914**	1,111	*72*
Income tax charge from continuing operations	**(534)**	(230)	*132*
Profit after taxation from continuing operations	**1,380**	881	*57*
Profit after taxation from discontinued operations[1]	**-**	34	-
Profit for the year	**1,380**	915	*51*

Operating contribution before levies and provisions by segment	€ m	€ m	% change
AIB Ireland	**1,133**	906	*25*
AIB UK	**185**	152	*22*
Group & International	**9**	69	*-87*
Operating profit before levies and provisions	**1,327**	1,127	*18*

[1]Profit on the disposal of Ark Life Assurance Company Limited.

Basis of presentation

The following operating and financial review is prepared in line with how the Group's performance is reported to management and the Board. The information presented excludes exceptional items that management believe obscure the underlying performance trends in the business. A list of the items classified as exceptional is included below. Percentages presented throughout this report are calculated on the absolute figures and therefore may differ from the percentages based on the rounded numbers.

Impact of currency movements

The impact of currency movements is calculated by comparing the results for the current reporting period to results for the comparative period retranslated at exchange rates for the current reporting period.

Overview of results

Profit before taxation from continuing operations (after exceptional items) amounted to € 1,914 million in 2015 compared to € 1,111 million in 2014. This included a net charge for exceptional items in 2015 of € 296 million compared to € 173 million in 2014.

Exceptional items

Total exceptional items	2015 € m	2014 € m
Restitution and restructuring expenses	**(250)**	(151)
Gain on transfer of financial instruments	**5**	2
Termination benefits	**(37)**	(24)
Other exceptional items	**(14)**	-
Total exceptional items	**(296)**	(173)

Restitution and restructuring expenses: Restitution and restructuring expenses of € 250 million in 2015 (€ 151 million in 2014). These include costs associated with customer redress[1], restitution, transformation, reorganisation and certain provisions for liabilities.

Customer redress relates to the request from the Central Bank of Ireland ("CBI") in December 2015, to the Irish banking industry, including AIB, to conduct a broad examination of tracker mortgage related issues, comprising of a review of mortgage loan books (including both Principal Dwelling House ("PDH") and Buy-To-Let ("BTL") properties, and those disposed of). The Group has identified areas where customer redress is relevant. The Group has provided € 105 million relating to the refund of interest and other compensation amounts.

Furthermore, the Group has recognised a provision of € 85 million for other related matters.

Gain on transfer of financial instruments: Valuation adjustments on previous transfers of financial assets to NAMA amounted to a gain of € 5 million in 2015 (€ 2 million in 2014).

Termination benefits: The cost of the voluntary severance programme was € 37 million in 2015 (€ 24 million in 2014).

Other exceptional items: Capital reorganisation costs and other related items of € 14 million in 2015 (nil in 2014).

Profit before taxation from continuing operations and before exceptional items

The Group has continued its positive momentum in 2015 and has achieved its medium term targets which were set in 2012 (see page 3). The Group has benefited from the improved economic environment and the results of management actions. Profit before taxation from continuing operations and before exceptional items was € 2,210 million in 2015 compared to € 1,284 million in 2014 with an increase in income, reduction in costs and significant increase in net credit provision writebacks in 2015.

Net interest income of € 1,927 million in 2015 increased by € 240 million compared to 2014, reflecting reductions in the cost of customer deposits, other interest bearing liabilities and the ELG charge partly offset by lower average interest earning assets (mainly due to the redemption of NAMA senior bonds) and lower asset pricing.

Other income, now presented as 'business income' and 'other items', of € 696 million in 2015 was € 147 million lower than 2014. Business income of € 533 million in 2015 increased by € 127 million compared to 2014 due to higher net trading income.

Other items	2015 € m	2014 € m
Net profit on disposal of AFS securities net of hedge termination costs	**85**	181
Effect of acceleration / re-estimation of the timing of cash flows on NAMA senior bonds	**6**	132
Settlements and other gains	**72**	124
Other items	**163**	437

Other items of € 163 million in 2015 were € 274 million lower than 2014.

Operating expenses of € 1,296 million in 2015 were € 107 million lower compared to 2014. This reduction was a result of ongoing cost control and management, supported by progress on the Group's transformation strategy which enabled staff exits as part of the Group's severance scheme.

Bank levies of € 68 million in 2015 were € 8 million higher than 2014 due to an additional levy in 2015 relating to the introduction of the Bank Recovery and Resolution Directive ("BRRD") levy.

Writeback of provisions for impairment on loans and receivables of € 925 million in 2015 increased by € 740 million from an overall net provision writeback of € 185 million in 2014. The net writebacks were mainly due to improvements in the economic environment which has driven improvements in trading performance, increases in asset values and progress in the restructuring process. See the Risk management section on page 97 for more detail on provisions.

[1]For further detail see page 248 and page 291.

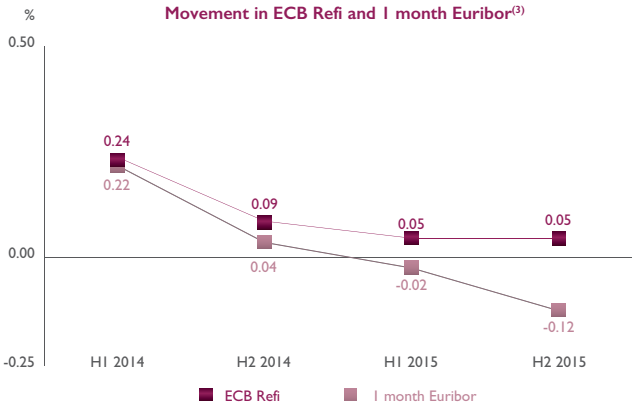
Net interest income

- NIM[1] of 1.97% up 28 bps compared to 2014.
- Exit NIM[2] of 2.02% for 2015.
- Excluding the impact of low yielding NAMA senior bonds, NIM[1] was 2.12%.
- Significantly reduced funding costs offset by reduction of income on NAMA senior bonds and Available For Sale ("AFS").

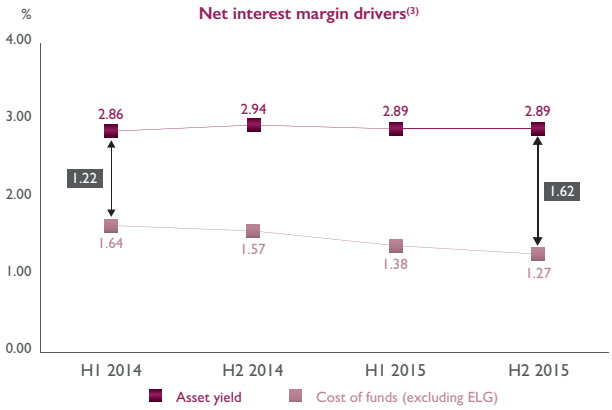
Net interest income	2015 € m	2014 € m	% change
Net interest income	**1,927**	1,687	*14*
Average interest earning assets	**99,272**	103,370	*-4*
	%	%	% change
NIM excluding ELG	**1.97**	1.69	0.28
NIM excluding ELG and NAMA senior bonds	**2.12**	1.89	0.23
NIM	**1.94**	1.63	0.31

Net interest income of € 1,927 million in 2015 increased by € 240 million (14%) from € 1,687 million in 2014. The increase was mainly due to significant reductions in funding costs, growth in new lending volumes at risk appropriate margins and a lower ELG charge. This was partly offset by the impact of customer loan redemptions, lower income from NAMA senior bonds and AFS securities and lower yield on the variable rate mortgage portfolio following two significant rate reductions in the year.

The impact of currency movements increased net interest income by € 26 million in 2015.



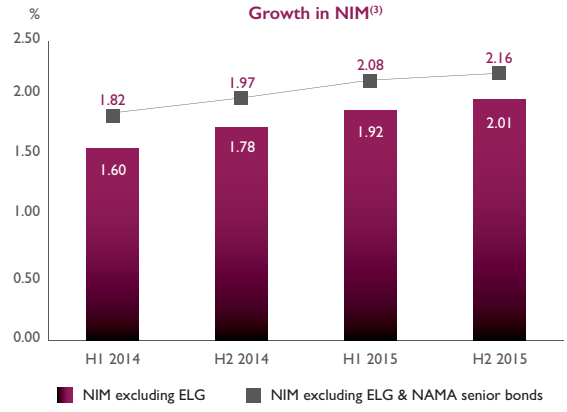
The ECB maintained low official rates and short term Euribor rates moved slightly into negative territory during 2015 positively impacting on short term funding.



The 2015 average asset yield of 289 bps was broadly in line with 2014. The mix of assets moved in favour of customer loans with the reduction of low yielding NAMA senior bonds. Customer asset yields remained stable notwithstanding the reduction in the interest rate environment and the two variable mortgage rate reductions. Yields on financial investments available for sale reduced by 29 bps and yields on NAMA senior bonds reduced by 23 bps.

The 2015 average cost of funds of 133 bps reduced from 161 bps in 2014 as a result of continued deposit pricing actions, the change in funding mix with an increase in low yielding current accounts and the roll-off of deposits at higher rates.

The reduction in the average cost of funds combined with broadly stable asset yields resulted in the gap between asset yields and the cost of funds increasing to 162 bps in H2 2015 from 122 bps in H1 2014. The gap increased by 11 bps since H1 2015.



The net interest margin[1] of 1.97% in 2015 increased by 28 bps from 1.69% in 2014. The factors contributing to the increase were a decrease in yields on interest earning assets (1 bp) and a decrease in the cost of funding those assets (29 bps). Continuous growth in net interest margin[1] at 2.01% in H2 2015 from 1.60% in H1 2014.

[1]Excluding ELG
[2]Exit NIM is the average net interest margin excluding ELG for Q4 2015.
[3]Trends are set out on a half-yearly basis.

Average balance sheet[1]

Assets	Year ended 31 December 2015 Average balance € m	Interest € m	Average rate %	Year ended 31 December 2014 Average balance € m	Interest € m	Average rate %
Loans and receivables to customers	64,868	2,214	3.41	65,391	2,237	3.42
NAMA senior bonds	7,614	31	0.41	12,569	80	0.64
Financial investments available for sale	19,503	514	2.63	19,444	567	2.92
Financial investments held to maturity	106	4	3.76	-	-	-
Other interest earning assets	7,181	25	0.36	5,966	22	0.36
Net interest on swaps		81			91	
Average interest earning assets	99,272	2,869	2.89	103,370	2,997	2.90
Non interest earning assets	7,557			8,237		
Total assets	106,829	2,869		111,607	2,997	
Liabilities & shareholders' equity						
Deposits by banks	15,734	4	0.03	18,515	46	0.25
Customer accounts	43,777	426	0.97	48,944	637	1.30
Subordinated liabilities	1,625	278	17.10	1,401	256	18.30
Other debt issued	7,475	204	2.74	8,921	312	3.49
Average interest earning liabilities	68,611	912	1.33	77,781	1,251	1.61
Non interest earning liabilities	25,985			22,426		
Shareholders' equity	12,233			11,400		
Total liabilities & shareholders' equity	106,829	912		111,607	1,251	
Net interest income excluding ELG		1,957	1.97		1,746	1.69
Eligible liabilities guarantee ("ELG")[1]		(30)	(0.03)		(59)	(0.06)
Net interest income including ELG		1,927	1.94		1,687	1.63

Average interest earning assets of € 99 billion in 2015 reduced from € 103 billion in 2014 as the impact of redemptions of NAMA senior bonds of € 5.0 billion and lower loans and receivables to customer of € 0.5 billion were partly offset by an increase in financial investments of € 0.2 billion and other interest earning assets of € 1.2 billion.

Interest income from loans to customers of € 2,214 million in 2015 was marginally lower than 2014 as a result of loan pricing during 2015, which included the two variable mortgage rate reductions and the impact on yields of falling market interest rates.

Interest income from NAMA senior bonds of € 31 million in 2015 reduced by € 49 million from € 80 million in 2014 as a result of a reduction in average volumes of € 5.0 billion following redemptions in 2014 and 2015 and lower interest rates. The reduction of these lower yielding assets had a positive effect on the net interest margin[2] of 6 bps.

Financial investments available for sale of € 3.5 billion were reclassified to financial investments held to maturity during 2015. Interest income from financial investments available for sale and held to maturity reduced by € 49 million as higher yielding securities were sold or matured along with the impact of the lower market interest rates on the average book yield.

The cost of interest earning liabilities of € 912 million in 2015 reduced by € 339 million from € 1,251 million in 2014 due to a reduced funding requirement and lower yields. The higher volume of low interest current accounts was offset by lower volumes of deposits. This along with the reduction in deposit pricing on customer accounts and lower wholesale market rates have resulted in materially lower funding costs.

The exit NIM[3] for 2015 was 2.02% of which the main drivers were an average yield on loans and receivables to customers of 3.29%, average yield on financial investments available for sale of 2.63% and an average yield on customer accounts of 0.83%.

Eligible liabilities guarantee ("ELG")

The ELG charge was € 30 million in 2015 compared with € 59 million in 2014. As existing liabilities that are covered by the scheme mature, the ELG charge will continue to reduce. The total liabilities guaranteed under the ELG Scheme at 31 December 2015 amounted to € 1.8 billion (€ 4.6 billion at 31 December 2014).

[1]The Average Balance Sheet (note 59 to the consolidated financial statements) includes the cost of ELG in interest within liabilities and shareholders' equity. Other interest earning assets is split into Trading portfolio financial assets and Loans and receivables to banks.
[2]Excluding ELG
[3]Exit NIM and yields are based on the average yields excluding ELG for Q4 2015.

Other income

- Business income up 31% to € 533 million:
  - net trading income up € 112 million
  - net fee and commission income up € 15 million.
- Reductions in other items as lower gains on AFS disposals, NAMA senior bonds and other settlements in 2015.

Other income	2015 € m	2014 € m	% *change*
Net fee and commission income	**405**	390	*4*
Dividend income	**26**	25	*4*
Net trading income	**87**	(25)	-
Foreign exchange gains	**15**	11	*36*
Miscellaneous operating income	**-**	5	-
Business income	**533**	406	*31*
Net profit on disposal of AFS securities	**85**	181	-
Effect of acceleration / re-estimation of the timing of cash flows on NAMA senior bonds	**6**	132	-
Settlements and other gains	**72**	124	-
Other items	**163**	437	*-63*
Other income	**696**	843	*-17*

Other income, now presented as 'business income' and 'other items', was € 696 million in 2015 compared with € 843 million in 2014, a decrease of € 147 million (17%). Business income of € 533 million increased by € 127 million and other items of € 163 million reduced by € 274 million compared with 2014.

The impact of currency movements increased other income by € 7 million in 2015.

Business income

Net fee and commission income

Net fee and commission income of € 405 million in 2015 increased by € 15 million (4%) compared with 2014 as a result of increases in wealth commissions, insurance profit share and credit related fees. Current account fees were 3% higher than 2014 reflecting income from growth in transaction numbers which were partly offset as customers continued to migrate to cheaper self service options.

Dividend income

Dividend income was € 26 million in 2015 compared with € 25 million in 2014. € 25 million was received on NAMA subordinated bonds in both years.

Net trading income

Net trading income	2015 € m	2014 € m	% *change*
Foreign exchange contracts	**41**	45	*-9*
Derivative contracts and debt securities	**46**	(70)	-
Net trading income	**87**	(25)	-

Net trading income was € 87 million in 2015 compared to a cost of € 25 million in 2014.

Income from derivative contracts and debt securities was € 46 million in 2015 compared to a cost of € 70 million in 2014. The € 70 million cost in 2014 was primarily from the negative valuation adjustments on sterling customer derivative positions due to the reduction in medium to long term sterling interest rates. In 2015, due to an increase in term sterling interest rates, this negative valuation adjustment was partially reversed.

Other items

There was € 163 million of income classified as other items in 2015 compared to € 437 million in 2014. Income included a net profit of € 85 million from the disposal of available for sale debt and equity securities compared to € 181 million in 2014 due to a lower volumes of sales in 2015.

A gain of € 6 million was recognised on NAMA senior bonds reflecting accelerated repayments following redemptions of € 3.8 billion in 2015. A gain of € 132 million was recognised in 2014 that reflected a revised expected timing of repayments including those received in the year.

Settlements and other gains	2015 € m	2014 € m
Effect of realisation/re-estimation of cash flows on loans and receivables previously restructured[1]	**45**	24
Income on settlement of claims	**38**	27
Fair value gain on equity warrants	**8**	24
Net gain/(loss) on buyback of debt securities in issue	**8**	(1)
(Loss)/profit on disposal of loans[2]	**(27)**	50
Settlements and other gains	**72**	124

Settlements and other gains of € 72 million in 2015 reduced by € 52 million compared with 2014.

[1] For further detail please see pages 139 to 140.

[2] The loss on disposal of loans in 2015 of € 27 million consists of a loss of € 39 million relating to the disposal of a UK portfolio of loans partly offset by a profit on disposal of corporate loans of € 12 million compared to profit of € 50 million on disposal of loans to customers in 2014.

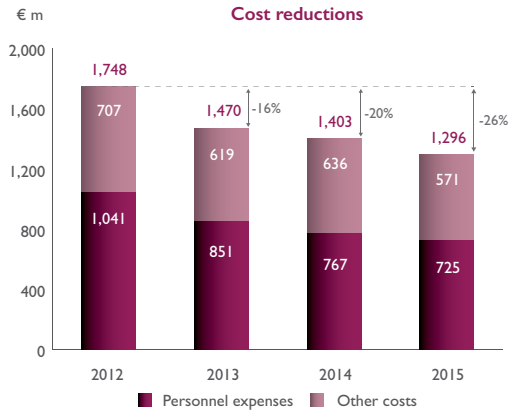
Total operating expenses[1]

- Costs of € 1,296 million down € 107 million (8%) compared to 2014.
- Average staff numbers down 721 (6%) compared to 2014.
- Since 2012, costs down 26% reaching cost reduction of € 452 million.

Operating expenses	2015 € m	2014 € m	% change
Personnel expenses	725	767	-5
General and administrative expenses	497	551	-10
Depreciation, impairment and amortisation	74	85	-13
Total operating expenses before exceptional items	1,296	1,403	-8
Staff numbers at period end (FTE)[2]	10,204	11,047	-8
Average staff numbers (FTE)[2]	10,663	11,384	-6

Total operating expenses of € 1,296 million in 2015 were € 107 million (8%) lower compared to 2014. This reduction in costs mainly related to ongoing cost control and management, supported by progress on the Group's transformation strategy which enabled staff exits as part of the Group's severance scheme.

The impact of currency movements increased operating expenses by € 23 million in 2015.



Since 2012 the Group has undergone a structured programme of cost reduction and has achieved a 26% (€ 452 million) reduction in the period. In this regard, in 2015, the Group has reached its cost reduction targets.

Personnel expenses

Personnel expenses of € 725 million in 2015 were € 42 million (5%) lower compared to 2014 reflecting lower staff numbers and capitalisation of costs relating to the strategic investment programme.

Average staff numbers of 10,663 reduced by 721 (6%) mainly due to the severance scheme in 2014 and 2015 and continued selective outsourcing of some back office and support functions. Costs related to this outsourcing activity are reflected in general and administrative expenses. Personnel expenses in 2015 included € 12 million relating to a 2% salary increase approved at the Labour Relations Commission for staff earning up to €100,000 or £80,000 per annum.

General and administrative expenses

General and administrative expenses of € 497 million in 2015 were € 54 million (10%) lower than 2014 with savings across most classifications as part of ongoing cost management and control partly offset by an increase in costs as a result of outsourcing initiatives.

Depreciation, impairment and amortisation

The charge for depreciation, impairment and amortisation of € 74 million in 2015 was € 11 million (13%) lower than 2014 due to the timing of depreciation relating to the strategic investment programme.

Cost income ratio[1]

Costs of € 1,296 million and income of € 2,623 million resulted in a cost income ratio of 49% compared to 55% in 2014.

Strategic investment programme

While costs continue to reduce in line with expectations, the Group continues to invest in customer, digital, information technology and related programmes. AIB has invested € 313 million in 2015, of which € 240 million was capitalised, as part of the investment programme to provide an improved experience for our customer, to simplify internal processes and to ensure resilience in our core infrastructure, up € 111 million from 2014. This will enhance the Group's capacity to achieve further cost and income benefits into the future.

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

Bank levies

Bank levies of € 68 million in 2015 compared with € 60 million in 2014. Bank levies in 2015 include an Irish bank levy of € 60 million (€ 60 million in 2014) and an additional levy of € 8 million relating to the introduction of the Bank Recovery and Resolution Directive ("BRRD") levy. The Irish bank levy is a form of stamp duty which applies for the years 2014 to 2016, which has now been extended to 2021 following the budget announcement in October 2015.

Associated undertakings

Income from associated undertakings of € 25 million in 2015 compared with € 23 million in 2014, relating to AIB's share in the joint venture with First Data International trading as AIB Merchant Services and AIB's share in associate Aviva Health Insurance Ireland Limited. The increase in 2015 is mainly due to higher profits from AIB's share in associate Aviva Health Insurance Ireland Limited.

Income tax

The total taxation charge for 2015 was € 534 million compared with a charge of € 230 million in 2014. The increase was due to an increase in pre-tax profits together with a once off UK deferred tax expense of € 242 million arising from legislation enacted in March 2015 which only allows fifty per cent of a UK bank's annual trading profits to be offset by unused tax losses arising before 1 April 2015. Deferred Tax Assets ("DTA") in respect of accumulated tax losses continue to be recognised in full on the basis that it is expected that tax losses will be utilised in full against future profit, subject to specific exceptions e.g. AIB Group (UK) p.l.c. These exceptions are set out in note 34 to the consolidated financial statements.

Discontinued operations

Profit on the disposal of Ark Life Assurance Company Limited of € 34 million, following completion of the sale on 8 May 2014 has been reported under discontinued operations in 2014. See note 19 to the consolidated financial statements.

Balance sheet commentary

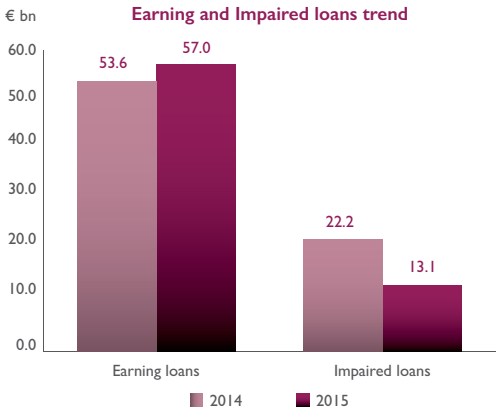
- Earning loans[1] at € 57.0 billion have increased by 6% and impaired loans[1] at € 13.1 billion have reduced by 41% since 31 December 2014.
- New lending of € 8.7 billion was 49% higher than 2014.
- Reduction in NAMA senior bonds of € 3.8 billion (40%) to € 5.6 billion due to redemptions.
- Customer deposits at € 63.4 billion remained broadly stable. Increase in current accounts offset by reduction in deposits.

Balance sheet	31 Dec 2015 € bn	31 Dec 2014 € bn	% change
Gross loans to customers	70.1	75.8	-8
Provisions	(6.9)	(12.4)	-45
Net loans to customers	63.2	63.4	-
Financial investments available for sale	16.5	20.2	-18
Financial investments held to maturity	3.5	-	-
NAMA senior bonds	5.6	9.4	-40
Other assets	14.3	14.5	-1
Total assets	103.1	107.5	-4
Customer accounts	63.4	64.0	-1
Deposits by banks - ECB	2.9	3.4	-15
Other market funding	11.0	13.4	-18
Debt securities in issue	7.0	7.9	-11
Other liabilities	6.7	7.2	-7
Total liabilities	91.0	95.9	-5
Shareholders' equity	12.1	11.6	5
Total liabilities & shareholders' equity	103.1	107.5	-4
	%	%	change
Loan to deposit ratio	100	99	1

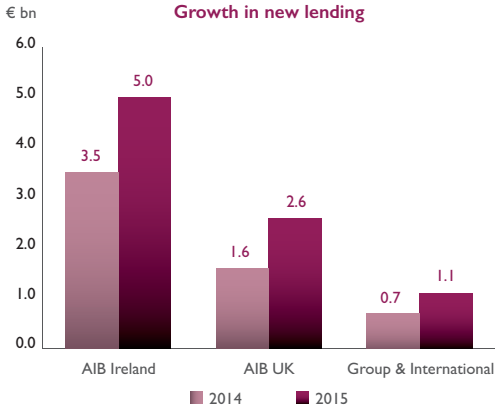
Loans to customers

Gross loans to customers

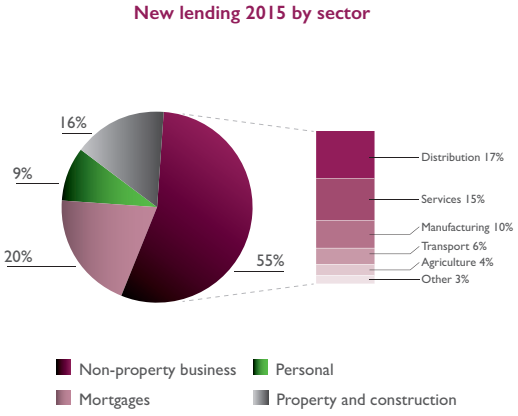
Gross loans at € 70.1 billion reduced by € 5.7 billion (8%) since 31 December 2014 or € 6.8 billion (9%) excluding the impact of currency movements of € 1.1 billion. The reduction was due to the impact of loan restructuring of € 4.7 billion, the disposal of a portfolio of loans in the UK of € 0.7 billion and loan redemptions of € 10.1 billion partly offset by new lending of € 8.7 billion.



Earning loans, excluding the impact of currency movements, have increased by € 2.5 billion to € 57.0 billion and includes € 3.2 billion of loans upgraded to earning in the year. This also includes new lending of € 8.7 billion which was 49% higher than 2014.



New lending in AIB Ireland was up 41% at € 5.0 billion, AIB UK up 60% at € 2.6 billion and Group & International up 59% at € 1.1 billion compared to 2014.



Non-property business lending contributed to 55% of all new lending in 2015. 20% of new lending in 2015 was from mortgage lending. AIB Group was the largest provider of new mortgage lending drawdowns in Ireland in 2015 with a market share of 34%.

[1]Represents gross loans to customers.

Business review - 1. Operating and financial review

Impaired loans, excluding the impact of currency movements, have reduced by € 9.3 billion to € 13.1 billion since 31 December 2014 reflecting the implementation of sustainable restructure solutions for customers and improved economic conditions. The reduction also included the disposal of a portfolio of loans in the UK. New to impaired loans for 2015 was € 0.7 billion compared to € 1.6 billion new to impaired for 2014.

Provisions

Balance sheet provisions of € 6.9 billion have decreased from € 12.4 billion mainly due to the utilisation of provisions as part of sustainable restructure solutions for customers and write-offs. Provisions on new to impaired loans were € 0.3 billion for the year. See the Risk management section on page 96 for more detail on the movement in provisions during 2015.

Net loans to customers

Net loans of € 63.2 billion reduced by € 0.2 billion, excluding the impact of currency movements net loans reduced by € 1.2 billion (2%), and reflect the gross loan movements as set out below along with the impact of movement in provisions.

The table below sets out the movement in loans to customers from 1 January 2015 to 31 December 2015.

Loans to customers	Earning loans € bn	Impaired loans € bn	Gross loans € bn	Specific provisions € bn	IBNR provisions € bn	Net loans € bn
Opening balance (1 January 2015)	**53.6**	**22.2**	**75.8**	**(11.3)**	**(1.1)**	**63.4**
New lending volumes	**8.7**	**-**	**8.7**	**-**	**-**	**8.7**
New impaired loans	**(0.7)**	**0.7**	**-**	**(0.3)**	**-**	**(0.3)**
Restructures, write-offs and disposals[1]	**3.2**	**(8.6)**	**(5.4)**	**5.5**	**-**	**0.1**
Redemptions of existing loans	**(8.5)**	**(1.6)**	**(10.1)**	**-**	**-**	**(10.1)**
Foreign exchange movements	**0.9**	**0.2**	**1.1**	**(0.1)**	**-**	**1.0**
Other movements	**(0.2)**	**0.2**	**-**	**-**	**0.4**	**0.4**
Closing balance (31 December 2015)	**57.0**	**13.1**	**70.1**	**(6.2)**	**(0.7)**	**63.2**

[1]Includes write-offs not contracted with customers. See the Risk management section on page 99.

Financial investments Available For Sale ("AFS")

AFS assets which are held for liquidity and investment purposes, were € 16.5 billion at 31 December 2015 and have decreased from € 20.2 billion during 2015. The decrease was mainly due to a reclassification of AFS assets of € 3.5 billion in 2015 to financial investments held to maturity. Sales of € 3.8 billion, maturities of € 0.3 billion and a decrease in fair value of € 0.4 billion were partly offset by purchases of € 4.3 billion. The sale of securities generated net profits of € 85 million (net of hedge termination costs). The decrease in fair value of AFS debt securities of € 0.8 billion was due to widening of Irish, Italian and Spanish sovereign spreads and the impact of higher interest rates on fixed rate security holdings. AFS equity securities increased by € 0.4 billion principally due to an increase in fair value on an equity investment in Visa Europe. Further detail in respect of AFS is available in note 29 to the consolidated financial statements.

Financial investments Held To Maturity ("HTM")

AFS assets of € 3.5 billion were reclassified to financial investments held to maturity during 2015 following a review of strategy in relation to securities holdings and a commitment to long term (to maturity) investment in selected Irish Government Bonds.

NAMA senior bonds

In 2015, € 3.8 billion of NAMA senior bonds were redeemed. Redemptions of low yielding NAMA senior bonds have improved the Group's overall net interest margin.

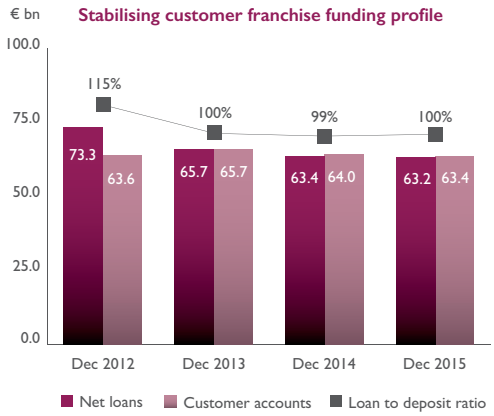
Other assets

Other assets of € 14.3 billion comprised:

- cash and loans to banks of € 7.3 billion were broadly in line with 2014. 2015 includes cash and balances with Central Banks at € 5.0 billion, loans & receivables to banks (secured) at € 1.7 billion and loans & receivables to banks (unsecured) at € 0.6 billion.
- deferred taxation of € 2.9 billion, € 0.7 billion lower than December 2014 as tax losses were utilised to offset current year profits, and includes the impact of the partial writedown of the UK deferred tax assets (reflecting new legislation).
- derivative financial instruments of € 1.7 billion, € 0.3 billion lower than December 2014.
- the remaining assets of € 2.4 billion up 50% from € 1.6 billion at December 2014 mainly due to proceeds of € 0.4 billion awaiting settlement on the disposal of a UK loan portfolio.

Customer accounts

Customer accounts reduced by € 0.6 billion (1%) to € 63.4 billion. Excluding the impact of currency movements, customer accounts reduced by € 1.5 billion (2%). The reduction included a decrease in repos of € 1.2 billion. Overall customer deposits remained broadly stable with strong growth in current accounts offset by a reduction in term deposits. The average cost of customer accounts dropped from 130 bps in 2014 to 97 bps in 2015. The loan to deposit ratio remained strong at 100% at 31 December 2015.



Deposits by banks - ECB

Monetary authority funding of € 2.9 billion at 31 December 2015 reduced by € 0.5 billion (15%) since 2014 as the overall funding requirement reduced.

Other market funding

Other market funding reduced by € 2.4 billion (18%) in 2015 due to a € 2.5 billion reduction in bilateral repos principally due to NAMA senior bond repayments.

Debt securities in issue

Debt securities in issue reduced by € 0.9 billion during 2015 which reflected an overall lower funding requirement for the Group. The reduction was primarily due to the scheduled maturity of € 2.2 billion of unsecured debt and € 0.5 billion of secured (ACS) debt partly offset by three debt issuances in 2015 totalling € 2.0 billion. The issuances have been part of a balanced and measured approach to funding in the wholesale markets.

Other liabilities

Other liabilities of € 6.7 billion comprised:

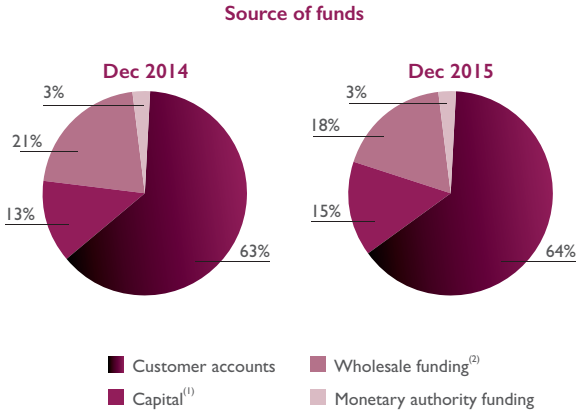
- subordinated liabilities of € 2.3 billion up 60% from € 1.5 billion in 2014. € 750 million of subordinated Tier 2 notes were issued in 2015. Subordinated liabilities include contingent capital notes maturing in 2016 with a carrying value of € 1.5 billion (nominal value of € 1.6 billion).
- derivative financial instruments of € 1.8 billion reduced by 24% from € 2.3 billion in 2014.
- retirement benefit liabilities € 0.4 billion compared to € 1.2 billion in December 2014 benefitting from changes in actuarial assumptions used to value the Irish scheme's liabilities.
- remaining liabilities of € 2.3 billion were in line with 2014.

Shareholders' equity

Shareholders' equity	€ bn
Opening balance (1 January 2015)	**11.6**
Profit for the year	**1.4**
Other comprehensive income[3]	**0.8**
AT1 issuance	**0.5**
Partial redemption of 2009 Preference Shares	**(1.7)**
Preference share dividend payments	**(0.5)**
Closing balance (31 December 2015)	**12.1**

Shareholders' equity of € 12.1 billion at 31 December 2015 increased by € 0.5 billion from € 11.6 billion at 31 December 2014. The table above sets out the movements in the year.

Funding



At 31 December 2015 customer accounts were € 63.4 billion, with wholesale funding at € 18.0 billion, monetary authority funding at € 2.9 billion and capital at € 14.4 billion.

Qualifying liquid assets

At 31 December 2015, the Group held € 34 billion in qualifying liquid assets/contingent funding (including € 4 billion in liquid assets only available for use in AIB Group (UK) p.l.c) of which approximately € 14 billion was not available due to repurchase, secured loan and other agreements. As at 31 December 2015, the Group liquidity pool was € 16 billion (31 December 2014: € 17 billion). For further detail on funding see pages 146 to 148.

[1]Includes shareholders' equity and subordinated liabilities.
[2]Includes other market funding and debt securities in issue.
[3]Other comprehensive income primarily consists of a € 0.8 billion reduction in the net pension reserve deficit.

Capital

- Common Equity Tier 1 ("CET 1") fully loaded ratio[2] of 13.0% at 31 December 2015, up from 5.9% in 2014
- 2015 profit after tax of € 1.4 billion key component of improved ratio.
- Capital reorganisation successfully completed in December 2015.

Capital	31 Dec 2015 € bn	31 Dec 2014 € bn	*change*
Transitional risk weighted assets[1]	**58.5**	59.1	-0.6
Fully loaded risk weighted assets[2]	**59.1**	59.1	-0.1
Transitional CET 1[1]	**9.3**	9.7	-0.4
Fully loaded CET 1[2]	**7.7**	3.5	*4.2*
	%	%	*change*
Transitional CET 1 ratio[1]	**15.9**	16.4	*-0.5*
Fully loaded CET 1 ratio[2]	**13.0**	5.9	7.1

Capital reorganisation

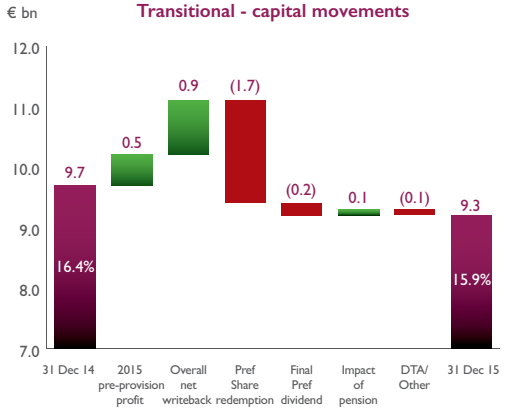
In 2015, the Group underwent a capital reorganisation. This involved the following actions:

- a payment of € 1.7 billion of capital to the State as a partial redemption of the 2009 Preference Shares representing 1.36 billion of the 3.5 billion preference shares.
- conversion of the remainder of the 2009 Preference Shares into Ordinary Shares of €0.0025 each.
- a payment of a final preference dividend of € 166 million to the NTMA.
- the issue of a Tier 2 instrument of € 750 million in November 2015.
- the issue of an Additional Tier 1 ("AT1") of € 500 million in December 2015.

Risk Weighted Assets

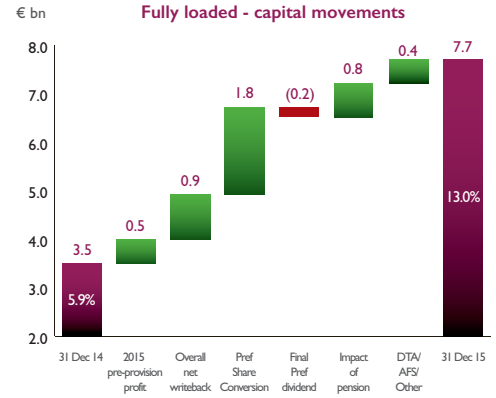
Transitional Risk Weighted Assets ("RWAs") of € 58.5 billion have reduced by € 0.6 billion during 2015, with credit risk RWA reducing by € 0.8 billion in the period. This was primarily due to a reduced volume of defaulted loans, offset by an increase due to FX movements (€ 1.0 billion). Operational risk RWA increased by € 0.3 billion in the period, reflecting the increased levels of income in the annual calculation. Credit valuation adjustment RWA reduced by € 0.1 billion, reflecting a reduced level of exposure.

Transitional CET 1 ratio



The transitional CET 1 ratio of 15.9% at 31 December 2015 reduced from 16.4% at 31 December 2014 primarily due to the € 1.7 billion payment as partial redemption of the 2009 Preference Shares partially offset by the 2015 profit after tax of € 1.4 billion.

Fully loaded CET 1 ratio



The fully loaded CET 1 ratio of 13.0% at 31 December 2015 increased from 5.9% at 31 December 2014. CET 1 capital on a fully loaded basis has increased by € 4.2 billion, reflecting the conversion of the 2009 Preference Shares resulting in a net € 1.8 billion increase, the 2015 profit after tax (€ 1.4 billion) and a decrease in the pension deficit of € 0.8 billion due to an increase in the discount rate applied in the valuation of pension liabilities. Other movements include a reduction in DTA of € 0.5 billion and an increase in value of equity investment in Visa Europe of € 0.2 billion.

Transitional to Fully Loaded CET 1 ratio

The transitional CET 1 ratio of 15.9% compares to 13.0% on a fully loaded basis at 31 December 2015. The main driver of the difference is the full deduction of the deferred tax asset, this deduction is phased into the transitional calculation at 10% per annum which commenced in 2015. The pension deficit and AFS reserves are included in the fully loaded calculations compared to phased percentages in the transitional calculations. The difference of € 0.5 billion in 2015 between Transitional and Fully Loaded RWAs is in relation to the phasing of the unrealised gains/losses portion of the AFS portfolio. See Capital Management section on pages 44 to 48.

[1]Based on a phased implementation of the Basel III CRD IV regulations.
[2]Based on full implementation of the Basel III CRD IV regulations.

Asset quality[1]

- Significant restructuring progress, with impaired loans reduced by € 9.1 billion (41%).
- Improved demand for credit resulted in new lending of € 8.7 billion, up 49% in 2015.
- Overall net provision writeback of € 925 million in 2015 improved from an overall net provision writeback of € 185 million in 2014.

Asset quality balance sheet	31 Dec 2015 € bn	31 Dec 2014 € bn	% change
Impaired loans	**13.1**	22.2	*-41*
New to impaired loans in the year	**0.7**	1.6	*-56*
Balance sheet provisions	**6.9**	12.4	*-45*
Amounts written off	**4.6**	4.7	*-1*
	%	%	
Specific provisions/Impaired loans	**47**	51	
Total provisions/Total loans	**10**	16	

Asset quality income statement	2015 € m	2014 € m	% change
Credit writeback[2]	**925**	185	*400*
Other (provisions)/writebacks	**(2)**	3	-
Total writeback	**923**	188	*391*
Provision charge %[3]	**(1.26)**	(0.22)	
Provision charge % AIB Ireland	**(1.52)**	(0.39)	
Provision charge % AIB UK	**(0.35)**	0.54	
Provision charge % Group & International	**0.50**	0.25	

Loan portfolio - Credit quality

Gross loans and receivables to customers reduced by 7.5% or € 5.7 billion in 2015. The reduction was due to restructuring activity of € 4.7 billion, the disposal of a portfolio of loans in the UK of € 0.7 billion and loan redemptions of € 10.1 billion offset by new lending of € 8.7 billion. The movement in loans to customers from 1 January 2015 to 31 December 2015 is set out on the table on page 96.

Improved demand for credit resulted in new lending of € 8.7 billion in 2015 (2014: € 5.9 billion) spread across most sectors and included € 1.7 billion mortgage and € 3.3 billion non-mortgage in AIB Ireland, € 2.6 billion in AIB UK and € 1.1 billion in Group & International.

Credit quality in the portfolio continues to improve. Non-impaired loans as a percentage of total loans have increased from 71% at 31 December 2014, to 81% at 31 December 2015. The improving credit quality is as a result of the level of new business in the year combined with the reduction in the impaired portfolio arising out of the restructuring process.

Continued progress in working with customers to restructure facilities has resulted in the quantum of impaired loans reducing by € 9 billion in the year (a decrease of 41%). The reduction reflects restructuring activity, write-offs (including non-contracted write-offs), redemptions and repayments due to customer asset sales. In addition the level of new to impaired loans for 2015 was € 0.7 billion compared to € 1.6 billion for 2014 (a decrease of 56%).

Restructuring

Restructuring loans of customers in difficulty continues to be a key focus for the Group. Treatment strategies, as described on pages 73 to 75 have been developed for customers who are experiencing financial difficulties. The approach is one of structured engagement with customers to assess their long term levels of sustainable debt. Overall, the quantum of impaired loans reduced by € 9.1 billion in the year, primarily due to restructures, write-offs and cures totalling € 8.6 billion. This € 8.6 billion was made up of restructuring engagement with customers and which resulted in c. € 3.4 billion of loans being restructured out of impairment in the year, a further € 3.4 billion of loans were written off (including non-contracted write offs), and cures of € 1.8 billion.

In addition to the reduction of impaired in the year, there is c. € 2.2 billion of impaired mortgages that are in forbearance, of which c. € 1 billion is currently performing in accordance with agreed forbearance sustainable solutions and the continued compliance to terms over a period of 12 months will result in an upgrade out of impairment. The remaining € 1.2 billion includes loans that have been the subject of a temporary or short term forbearance solution but will remain classified as impaired and in arrears until a sustainable solution has been put in place. Following this, they will be required to maintain at least 12 months satisfactory performance before being considered for upgrade out of impairment.

Net credit provision writeback

The overall net credit provision writeback of € 925 million for 2015 compared to an overall net credit provision writeback of € 185 million for 2014. Income statement specific provisions included € 281 million from new impairments and a € 789 million writeback of provisions (net of top-ups). This writeback amounted to 3.6% of the opening impaired loan balance. Key drivers of the writeback include:

- increased security values and improved business cashflows due to the stronger economic environment,
- cases cured from impairment, and
- additional security gained as part of the restructuring process.

The impairment provisions remain dependent on significant levels of future collateral realisations.

[1] More extensive disclosures on asset quality are in the Risk management section from page 91.

[2] Credit writeback/(provisions) consists of a writeback of € 925 million relating to loans and receivables to customers and nil relating to loans and receivables to banks in 2015 (€ 178 million writeback and € 7 million writeback respectively in 2014).

[3] Provision charge % is the total provision charge (specific and IBNR) expressed as a percentage of average advances.

Asset quality *(continued)*

Impairment provisions

Specific impairment provisions as a percentage of impaired loans decreased from 51% at 31 December 2014 to 47% at 31 December 2015. This was mainly due to the write-off of provisions against related loan balances where the prospect of recovery is unlikely (reduced cover by 6%), along with the impact of other restructures and writebacks.

IBNR provisions of € 0.7 billion were held at 31 December 2015 compared to € 1.1 billion at 31 December 2014. The reduction was mainly due to a reduction in the probability of default in the portfolio reflecting the improved economic environment as well as changes in model parameters. The level of IBNR reflects a conservative estimate of unidentified incurred loss within the portfolio.

Residential mortgages

Total loans in arrears (including impaired loans) in the Republic of Ireland residential mortgage portfolio of € 6.7 billion at 31 December 2015 decreased by € 2.8 billion (29%) (by value) during 2015, reflecting a decrease of 25% in the owner-occupier portfolio and a decrease of 36% in the buy-to-let portfolio in the period. By number of customers, these decreases were 24%, 24% and 25% respectively. The reduction in arrears can be mainly attributed to the restructuring of the portfolio and the improving economic conditions. The reduction in arrears was evident in both the performance of early arrears (less than 90 days past due) and the late arrears (greater than 90 days past due).The amount of loans which were new into arrears for the first time in 2015 fell by 51% compared to 2014.

Other personal

The portfolio of € 3.5 billion at 31 December 2015 reduced by € 0.3 billion or 8% during 2015, predominantly in the impaired portfolio. There has been increased customer demand for personal lending products due to the stronger economic environment and improved customer offerings.

Property and construction

The portfolio of € 11.5 billion at 31 December 2015 reduced by € 4.0 billion or 26% during 2015. Impaired loans within this sector reduced by € 4.5 billion, mainly due to restructuring, redemptions and customer repayments through asset sales. Activity in the sector has been underpinned by improved economic performance and increased investment which has had a positive impact on the residential and commercial land and development market.

Non-property business

The non-property business portfolio of € 18.3 billion at 31 December 2015 increased by € 0.7 billion due to earning loans up € 2.4 billion partly offset by a reduction in impaired loans of € 1.7 billion during 2015. The business was concentrated in sub-sectors which are reliant on the domestic economy. It also includes exposures which are more dependent on international markets. Key sub-sectors (as a percentage of total sector) include agriculture (10%), hotels (13%), licensed premises (4%), retail/wholesale (13%) and other services (32%).

The table below sets out the asset quality by sector for a range of credit metrics. Further detail of the risk profile of the Group is available in the Risk management section on pages 83 to 124.

Loan book sectoral profile 31 December 2015	Residential mortgages € bn	Other personal € bn	Property and construction € bn	Non-property business € bn	Total € bn
Loans and receivables to customers[1]	**36.8**	**3.5**	**11.5**	**18.3**	**70.1**
Of which: Impaired	**6.0**	**0.7**	**4.3**	**2.1**	**13.1**
Balance sheet provisions (specific + IBNR)	**2.3**	**0.5**	**2.7**	**1.3**	**6.9**
Specific provisions / Impaired loans (%)	**34%**	**70%**	**57%**	**55%**	**47%**
Total provisions / Total loans (%)	**6%**	**15%**	**23%**	**7%**	**10%**
12 months to 31 December 2015	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Specific impairment (credit)/charge	**(204)**	**(5)**	**(216)**	**(83)**	**(508)**
Total impairment (credit)/charge[2]	**(478)**	**(8)**	**(214)**	**(225)**	**(925)**
31 December 2014	**€ bn**	**€ bn**	**€ bn**	**€ bn**	**€ bn**
Loans and receivables to customers[1]	38.8	3.8	15.5	17.6	75.8
Of which: Impaired	8.5	1.0	8.8	3.8	22.2
Balance sheet provisions (specific + IBNR)	3.4	0.8	5.7	2.6	12.4
Specific provisions / Impaired loans (%)	34%	69%	62%	59%	51%
Total provisions / Total loans (%)	9%	20%	36%	15%	16%
12 months to 31 December 2014	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Specific impairment (credit)/charge	(4)	18	(90)	1	(75)
Total impairment (credit)/charge[2]	(76)	15	(244)	127	(178)

[1]The table above has been extracted from the Credit Risk tables in section 3.1 of the Risk management section. Loans and receivables to customers include unearned income and deferred costs.

[2]Impairment charge excludes provisions on loans to banks of nil in 2015 (€ 7 million credit in 2014).

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Segment reporting

The Group has reorganised its business in 2015 to enable a customer focused, profitable and low risk enterprise which is well positioned to support the economic recovery in Ireland while seeking to generate sustainable shareholder returns. This change focuses on the needs of its customers, so as to combine customer groups with similar needs into franchises able to deliver co-ordinated services. Previously the Group's loan restructuring activity was reported within the Financial Solutions Group ("FSG") segment and has now been integrated back into business as usual. Customers are included in respective segments regardless of the credit quality of the customer.

The Group reported the following key segments in the Half-Yearly Financial Report 2015: Retail & Business Banking ("RBB"), Corporate & Institutional Banking ("CIB"), AIB UK and Group. Reporting on this segment basis commenced in 2015.

Following further enhancements to the Group structure, Corporate Ireland was moved from CIB to RBB, forming a new segment called AIB Ireland. Wholesale Treasury and the International businesses were moved from CIB to Group to form the new segment Group & International. In the Annual Financial Report 2015, the Group reports the following key segments: AIB Ireland, AIB UK, and Group & International.

AIB Ireland

AIB Ireland comprises Personal, Business and Corporate Banking. It is the leading franchise bank across key segments and products in the domestic market and is well positioned for growth. With an integrated customer focused approach, from product design to distribution, AIB Ireland has over 2.3 million customers. AIB Ireland is divided into the following sub-segments: Retail Ireland, which consists of personal and business, and Corporate Ireland, which consists of corporate and property lending.

No. 1 Position in Key Product lines

AIB Ireland operates in five key product areas / segments: Mortgages, Personal Lending, Business Lending, Corporate and Deposits. AIB Ireland has strong market shares in Retail and Corporate Markets:

- #1 Bank for Mortgages
- #1 Bank for Personal and Business Current Accounts
- #1 Bank for Personal and Business Loans
- #1 Bank for Personal and Business Leasing
- #1 Bank for Personal and Business Credit Cards
- #1 Corporate Bank for Foreign Direct Investment

No. 1 Digital Channel Distribution Network in Ireland

As banking becomes more digitally enabled, AIB Ireland has a significant lead on Irish competitors in capability and customer adoption. The core digital platforms include Internet Banking (full responsive infrastructure), Mobile App, iBusiness Banking, Tablet banking and AIB Social Media channels. With over 1 million customers online, AIB is ranked higher than its peers in digital adoption.

No. 1 Physical Distribution Network in Ireland

Personal relationships is an important proposition in the Irish market. AIB Ireland has the leading distribution network in Ireland consisting of 203 branches, 20 Business Centres, the Lab (an award winning concept store focusing on Digital banking and innovation), 13 Campus locations, 70 EBS locations and banking services offered through the c. 1,100 strong An Post network.

AIB UK

AIB UK comprises of two long established and distinct businesses offering full banking services operating as Allied Irish Bank (GB) in Great Britain and First Trust Bank in Northern Ireland.

Great Britain

Allied Irish Bank (GB) aims to be recognised as the bank of choice for owner managed businesses in Great Britain. It operates through 16 business centres and currently services c. 2,000 Business/Corporate customers. Through its Direct Banking proposition it serves the needs of smaller owner managed businesses and the personal banking requirements of business owners and personal savers through the provision of digital and self-service channels, serving c. 68,000 customers.

Northern Ireland

In Northern Ireland, First Trust Bank ("FTB") is a well-established and trusted full service retail, business and corporate bank. FTB's strategic aim is to be a focused challenger in Northern Ireland by simplifying products and closely aligned to that offered by the Retail Banking area of AIB Ireland.

Operating out of 30 branches and 5 business offices, FTB services c. 270,000 active customers. A high quality digital offering is available to those customers seeking digital solutions to their banking requirements.

Group & International

Group & International includes the businesses outside Ireland and the UK. It also includes wholesale treasury activities, central control and support functions (business and customer services, risk, audit, finance, general counsel, human resources and corporate affairs). Certain overheads related to these activities are managed and reported in the Group & International segment.

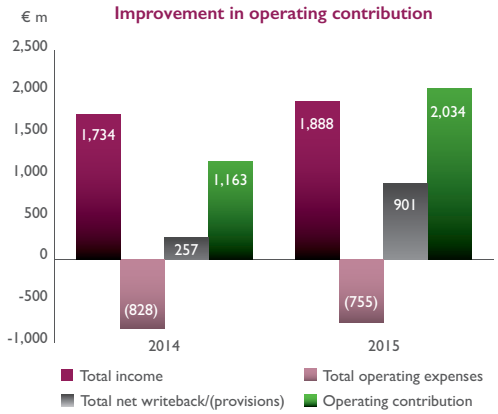
Segment allocations

The segments' performance statements include all income and direct costs but exclude certain overheads which are managed centrally and the costs of these are included in Group & International. Funding and liquidity charges are based on each segment's funding requirements and the Group's funding cost profile, which is informed by wholesale and retail funding costs. Income attributable to capital is allocated to segments based on each segment's capital requirement.

Business review - 1. Operating and financial review

AIB Ireland

- Operating contribution of € 2,034 million compared to € 1,163 million in 2014.
- New lending of € 5.0 billion, up 41%, in 2015 compared to € 3.5 billion in 2014.
  - Retail Ireland € 3.3 billion (up 32%)
  - Corporate Ireland € 1.7 billion (up 65%)
- Total overall net provision writeback of € 901 million compared to a net provision writeback of € 257 million in 2014, increased due to debt restructuring and improving economic conditions.



AIB Ireland contribution statement	2015 € m	2014 € m	% change
Net interest income	1,445	1,298	11
Other income	443	436	2
Total operating income	1,888	1,734	9
Total operating expenses	(755)	(828)	-9
Operating contribution before levies and provisions	1,133	906	25
Total net writeback of provisions	901	257	251
Operating contribution	2,034	1,163	75
Associated undertakings	21	18	17
Contribution before disposal of property	2,055	1,181	74
Profit on disposal of property	3	3	-
Contribution before exceptional items	2,058	1,184	74

AIB Ireland contribution statement	€ m	€ m change
Retail Ireland	999	777	29
Corporate Ireland	134	129	4
Operating contribution before levies and provisions	1,133	906	25

Net interest income

Net interest income of € 1,445 million in 2015 was € 147 million (11%) higher than 2014 due to continued reductions in the cost of customer deposits and lower wholesale funding costs while maintaining risk appropriate pricing on customer asset yields including two variable mortgage rate reductions. These positive impacts were partly offset by lower average loan volumes.

Other income

Other income of € 443 million in 2015 was € 7 million (2%) higher than 2014. Business income of € 387 million was broadly in line with 2014 and includes fee and commission income of € 342 million which was 3% higher than 2014 offset by other business income.

Other items of € 56 million in 2015 were € 9 million (19%) higher than 2014. This included € 45 million due to the effect of realisation/re-estimation of cash flows on loans and receivables previously restructured compared to € 24 million in 2014 and a fair value gain of € 6 million in 2015 on equity warrants received as part of previous customer debt restructuring compared to € 24 million in 2014.

Operating expenses

Total operating expenses of € 755 million in 2015 were € 73 million (9%) lower than 2014. Personnel expenses of € 462 million were € 26 million (5%) lower than 2014 as a result of lower staff numbers due to selective outsourcing and the voluntary severance scheme. General and administrative expenses of € 251 million were € 40 million (14%) lower than 2014 due to cost savings across most classifications partly offset by higher outsourcing costs. The charge for depreciation, impairment and amortisation of € 42 million was € 7 million (14%) lower than 2014.

Provisions

Total overall net writeback of € 901 million in 2015 compared to a total overall net writeback of € 257 million for 2014. The net writeback comprised of € 487 million in specific provision writebacks, a release of IBNR provisions of € 405 million and a net writeback of provisions for liabilities and commitments of € 9 million (2014: net writeback of specific provisions of € 208 million, a release of IBNR provisions of € 46 million and a net writeback of provisions for liabilities and commitments of € 3 million), and reflected the level of debt restructuring completed in the year, lower new to impaired loans and improving economic conditions. For further detail on provisions see the Risk management section on pages 97 to 98.

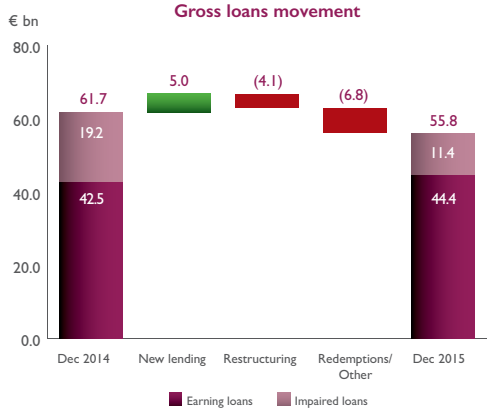
AIB Ireland *(continued)*

AIB Ireland balance sheet metrics	31 Dec 2015 € bn	31 Dec 2014 € bn	% change
Retail Ireland	47.7	53.4	-11
Corporate Ireland	8.1	8.3	-2
Gross loans	55.8	61.7	-10
Retail Ireland	42.4	43.6	-3
Corporate Ireland	7.7	7.5	3
Net loans	50.1	51.1	-2
Retail Ireland	40.2	37.7	7
Corporate Ireland	10.0	10.8	-7
Customer accounts	50.2	48.5	4
	%	% change	
Retail Ireland	105	116	-11
Corporate Ireland	77	69	8
Loan to deposit ratio	100	105	-5

Balance sheet

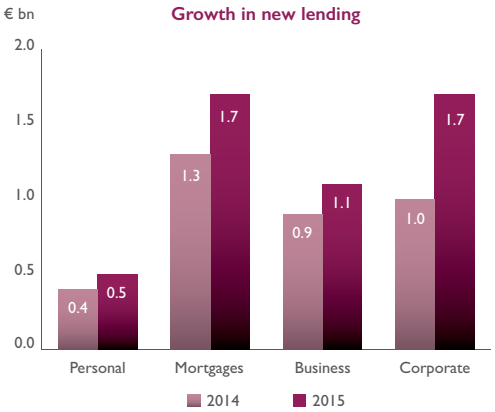
Gross loans in AIB Ireland of € 55.8 billion reduced by € 5.9 billion (10%) since 31 December 2014 due to reductions of gross loans in Retail Ireland of € 5.7 billion (11%) to € 47.7 billion and Corporate Ireland of € 0.2 billion (2%) to € 8.1 billion as loan restructuring of € 4.1 billion and redemptions/other of € 6.8 billion exceeded new lending of € 5.0 billion.

Gross loans movement



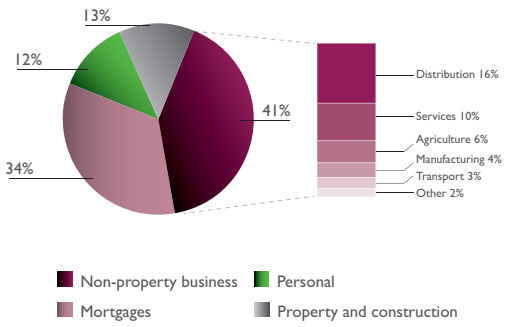
Earning loans of € 44.4 billion increased by € 1.9 billion (4%) as new lending and loans upgraded to earning exceeded repayments.

Growth in new lending



AIB Ireland new lending of € 5.0 billion was up € 1.5 billion (41%) compared to 2014. This included personal lending of € 0.5 billion (up 40%), mortgage lending of € 1.7 billion (up 32%), business lending of € 1.1 billion (up 28%) and corporate lending of € 1.7 billion (up 65%).

New lending 2015 by sector



Business and corporate lending are split between property and construction and non-property business in the graph above. Non-property business lending contributed to 41% of all new lending in 2015. 34% of new lending in 2015 was from mortgage lending. AIB Group was the largest provider of new mortgage lending drawdowns in Ireland in 2015, with a market share of 34%.

AIB Ireland has made significant progress and momentum in restructuring customers in financial difficulty with impaired loans reducing to € 11.4 billion at 31 December 2015 from € 19.2 billion.

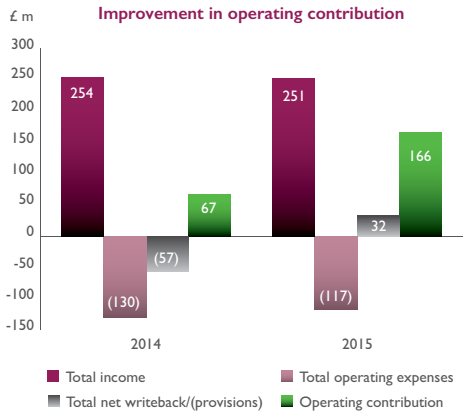
AIB Ireland customer accounts increased by € 1.7 billion (4%) since 31 December 2014 with strong growth in Retail Ireland of € 2.5 billion (7%) as current accounts increased by € 2.9 billion partly offset by a reduction in term deposits. Customer accounts in Corporate Ireland reduced by € 0.8 billion (7%) to € 10.0 billion mainly due to a reduction in term deposits.

The loan to deposit ratio for AIB Ireland reduced from 105% at 31 December 2014 to 100% at 31 December 2015 due to the reduction in net loans and increase in customer accounts.

Business review - 1. Operating and financial review

AIB UK

- Operating contribution of £ 166 million compared to £ 67 million in 2014.
- New lending of £ 1.9 billion in 2015 compared to £ 1.3 billion in 2014.
- Total overall net provision writeback of £ 32 million compared to a charge of £ 57 million in 2014 due to debt restructuring and improving economic conditions.



AIB UK contribution statement	2015 £ m	2014 £ m	% *change*
Net interest income	**215**	198	*9*
Other income	**36**	56	*-36*
Total operating income	**251**	254	*-1*
Total operating expenses	**(117)**	(130)	*-10*
Operating contribution before levies and provisions	**134**	124	*8*
Total net writeback/(provisions)	**32**	(57)	-
Operating contribution	**166**	67	*148*
Associated undertakings	**3**	4	*-25*
Contribution before disposal of property	**169**	71	*138*
Profit on disposal of property	**-**	2	-
Contribution before exceptional items	**169**	73	*132*
Contribution before exceptional items €m	**232**	90	*158*

AIB UK contribution statement	£ m	£ m *change*
AIB GB	**87**	87	-
First Trust Bank	**47**	37	*27*
Operating contribution before levies and provisions	**134**	124	*8*

Net interest income

Net interest income of £ 215 million in 2015 was £ 17 million (9%) higher than 2014 mainly due to lower funding costs while maintaining risk appropriate pricing on customer asset yields.

Net interest income in AIB GB of £ 145 million increased by £ 10 million (7%) and net interest income in First Trust Bank ("FTB") of £ 70 million increased by £ 7 million (11%) compared to 2014.

Other income

Other income of £ 36 million in 2015 was £ 20 million (36%) lower than 2014. Fee and commission income of £ 46 million was in line with 2014. There was a loss of c. £ 29 million on the disposal of a portfolio of loans in 2015 and lower net profits on the disposal of AFS equity securities partly offset by a positive increase of c. £ 14 million in valuation adjustments mainly on sterling customer derivative positions.

Excluding the loss on the disposal of loans, other income in AIB GB increased by £ 13 million offset by a reduction in other income in FTB of £ 4 million compared to 2014.

Total operating expenses

Total operating expenses of £ 117 million in 2015 were £ 13 million (10%) lower than 2014 due to lower salary and associated costs along with lower general and administrative expenses due to lower occupancy costs.

Provisions

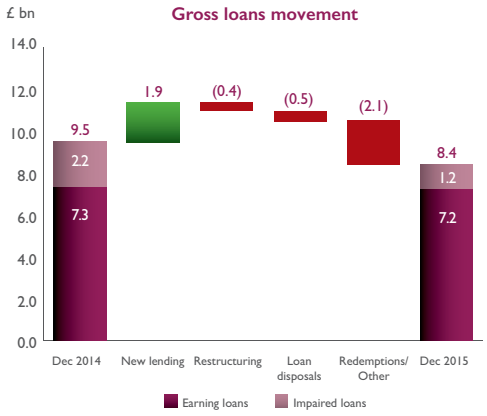
Total overall net writeback was £ 32 million in 2015 compared to a charge of £ 57 million in 2014. Continuing management action to dispose of impaired assets within the specific provisions held, low levels of new impairment and improving economic conditions have contributed a net writeback in 2015. For further detail on provisions see the Risk management section on pages 97 to 98.

AIB UK *(continued)*

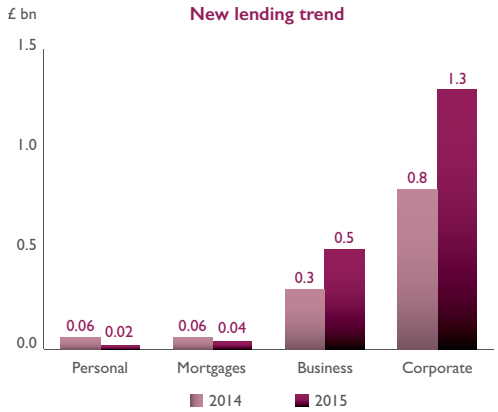
AIB UK balance sheet metrics	31 Dec 2015 £ bn	31 Dec 2014 £ bn	% change
AIB GB	5.3	6.0	-12
FTB	3.1	3.5	-11
Gross loans	8.4	9.5	-12
AIB GB	5.1	5.4	-6
FTB	2.5	2.7	-7
Net loans	7.6	8.1	-6
AIB GB	4.8	5.2	-8
FTB	3.8	3.8	-
Customer accounts	8.6	9.0	-4
	%	%	% change
AIB GB	106	104	2
FTB	66	71	-5
Loan to deposit ratio	88	90	-2

Balance sheet

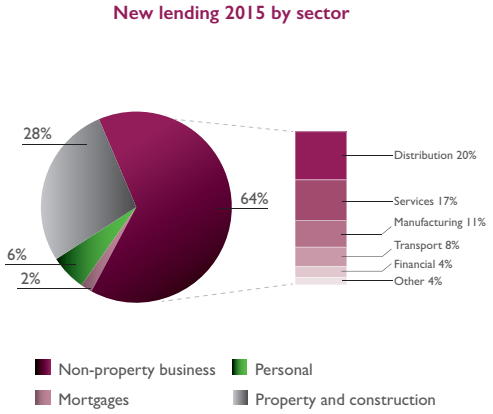
Gross loans were £ 1.1 billion lower at £ 8.4 billion mainly due to redemptions/other during the year of £ 2.1 billion, the disposal of a portfolio of loans in 2015 of £ 0.5 billion and restructuring of £ 0.4 billion partly offset by new lending of £ 1.9 billion.



Earning loans of £ 7.2 billion were broadly in line with 31 December 2014 as new lending was offset by repayments and loan disposals.



New lending of £ 1.9 billion in 2015, AIB GB at £ 1.6 billion and FTB at £ 0.3 billion, was £ 0.6 billion higher than 2014 mainly in business and corporate customer segments.



Business and corporate lending are split between property and construction and non-property business in the graph above. Non-property business lending contributed to 64% of all new lending in AIB UK in 2015.

Impaired loans of £ 1.2 billion at 31 December 2015 have reduced from £ 2.2 billion at 31 December 2014 which is due to repayments, write-offs and the disposal of a portfolio of loans in 2015.

Customer accounts were £ 8.6 billion at 31 December 2015 compared to £ 9.0 billion at 31 December 2014 with lower deposit balances offset in part by an increase in current accounts. The loan to deposit ratio has decreased to 88% in 2015 compared to 90% in 2014 due to reductions in net loans.

Group & International

- New lending of € 1.1 billion, up 59%, in 2015 compared to € 0.7 billion in 2014.
- Reductions in other income due to lower gains on AFS disposals and NAMA senior bonds in 2015.
- Total operating expenses have reduced by € 34 million (8%).

Group & International contribution statement	2015 € m	2014 € m	% change
Net interest income	**185**	143	*29*
Other income	**203**	339	*-40*
Total operating income	**388**	482	*-20*
Total operating expenses	**(379)**	(413)	*-8*
Operating contribution before levies and provisions	**9**	69	*-87*
Bank levies	**(68)**	(60)	*13*
Total (provisions)/writeback of provisions	**(22)**	1	-
Operating contribution	**(81)**	10	-
Associated undertakings	**1**	-	-
Contribution before exceptional items	**(80)**	10	-

Group & International balance sheet metrics	31 Dec 2015 € bn	31 Dec 2014 € bn	% change
Gross loans	**2.8**	1.9	*47*
Net loans	**2.8**	1.9	*47*
Financial investments available for sale	**16.5**	20.2	*-18*
Financial investments held to maturity	**3.5**	-	-
NAMA senior bonds	**5.6**	9.4	*-40*
Customer accounts	**1.5**	4.0	*-63*

Net interest income

Net interest income of € 185 million in 2015 was € 42 million (29%) higher than 2014 due to lower funding costs and strong growth in the Leverage Portfolio due to higher new business lending volumes. These positive impacts were partly offset by lower income on NAMA senior bonds due to ongoing repayments of the portfolio and lower income from the securities portfolio due to the sale and maturity of legacy high margin positions.

Other income

The reduction in other income was mainly attributable to 'Other Items' (see other items table). Other movements included the positive movement in valuation adjustments on sterling customer derivative positions from a cost of € 63 million in 2014 to income of € 12 million in 2015. The cost in 2014 was primarily from the negative valuation adjustments on sterling customer derivative positions due to the reduction in medium to long term sterling interest rates. In 2015, due to an increase in term sterling interest rates, this negative valuation adjustment was partially reversed.

Other items	2015 € m	2014 € m
Net profit on disposal of AFS securities	**77**	172
Effect of acceleration / re-estimation of the timing of cash flows on NAMA senior bonds	**6**	132
Settlements and other gains	**51**	66
Other items	**134**	370

Other items of € 134 million for 2015 were € 236 million (64%) lower than 2014.

Operating expenses

Operating expenses in Group & International include unallocated overheads relating to operations & technology, risk, audit, finance, general counsel, human resources and corporate affairs & strategy. Total operating expenses of € 379 million in 2015 were € 34 million (8%) lower than 2014 due to ongoing cost control and management.

Personnel expenses of € 167 million in 2015 were € 11 million (6%) lower than 2014 due to lower staff numbers. General and administrative expenses of € 183 million in 2015 were € 19 million (9%) lower than 2014 with reductions across the majority of cost classifications as a result of ongoing cost management partly offset by an increase in costs as a result of outsourcing initiatives. Depreciation, impairment and amortisation of € 29 million in 2015 was € 4 million (12%) lower than 2014.

Bank levies

Bank levies of € 68 million in 2015 were € 8 million higher than 2014 due to an additional levy in 2015 relating to the introduction of the Bank Recovery and Resolution Directive ("BRRD") levy.

Total (provisions)/writeback of provisions

Provision charge of € 22 million in 2015 relates to a credit provision charge of € 11 million and a provision charge for liabilities and commitments of € 11 million, compared to a net writeback of € 1 million in 2014.

Balance sheet

Gross loans of € 2.8 billion increased by € 0.9 billion since 31 December 2014 with new lending of € 1.1 billion, an increase of 59% compared to 2014.

AFS assets which are held for liquidity and investment purposes, were € 16.5 billion at 31 December 2015 and have decreased from € 20.2 billion during 2015 mainly due to assets of € 3.5 billion being reclassified to held to maturity following a review of strategy in relation to securities holdings and a commitment to long term (to maturity) investment in selected Irish Government Bonds. NAMA senior bonds reduced by € 3.8 billion in the period due to redemptions.

Customer accounts of € 1.5 billion reduced by € 2.5 billion (63%) since 31 December 2014 of which € 1.2 billion related to a reduction in repos and € 1.3 billion in treasury deposits.

Business review - 2. Capital Reorganisation

AIB announced in its 2014 Annual Financial Report and in its 2015 Half-Yearly Financial Report, that it had been engaged in discussions with the Irish Minister for Finance ('the Minister') regarding the simplification and rationalisation of its capital structure. The outcome of the engagement with the Minister was the Capital Reorganisation completed in December 2015.

The Capital Reorganisation was designed to enable AIB to:

- initially return € 1.7 billion of capital to the Irish Government in line with AIB's obligations under its EU Restructuring Plan;
- create a sound and sustainable base on which to grow AIB's business;
- meet regulatory requirements under Capital Requirements Directive IV ("CRD IV"), and the Banking Recovery and Resolution Directive ("BRRD");
- allow future payment of dividends on ordinary shares as and when conditions permit;
- more closely align the Group's capital structure with market norms and investor expectations; and
- position AIB for a return to private ownership over time.

In order to implement the Capital Reorganisation, the 3.5 billion 2009 Preference Shares were to be partially converted to ordinary shares and partially redeemed. A condition for the conversion/redemption of the 2009 Preference Shares was the issuance of specific debt capital instruments by AIB. In November 2015, AIB issued € 750 million of subordinated Tier 2 notes (note 41 to the consolidated financial statements) and € 500 million Additional Tier 1 ("AT 1") securities (note 44 to the consolidated financial statements).

At an Extraordinary General Meeting ("EGM") held on 16 December 2015, shareholders approved the resolutions with respect to the Capital Reorganisation enabling the implementation of the following actions:

- Partial redemption of the 2009 Preference Shares: 1,360 million of the 3,500 million 2009 Preference Shares were redeemed for cash at 125% of the subscription price resulting in a repayment of € 1.7 billion of capital to the Irish State;
- Conversion of the remainder of the 2009 Preference Shares: 2,140 million 2009 Preference Shares were converted into ordinary shares of € 0.0025 each at 125% of the subscription price, resulting in 155.1 billion additional ordinary shares.
- A dividend payment of € 166 million was made to the NTMA on 17 December 2015, being the accrued dividend on the 2009 Preference Shares from 13 May 2015 to the date of conversion/redemption of the 2009 Preference Shares;
- AIB cancelled all its outstanding treasury shares with no impact on capital ratios – see note 43 to the consolidated financial statements; and
- Ordinary share consolidation: On conversion of the 2009 Preference Shares, AIB had 678.6 billion existing ordinary shares of € 0.0025 nominal value per share in issue. On 21 December 2015, consolidation of these existing ordinary shares resulted in shareholders receiving one new ordinary share of € 0.625 for every 250 existing ordinary shares with a nominal value of € 0.0025. Following the consolidation, AIB now has 2.7 billion new ordinary shares of € 0.625 nominal value in issue of which the Irish Government holds 99.9%. The consolidation of ordinary shares did not impact capital ratios;
- EBS Promissory Note Redemption: In conjunction with the partial redemption of the 2009 Preference Shares, the EBS Promissory Note issued by the Minister in 2010 and held as an available for sale financial asset by AIB Group was redeemed at its carrying value of € 225 million and subsequently cancelled. See note 54 to the consolidated financial statements for further detail; and
- Potential issue of warrants to the Minister: AIB received approval, at the EGM held on 16 December 2015, to enter into a Warrant Agreement with the Minister which, following a Regulated Market Event, would entitle the Minister to subscribe for new ordinary shares with a nominal value of € 0.625 per share, subject to a maximum of 9.99% of the issued ordinary share capital. See note 54 to the consolidated financial statements for further detail.

The redemption/conversion of the 3,500 million 2009 Preference Shares resulted in a net increase in CRD IV fully loaded capital of € 1.8 billion.

For further detail on the redemption/conversion of the 2009 Preference Shares and the ordinary share consolidation see note 42 to the consolidated financial statements.

In addition, as part of the Board's consideration of an appropriate capital structure for AIB and related discussions with the Minister, the Board considered AIB's options in relation to the € 1.6 billion Convertible Contingent Tier 2 Capital Notes ("CCNs") issued to the Minister. The Board concluded, that given the short time remaining to the scheduled maturity of the CCNs in July 2016, it is not in the best interests of the shareholders to take any measures in respect of the CCNs before their scheduled maturity. Accordingly, the CCNs will continue to form part of AIB's capital structure.

Specific details in relation to the CCNs are set out in note 41 to the consolidated financial statements.

Business review - 3. Capital management

Objectives*

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 risk inherent in its business and to support its future development.

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

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

Capital regulation

CRD IV consists of the Capital Requirements Regulation ("CRR") and the Capital Requirements Directive ("CRD"), and is designed to strengthen the regulation of the banking sector and to implement the Basel III agreement in the EU legal framework. CRD IV measures include:

- a single set of harmonised prudential rules which enhanced requirements for quality and quantity of capital;
- CRD IV also harmonises the deductions from own funds in order to determine the amount of regulatory capital that is prudent to recognise for regulatory purposes. Some of the provisions of CRD IV were introduced on a phased basis from 2014, these typically followed 20% in 2014, 40% in 2015 etc. until 2018. The main exception to this relates to the deduction for the deferred tax asset which will be deducted at 10% per annum commencing in 2015; and
- a leverage ratio which is designed to act as a non-risk sensitive back-stop measure to reduce the risk of build-up of excessive leverage in an individual bank and the financial system as a whole.

AIB commenced reporting to its regulator under the transitional CRD IV rules during 2014. The transitional capital ratios presented on page 46 take account of these phasing arrangements. The fully loaded capital ratios represent the full implementation of CRD IV.

The Single Supervisory Mechanism (''SSM''), comprising the European Central Bank (''ECB'') and the national competent authorities of EU countries was established in 2014. The SSM places the ECB as the central prudential supervisor of financial institutions in the Eurozone, including AIB. The aims of the SSM are to ensure the safety and soundness of the EU banking system and to increase financial integration and stability in the EU.

Future developments

The Banking Recovery and Resolution Directive ("BRRD") is a single EU-wide rulebook designed to address bank and investment firm failure. It has been transposed into Irish law through the European Union (Bank and Recovery Resolution) Regulations, 2015 (S.I. No. 289 of 2015) which commenced on 15 July 2015. The BRRD gives resolution authorities new powers under BRRD to address failure.

Some of their key tasks include;

- to draft resolution plans for banks under supervision of the SSM which includes AIB;
- carry out an assessment of the banks' resolvability and to adopt resolution plans and address any obstacles to resolution and cooperate on resolving them; and
- to set the minimum requirements for own funds and eligible liabilities ("MREL") which is designed to ensure that banks have sufficient loss-absorbing capacity through capital and liabilities eligible to be bailed in.

*Forms an integral part of the audited financial statements

Future developments *(continued)*

The Single Resolution Mechanism ("SRM"), which implements the EU-wide BRRD in the Euro area, becomes fully operational on 1 January 2016. The full resolution powers of the Single Resolution Board ("SRB") applies as of 1 January 2016.

AIB continuously monitors advancements in regulatory frameworks by assessing potential capital impacts and ensuring that the Group maintains a robust capital position.

Ratings

In May 2015, Moody's upgraded AIB's long-term rating to Ba2 from Ba3 and upgraded the outlook to stable. This followed a change in Moody's bank rating methodology. In November 2015, Moody's upgraded AIB's long term rating to Ba1 from Ba2 and upgraded the outlook to positive, in light of AIB's capital reorganisation and general improvement in fundamentals impacting the Group.

In July 2015, S&P upgraded AIB's long-term rating to BB+ from BB and upgraded the outlook to stable. In December 2015, S&P raised AIB's outlook to positive and re-affirmed AIB's long term rating at BB+. While S&P removed the final notch of government support incorporated into the rating, this was offset by an uplift to AIB's standalone credit rating.

As part of a review of sovereign support for banks' globally in May 2015, Fitch removed the five notches of government support it had included in AIB's senior rating. This was partially offset by an increase of two notches following improvements to AIB's fundamentals. In December 2015, Fitch further upgraded AIB's long-term rating to BB+ and affirmed its positive outlook. Year on year, the Group's senior rating with Fitch has reduced by two notches from BBB to BB+.

			2015
AIB long-term ratings	Moody's	S&P	Fitch
Long-term	Ba1	BB+	BB+
Outlook	Positive	Positive	Positive

			2014
AIB long-term ratings	Moody's	S&P	Fitch
Long-term	Ba3	BB	BBB
Outlook	Stable	Negative	Negative

Business review - 3. Capital management

Regulatory capital and capital ratios

	CRD IV transitional basis		CRD IV fully loaded basis[1]	
	31 December		31 December	
	2015 € m	2014 € m	**2015 € m**	2014 € m
Shareholders' equity	**12,148**	11,292[2]	**12,148**	11,292[2]
Less: Additional Tier 1 capital	**(494)**	–	**(494)**	–
Regulatory adjustments:				
Goodwill and intangibles	**(292)**	(174)	**(292)**	(174)
Cash flow hedging reserves	**(354)**	(383)	**(354)**	(383)
Reversal of fair value of contingent capital instrument	**(46)**	(189)	**–**	–
Available for sale securities reserves	**(1,250)**	(1,369)	**–**	–
Pension	**(91)**	557	**(153)**	(121)
Deferred tax	**(317)**	–	**(3,171)**	(3,640)
2009 Preference Shares[1]	**–**	–	**–**	(3,500)
Other	**(19)**	(17)	**(9)**	–
	(2,369)	(1,575)	**(3,979)**	(7,818)
Total common equity tier 1 capital	**9,285**	9,717	**7,675**	3,474
Additional Tier 1 capital	**494**	–	**494**	–
Total tier 1 capital	**9,779**	9,717	**8,169**	3,474
Tier 2 capital				
Subordinated debt	**973**	538	**973**	538
Credit provisions	**287**	453	**20**	136
Other	**9**	17	**–**	–
Total tier 2 capital	**1,269**	1,008	**993**	674
Total capital	**11,048**	10,725	**9,162**	4,148
Risk weighted assets				
Credit risk	**53,596**	54,348	**54,105**	54,348
Market risk	**457**	471	**457**	471
Operational risk	**3,139**	2,822	**3,139**	2,822
Credit valuation adjustment	**1,352**	1,468	**1,352**	1,468
Other	**5**	5	**5**	5
Total risk weighted assets	**58,549**	59,114	**59,058**	59,114
	%	%	**%**	%
Common equity tier 1 ratio	**15.9**	16.4	**13.0**	5.9
Tier 1 ratio	**16.7**	16.4	**13.8**	5.9
Total capital ratio	**18.9**	18.1	**15.5**	7.0

The capital position as at 31 December 2015 outlined above, does not include any deduction for future dividends on ordinary shares.

[1]2014 fully loaded ratios are calculated excluding the 2009 Preference Shares (cease to be considered CET1 after 31 December 2017).

[2]After deducting the dividend amounting to € 280 million on the 2009 Preference Shares at 31 December 2014.

Capital ratios at 31 December 2015

Transitional ratio

The CET1 transitional ratio decreased to 15.9% at 31 December 2015 from 16.4% at 31 December 2014. The decrease in CET1 capital of € 432 million was primarily driven by the impact of the Capital Reorganisation and transitional provisions, partially offset by positive movements in the 12 months to 31 December 2015. As part of the Capital Reorganisation the redemption of the 1,360 million 2009 Preference Shares resulted in a decrease in transitional CET1 capital of € 1,700 million. The deduction of 10% of deferred tax relating to unutilised tax losses, led to a reduction in CET1 capital of € 317 million. Positive movements in the 12 months to 31 December 2015 which resulted in CET1 capital increasing by € 1,751 million are driven primarily by retained profit of € 1,380 million, gains arising from changes in pension actuarial assumptions of € 149 million and net unrealised gains on the AFS portfolio of € 222 million. The Group avails of the derogation not to include unrealised gains or losses on exposures to central governments in transitional CET1. The net pension deficit reduced by € 797 million due to an increase in the discount rate applied in the valuation of pension liabilities and as a result regulatory adjustments increased by € 648 million.

RWAs reduced by € 565 million during 2015, with credit RWAs reducing by € 752 million in the year. This was primarily driven by a reduced volume of defaulted loans, offset by an increase driven by foreign exchange movements of € 1,047 million. Operational risk RWAs increased by € 317 million since 31 December 2014, reflecting the increased levels of income in the annual calculation. Credit valuation adjustment RWAs reduced by € 116 million, reflecting a reduced level of exposure.

The CET1 transitional ratio, at 15.9%, is significantly in excess of the SSM's minimum CET1 regulatory requirement.

There was an increase in transitional tier 1 capital of € 62 million with the decrease in CET1 capital outlined above being offset by the issue of € 500 million of additional tier 1 ("AT1") in November 2015.

There was an increase in transitional tier 2 capital of € 261 million as the issue of € 750 million of tier 2 capital in November 2015 was partially offset by the continuing reduction in the tier 2 qualifying amount of the contingent capital instrument and the reduction in the excess of IRB provisions over expected loss.

The transitional total capital ratio increased from 18.1% at 31 December 2014 to 18.9% at 31 December 2015.

The capital figures reflect the audited 2015 year-end profit for the Group. The quarterly SSM regulatory capital reporting process will include these profits in due course.

Fully loaded ratio

The fully loaded CET1 ratio increased to 13.0% at 31 December 2015 from 5.9% (excluding the 2009 Preference Shares) at 31 December 2014. The main driver of this increase in the fully loaded ratio was an increase in CET1 capital of € 4,201 million. This was primarily driven by the Capital Reorganisation generating an increase of € 1,800 million, positive impact of profits of € 1,380 million, a decrease in the pension deficit by € 765 million as a result of an increase in the discount rate applied in the valuation of pension liabilities and a reduction in the deferred tax asset of € 469 million.

The fully loaded CET1 ratio of 13.0% compares to 15.9% on a transitional basis at 31 December 2015. This reflects a difference of € 1,610 million in the amounts qualifying as CET1. The main drivers of this difference are:

- the full deduction of the deferred tax asset (''DTA'') for unutilised tax losses of € 3,171 million under fully loaded. Under transitional rules, the phasing in deduction of the DTA commenced in 2015 at 10% per annum amounting to € 317 million;
- the AFS reserves of € 1,472 million, comprising unrealised gains in sovereign debt securities and equity securities are included in the fully loaded position, while € 222 million is included on a transitional basis at 31 December 2015; and
- the fully loaded CET1 position takes full account of the pension deficit within revenue reserves whereas under transitional rules the impact of this deficit has been restricted. The difference in treatment amounted to € 62 million at 31 December 2015.

The difference of € 509 million in 2015 between transitional and fully loaded RWAs is in relation to the phasing of the unrealised gains/losses portion of the AFS portfolio.

There was an increase in fully loaded tier 1 capital of € 4,695 million comprising the increase of CET1 capital outlined above and the issuance of AT1.

There was an increase in fully loaded tier 2 capital of € 319 million. See transitional tier 2 capital above.

The fully loaded total capital ratio increased from 7.0% at 31 December 2014 to 15.5% at 31 December 2015.

Business review - 3. Capital management

Capital ratios at 31 December 2015

Leverage ratio

The leverage ratio is defined as tier 1 capital divided by a non-risk adjusted measure of assets. Based on full implementation of CRD IV, the leverage ratio, under the delegated act implemented on 18 January 2015, was 7.9% at 31 December 2015 (3.2% at 31 December 2014 excluding the 2009 Preference Shares). This primarily reflects an increase in tier 1 capital as outlined above.

Risk management

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

Risk management – 1. Principal risks and uncertainties

Introduction

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

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

– Macro-economic and geopolitical risks;
– Regulatory and legal risks; and
– Risks relating to business operations, governance and internal control systems.

This list of principal risks and uncertainties should not be considered as exhaustive and other factors, not yet identified, or not currently considered material, may adversely affect the Group.

Macro-economic and geopolitical risks

The Group's business may be adversely affected by deterioration of the Irish economy, the economy of the United Kingdom or the global economy

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

While the Irish economy has performed well with GNP up from 4.6 per cent. in 2014 to 7 per cent. in Quarter 3 2015 (CSO Quarterly National Accounts, Quarter 3 2015), any renewed stress on or deterioration of the economy could impact the return of normalised markets for commercial and residential property. As the Group remains heavily exposed to the Irish property market, a prolonged delay in the recovery of the Irish market could have a negative impact on levels of arrears, the Group's collateral values and consequently, have a material impact on the Group's future performance and results.

General economic conditions, while improving, continue to be challenging for customers. An increase in the level of unemployment together with any further reduction in borrowers' disposable income has the potential to negatively impact customers' ability to repay existing loans. This could result in additional write downs and impairment charges for the Group and negatively impact its capital and earnings position. Challenging economic conditions would also influence the demand for credit in the economy. A declining or continuing muted demand for credit has the potential to impact the Group's financial position.

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

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

Constraints on the Group's access to funding, including a loss of confidence by depositors or curtailed access to wholesale funding markets, may result in the Group being required to seek alternative sources of funding

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

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

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

The Group's liquidity management framework sets out the manner in which the Group's funding and liquidity risk profile is managed.

The Group is exposed to market risks

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

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

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

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

Changes in foreign exchange rates, particularly the euro-sterling rate, affect the value of assets and liabilities denominated in foreign currency and the reported earnings of the Group's non-Irish subsidiaries. Any failure to manage market risks to which the Group is exposed could have a material adverse effect on its business, financial conditions and prospects.

The Group manages this risk through a number of financial risk management frameworks. Risk positions are monitored on a regular basis at the Asset and Liability Committee ("ALCo").

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

The risk of contagion in the markets in which the Group operates and dislocations caused by the interdependency of financial markets' participants and of members of currency and supranational economic associations is an on-going risk to the Group's financial condition. Any change in membership of such associations or reductions in the perceived creditworthiness of one or more significant borrower or financial institution, could lead to market-wide liquidity problems, losses and defaults, which could adversely affect the Group's results, financial condition and future prospects.

The Group's stress testing framework evaluates its risk profile under a range of scenarios, including systemic threats which are caused by or give rise to contagion risk. The most severe systemic risks, together with their associated risk mitigants (where available) are evaluated as part of the Group's Recovery Planning framework.

Departure of one or more member countries from the common currency or a decision by the UK to leave the European Union could disrupt the markets and adversely affect the Group's business and financial performance

Although the severity of the European-wide financial crisis has abated over the last several years, the emergence of significant anti-austerity sentiment in some member countries, may contribute to renewed instability in the European sovereign debt markets and in the economy more generally. There can be no assurance that actions taken by European policymakers will be sufficient to counteract any such instability. If one or more members of the eurozone defaults on their debt obligations or decides to leave the common currency, this could result in the reintroduction of one or more national currencies. Should a eurozone country conclude it must exit the common currency, the resulting need to reintroduce a national currency and restate existing contractual obligations could have unpredictable financial, legal, political and social consequences, leading not only to significant losses on the sovereign debt of that country but also on private debt in that country. Given the highly interconnected nature of the financial system within the eurozone, this could result in dislocation across the financial markets and the Group's ability to plan for such a contingency in a manner that would reduce its exposure may be limited. If the overall economic climate deteriorates as a result of one or more departures from the eurozone, the Group's business, financial condition, results of operations and prospects could be materially adversely affected.

In addition, the UK will hold a referendum on continued UK membership of the European Union on 23 June 2016. The outcome of such a referendum is uncertain. The impacts of a UK exit from the European Union on the UK economy and trade is unknown but may have negative consequences for the Group both in terms of its UK and Irish operations and impacts on the UK and Irish economies.

The regulatory position of the Group's operations in the UK, may also become uncertain. Accordingly, if the UK were to exit the European Union, this could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Risk management – 1. Principal risks and uncertainties

The Group closely monitors activities and developments in the EU and eurozone.

Furthermore, the Group's stress testing framework evaluates its risk profile under a range of scenarios. The most severe systemic risks, together with their associated risk mitigants (where available) are evaluated as part of the Internal Capital Adequacy Assessment Process ("ICAAP").

Downgrades to the Irish sovereign's credit ratings or outlook could impair the Group's access to private sector funding and weaken its financial position

Fitch upgraded Ireland's credit rating to A in February 2016 and S&P upgraded its credit rating to A+ in June 2015. Moody's have Ireland on positive outlook while S&P and Fitch have Ireland on a stable outlook for their respective ratings. There can be no assurance, however, that the Irish sovereign's credit rating would not be downgraded in the future. Any such downgrade could impair the Group's access to private sector funding and weaken its financial position. Downgrades could also adversely impact the National Asset Management Agency ("NAMA") senior bonds and the Group's use of them as collateral for the purposes of accessing the liquidity provision operations offered by monetary authorities, as well as the Group's holdings of Irish Government securities as part of its available-for-sale ("AFS") and held to maturity ("HTM") portfolios.

The Group undertakes liquidity stress tests as part of its ICAAP. These consider the potential impact of a range of specific events including rating downgrades.

Regulatory and legal risks

The Group is subject to increasing regulation and supervision following the introduction of the SSM and the new bank recovery and resolution framework, which may strain its resources. The Group is subject to European Commission supervision and oversight

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

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

A Single Resolution Mechanism ("SRM") has been introduced, including a single resolution board ("SRB") and a single fund for the resolution of banks. The requirements of the SRM are set out in the Single Resolution Mechanism Regulation (Regulation (EU) No. 806/2014 of 15 July 2014) (the "SRM Regulation"), Banking Recovery and Resolution Directive (Directive 2014/59/EU) ("BRRD") which came into effect in 2015 and the Group is making preparations for the Single Resolution Authority ("SRA") which comes into effect in 2016. The SRM Regulation, subject to some exceptions, is applicable from 1 January 2016 and the SRB is fully operational from January 2016. The BRRD has been implemented in Ireland pursuant to the European Union (Bank Recovery and Resolution) Regulations 2015 (the "BRRD Regulations"). The BRRD Regulations, other than regulations 79 to 94, came into effect on 15 July 2015. Regulations 79 to 94 are scheduled to come into effect on 1 January 2016. The establishment of the SRM is designed to ensure that supervision and resolution is exercised at the same level for countries that share the supervision of banks within the SSM. The single resolution fund will be financed by bank levies raised at national level.

The overarching goal of the new bank recovery and resolution framework established by the BRRD/SRM package is to break the linkages between national banking systems and sovereigns. The new framework is intended to enable resolution authorities to resolve failing banks with a lower risk of triggering contagion to the broader financial system, while sharing the costs of resolution with bank shareholders and creditors. Among other provisions, the BRRD requires banks to produce a full recovery plan that sets out detailed measures to be taken in different scenarios when the viability of the institution is at risk. Furthermore, one or more of the Group's regulators may require the Group to make changes to the legal structure of the Group pursuant to its implementation of requirements under the SRM Regulation, the BRRD or other applicable law or regulation. In relation to the BRRD and the SRM Regulation, see below "The BRRD and the SRM Regulation provide for resolution tools that may have a material adverse effect on the Group".

The Group will have to meet the cost of all levies that are imposed on it in relation to funding the bank resolution fund established under the SRM or those that are imposed on it under other applicable compensation schemes relating to banks or other financial institutions in financial difficulties. In addition, the challenge of meeting this degree of regulatory change will place a strain on the Group's resources. The challenge of meeting tight implementation deadlines while balancing competing resource priorities and demands adds to the regulatory risk of the Group. These may also impact significantly on the Group's future product range, distribution channels, funding sources, capital requirements and consequently, reported results and financing requirements.

The potential impact of new regulatory requirements is regularly evaluated by the Group's management and cross-functional programmes are put in place to ensure that the Group is able to meet new regulatory requirements.

The BRRD and the SRM Regulation provide for resolution tools that may have a material adverse effect on the Group

The BRRD establishes a European framework dealing with resolution mechanisms, loss absorbency and bail-in rules. The SRB has been established to exercise a centralised power of resolution in the eurozone and any other participating Member States. From 1 January 2016, the SRB will become principally responsible for determining the Group's resolution strategy.

The BRRD is designed to provide relevant authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the economy and financial system. The BRRD also equips the resolution authority with certain resolution powers (the "Resolution Tools") in circumstances where the credit institution is failing or is likely to fail.

Amongst other provisions, the BRRD introduces a statutory write-down and conversion power to write down or to convert into equity the Group's capital instruments if certain conditions are met.

In drawing up the Group's resolution plan, the SRB would identify any material impediments to the Group's resolvability. Where necessary, the SRB may instruct that actions are taken to remove such impediments.

If the SRB is of the view that the measures proposed by the Group would not effectively address the impediments to resolvability, the SRB may direct the Group to take alternative measures as outlined in the SRM Regulation.

The changes to be implemented in respect of the SRM Regulation and the BRRD may have an effect on the Group's business, financial condition or prospects. Depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on the Group's operations, structure, costs and/or capital requirements.

The Group continues to actively engage with the Resolution Authorities as they finalise the resolution strategy for the Group.

The Group is exposed to risks associated with its compliance with a wide range of laws, accounting standards and regulations

The Group must comply with numerous laws, accounting standards and regulations and, consequently, it faces risks, including:

- Detailed and emerging prudential regulatory requirements in the form of CRR/CRD IV, BRRD, EBA and CBI requirements;
- New accounting standards, for example, IFRS 9 *Financial Instruments*, which will replace IAS 39 *Financial Instruments: Recognition and Measurement*, will change the classification and measurement of certain financial assets, the recognition and the financial impact of impairment and hedge accounting. IFRS 9 is mandatorily effective for periods beginning on or after 1 January 2018;
- Conduct risk exists and may occur when certain aspects of the Group's business may be determined by the relevant authorities or the courts not to have been conducted in accordance with applicable local, or, potentially overseas laws or regulations;
- Contractual obligations may either not be enforceable as intended or may be enforced against the Group in an adverse way;
- Regulatory actions pose a number of risks to the Group, including substantial monetary damages or fines, the amounts of which are difficult to predict and may exceed the amount of provisions set aside to cover such risks. In addition, the Group may be subject to other penalties and injunctive relief, civil or private litigation arising out of a regulatory investigation, the potential for criminal prosecution in certain circumstances and regulatory restrictions on the Group's business. The Group needs to be aware of and comply with new regulation as it emerges and existing regulation as it evolves. All of these issues could have a negative effect on the Group's reputation and the confidence of its customers in the Group as well as taking a significant amount of management time and resources away from the implementation of the Group's strategy.
- The Group may settle litigation or regulatory proceedings prior to a final judgement or determination of liability to avoid the cost, management efforts or negative business, regulatory or reputational consequences of continuing to contest liability.

The Group adopts a systematic approach to the identification, assessment, transposition, control and monitoring of new or changing regulatory requirements. Once implemented, a compliance monitoring team tests the adequacy of, and adherence to, the control environment.

Risk of litigation arising from the Group's activities

The Group operates in a legal and regulatory environment that exposes it to potentially significant litigation and regulatory risks. Disputes and legal proceedings in which the Group may be involved are subject to many uncertainties, and the outcomes of such disputes are often difficult to predict, particularly in the early stages of a case or investigation.

Adverse regulatory action or adverse judgements in litigation could result in a monetary fine or penalty, adverse monetary judgement or settlement and/or restrictions or limitations on the Group's operations or result in a material adverse effect on the Group's reputation.

Risk management – 1. Principal risks and uncertainties

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

The future of the Group's business activities are subject to possible interventions by the Irish Government or the disposal of the Irish State's ownership and other interests in the Group

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

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

Nevertheless, for so long as ownership of the Group remains within State control, there remains a risk of undue pressure by the Irish Government in relation to the operations and policies of the Group. Such pressure may have a negative impact on the operations of the Group. The Irish Government may sell or otherwise dispose of its ownership and other economic interests in the Group to any private or public entity, including any intergovernmental institution. Any such sale or disposal, and any conditions attaching to it, may materially affect the Group's operations, financial condition and future prospects.

Furthermore, changes to the political landscape following the Irish general election on 26 February 2016 may lead to changes to the Irish Government's approach to its relationship with the Group. Intervention by the Irish Government may have a material adverse effect on the Group's business, financial condition and prospects.

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

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

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

Furthermore, some measures may directly impact the financial performance of the Group through the imposition of measures such as the bank levy introduced by the Irish Government in Budget 2014 and which the Irish Government announced during Budget 2016 would be extended to 2021. The annual levy paid by the Group in 2015 amounted to € 60 million. Equally, the UK Treasury have imposed a corporation tax surcharge effective from 2016. These measures may be further extended and increased in the future.

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

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

As a participating institution under the NAMA Act, during 2010 and 2011, the Group transferred financial assets to NAMA with a net carrying value of € 15.5 billion for which it received as consideration NAMA senior bonds and NAMA subordinated bonds. NAMA senior bonds were also received as consideration as part of the 'Anglo' and 'EBS' transactions.

Provisions of the NAMA Act provide for certain circumstances in which the Group could face additional liabilities in relation to assets transferred. In addition, credit exposure to NAMA arises from the senior and subordinated NAMA bonds.

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

Irish legislation, regulations and Government policy in relation to mortgages may adversely affect the Group's mortgage business

Legislation and regulations have been introduced to the Irish mortgage market which may affect the Group's customers' attitudes towards their debt obligations, and hence their interactions with the Group in relation to their mortgages.

In particular, on 1 July 2013, a revised Code of Conduct on Mortgage Arrears (the "CCMA") came into force. The CCMA requires mortgage lenders to develop a Mortgage Arrears Resolution Process ("MARP") with specific procedures when dealing with borrowers experiencing arrears and financial difficulties. It applies only to mortgages on primary residences and outlines timelines and conditions to be followed by lenders in relation to the arrears resolution process.

In addition, the Personal Insolvency Act 2012 (the "Personal Insolvency Act") came into force on 26 December 2012. The Personal Insolvency Act introduced a personal insolvency arrangement for the agreed settlement of secured debt up to an amount of € 3 million (subject to extension by agreement of all of the debtor's secured creditors) and for unsecured debt, with no limit. On 28 July 2015, the Irish Government

amended the Personal Insolvency Act so as to give the courts power to review and, where appropriate, approve arrangements in respect of secured debt which have been rejected by a bank or other secured creditors. The Group has been proactive in developing forbearance solutions for borrowers experiencing arrears and financial difficulties. In accordance with Central Bank requirements, it has developed a Mortgage Arrears Resolution Strategy ("MARS"), which builds on and formalises the MARP it was required to introduce in order to comply with the CCMA. Nonetheless, there is a risk that legislation and regulations such as the Personal Insolvency Act and the CCMA will result in changes in customers' attitudes towards their debt obligations. Customers may be more likely to default even when they have sufficient resources to continue making payments on their mortgages. This could result in delays in the Group's recoveries in respect of its mortgage portfolio and increased impairments, which could have a material adverse effect on its business, results of operations, financial condition and prospects.

Irish Government policy in relation to mortgages is continuing to evolve and it is possible that further changes in legislation or regulation could be introduced, for example, the Government may seek to influence how credit institutions set interest rates on mortgages, may amend the Personal Insolvency Act to reduce the entitlements currently afforded to mortgage holders thereunder or may enact other legislation or introduce further regulation that affects the rights of lenders in other ways which could have a material adverse effect on the Group's business, financial condition and prospects.

The Group actively engages with all relevant industry and government stakeholders highlighting, as appropriate, the intended and unintended consequences of any proposed regulatory or legislative changes including its impacts on customers, the Group and the industry as a whole.

The Group is subject to conduct risk claims

The Group is exposed to many forms of conduct risk, which may arise in a number of ways. The Group needs to be able to demonstrate how it delivers fair treatment and transparency, while upholding the best interests of customers. The evidential standards required by the Group's regulators in this regard are very high. The Group may be subject to allegations of mis-selling of financial products, including, having sales practices and/or reward structures in place that are determined to have been inappropriate. The Group may also be subject to allegations of overcharging and breach of contract and/or regulation. Any of the foregoing may result in adverse regulatory action (including significant fines) or requirements to amend sales processes, withdraw products or provide restitution to affected customers, any or all of which could result in the incurrence of significant costs, may require provisions to be recorded in the financial statements and could adversely impact future revenues from affected products. The Central Bank announced in October 2015 that it had commenced a broad examination (the "Examination") of tracker mortgage-related issues across Irish banks (including AIB and ROI subsidiaries of AIB). In December 2015, the Central Bank confirmed to the affected banks, (including AIB and ROI subsidiaries of AIB), that the objective of the Examination is to assess compliance with both contractual and regulatory requirements. In circumstances where customer detriment is identified from this Examination, AIB is required to provide appropriate redress and compensation in line with the CBI 'Principles for Redress'. Notwithstanding the provisions for customer redress as set out in note 40 to the consolidated financial statements 'Provisions for liabilities and commitments', it is not possible at this stage to assess the final outcome of the Examination or any related litigation or regulatory action required. However, such matters may result in any of the consequences described above and may materially adversely affect the Group's business, financial condition or prospects.

Risks relating to business operations, governance and internal control systems

The Group is subject to inherent credit risks in respect of customers and counterparties, which could have a material adverse effect on its business, financial condition, results of operations and 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 and HTM portfolios, derivatives and from off-balance sheet guarantees and commitments.

The Group has extensive credit policies, limits and controls in place.

The Group's management may not be able to successfully implement its strategic objectives, in particular with respect to its omni-channel distribution model

The Group has identified several strategic objectives for its business. There can, however, be no guarantee that the Group would be successful in implementing its strategy. In particular, in relation to its omni-channel distribution model, which combines its physical branch network with online, mobile and direct channels, the Group is focused on increasing usage and integration of digital distribution channels and continuing to build on its mobile and online adoption rates. There can be no guarantee that the Group would be successful in achieving such integration and increased usage or in anticipating evolving customer preferences for access to banking services. Furthermore, it may not be able to develop in a timely manner the technology necessary to accommodate these preferences,

such as internet banking channels and new applications for mobile and tablet banking. The Group may also be required to invest more than it has currently planned in order to expand and improve its internet banking channels and it may not realise cost efficiencies resulting from increasing digitisation at the level or in the time frame that it expects.

The Group conducts a strategic review and detailed financial planning on an annual basis. The Group reviews performance against objectives on a regular basis.

Fostering of a poor or inappropriate culture across the Group may adversely impact performance and impede achievement of strategic goals

If the Group does not continuously develop and promote an appropriate culture then a strategy or actions could be adopted which may result in the business, results of operations, financial condition and prospects being materially adversely affected.

The Group has developed and is embedding a customer centric series of Brand Values with the tone being set from the top. These values aim to drive and influence the activities of businesses and staff, guiding our dealings with customers.

In addition, a Risk Culture Charter was approved in June 2015. It introduces the principles which underpin a robust risk culture and are a key support to further embedding the Brand Values across the Group.

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

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

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

The Group's risk management systems and processes as well as guidelines and policies may prove inadequate for the risks faced by its business and any failure to properly assess or manage the risks which it faces could cause harm to the Group's business

The Group is exposed to a number of material risks, such as strategic risk, credit risk, capital risk, liquidity risk, market risk, operational risk, competition risk and conduct risk. Although the Group invests substantially in its risk management strategies and techniques, there is a risk that these fail to fully mitigate the risks in some circumstances.

Furthermore, Senior Management are required to make complex judgements and there is a risk that the decisions made by Senior Management may not be appropriate or yield the results expected or that Senior Management may be unable to recognise emerging risks in order to take appropriate action in a timely manner.

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

Risk models used by the Group may not provide an accurate estimate of risk exposure

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

The Group may incur losses as a result of inaccuracies in these models, the data used to build them or decisions made based on incomplete understanding of these models. If the Group's models are not effective in estimating its exposure to various risks or its models prove to be inaccurate, its business, financial condition and prospects could be materially adversely affected.

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

The Group has a relatively high level of criticised loans on its statement of financial position which require a significant level of monitoring and case-by case resolution

The Group has a relatively high level of criticised loans, which are defined as loans requiring additional management attention over and above that normally required for the loan type. Criticised loans include “watch”, “vulnerable” and “impaired” loans. The Group has been proactive in managing its criticised loans, in particular through restructuring activities and the development of a MARS, which built on and formalised the MARP it was required to introduce in order to comply with the Central Bank’s CCMA. The Group has reduced the level of criticised loans, however, there can be no assurance that the Group will continue to be successful in reducing the level of its criticised loans.

The monitoring of such loans can be time consuming and typically requires case-by-case resolution, which may divert resources from other areas of the Group’s business.

The Group’s ability to manage criticised loans may be adversely affected by changes in the regulatory regime or changes in government policy. If the Group is required to devote significant resources over a prolonged period to the monitoring of criticised loans, it could have a material adverse effect on the Group’s business, financial condition and prospects.

The Group has extensive credit policies and strategies, implementation guidelines and monitoring structures in place to manage criticised loans. The Group regularly reviews these credit policies as well as the performance of criticised loans against financial plans.

The Group faces elevated operational risks – including people, outsourcing, process and systems risks

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

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

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

The Group’s business is dependent on processing and reporting accurately and efficiently a high volume of complex transactions across numerous and diverse products and services, which often includes personal customer data. Any weakness in these systems or processes including failure of third party processes infrastructure and services on which the Group relies could have an adverse effect on the Group's results and on its ability to deliver appropriate customer outcomes during the affected period and/or expose the Group to investigative or enforcement actions by the relevant regulatory authorities. In addition, any breach in security of the Group’s systems (for example from increasingly sophisticated cybercrime attacks), could disrupt its business, result in the disclosure of confidential information or create significant financial and/or legal exposure and the possibility of damage to the Group’s reputation and/or brand.

The Group mitigates its operational risks by having detailed risk assessment and internal control requirements in relation to the management of its key people, process and systems risk, and through comprehensive and robust business continuity management arrangements. These are set out in the Group's Operational Risk Framework which is described on page 162.

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

The Group is subject to minimum capital requirements as set out in CRD IV and implemented under the SSM. As a result of these requirements banks in the EU have been, and could continue to be required to increase the quantity and the quality of their regulatory capital. Given this regulatory context, and the levels of uncertainty in the current economic environment, there is a possibility that the economic outturn over the Group's capital planning period may be materially worse than expected and/or that losses on the Group’s credit portfolio may be above forecast levels. Were such losses to be significantly greater than currently forecast, or capital requirements for other material risks to increase significantly, there is a risk that the Group’s capital position could be eroded to the extent that it would have insufficient capital to meet its regulatory requirements. In particular, capital levels may be negatively affected by volatility arising from the defined benefit pension schemes and the AFS portfolio values.

This risk is mitigated by evaluating the adequacy of the Group's capital under both forecast and stress conditions as part of the ICAAP. The ICAAP process includes the

identification and evaluation of potential capital mitigants and is undertaken bi-annually.

Credit ratings may not reflect all risks and downgrades to the Group's credit ratings and/or outlook could impair the Group's access to private sector funding, trigger additional collateral requirements and weaken its financial position

The Group's senior unsecured debt not covered by the Credit Institutions (Eligible Liabilities Guarantees) Scheme (the "ELG Scheme") is rated Ba1 by Moody's with a positive outlook and its debt and deposits not covered by the ELG Scheme are rated BB with a positive outlook and BB+ with a stable outlook by Fitch and S&P, respectively. Moody's has rated the Group's long-term deposits Baa3 and has assigned Counterparty Risk Assessments (CR Assessment) of Baa2(cr)/P-2(cr) to the Group. Downgrades in the credit ratings of the Group could have an adverse impact on the volume and pricing of its wholesale funding and its financial position, restrict its access to the capital and funding markets, trigger material collateral requirements or associated obligations in other secured funding arrangements or derivative contracts, make ineligible or lower the liquidity value of pledged securities and weaken the Group's competitive position in certain markets.

Furthermore, the availability of deposits is often dependent on credit ratings and downgrades of the Group's debt could lead to withdrawals of deposits, which could result in deterioration in the Group's funding and liquidity position.

Any of the foregoing could have a material adverse effect on the Group's business, financial condition and prospects.

The Group is subject to the risk that the funding position of its defined benefit pension schemes could deteriorate, requiring it to make additional contributions

The Group maintains a number of defined benefit pension schemes for certain current and former employees. In relation to these schemes, the Group faces the risk that the funding position of the schemes could deteriorate to such an extent that it would be required to make additional contributions above what is already planned to cover its pension obligations towards current and former employees. The Group received approval from the Pensions Authority in 2013 in relation to a funding plan up to January 2018 with regard to the regulatory minimum funding standard requirements of the Group's Irish defined benefit scheme. For its defined benefit scheme in the UK, the Group established an asset backed funding vehicle to provide the required regulatory funding. Nonetheless, a level of volatility associated with pension funding remains due to potential financial market fluctuations and possible changes to pension and accounting regulations. This volatility can be classified as market risk and actuarial risk. Market risk arises because the estimated market value of the pension scheme assets may decline or their investment returns may decrease due to market movements. Actuarial risk arises due to the risk that the estimated value of the pension scheme liabilities may increase due to changes in actuarial assumptions. Furthermore, IAS pension deficits are now a deduction from capital under CRD IV which came into force on 1 January 2014.

Any failure by the Group to manage its pension deficit could have a material adverse effect on its business, financial condition and prospects.

The Group through its Pensions department and its independent actuarial advisers identifies and monitors all pension risks subject to the Group's Pensions Risk Framework and Pension Risk policy. This covers the three main measurements of the Group defined benefit pension schemes, the Minimum Funding Standard (MFS) in Ireland, the IAS 19 (accounting standard), and the Actuarial Valuations which are actively monitored and action taken as required.

The Group's deferred tax assets depend substantially on the generation of future profits over an extended number of years and the Group's ability to utilise these deferred tax assets could be affected by changes in tax legislation

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

The capital adequacy rules under the CRD IV, require the Group inter alia, 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. This deduction from common equity capital is to be phased in evenly over 10 years commencing in 2015, although this phasing may be subject to change.

The Group monitors this risk by regularly reviewing the basis for recognition of its deferred tax assets.

The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgements and estimates that may change over time, or may ultimately turn out to be inaccurate, and the value realised by the Group for these assets may be materially different from their current, or estimated, fair value

In accordance with International Financial Reporting Standards ("IFRS"), the Group recognises at fair value:
(i) derivative financial instruments;
(ii) financial instruments at fair value through profit or loss;
(iii) certain hedged financial assets and financial liabilities; and
(iv) financial assets classified as AFS.

The best evidence of fair value is quoted prices in an active market. Disruption to quoted prices increases reliance on valuation techniques which requires the use of judgement in the estimation of fair value. This judgement includes, but is not limited to, evaluating available market information, determining the cash flows for the instruments, identifying a risk free discount rate and applying an appropriate credit spread. Valuation techniques that rely to a greater extent on non-observable data require a higher level of management judgement to calculate fair value than those based on wholly observable credit spread.

The choice of contributors, the quality of market data used for pricing, and the valuation techniques used are all subject to internal review and approval procedures.

Given the uncertainty and subjective nature of valuing financial instruments at fair value, any change in these variables could give rise to the financial instruments being carried at a different value, with a consequent impact on the Group's results, financial condition and future prospects.

The Group mitigates this risk by having comprehensive valuation and accounting policies and methodologies in place for the valuation of certain financial assets, and in undertaking control activities which provide assurance that these are being adhered to.

Risk management – 2. Framework

Introduction

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

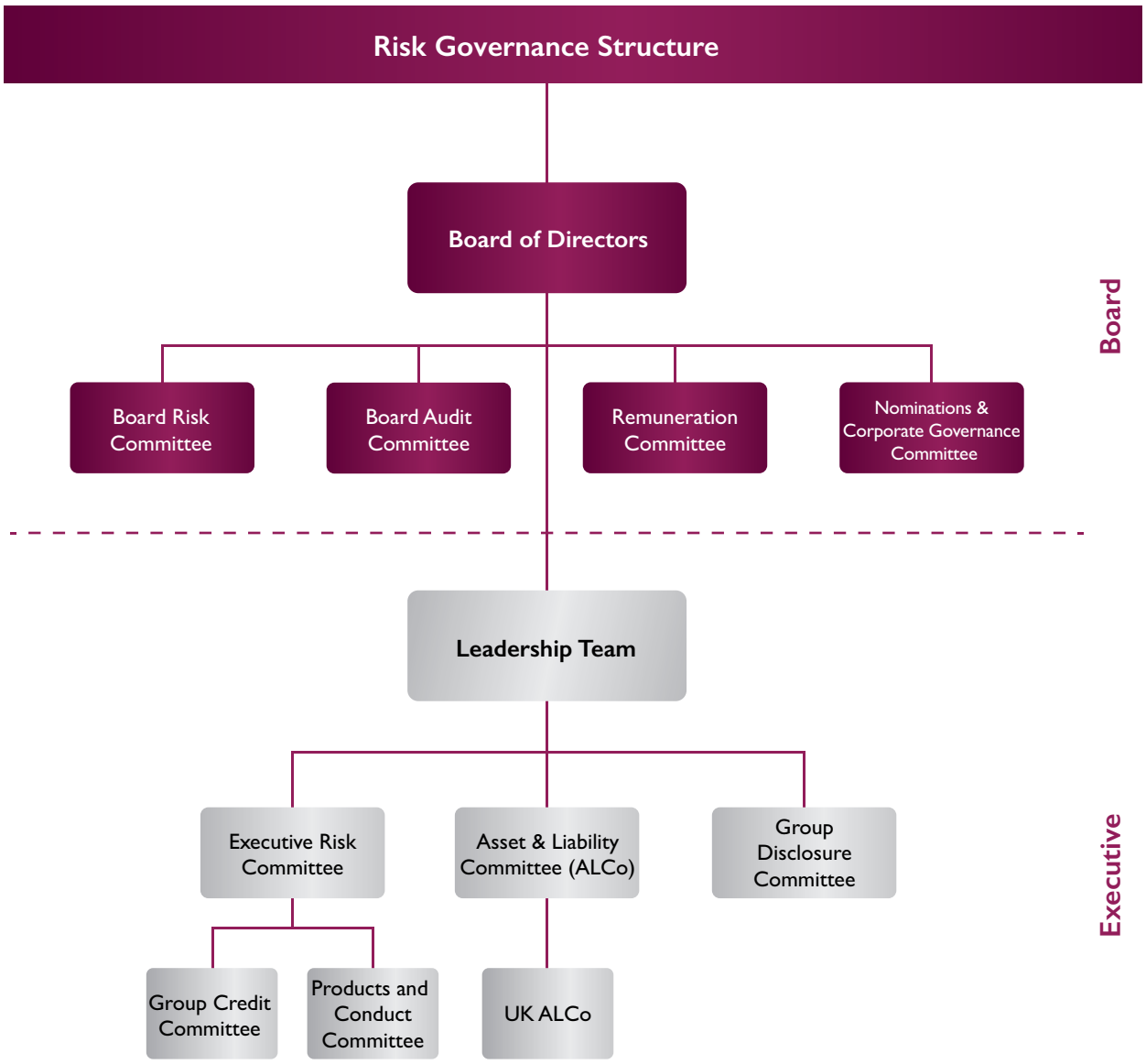
2.1 Risk management framework

The Group assumes a variety of risks in undertaking its business activities. Risk is defined as any event that could damage the core earnings capacity of the Group, increase earnings or cash flow volatility, reduce capital, threaten business reputation or viability, and/or breach regulatory or legal obligations. AIB has adopted an Enterprise Risk Management approach to identifying, assessing and managing risks. To support this approach, a number of Board approved frameworks and policies are in place which set out the key principles, roles and responsibilities and governance arrangements through which the Group's material risks are managed. The core aspects of the Group's risk management approach are described below.

2.2 Risk appetite

The Group's risk appetite is defined as the maximum amount of risk that the Group is willing to accept or tolerate in order to deliver on its strategic and business objectives. The Group Risk Appetite Statement ("RAS") is a blend of qualitative statements and quantitative limits and triggers linked to the Group's strategic objectives.

The Group RAS is reviewed and approved by the Board at least annually or more often if required, in alignment with the annual business and financial planning process. AIB's authorised bank subsidiaries and business segments are required to document and align their own risk appetite statements with the Group statement.



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

2.3 Risk governance

2.3.1 Risk management organisation

The Board has ultimate responsibility for the governance of all risk taking activity in the Group. The Group has adopted a 'three lines of defence' framework in the delineation of accountabilities for risk governance. Under the three lines of defence model, primary responsibility for risk management lies with business line management. The Risk Management function, headed by the Group Chief Risk Officer ("CRO") together with Compliance and Finance provide the second line of defence, providing independent oversight and challenge to business line managers. The third line of defence is the Group Internal Audit function, under the Head of Group Internal Audit ("GIA"), which provides independent assurance to the Board Audit Committee on the effectiveness of the system of internal control.

2.3.2 Committees with risk management responsibilities

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

The role of the Board, the Board Audit Committee, and the BRC is set out in Governance and oversight - Corporate Governance report on pages 177 to 191. The Leadership Team comprises the Senior Executive managers of the Group who manage the strategic business risks of the Group. It establishes the business strategy and risk appetite within which the Risk Management function operates.

The role of the ERC is to foster risk governance within the Group, to ensure that risks within the Group are appropriately managed and controlled, and to evaluate the Group's risk appetite against the Group's strategy. It is a sub-committee of the Leadership Team chaired by the Chief Financial Officer ("CFO") and its membership includes the CEO, CRO, and Chief Operating Officer ("COO").

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

The role of the ALCo is to act as the Group's strategic balance sheet management forum that combines a business-decisioning and risk governance mandate. It is a sub-committee of the Leadership Team, chaired by the Director of Finance and its membership includes the CFO, the CRO and the heads of significant business areas. ALCo is tasked with decision-making in respect of the Group's balance sheet structure, including capital, liquidity, funding, interest rate risk in the Banking Book ("IRRBB") from an economic value and net interest margin perspective, foreign exchange hedging risks and other market risks. In ensuring sound capital and liquidity management and planning, ALCo reviews and approves models for the valuation of financial instruments, for the measurement of market and liquidity risk, for regulatory capital ('IRB models'), and for the calculation of expected and unexpected credit losses and stress testing. In addition, ALCo directs the shape of the balance sheet through funds transfer pricing, direction on product pricing and review and analysis of risk adjusted returns on capital. The UK ALCo is a sub-committee of ALCo and fulfils a similar role for AIB Group (UK) p.l.c..

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

2.4 Risk identification and assessment process

The Group uses a variety of approaches and methodologies to identify and assess its principal risks and uncertainties. A Material Risk Assessment ("MRA") is undertaken on at least an annual basis. The MRA identifies and assesses the most material risks facing the Group in terms of their likelihood and impact, and separately evaluates whether an explicit amount of capital is required to be held against them as part of the Group's ICAAP. Other assessments of risk are undertaken, as required, by business areas, focussing on the nature of the

risk, the adequacy of the internal control environment and whether additional management action is required. Periodic risk assessments are also undertaken in response to specific internal or external events. A monthly CRO Report is presented to the ERC and BRC which sets out the risk profile of the Group and seeks to identify emerging threats.

2.5 Stress and scenario testing

The Group's risk identification and assessment framework described above is supported by a framework of stress testing, scenario and sensitivity analysis and reverse stress testing, the latter of which is performed as part of the Group's recovery planning. The Group undertakes a regular programme of stress testing across all its material risks to ensure that risk assessment is dynamic and forward looking and considers not only existing risks but also potential and emerging threats.

A stress testing exercise was conducted during the second half of 2015 based on the balance sheet as at 30 June 2015 to inform and support the Group's ICAAP process.

2.6 Risk culture

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

A Risk Culture Charter was approved by the BRC in June 2015. It introduces the principles which underpin a robust risk culture and a key support to embedding the Brand Values across the Group. The further embedding of these risk culture principles was progressed through their inclusion in the Group's 2015 Code of Conduct. Various other initiatives were also undertaken in 2015 so as to ensure that a strong risk culture is maintained and continues to support the achievement of the Group's strategic objectives.

Risk management – 3. Individual risk types

3.1 Credit risk

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

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

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

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

Credit risk organisation and structure

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

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

AIB operates credit approval criteria which:
- Includes a clear indication of the Group's target market(s), in line with Group and Segment Risk Appetite Statements;
- Requires a thorough understanding and assessment of the borrower or counterparty, as well as the purpose and structure of credit, and the source of repayment; and
- Enforces compliance with minimum credit assessment and facility structuring standards.

Credit risk approval is undertaken in the most part by experienced credit risk professionals operating within a defined delegated authority framework. However, for certain selected retail portfolios, scorecards and automated strategies (together referred to as 'score enabled decisions') are deployed to automate and to support credit decisions and credit management (e.g. score enabled auto-renewal of overdrafts).

The AIB Board is the ultimate credit approval authority and grants authority to various Credit Committees, and individuals to approve limits. Credit limits are approved in accordance with the Group's written policies and guidelines. All exposures above certain levels require approval by the Group Credit Committee ("GCC") and/or Board. Other exposures are approved according to a system of tiered individual authorities which reflect credit competence, proven judgement and experience. Depending on the borrower/connection, grade or weighted average facility grade and the level of exposure, limits are sanctioned by the relevant credit authority. Material lending proposals are referred to credit units for independent assessment/approval or formulation of a recommendation and subsequent adjudication by the applicable approval authority.

Measurement of credit risk

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

The primary model measures used are:
- Probability of default ("PD") – the likelihood that a borrower is unable to repay his obligations;
- Exposure at default ("EAD") – the exposure to a borrower who is unable to repay his obligations at the point of default;
- Loss given default ("LGD") – the loss associated with a defaulted loan or borrower; and
- Expected loss ("EL") – the loss that can be incurred as a result of lending to a borrower that may default. It is the average expected loss in value over a specified period.

Risk management – 3. Individual risk types

3.1 Credit risk

Measurement of credit risk *(continued)*

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

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

For the purposes of calculating credit risk, each 'probability of default model' segments counterparties into a number of rating grades, each representing a defined range of default probabilities. Exposures migrate between rating grades if the assessment of the counterparty probability of default changes. These individual rating models continue to be refined and recalibrated based on experience. The calculation of internal ratings differs between portfolios. In the retail portfolio, which is characterised by a large number of customers with small individual exposures, risk assessment and decisioning is largely automated through the use of statistically-based scoring models. All counterparties are assessed using the appropriate model or scorecard prior to credit approval.

Mortgage applications are generally assessed centrally with particular reference to affordability, assisted by scoring models. However, for larger cases with connected exposures, some mortgage applications are assessed by the relevant credit authority. Both application scoring for new customers and behavioural scoring for existing customers are used to assess and measure risk as well as to facilitate the management of these portfolios.

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

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

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

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

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

The Group's criticised loans are subject to more intense assessment and review because of the increased risk associated with them.

Credit management and credit risk management continues to be a key area of focus. Resourcing, structures, policy and processes are subjected to on-going review in order to ensure that the Group is best placed to manage asset quality and assist borrowers in line with agreed treatment strategies.

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

As at 31 December 2015, the Group used a combination of Standardised and Internal Ratings Based ("IRB") approaches for the calculation of regulatory capital. Under the Standardised approach, regulatory risk weightings are determined on a fixed percentage basis, depending on the portfolios, as specified in the relevant regulations. The Group has regulatory approval to use certain of its internal credit models in the calculation of its capital requirements. As at 31 December 2015, 43% (31 December 2014: 42%) of credit risk weighted assets were calculated using internal credit models. This approval covers the adoption of the Foundation IRB approach for non-retail exposures and Advanced IRB for retail exposures.

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

3.1 Credit risk

Measurement of credit risk *(continued)*

Non-retail

For non-retail exposures, the Foundation IRB approach is used for sovereign, bank, corporate, commercial, 'not for profit' and project finance portfolios. The Foundation IRB approach is used where banks use their own estimate of PD and regulatory estimates of LGD and EAD. To calculate PD, the Group assesses the quality of borrowers and other counterparties using criteria particular to the type of borrower under consideration.

Retail

For retail exposures, the Advanced IRB approach is adopted for Republic of Ireland residential mortgages (excluding EBS mortgages) where the Group uses its own estimates of PD, LGD and EAD. PDs and LGDs are calibrated on the basis of internal data, supplemented with benchmarking to external sources.

The Group has a formalised governance framework around the internal ratings process. Each rating model is subject to an annual validation process, undertaken by an independent validation team.

The table below shows the distribution of outstanding non-defaulted credit exposures to customers in terms of EAD, PD, LGD and EL by IRB portfolios at 31 December 2015 and 2014:

	2015			
	EAD € m	Average PD %	Average LGD %	EL[1] € m
Residential mortgages				
Owner-occupier	15,439	1.08	27.30	63
Buy-to-let	2,999	2.21	29.97	42
	18,438	1.26	27.74	105
Corporate	6,422	1.04	45.26	34
SME	3,017	5.61	45.00	76
Total	27,877	1.68	33.64	215

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

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

The reduction in the average PD for the owner-occupier portfolio is due to the non-default population having a lower recent history of poor account behaviour performance than was previously observed. The reduction in PD for the corporate portfolio primarily reflects growth in the international lending portfolio and growth in the AIB Ireland corporate portfolio and the reduction in the number of cases in the watch list grades.

For financial reporting purposes, impairment allowances are recognised only with respect to losses that have been incurred at the reporting date based on objective evidence of impairment, accordingly, these will differ from amounts calculated from expected loss models.

Risk management – 3. Individual risk types

3.1 Credit risk

Measurement of credit risk *(continued)*

Control mechanisms for rating systems

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

– The Group has specific policies relating to model governance, development and calibration, validation and deployment; and
– All models are subject to in-depth analysis and review, at least annually, supplemented by model tracking on a quarterly basis. This is carried out by a dedicated unit and is independent of credit origination and management functions.

Credit risk principles and policy*

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

More detailed policies, standards and guidelines provide more explicit instructions for applying these minimum standards to specific products, business lines, market segments, processes and roles. These are reviewed at least annually. Policy exceptions must be approved and reported. Policy breaches are not permitted, however, in circumstances where a breach occurs, it must be reported to Senior Management and the Credit Risk function to assess any required remedial action. Credit Risk monitors credit performance trends, reviews and challenges exceptions to planned outcomes and tracks portfolio performance against agreed credit risk indicators. This allows the Group to take early and proactive mitigating actions for any potential areas of concern. The more significant credit policies are approved by the Board.

Credit concentration risk*

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

Country risk*

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

Credit risk on derivatives*

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

*Forms an integral part of the audited financial statements

3.1 Credit risk

Measurement of credit risk *(continued)*

Credit risk assurance and review*

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

Stress testing and scenario analysis*

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

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit exposure

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

The following table sets out the maximum exposure to credit risk that arises within the Group and distinguishes between those assets that are carried in the statement of financial position at amortised cost and those carried at fair value at 31 December 2015 and 2014:

	2015*			2014*		
Maximum exposure to credit risk	**Amortised cost[1] € m**	**Fair value[2] € m**	**Total € m**	Amortised cost[1] € m	Fair value[2] € m	Total € m
Balances at central banks[3]	**4,415**	**–**	**4,415**	4,879	–	4,879
Items in course of collection	**153**	**–**	**153**	146	–	146
Derivative financial instruments	**–**	**1,698**	**1,698**	–	2,038	2,038
Loans and receivables to banks	**2,339**	**–**	**2,339**	1,865	–	1,865
Loans and receivables to customers	**63,240**	**–**	**63,240**	63,362	–	63,362
NAMA senior bonds	**5,616**	**–**	**5,616**	9,423	–	9,423
Financial investments available for sale[4]	**–**	**15,708**	**15,708**	–	19,772	19,772
Financial investments held to maturity	**3,483**	**–**	**3,483**	–	–	–
Included elsewhere:						
Trade receivables	**539**	**–**	**539**	73	–	73
Accrued interest	**399**	**–**	**399**	426	–	426
	80,184	**17,406**	**97,590**	80,174	21,810	101,984
Financial guarantees	**1,375**	**–**	**1,375**	1,246	–	1,246
Loan commitments and other credit related commitments	**9,747**	**–**	**9,747**	9,082	–	9,082
	11,122	**–**	**11,122**	10,328	–	10,328
Total	**91,306**	**17,406**	**108,712**	90,502	21,810	112,312

[1]All amortised cost items are 'loans and receivables' or 'financial investments held to maturity' 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 € 4,950 million (31 December 2014: € 5,393 million).

[4]Excluding equity shares of € 781 million (31 December 2014: € 413 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. Credit policy and credit management standards are controlled and set centrally by the Credit Risk function.

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

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

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

Collateral*

Credit risk mitigation may include the requirement to obtain collateral as set out in the Group's lending policies. Where collateral or guarantees are required, they are usually taken as a secondary source of repayment in the event of the borrower's default. The Group maintains policies which detail the acceptability of specific classes of collateral.

The principal collateral types for loans and receivables are:

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

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

Collateral is not usually held against loans and receivables to financial institutions, including central banks, except where securities are held as part of reverse repurchase or securities borrowing transactions or where a collateral agreement has been entered into under a master netting agreement.

Methodologies for valuing collateral

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

In accordance with the Group's policy on Collateral Valuation, the Group uses a number of methods to assist in reaching appropriate valuations for collateral held. These include:

– Use of professional valuations;
– Use of internally developed residual value methodologies;
– Application of local knowledge in respect of the property and its location; and
– Use of internal guidelines.

Use of professional valuations represent circumstances where external firms are engaged to provide formal written valuations in respect of the property. Up to date external professional valuations are sought in accordance with the Groups' lending policies. Historic valuations are also used as benchmarks to compare against current market conditions and assess house price reductions from peak. Available market indices for relevant assets, e.g. residential and investment property are also used in valuation assessments.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit exposure

Credit risk mitigants* *(continued)*

Methodologies for valuing collateral *(continued)*

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

Application of local market knowledge represent circumstances where the local bank management familiar with the property concerned and with local market conditions, and with knowledge of recent completed transactions provide indications of the likely realisable value and a potential timeline for realisation. Current yields and estimated likely yields are applied to current rentals in valuing investment property.

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

When assessing the value of residential properties, recent transactional analysis of comparable sales in the area combined with the Central Statistics Office (”CSO”) Residential Property Price index in the Republic of Ireland are used.

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

Where cash flows arising from the realisation of collateral held are included in impairment assessments, management typically rely on valuations or business appraisals from independent external professionals.

Applying one or a combination of the above methodologies, in line with the Group’s Valuation Policy, has resulted in a wide range of discounts to original collateral valuations, influenced by the nature, status and year of purchase of the asset. The frequency, and availability, of such up-to-date valuations remains a key factor within impairment provisions determination. Additionally, all relevant costs likely to be associated with the realisation of the collateral are taken into account in the cash flow forecasts. The spread of discounts is influenced by the type of collateral, e.g. land, developed land or investment property and also its location. The valuation arrived at is therefore, a function of the nature of the asset, e.g. 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.

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

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

In assessing the value of collateral for impaired mortgage loans in the Republic of Ireland, the Group has used a house price fall from peak of 41% Dublin and 42% non-Dublin as a base. This reflects a collateral value buffer against the current CSO index which at 31 December 2015 showed a 34% fall from peak.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit exposure

Credit risk mitigants* *(continued)*

Collateral for the non-mortgage portfolio*

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

Collateral for the residential mortgage portfolio*

For residential mortgages, the Group takes collateral in support of lending transactions for the purchase of residential property. Collateral valuations are required at the time of origination of each residential mortgage. The Group adjusts open market property values to take account of the costs of realisation and any discount associated with the realisation of collateral. The fair value at 31 December 2015 is based on property values at origination or date of latest valuation and applying the CSO Residential Property Price Index (Republic of Ireland) and Nationwide House Price Index (United Kingdom) to these values to take account of price movements in the interim.

Summary of risk mitigants by selected portfolios

Set out below are details of risk mitigants used by the Group in relation to financial assets detailed in the maximum exposure to credit risk table on page 68.

Loans and receivables to customers – residential mortgages*

The following table shows the fair value of collateral held for the Group's residential mortgage portfolio at 31 December 2015 and 2014:

	2015				2014			
	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%	**7,116**	**237**	**525**	**7,878**	5,972	254	542	6,768
50% - 70%	**6,858**	**235**	**709**	**7,802**	5,837	236	824	6,897
71% - 80%	**4,109**	**114**	**466**	**4,689**	3,347	132	577	4,056
81% - 90%	**3,616**	**114**	**533**	**4,263**	3,381	129	690	4,200
91% - 100%	**2,634**	**101**	**619**	**3,354**	2,742	126	769	3,637
	24,333	**801**	**2,852**	**27,986**	21,279	877	3,402	25,558
Partially collateralised								
Collateral value relating to loans over 100% loan-to-value	**4,631**	**206**	**2,356**	**7,193**	6,380	355	3,634	10,369
Total collateral value	**28,964**	**1,007**	**5,208**	**35,179**	27,659	1,232	7,036	35,927
Gross residential mortgages	**29,796**	**1,056**	**5,966**	**36,818**	29,014	1,323	8,509	38,846
Statement of financial position specific provisions			**(2,045)**	**(2,045)**			(2,877)	(2,877)
Statement of financial position IBNR provisions				**(277)**				(550)
Net residential mortgages			**3,921**	**34,496**			5,632	35,419

[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 financial year end.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit exposure

Credit risk mitigants* *(continued)*

Loans and receivables to customers - other

In addition to the credit risk mitigants outlined on the previous page, the Group holds reverse repurchase agreements amounting to € 226 million (31 December 2014: € 110 million) in its loans and receivables portfolio for which it had accepted collateral with a fair value of € 222 million (2014: € 107 million).

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 2015 amounted to € 1,698 million (2014: € 2,038 million) and those with negative fair value are reported as liabilities which at 31 December 2015 amounted to € 1,781 million (2014: € 2,334 million).

The enforcement of netting agreements would potentially reduce the statement of financial position carrying amount of derivative assets and liabilities by € 1,052 million at 31 December 2015 (2014: € 1,221 million). The Group also has Credit Support Annexes ("CSAs") in place which provide collateral for derivative contracts. As at 31 December 2015, € 514 million (2014: € 843 million) of CSAs are included within financial assets as collateral for derivative liabilities and € 201 million (2014: € 279 million) of CSAs are included within financial liabilities as collateral for derivative assets (note 47 to the consolidated financial statements). Additionally, the Group has agreements in place which may allow it to net the termination values of cross currency swaps upon occurrence of an event of default.

Loans and receivables to banks*

Interbank placings, including central banks, are largely carried out on an unsecured basis apart from reverse repurchase agreements. At 31 December 2015, repurchase agreements amounted to € 648 million (2014: Nil) for which the Group had accepted collateral with a fair value of € 737 million (2014: Nil).

NAMA senior bonds*

NAMA senior bonds, which at 31 December 2015 had a carrying value of € 5,616 million (31 December 2014: € 9,423 million), are guaranteed by the Irish Government as to principal and interest.

Financial investments available for sale*

At 31 December 2015, government guaranteed senior bank debt which amounted to € 174 million (2014: € 120 million) 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 monitoring*

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

Credit risk, at a portfolio level is monitored and reported regularly to Senior Management and the Board Risk Committee. Credit managers pro-actively manage the Group's credit risk exposures at a transaction and relationship level. Monitoring is done through credit exposure and excess management, regular review of accounts, being up to date with any developments in customer business, obtaining updated financial information and monitoring of covenant compliance. This is reported on a quarterly basis to Senior Management and includes information and detailed commentary on loan book growth, quality of the loan book and loan impairment provisions including individual large impaired exposures.

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

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

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

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

Forbearance*

Forbearance occurs when a borrower is granted a temporary or permanent concession or an agreed change to the terms of a loan ('forbearance measure') for reasons relating to the actual or apparent financial stress or distress of that borrower. A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable currently to repay both the principal and interest in accordance with the original contract terms. Modifications to the original contract can be of a temporary (e.g. interest only) or permanent (e.g. term extension) nature.

The Group uses a range of initiatives to support customers. The Group considers requests from customers who are experiencing cash flow difficulties on a case by case basis and will assess these requests against their current and likely future financial circumstances and their willingness to resolve such difficulties, taking into account legal and regulatory obligations. Key principles include supporting viable Small Medium Enterprises ("SMEs"), and providing support to enable customers remain in the family home, whenever possible. The Group has implemented the standards for the Codes of Conduct in relation to customers in difficulty, as set out by the Central Bank of Ireland, ensuring these customers are dealt with in a professional and timely manner.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Forbearance* *(continued)*

Mortgage portfolio

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

The strategy is built on three key factors:

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

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

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

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

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

Voluntary sale for loss – A voluntary sale for loss solution will be considered where the loan is deemed to be unsustainable and the customer is agreeable to selling the property and putting an appropriate agreement in place to repay any residual debt. This solution may also include an element of debt write-off; and

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

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

Non-mortgage portfolio

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

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

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Forbearance* *(continued)*

Non-mortgage portfolio *(continued)*

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

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

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

Types of forbearance include temporary arrangements (such as placing the facility on interest only) and permanent sustainable solutions including fundamental restructures (which may include an element of potential debt write down), part capital/interest basis for a period of time, extension of the facility term, split loans, and in some cases, a debt for equity swap or similar structure.

See accounting policy (t) 'Impairment of financial assets' in note 1 to the consolidated financial statements.

The effectiveness of the forbearance measures over the lifetime of the arrangements are subject to on-going management and review. A forbearance measure is deemed to be effective if the borrower meets the modified or original terms of the contract over a sustained period of time resulting in an improved outcome for the Group and the borrower.

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

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit risk management

Loan loss provisioning*

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

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

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

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

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

Mortgage portfolio triggers

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

Commercial property triggers

- A material decrease in the property value.
- A material decrease in estimated future cash flows.
- The lack of an active market for the assets concerned.
- The absence of a market for refinancing options.

Small Medium Enterprises ("SME") portfolio triggers

- Trading losses or a material weakening in trade which leads to concerns over the ability of the business to meet scheduled debt service.
- Diversion of cash flows from earning assets to support non-earning assets.
- A material decrease in turnover or the loss of a major customer.
- A default or breach of contract.

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

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

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3.1 Credit risk – Credit risk management

Loan loss provisioning* *(continued)*

Specific provisions

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

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

The individually significant threshold is € 1,000,000 for AIB Ireland by customer connection (threshold is € 750,000 for EBS Limited) and £ 500,000 for AIB UK. The calculation of an impairment charge for loans below the "significant" threshold is undertaken on a collective basis.

Individually significant loans and receivables

All loans that are considered individually significant are assessed on a case-by-case basis throughout the period for any objective evidence that a loan may be impaired. Assessment is based on ability to pay and collateral value. Collateral values are assessed based on the AIB Group Property Valuation Guidelines as described on pages 69 to 70. Individually significant provisions are calculated using discounted cash flows for each exposure. The cash flows are determined with reference to the individual characteristics of the borrower including an assessment of the cash flows that may arise from foreclosure less costs to sell in respect of obtaining and selling any associated collateral. The time period likely to be required to realise the collateral and receive the cash flows is taken into account in estimating the future cash flows and discounting these back to present value.

Individually insignificant loans and receivables

Provisioning is assessed on a collective basis to estimate losses for homogeneous groups of loans that are considered individually insignificant. This applies for customer connections less than € 1,000,000 for AIB Ireland or € 750,000 for EBS Limited and £ 500,000 for AIB UK.

Individually insignificant – Mortgage portfolio (Republic of Ireland)

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

Individually insignificant mortgage specific provisions are calculated using an individually insignificant and IBNR mortgage provisioning model. The methodology is based on the calculation of three possible resolution outcomes: cure; advanced forbearance with loss; and repossession (forced and voluntary), with different loss rates associated with each. The methodology is regularly reviewed and updated to reflect current data on loss history and portfolio development as well as incorporating additional loss parameters assessed on restructuring outcomes.

The model parameters were refined during the year based on additional data sets.

Key model parameters at 31 December 2015 for owner-occupier mortgages are as follows: cure (6%) and disposal/forbearance (94%) (2014: cure 4% and disposal/forbearance 96%).

The corresponding buy-to-let model parameters at 31 December 2015 are as follows: cure (3.5%) and disposal/forbearance (96.5%) (2014: cure 0.5% and disposal/forbearance 99.5%).

The cure rate parameter in the individually insignificant model reflects the percentage of loans which were impaired/defaulted but have exited impairment/default after a 12 month satisfactory performance and no loss to the Group.

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

The model parameters are reviewed at the Group Credit Committee on a quarterly basis. The main parameter changes for the year end 31 December 2015 were an increase in the haircut on disposal for both Dublin and Outside Dublin in addition to the application of updated house price fall from peak parameters again for both Dublin and Outside Dublin.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Loan loss provisioning* *(continued)*

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

A non-mortgage individually insignificant and IBNR model was introduced and implemented for the financial year end 31 December 2014. The model takes into consideration underlying security in determining the appropriate provision cover rate for impaired exposures. The specific provision for impaired cases is calculated using a LGD model, which differentiates loss based on loan size, product type and sector.

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

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

Incurred but not reported ("IBNR") provisions

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Group has incurred as a result of events occurring before the balance sheet date, which the Group is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

IBNR provisions can only be recognised for incurred losses i.e. losses that are present in the portfolio at the reporting date and are not permitted for losses that are expected to occur as a result of likely future events. IBNR provisions are determined by reference to loss experience in the portfolio and to the credit environment at the reporting date. The estimation of IBNR also takes into consideration re-default and execution risk for restructured loans.

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

- historical loss experience (loss emergence rates based on historic grade migration experience or probability of default) in portfolios of similar credit risk characteristics (for example, by sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate provision against the individual loan (emergence period);
- loss given default rates based on historical loan loss experience, adjusted for current observable data;
- management's experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience; and
- an assessment of higher risk portfolios, e.g. non-impaired forborne mortgages and restructured loans.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Loan loss provisioning* *(continued)*

Republic of Ireland residential mortgage portfolio – IBNR

The residential mortgage portfolio IBNR is calculated using the individually insignificant and IBNR mortgage model as described above. The table below sets out the parameters used in the calculation of IBNR for the mortgage portfolio as at 31 December 2015 and 2014:

	2015					
	Owner-occupier			Buy-to-let		
	Exposure € m	Average PD %	Average LGD %	Exposure € m	Average PD %	Average LGD %
Good upper[1]	14,168	0.6	17.3	1,160	1.2	17.6
Good lower[1]	8,073	2.8	18.6	1,312	4.4	21.2
Watch[1]	2,286	10.7	19.8	414	16.8	23.0
Vulnerable[1]	534	55.7	19.4	216	56.7	21.9
Included in the above are the following sub portfolios which carry a higher level of IBNR:						
Cured	1,251	23.6	19.9	394	34.4	24.6
Forborne – non-impaired	2,446	13.6	18.9	617	22.1	23.5

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

[1]For definition – see page 122.

The parameters for Cured and Forborne non-impaired, are as follows:
Average PD and LGD are based on the PDs and LGDs, weighted by the EAD for all owner-occupier and buy-to-let loans included in the individually insignificant and IBNR mortgage model. The mortgage provision model calculates individually insignificant specific provisions and IBNR provisions.

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

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit risk management

Loan loss provisioning* *(continued)*

Republic of Ireland non-mortgage portfolio – IBNR

The non-mortgage portfolio IBNR which excludes a number of portfolios, in particular: credit cards; property and construction; and non-property business loans, is calculated using the individually insignificant and IBNR non-mortgage model as described above. The table below sets out the parameters used in the calculation of IBNR for this portfolio at 31 December 2015 and 2014:

	2015			2014		
	Exposure € m	**Average PD %**	**Average LGD %**	Exposure € m	Average PD %	Average LGD %
Good upper[1]	**103**	**0.1**	**45.3**	48	0.4	45.1
Good lower[1]	**5,940**	**1.1**	**45.9**	4,129	1.8	47.4
Watch[1]	**1,155**	**4.3**	**38.1**	701	7.4	48.6
Vulnerable[1]	**3,057**	**12.3**	**37.4**	861	19.9	47.8
Included within the above are:						
> 90 days past due but not impaired	**375**	**12.0**	**36.8**	251	17.5	49.1
Cured in the past 12 months	**591**	**11.3**	**32.6**	228	14.4	48.4

[1]For definition – see page 122.

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

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

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

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3.1 Credit risk – Credit risk management

Loan loss provisioning* *(continued)*

Emergence period

The emergence period is key to determining the level of IBNR provisions. Emergence periods are determined by:

– assessing the time it takes following a loss event for an unidentified impaired loan to be recognised as an impaired loan and requiring a provision; and
– taking into account current credit management practices, historic evidence of assets moving from 'good' to 'bad' and actual case studies.

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

Emergence periods are reviewed on at least an annual basis. At 31 December 2015, there was no change made to the Republic of Ireland emergence period for the mortgage (12 months) and non-mortgage (8 months) portfolios. The emergence period for credit cards and corporate portfolios, also remained at 3 and 6 months respectively.

The average emergence period for UK mortgages is 12 months (increase from 8 months at 31 December 2014) with the non-mortgage emergence period ranging from between 3 to 8 months.

Approval process

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

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

Write-offs

When the prospects of recovering a loan, either partially or fully, do not improve, a point will come when it will be concluded that as there is no realistic prospect of recovery, the loan (and any related specific provision) will be written off. Where the loan is secured, the write-off will take account of receipt of the net realisable value of the security held. Partial write-offs including non-contracted write-offs may also occur when it is considered that there is no prospect for the recovery of the provisioned amount, for example when a loan enters a legal process. The reduced loan balance remains on the balance sheet as impaired. In addition, write-offs may reflect restructuring activity with customers who are subject to the terms of the revised agreement and subsequent satisfactory performance.

Reversals of impairment

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

Impact of changes to key assumptions and estimates on impairment provisions

Management is required to exercise judgement in making assumptions and estimations when calculating loan impairment provisions on both individually and collectively assessed loans and receivables. A significant judgemental area is the calculation of individually insignificant and IBNR impairment provisions which are subject to estimation uncertainty.

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

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3.1 Credit risk – Credit risk management

Loan loss provisioning* *(continued)*

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

Risk factors include loan portfolio growth, product mix, unemployment rates, bankruptcy trends, geographical concentrations, loan product features, economic conditions such as national and local trends in housing markets, the level of interest rates, portfolio seasoning, account management policies and practices, changes in laws and regulations, and other influences on customer payment patterns. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in light of differences between loss estimates and actual loss experience. For example, loss rates and the expected timing of future recoveries are benchmarked against actual outcomes where available to ensure they remain appropriate.

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

Given the relative size of the Republic of Ireland mortgage portfolio, the key variables include house price fall from peak of 41% Dublin and 42% non-Dublin which determines the collateral value supporting loans in the mortgage portfolio and cure rates (rates by which defaulted or delinquent accounts are assumed to return to performing status).

A 1% favourable change in the cure rate used for the Republic of Ireland collective mortgage provisions would result in a reduction in impairment provisions of 1.0% (blended rate of owner-occupier/buy-to-let) or c. € 14 million.

The value of collateral is estimated by applying changes in house price indices to the original assessed value of the property. A 1% change in the house price fall from peak assumption used for the Republic of Ireland collective mortgage provisions for 31 December 2015 is estimated to result in movements in provisions of c. € 20 million (€ 16 million specific provision and €4 million IBNR).

A 1% change in the haircut on disposal for Dublin properties would result in a movement in provisions of c. € 5 million (€ 4 million specific provisions and € 1 million IBNR). A similar 1% change in the haircut on disposal for properties outside of Dublin would result in a movement in provisions of c. €12 million (€ 10 million specific provisions and € 2 million IBNR).

An increase in the assumed repossession rate of 1% for the Republic of Ireland collective mortgage provisions would result in an increase in provisions of 0.6% (blended rate of owner-occupier/buy-to-let) or c. € 9 million.

For € 5.7 billion of the total impaired loans (€ 1.5 billion mortgages and € 4.2 billion non-mortgages) for which systemised cash flows are available, changes in interest rates and cash flow timing would have the following impact:

– If interest rates increased by 1%, this would have an impact on the discounting effect, resulting in an increase in impairment provisions of c. € 49 million (c. € 18 million mortgages and c. € 31 million non-mortgages).
– If anticipated cash receipt timelines moved out by 1 year, the impact on impairment provisioning would be an increase of c. € 77 million (c. € 24 million mortgages and c. € 53 million non-mortgages).

An IBNR provision is made for impairments that have been incurred but have not been separately identifiable at the balance sheet date. This provision is sensitive to changes in the time between the loss event and the date the impairment is specifically identified. This period is known as the loss emergence period. In the Republic of Ireland mortgage portfolio, the emergence period is currently 12 months; a decrease of one month in the loss emergence period would result in a decrease of c. € 19 million in IBNR provisions.

In the Republic of Ireland non-mortgage portfolio, an increase of one month in the loss emergence period for IBNR provisions would result in an increase of c. € 27 million.

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3.1 Credit risk – Credit profile of the loan portfolio

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

The following tables show for the financial years ended 31 December 2015 and 2014 loans and receivables to customers by industry sector and geography[1]:

(i) Total loans and receivables to customers;

(ii) Impaired loans and receivables to customers; and

(iii) Provisions for impairment on loans and receivables to customers.

2015

	Total		Analysed geographically[1]		
Loans and receivables to customers*	**€ m**	**%**	**Republic of Ireland € m**	**United Kingdom € m**	**Rest of the World € m**
Agriculture	1,795	2.6	1,691	104	–
Energy	339	0.5	237	101	1
Manufacturing	2,107	3.0	1,511	521	75
Property and construction	11,532	16.4	8,089	3,443	–
Distribution	5,831	8.3	4,430	1,401	–
Transport	1,239	1.8	910	329	–
Financial	1,102	1.6	796	302	4
Other services	5,888	8.4	3,283	2,563	42
Personal:					
Residential mortgages	36,818	52.5	34,456	2,362	–
Other	3,512	4.9	3,156	356	–
Gross loans and receivables	70,163	100.0	58,559	11,482	122
Analysed as to:					
Neither past due nor impaired	55,060				
Past due but not impaired	2,018				
Impaired – provisions held	13,085				
	70,163				
Unearned income	(139)				
Deferred costs	48				
Provisions for impairment	(6,832)				
Total statement of financial position	63,240				

[1]Based on booking office.

The credit portfolio is diversified within each of its geographic markets by spread of locations, industry classification and individual customer. At 31 December 2015, residential mortgages (49%) and property and construction (12%) in the Republic of Ireland represent the largest concentrations within the total portfolio. No other industry or loan category in any geographic market accounts for more than 10% of the Group's total loan portfolio.

Loans booked in the Republic of Ireland include € 1.8 billion US leveraged debt and € 0.3 billion European leveraged debt which is described on page 121 of this report.

*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

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

[1]Based on booking office.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

	2015			
	Total	Analysed geographically[1]		
Impaired loans and receivables to customers*		Republic of Ireland	United Kingdom	Rest of the World
	€ m	€ m	€ m	€ m
Agriculture	171	166	5	–
Energy	38	37	1	–
Manufacturing	162	122	40	–
Property and construction	4,308	3,295	1,013	–
Distribution	1,071	875	196	–
Transport	60	36	24	–
Financial	147	135	12	–
Other services	464	393	71	–
Personal:				
Residential mortgages	5,966	5,711	255	–
Other	698	631	67	–
Total	13,085	11,401	1,684	–

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

[1]Based on booking office.

*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

Provisions for impairment on loans and receivables to customers*	2015 Total € m	Analysed geographically[1] Republic of Ireland € m	United Kingdom € m	Rest of the World € m
Agriculture	76	73	3	–
Energy	15	15	–	–
Manufacturing	102	78	24	–
Property and construction	2,475	1,790	685	–
Distribution	551	458	93	–
Transport	57	33	24	–
Financial	60	56	4	–
Other services	291	252	39	–
Personal:				
Residential mortgages	2,045	1,930	115	–
Other	486	436	50	–
Specific	6,158	5,121	1,037	–
IBNR	674			
Total	6,832			

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

[1]Based on booking office.

*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 segment showing asset quality and impairment provisions for the financial years ended 31 December 2015 and 2014:

Gross loans and receivables to customers*	2015 AIB Ireland € m	2015 AIB UK € m	2015 Group & International € m	2015 Total € m	2014 AIB Ireland € m	2014 AIB UK € m	2014 Group & International € m	2014 Total € m
Residential mortgages:								
Owner-occupier	28,880	2,048	–	30,928	29,631	2,177	–	31,808
Buy-to-let	5,576	314	–	5,890	6,693	345	–	7,038
	34,456	2,362	–	36,818	36,324	2,522	–	38,846
Other personal	3,156	356	–	3,512	3,430	407	–	3,837
Property and construction	8,055	3,443	34	11,532	11,137	4,395	5	15,537
Non-property business	10,223	5,292	2,786	18,301	10,808	4,884	1,920	17,612
Total	55,890	11,453	2,820	70,163	61,699	12,208	1,925	75,832
Analysed as to asset quality[1]								
Satisfactory	34,461	8,132	2,757	45,350	32,969	7,051	1,831	41,851
Watch	3,277	986	17	4,280	3,914	1,222	36	5,172
Vulnerable	6,781	667	–	7,448	5,598	1,049	–	6,647
Impaired	11,371	1,668	46	13,085	19,218	2,886	58	22,162
Total criticised loans	21,429	3,321	63	24,813	28,730	5,157	94	33,981
Total loans percentage	%	%	%	%	%	%	%	%
Criticised loans/total loans	38	29	2	35	47	42	5	45
Impaired loans/total loans	20	15	2	19	31	24	3	29
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	5,109	1,027	22	6,158	9,563	1,718	34	11,315
IBNR	596	71	7	674	1,001	85	5	1,091
Total impairment provisions	5,705	1,098	29	6,832	10,564	1,803	39	12,406
Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	45	62	48	47	50	60	59	51
Total provisions/impaired loans	50	66	63	52	55	62	67	56
Total provisions/total loans	10	10	1	10	17	15	2	16
Income statement – impairment (credit)/charge	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	(487)	(30)	9	(508)	(208)	129	4	(75)
IBNR	(405)	(14)	2	(417)	(46)	(59)	2	(103)
Total impairment (credit)/charge	(892)	(44)	11	(925)	(254)	70	6	(178)
	%	%	%	%	%	%	%	%
Impairment (credit)/charge/ average loans	(1.52)	(0.35)	0.50	(1.26)	(0.39)	0.54	0.25	(0.22)

[1]Satisfactory: credit which is not included in any of the criticised categories of Watch, Vulnerable and Impaired loans. For a definition of the criticised categories, see page 64.

*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

Gross loans and receivables to customers reduced by 7.5% or € 5.7 billion in 2015. The reduction was due to restructuring activity of € 5.4 billion (including the disposal of a portfolio of loans in the UK of €0.7bn), loan redemptions of €10.1 billion offset by new lending of € 8.7 billion and a weaker euro impact of € 1.1 billion.

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

– The Group is predominantly Republic of Ireland and United Kingdom focused with most sectors experiencing improved trading conditions due to a stronger economic environment. The Group has material concentrations in residential mortgages (52% of gross loans) and property and construction (16%). In addition, apart from a personal book (5%), there is the non-property business lending book of 27% which is spread across a number of sub-sectors.
– Improved demand for credit resulted in new lending of € 8.7 billion in 2015 (2014: € 5.9 billion) spread across most sectors and included € 1.7 billion mortgage and € 3.3 billion non-mortgage in AIB Ireland, € 2.6 billion in AIB UK and € 1.1 billion in Group & International.
– Continued progress in working with customers to restructure facilities, resulting in the quantum of impaired loans reducing by € 9 billion in the year (a decrease of 41%). The reduction reflects restructuring activity, write-offs (including non-contracted write-offs) and redemptions and repayments due to customer asset sales.
– As a result of the restructuring activity and the reduction in impaired loans, the overall credit quality profile has shown a significant improvement and criticised loans (including impaired) have reduced from 45% of total loans at 31 December 2014 down to 35% as at 31 December 2015.
– A net writeback of impairment provisions of € 925 million in 2015 compared to a writeback of € 178 million in 2014. The key drivers of the improvement were fewer new loans moving to impairment and a writeback of provisions due to significant restructuring activity.

Restructuring

Restructuring the loans of customers in difficulty continues to be a key focus for the Group. Customer treatment strategies, as described on pages 73 to 75 have been developed for customers who are experiencing financial difficulties. The approach is one of structured engagement with co-operating customers to assess their long term levels of sustainable debt.

For mortgage customers in difficulty the core objective is to ensure that arrears solutions are sustainable in the long term and that they comply with the spirit and the letter of all regulatory requirements.

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

This restructuring engagement with customers resulted in c. € 3.4 billion of loans restructured out of impairment during the year with a further € 3.4 billion of impaired loans written off (including non-contracted write-offs).

Provision writebacks

There was a total provision net writeback of € 925 million in 2015 compared to a provision net write back of € 178 million in 2014. Specific provision writebacks (net of top-ups) during the year were € 789 million (equivalent to c. 3.6% of opening impaired loans) and was split into mortgages € 294 million, other personal € 47 million, property and construction € 270 million and non-property business lending € 178 million. These writebacks were partially offset by specific provisions amounting to € 281 million on newly impaired loans.

The key drivers of these writebacks include:

– increased security values and improved business cash flows due to the stronger economic environment;
– cases cured from impairment without loss; and
– additional security from the customer as part of the restructuring process.

The repayment of impaired loans remains dependent on significant levels of future collateral realisations in the near to medium term.

The IBNR provisions released during the year amounted to € 417 million (2014: € 103 million). The release was mainly driven by a reduction in the probability of default in the portfolio reflecting the improved economic environment as well as changes in model parameters.

3.1 Credit risk – Credit profile of the loan portfolio

Credit quality

Credit quality in the portfolio continues to improve. Criticised loans, including impaired, decreased by € 9.2 billion or 27%, and as a % of total loans have decreased from 45% at 31 December 2014, to 35% at 31 December 2015. The improving credit quality is driven by the level of new business in the year combined with the reduction in the criticised portfolio arising out of the restructuring process. Within criticised loans, vulnerable loans increased by € 0.8 billion which was mainly due to restructuring of impaired loans in the year, as following restructure individually significant loans are initially graded as vulnerable.

Residential mortgages

At 31 December 2015, residential mortgages accounted for 52% of gross loans and receivables to customers (€ 36.8 billion), with the loans mainly located in the Republic of Ireland (94%) (see page 100) and the remainder in the United Kingdom (see page 110). The portfolio consists of 84% owner-occupier loans and 16% buy-to-let.

Total loans in arrears by value decreased by 29% during 2015, a decrease of 25% in the owner-occupier portfolio and a decrease of 36% in the buy-to-let portfolio in the year. By number of customers, these decreases were 24%, 25% and 24% respectively. This decrease in arrears can be mainly attributed to the restructuring of the portfolio and the improving economic conditions. The reduction in arrears was evident in both the performance of early arrears (less than 90 days past due) and the late arrears (greater than 90 days past due).

Further detailed disclosures in relation to the Republic of Ireland mortgage portfolio are provided on pages 100 to 109 and the United Kingdom mortgage portfolio on pages 110 to 116.

Other personal

At 31 December 2015, the other personal portfolio amounted to € 3.5 billion (5% of gross loans and receivables to customers). 90% of loans relate to AIB Ireland with the remainder of loans relating to AIB UK. The portfolio comprises € 2.6 billion in loans and overdrafts and € 0.9 billion in credit card facilities. Loans in the portfolio rated as satisfactory increased by € 0.1 billion or 3% in the year driven by new lending which has been facilitated by an expanded product offering, including on-line approval through internet, mobile and telephone banking applications.

Further detailed disclosures in relation to the other personal portfolio are provided on page 117.

Property and construction

At 31 December 2015, the property and construction portfolio amounted to € 11.5 billion (16% of gross loans and receivables to customers). 70% of loans relate to AIB Ireland and 30% to AIB UK. The portfolio comprises of 70% investment loans (€ 8.1 billion), 22% land and development loans (€ 2.6 billion) and 8% other property and construction loans (€ 0.9 billion). Overall, the portfolio reduced by € 4 billion or 26% during 2015. This reduction is due primarily to the continuing impact of restructuring and to write-offs, amortisations and repayments resulting from asset disposals by customers and which was offset by new business written of c. €1.4 billion. Activity in the sector has been underpinned by improved economic performance and increased investment spending which has had a positive impact on the residential and commercial land and development market.

Further detailed disclosures in relation to the property and construction portfolio are provided on pages 118 to 119.

Non-property business

At 31 December 2015, the non-property business portfolio amounted to € 18.3 billion (27% of gross loans and receivables to customers). 56% of loans relate to AIB Ireland, 29% to AIB UK and with the remainder of 15% to Group & International. The portfolio is concentrated in sub-sectors which are reliant on the respective domestic economies. It also includes corporate and leverage exposures, some of which are dependent on international markets. Key sub-sectors include agriculture (10% of the portfolio), hotels (13% of the portfolio), licensed premises (4% of the portfolio), retail/wholesale (13% of the portfolio) and other services (32% of the portfolio). Satisfactory loans and receivables increased in 2015 by € 2.5 billion or 22%, continuing the positive trend experienced in 2014. The level of criticised loans reduced by 29%, mainly due to a reduction of € 1.7 billion in impaired loans.

Further detailed disclosures in relation to the non-property business portfolio are provided on pages 120 to 121.

Impairment provisions

Specific impairment provisions as a percentage of impaired loans decreased from 51% at 31 December 2014 to 47% at 31 December 2015. This was mainly driven by restructures, writebacks, and write-offs of loans (partially or fully) with higher provision cover, which had the impact of reducing overall cover for the remaining portfolio. Provision write-offs are generated through both restructuring agreements

3.1 Credit risk – Credit profile of the loan portfolio

Impairment provisions *(continued)*

with customers and also where further recovery is considered unlikely. The impairment provisions remain dependent on significant levels of future collateral realisation.

IBNR provisions of € 0.7 billion were held at 31 December 2015 compared to € 1.1 billion at 31 December 2014, a reduction of € 0.4 billion. The level of IBNR reflects a conservative estimate of unidentified incurred loss within the portfolio.

The income statement provision writeback of € 925 million in 2015 compared to a provision writeback of € 178 million in 2014. Income statement specific provisions included € 281 million from new impairments and a € 789 million writeback of provisions (net of top-ups) as described above.

3.1 Credit risk – Credit profile of the loan portfolio

The following table profiles the asset quality of the Group's loans and receivables at 31 December 2015 and 2014:

					2015
Asset quality*	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Neither past due nor impaired	29,796	2,665	6,819	15,780	55,060
Past due but not impaired	1,056	149	405	408	2,018
Impaired – provisions held	5,966	698	4,308	2,113	13,085
Gross loans and receivables	36,818	3,512	11,532	18,301	70,163
Specific provisions	(2,045)	(486)	(2,475)	(1,152)	(6,158)
IBNR provisions	(277)	(49)	(174)	(174)	(674)
Total provisions for impairment	(2,322)	(535)	(2,649)	(1,326)	(6,832)
Gross loans and receivables less provisions	34,496	2,977	8,883	16,975	63,331
Unearned income					(139)
Deferred costs					48
Net loans and receivables					63,240

					2014
Asset quality*	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Neither past due nor impaired	29,014	2,590	6,226	13,316	51,146
Past due but not impaired	1,323	203	475	523	2,524
Impaired – provisions held	8,509	1,044	8,836	3,773	22,162
Gross loans and receivables	38,846	3,837	15,537	17,612	75,832
Specific provisions	(2,877)	(716)	(5,478)	(2,244)	(11,315)
IBNR provisions	(550)	(52)	(174)	(315)	(1,091)
Total provisions for impairment	(3,427)	(768)	(5,652)	(2,559)	(12,406)
Gross loans and receivables less provisions	35,419	3,069	9,885	15,053	63,426
Unearned income					(123)
Deferred costs					59
Net loans and receivables					63,362

Gross loans and receivables reduced by 7.5% or € 5.7 billion in 2015. The reduction was due to restructuring activity of € 5.4 billion (including the disposal of a portfolio of loans in AIB UK of € 0.7 billion), loan redemptions of € 10.1 billion offset by new lending of € 8.7 billion and a weaker euro impact of € 1.1 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

Analysis of loans and receivables to customers by contractual residual maturity and interest rate sensitivity

The following table analyses 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 2015, 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.

							2015
	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Republic of Ireland	5,047	53,512	58,559	16,380	8,977	33,202	58,559
United Kingdom	949	10,533	11,482	2,721	3,829	4,932	11,482
Rest of the World	–	122	122	15	107	–	122
Total	5,996	64,167	70,163	19,116	12,913	38,134	70,163

							2014
	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Republic of Ireland	4,038	59,624	63,662	24,612	6,773	32,277	63,662
United Kingdom	898	11,225	12,123	4,529	2,826	4,768	12,123
Rest of the World	–	47	47	22	25	–	47
Total	4,936	70,896	75,832	29,163	9,624	37,045	75,832

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*

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	2015 Total € m
Agriculture	55	21	2	8	5	39	130
Energy	1	–	–	–	–	2	3
Manufacturing	29	2	–	1	1	2	35
Property and construction	127	54	15	54	45	110	405
Distribution	63	14	10	13	6	31	137
Transport	4	–	–	–	–	2	6
Financial	3	1	1	1	1	1	8
Other services	30	20	7	11	8	13	89
Personal							
Residential mortgages	536	151	86	73	65	145	1,056
Credit cards	30	5	3	2	1	–	41
Other	40	19	6	12	7	24	108
	918	287	130	175	139	369	2,018
Segment							
AIB Ireland	808	249	112	142	130	358	1,799
AIB UK	110	38	18	33	9	11	219
Group & International	–	–	–	–	–	–	–
	918	287	130	175	139	369	2,018
	%	%	%	%	%	%	%
As a percentage of total gross loans	1.31	0.41	0.18	0.25	0.20	0.53	2.88

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	2014 Total € m
Agriculture	50	10	3	9	15	40	127
Energy	–	–	–	–	–	3	3
Manufacturing	21	4	1	1	2	8	37
Property and construction	140	37	28	58	58	154	475
Distribution	69	18	7	28	35	31	188
Transport	6	1	–	–	–	3	10
Financial	12	1	–	2	–	–	15
Other services	69	26	3	10	11	24	143
Personal							
Residential mortgages	552	259	151	116	127	118	1,323
Credit cards	30	7	4	3	1	–	45
Other	50	14	13	18	15	48	158
	999	377	210	245	264	429	2,524
Segment							
AIB Ireland	881	341	182	218	244	415	2,281
AIB UK	118	36	28	27	20	14	243
Group & International	–	–	–	–	–	–	–
	999	377	210	245	264	429	2,524
As a percentage of	%	%	%	%	%	%	%
total gross loans	1.32	0.50	0.28	0.32	0.35	0.57	3.33

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

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

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

At 31 December 2015, loans past due but not impaired reduced by € 0.5 billion to € 2.0 billion or 2.9% of total loans and receivables to customers (2014: € 2.5 billion or 3.3%).

Residential mortgage loans which were past due but not impaired at 31 December 2015, amounted to € 1.1 billion. This represents 52% of total loans which were past due but not impaired (2014: € 1.3 billion or 52%). The level of residential mortgage loans in early arrears (less than 30 days) continues to decrease which is due to active management of early arrears cases and the improving economic environment. Property and construction loans which were past due but not impaired represent a further 20% or € 0.4 billion of total loans which were past due but not impaired (2014: 19% or € 0.5 billion), with other personal at 7% or € 0.1 billion (2014: 8% or € 0.2 billion).

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Impaired loans for which provisions are held*

The following table shows impaired loans which are assessed for impairment either individually or collectively with the relevant specific impairment provisions at 31 December 2015 and 2014:

	2015						
		Impaired loans				Specific impairment provisions	
	Gross loans and receivables € m	Individually assessed € m	Collectively assessed € m	Total € m	% of total gross loans	Total € m	% of impaired loans
Retail							
Residential mortgages	36,818	1,914	4,052	5,966	16	2,045	34
Other personal lending	3,512	358	340	698	20	486	70
Total retail	40,330	2,272	4,392	6,664	17	2,531	38
Commercial							
Property and construction	11,532	3,950	358	4,308	37	2,475	57
Non-property business	18,301	1,632	481	2,113	12	1,152	55
Total commercial	29,833	5,582	839	6,421	22	3,627	56
Total	70,163	7,854	5,231	13,085	19	6,158	47
Specific impairment provisions at 31 December 2015		3,975	2,183	6,158			
		%	%	%			
Specific provision cover percentage		51	42	47			

	2014						
		Impaired loans				Specific impairment provisions	
	Gross loans and receivables € m	Individually assessed € m	Collectively assessed € m	Total € m	% of total gross loans	Total € m	% of impaired loans
Retail							
Residential mortgages	38,846	3,453	5,056	8,509	22	2,877	34
Other personal lending	3,837	691	353	1,044	27	716	69
Total retail	42,683	4,144	5,409	9,553	22	3,593	38
Commercial							
Property and construction	15,537	8,543	293	8,836	57	5,478	62
Non-property business	17,612	3,359	414	3,773	21	2,244	59
Total commercial	33,149	11,902	707	12,609	38	7,722	61
Total	75,832	16,046	6,116	22,162	29	11,315	51
Specific impairment provisions at 31 December 2014		9,185	2,130	11,315			
		%	%	%			
Specific provision cover percentage		57	35	51			

Specific provisions as a percentage of impaired loans decreased from 51% at 31 December 2014 to 47% at 31 December 2015. The reduction occurred in individually assessed loans, with cover reduced from 57% to 51%. This was mainly driven by restructures, writebacks and write-offs of loans with higher provision cover. Provision write-offs are generated through both restructuring agreements with customers and also where further recovery is considered unlikely (including non-contracted write-offs). The impact of the non-contracted write-offs in 2015 accounted for the 6% decrease in the provision cover for individually assessed loans.

The provision cover for the collectively assessed portfolio increased from 35% to 42%, driven by parameter changes to the individually insignificant mortgage model, which was updated to reflect current data on loss history and portfolio development.

*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 financial years ended 31 December 2015 and 2014:

					2015*
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
	€ m	€ m	€ m	€ m	€ m
At 1 January	3,427	768	5,652	2,559	12,406
Exchange translation adjustments	16	2	102	11	131
Credit to income statement – customers[1]	(478)	(8)	(214)	(225)	(925)
Amounts written off[2]	(643)	(226)	(2,738)	(986)	(4,593)
Disposals	–	(1)	(159)	(35)	(195)
Recoveries of amounts written off in previous financial years[2]	–	–	6	2	8
At 31 December 2015	2,322	535	2,649	1,326	6,832
Total provisions are split as follows:					
Specific	2,045	486	2,475	1,152	6,158
IBNR	277	49	174	174	674
	2,322	535	2,649	1,326	6,832
Amounts include:					
Loans and receivables to customers *(note 26 to the consolidated financial statements)*					6,832
					6,832

					2014*
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
	€ m	€ m	€ m	€ m	€ m
At 1 January	3,952	1,147	8,460	3,531	17,090
Exchange translation adjustments	12	9	97	32	150
(Credit to)/charge against income statement – customers[1]	(76)	15	(244)	127	(178)
Credit to income statement – banks[3]	–	–	–	(7)	(7)
Amounts written off[2]	(461)	(403)	(2,664)	(1,127)	(4,655)
Recoveries of amounts written off in previous financial years[2]	–	–	3	3	6
At 31 December 2014	3,427	768	5,652	2,559	12,406
Total provisions are split as follows:					
Specific	2,877	716	5,478	2,244	11,315
IBNR	550	52	174	315	1,091
	3,427	768	5,652	2,559	12,406
Amounts include:					
Loans and receivables to customers *(note 26 to the consolidated financial statements)*					12,406
					12,406

[1]Geographic split :Republic of Ireland a credit of € 885 million (2014: a credit of € 205 million); United Kingdom a credit of € 40 million (2014: a charge of € 27 million) and Rest of the World Nil (2014: Nil).

[2]For geographical and sector split, see page 99.

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

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Provisions – income statement

The following table analyses the income statement provision (credit)/charge split between individually significant, individually insignificant and IBNR for loans and receivables for the financial years ended 31 December 2015 and 2014:

	AIB Ireland € m	AIB UK € m	Group & International € m	2015* Total € m
Specific provisions – Individually significant loans and receivables	(620)	(22)	9	(633)
– Individually insignificant loans and receivables	133	(8)	–	125
IBNR	(405)	(14)	2	(417)
Total provisions for impairment (credit)/charge on loans and receivables to customers	(892)	(44)	11	(925)
Writeback of provisions for liabilities and commitments				(11)
Total				(936)

	AIB Ireland € m	AIB UK € m	Group & International € m	2014* Total € m
Specific provisions – Individually significant loans and receivables	(151)	97	4	(50)
– Individually insignificant loans and receivables	(57)	32	–	(25)
IBNR	(46)	(59)	2	(103)
Total provisions for impairment (credit)/charge on loans and receivables to customers	(254)	70	6	(178)
Writeback of provisions for impairment on loans and receivables to banks				(7)
Writeback of provisions for liabilities and commitments				(4)
Provisions for impairment on financial investments available for sale				1
Total				(188)

In the table above, there is an offsetting element between the individually significant and the individually insignificant pools, that may result in a case moving from one provision pool to another with a provision being recorded in one pool being partially offset by a writeback in the other pool.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Provisions – income statement *(continued)*

The following table analyses by segment the income statement impairment provision (credit)/charge for the financial years ended 31 December 2015 and 2014:

	2015*			2014*		
	Residential mortgages € m	Other € m	Total € m	Residential mortgages € m	Other € m	Total € m
AIB Ireland	(463)	(429)	(892)	(93)	(161)	(254)
AIB UK	(15)	(29)	(44)	17	53	70
Group & International	–	11	11	–	6	6
Total	(478)	(447)	(925)	(76)	(102)	(178)

The following table analyses by segment the income statement impairment provision (credit)/charge as a percentage of average loans and receivables to customers expressed as basis points ("bps") for the financial years ended 31 December 2015 and 2014:

	2015*			2014*		
	Residential mortgages bps	Other bps	Total bps	Residential mortgages bps	Other bps	Total bps
AIB Ireland	(131)	(182)	(152)	(25)	(57)	(39)
AIB UK	(59)	(29)	(35)	68	51	54
Group & International	–	50	50	–	25	25
Total	(126)	(125)	(126)	(19)	(26)	(22)

Writebacks increased from a net writeback of € 178 million in 2014, to a net writeback of € 925 million in 2015. The increased writeback comprised of € 508 million in specific provision writebacks and a release of IBNR provisions of € 417 million (31 December 2014: € 75 million net writeback in specific provisions and release of IBNR provisions of € 103 million).

The specific provision writeback of € 508 million can be split into € 281 million new impairment provisions and a € 789 million writeback (net of top-ups). New impairment provisions have continued to reduce quarter on quarter reflecting the continuing improved economic conditions. The key drivers of the increased writebacks were fewer new loans moving to impairment and a writeback of provisions due to significant restructuring activity.

In AIB Ireland, the 2015 income statement provision writeback of € 892 million comprises a specific provision writeback of € 487 million and an IBNR release of € 405 million. This compares to an income statement specific provision writeback of € 208 million and an IBNR release of € 46 million for 2014. The provision writeback was primarily due to the positive impact of debt restructuring activities and lower levels of new impairments.

In AIB UK, the 2015 income statement provision writeback of € 44 million comprises a specific provision writeback of € 30 million and an IBNR release of € 14 million. This compares to a specific provision charge of € 129 million and an IBNR release of € 59 million in 2014.

The impairment provision charge in Group & International of € 11 million compares to a provision charge of € 6 million in 2014.

The IBNR released in 2015 was € 417 million (2014: € 103 million). The increased release was mainly driven by a reduction in the probability of default in the portfolio reflecting the improved economic environment as well as changes in model parameters.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Loans written off and recoveries of loans previously written off

The following table analyses loans written off and recoveries of previously written off loans by geography and industry sector for the financial years ended 31 December 2015 and 2014:

	Loans written off		Recoveries of loans previously written off	
	2015 € m	2014 € m	**2015 € m**	2014 € m
IRELAND				
Agriculture	**74.2**	56.2	**–**	–
Energy	**24.8**	14.3	**–**	–
Manufacturing	**38.7**	80.9	**0.3**	0.1
Property and construction	**2,218.9**	2,257.3	**3.2**	0.3
Distribution	**536.2**	530.3	**0.1**	0.1
Transport	**13.6**	58.9	**0.1**	–
Financial	**28.5**	53.9	**–**	0.1
Other services	**135.7**	191.4	**1.3**	0.6
Personal – Residential mortgages	**604.3**	447.4	**–**	–
– Other	**214.0**	385.0	**0.2**	0.1
	3,888.9	4,075.6	**5.2**	1.3
UNITED KINGDOM				
Agriculture	**3.7**	1.6	**–**	–
Energy	**–**	–	**–**	–
Manufacturing	**9.4**	8.3	**–**	–
Property and construction	**518.6**	407.1	**3.2**	3.1
Distribution	**61.4**	77.0	**–**	–
Transport	**0.1**	0.5	**–**	–
Financial	**0.3**	6.0	**–**	–
Other services	**59.8**	34.4	**–**	–
Personal – Residential mortgages	**38.7**	13.9	**–**	–
– Other	**11.6**	17.5	**–**	–
	703.6	566.3	**3.2**	3.1
REST OF THE WORLD				
Energy	**–**	1.6	**–**	1.2
Other services	**–**	11.4	**–**	–
	–	13.0	**–**	1.2
TOTAL	**4,592.5**	4,654.9	**8.4**	5.6

Write-offs in 2015, as a percentage of gross loans and receivables at 1 January 2015, was 6.1% compared to 5.6% in 2014. These include all write-offs, both full and partial and write-offs not contracted with customers of c. € 1.7 billion.

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 € 36.8 billion at 31 December 2015, with the majority (94%) relating to residential mortgages in the Republic of Ireland and the remainder relating to the United Kingdom. This compares to € 38.8 billion at 31 December 2014, of which 94% related to residential mortgages in the Republic of Ireland. The split of the residential mortgage portfolio was owner-occupier € 30.9 billion and buy-to-let € 5.9 billion (31 December 2014: owner-occupier € 31.8 billion and buy-to-let € 7.0 billion).

Statement of financial position provisions of € 2.3 billion were held at 31 December 2015, split € 2.0 billion specific and € 0.3 billion IBNR (31 December 2014: € 3.4 billion split € 2.9 billion specific and € 0.5 billion IBNR).

There was an impairment provision credit of € 478 million to the income statement in 2015 comprising a € 204 million specific writeback and a € 274 million IBNR release (31 December 2014: € 76 million provision credit comprising € 4 million specific charge and a € 72 million IBNR release).

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

Republic of Ireland residential mortgages – pages 101 to 109

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

United Kingdom ("UK") residential mortgages – pages 110 to 116

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

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

3.1 Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Republic of Ireland residential mortgages

The following table analyses the Republic of Ireland residential mortgage portfolio showing impairment provisions for the financial years ended 31 December 2015 and 2014:

	2015*			2014*		
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	**28,880**	**5,576**	**34,456**	29,631	6,693	36,324
In arrears (>30 days past due)[1]	**4,032**	**2,154**	**6,186**	5,519	3,408	8,927
In arrears (>90 days past due)[1]	**3,876**	**2,098**	**5,974**	5,215	3,337	8,552
Of which impaired	**3,713**	**1,998**	**5,711**	5,004	3,213	8,217
Statement of financial position specific provisions	**1,159**	**771**	**1,930**	1,394	1,330	2,724
Statement of financial position IBNR provisions	**188**	**76**	**264**	420	112	532
Provision cover percentage	%	%	%	%	%	%
Specific provisions/impaired loans	**31.2**	**38.6**	**33.8**	27.9	41.4	33.2
Income statement (credit)/charge	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Income statement specific provisions	**(89)**	**(106)**	**(195)**	17	(49)	(32)
Income statement IBNR provisions	**(232)**	**(36)**	**(268)**	(23)	(38)	(61)
Total impairment (credit)	**(321)**	**(142)**	**(463)**	(6)	(87)	(93)

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

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

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

Residential mortgages in the Republic of Ireland amounted to € 34.5 billion at 31 December 2015 compared to € 36.3 billion at 31 December 2014. The decrease in the portfolio was driven by a reduction in the criticised grades due to restructuring, loan repayments from customer asset sales, and write-offs. Total drawdowns in 2015 were €1.7 billion, of which 97% related to owner-occupier, whilst the weighted average indexed loan-to-value for new residential mortgages was 71%.

The split of the residential mortgage portfolio is 84% owner-occupier and 16% buy-to-let and comprised 37% tracker rate, 52% variable rate and 11% fixed rate mortgages. The proportion of the total residential mortgage portfolio in negative equity decreased from 34% at 31 December 2014 to 24% at 31 December 2015 reflecting the increase in residential property prices in Ireland during 2015 and loan amortisation, whilst the quantum of negative equity in the portfolio reduced from € 2.7 billion to € 1.5 billion.

Residential mortgage arrears

Total loans in arrears by value decreased by 29% during 2015, a decrease of 25% in the owner-occupier portfolio and a decrease of 36% in the buy-to-let portfolio in the year. By number of customers, these decreases were 24%, 24% and 25% respectively. These decreases in arrears can be mainly attributed to restructuring activity and improving economic conditions. The reduction was evident in both the performance of early arrears (less than 90 days past due) and the late arrears (greater than 90 days past due). The amount of loans which were new into arrears for the first time in 2015 fell by 51% compared to 2014.

Total loans in arrears greater than 90 days at 8.2% as at 31 December 2015 decreased from 11.3% at 31 December 2014 and remain below the industry average of 10.2%[(1)]. For the owner-occupier portfolio, loans in arrears greater than 90 days at 6.4% were below the industry average of 8.7%. For the buy-to-let portfolio, loans in arrears greater than 90 days at 19.8% exceeded the industry average of 18.1%.

Forbearance

Residential mortgages subject to forbearance measures decreased by € 0.1 billion from 31 December 2014 to € 5.4 billion at 31 December 2015, compared to an increase of € 0.6 billion in 2014. A key feature of the forbearance portfolio is the growth in the proportion of advanced forbearance solutions (split mortgages, low fixed interest rate, voluntary sale for loss, negative equity trade down and positive equity solutions) driven by the Group's strategy to deliver sustainable long-term solutions to customers and support customers in remaining in their family home.

In 2015, the Group has successfully met its Mortgage Arrears Resolution Targets (“MART”), as defined by historic MART parameters, with sustainable solutions offered to 100% of loans greater than 90 days past due (as defined by MART), with 100% deemed concluded of which 94% were meeting the terms of their agreement.

Details of forbearance measures are set out in Section 3.2 pages 129 to 140.

Impairment provisions

Impaired loans decreased from € 8.2 billion at 31 December 2014 to € 5.7 billion at 31 December 2015, mainly due to restructuring, write-offs and repayments through customer asset sales. The level of newly impaired loans declined by 70% in 2015 compared to 2014.

There was a specific provision writeback of € 195 million in 2015 compared to a € 32 million writeback in 2014. This can be split into a charge for new impairments of € 78 million and a writeback of provisions (net of top-ups) of € 273 million. The writeback was mainly due to the impact of restructuring, loans curing from impairment, and changes in a number of assumptions in the mortgage model (possession and cure rates). The specific provision cover level increased from 33% at 31 December 2014 to 34% at 31 December 2015. The increase was mainly driven by individually assessed buy-to-let loans, updated for improved property valuations and the impact of restructuring.

An IBNR release in 2015 of € 268 million compares to a release of € 61 million in 2014 mainly due to changes in the mortgage model parameters and a reduction in probability of default for the portfolio.

Specific provisions of € 0.6 billion were held against the forborne impaired portfolio of € 2.2 billion providing cover of 28.4%. In relation to the non-impaired forborne portfolio of € 3.3 billion, of which € 0.5 billion is on an interest only arrangement, IBNR impairment provisions of € 0.1 billion were held at 31 December 2015.

(1)Source: Central Bank of Ireland (“CBI”) Residential Mortgage Arrears and Repossessions Statistics as at 30 September 2015, based on numbers of accounts.

3.1 Credit risk – Credit profile of the loan portfolio

Republic of Ireland 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 2015 and 2014:

	2015*				2014*			
	Total		Impaired		Total		Impaired	
Republic of Ireland	Number	Balance € m	Number	Balance € m	Number	Balance € m	Number	Balance € m
1996 and before	4,502	118	642	22	6,136	149	954	34
1997	2,561	54	244	10	2,826	70	350	14
1998	3,127	91	343	16	3,442	114	503	24
1999	4,171	164	474	33	4,597	198	658	46
2000	5,196	261	615	46	6,084	308	855	66
2001	6,218	364	664	55	6,713	423	919	80
2002	9,738	724	1,090	113	10,512	835	1,549	170
2003	13,728	1,225	1,792	212	14,784	1,402	2,469	315
2004	18,768	2,065	2,657	384	19,953	2,339	3,633	567
2005	26,086	3,310	4,250	707	28,121	3,725	5,739	1,035
2006	34,317	5,214	6,593	1,296	35,914	5,807	8,672	1,841
2007	33,353	5,294	6,586	1,281	34,734	5,871	8,701	1,852
2008	31,756	5,102	5,217	1,025	33,009	5,607	6,917	1,465
2009	20,962	3,068	2,145	366	21,940	3,335	2,835	519
2010	14,598	2,111	753	124	15,374	2,282	947	162
2011	4,443	626	98	15	4,652	682	109	20
2012	6,465	961	23	5	6,752	1,049	28	6
2013	5,560	845	6	1	5,742	906	7	1
2014	7,642	1,207	5	–	7,773	1,222	2	–
2015	10,343	1,652	1	–	–	–	–	–
Total	263,534	34,456	34,198	5,711	269,058	36,324	45,847	8,217

The majority (€ 18.9 billion or 55%) of the € 34.5 billion residential mortgage portfolio was originated between 2005 and 2008, of which 23% (€ 4.3 billion) was impaired at 31 December 2015. This was primarily driven by reduced household income and increased unemployment for customers and mortgage business acquired during that period, coupled with the decrease in property prices since their peak in 2007. 15% of the residential mortgage portfolio was originated before 2005 of which 18% was impaired at 31 December 2015, while the remaining 30% of the portfolio was originated since 2009 or after, of which 5% was impaired at 31 December 2015.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

The property values used in the completion of the following loan-to-value tables are determined with reference to the original or most recent valuation, indexed to the Central Statistics Office ("CSO") Residential Property Price Index in the Republic of Ireland for November 2015. The CSO Residential Property Price Index for November 2015 reported that national residential property prices were 34% lower than their highest level in early 2007 and reported an increase in residential property prices of 6.5% for the twelve months to 30 November 2015.

Actual and weighted average indexed loan-to-value ratios of Republic of Ireland 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 2015 and 2014:

2015*

Republic of Ireland	Owner-occupier € m	Owner-occupier %	Buy-to-let € m	Buy-to-let %	Total € m	Total %
Less than 50%	6,171	21.4	991	17.8	7,162	20.8
50% to 70%	6,284	21.8	1,047	18.8	7,331	21.3
71% to 80%	3,896	13.5	540	9.7	4,436	12.9
81% to 90%	3,520	12.2	543	9.7	4,063	11.8
91% to 100%	2,588	8.9	622	11.2	3,210	9.3
101% to 120%	3,548	12.3	841	15.1	4,389	12.7
121% to 150%	2,327	8.0	553	9.9	2,880	8.3
Greater than 150%	436	1.5	359	6.4	795	2.3
Unsecured	110	0.4	80	1.4	190	0.6
Total	28,880	100.0	5,576	100.0	34,456	100.0
Weighted average indexed loan-to-value[1]:						
Stock of residential mortgages at financial year end		76.1		87.4		77.9
New residential mortgages issued during year		71.1		59.1		70.7
Impaired residential mortgages		101.4		104.8		102.6

2014*

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

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

22% of the total owner-occupier and 31% of the total buy-to-let mortgages were in negative equity at 31 December 2015 (excluding unsecured) compared to 31% and 46% respectively at 31 December 2014. The weighted average indexed loan-to-value for the total residential mortgage portfolio was 78% at 31 December 2015 compared to 87.1% at 31 December 2014, with the reduction driven primarily by the amortisation of the portfolio and the increase in property prices up to 31 December 2015.

*Forms an integral part of the audited financial statements

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

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

The following table profiles the Republic of Ireland residential mortgages that were neither past due nor impaired by the indexed loan-to-value ratios at 31 December 2015 and 2014:

2015*

Republic of Ireland	Owner-occupier € m	Owner-occupier %	Buy-to-let € m	Buy-to-let %	Total € m	Total %
Less than 50%	**5,678**	**23.3**	**766**	**23.0**	**6,444**	**23.2**
50% to 70%	**5,672**	**23.2**	**757**	**22.7**	**6,429**	**23.2**
71% to 80%	**3,513**	**14.4**	**373**	**11.2**	**3,886**	**14.0**
81% to 90%	**3,101**	**12.7**	**336**	**10.1**	**3,437**	**12.4**
91% to 100%	**2,147**	**8.8**	**365**	**10.9**	**2,512**	**9.0**
101% to 120%	**2,768**	**11.3**	**416**	**12.5**	**3,184**	**11.5**
121% to 150%	**1,444**	**5.9**	**198**	**5.9**	**1,642**	**5.9**
Greater than 150%	**89**	**0.4**	**114**	**3.4**	**203**	**0.7**
Unsecured	**11**	**0.0**	**11**	**0.3**	**22**	**0.1**
Total	**24,423**	**100.0**	**3,336**	**100.0**	**27,759**	**100.0**

2014*

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

The proportion of residential mortgages that was neither past due nor impaired and in negative equity at 31 December 2015 (excluding unsecured) decreased to 18% compared to 27% at 31 December 2014, reflecting residential property price increases during the year, coupled with amortisation of the loan portfolio.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

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

The following table profiles the Republic of Ireland residential mortgages that were greater than 90 days past due and/or impaired by the indexed loan-to-value ratios at 31 December 2015 and 2014:

2015*

	Owner-occupier		Buy-to-let		Total		Total residential mortgage portfolio	
Republic of Ireland	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	**385**	**9.9**	**198**	**9.4**	**583**	**9.7**	**7,162**	**20.8**
50% to 70%	**493**	**12.7**	**260**	**12.4**	**753**	**12.6**	**7,331**	**21.3**
71% to 80%	**314**	**8.1**	**153**	**7.3**	**467**	**7.8**	**4,436**	**12.9**
81% to 90%	**351**	**9.1**	**190**	**9.1**	**541**	**9.1**	**4,063**	**11.8**
91% to 100%	**380**	**9.8**	**241**	**11.5**	**621**	**10.4**	**3,210**	**9.3**
101% to 120%	**690**	**17.8**	**403**	**19.2**	**1,093**	**18.3**	**4,389**	**12.7**
121% to 150%	**822**	**21.2**	**348**	**16.6**	**1,170**	**19.6**	**2,880**	**8.3**
Greater than 150%	**343**	**8.9**	**236**	**11.2**	**579**	**9.7**	**795**	**2.3**
Unsecured	**98**	**2.5**	**69**	**3.3**	**167**	**2.8**	**190**	**0.6**
Total	**3,876**	**100.0**	**2,098**	**100.0**	**5,974**	**100.0**	**34,456**	**100.0**

2014*

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

The proportion of residential mortgages (excluding unsecured) that was greater than 90 days past due and/or impaired and in negative equity at 31 December 2015 (48%) decreased compared to 31 December 2014 (57%). This reflects the increase in residential property prices during the year.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Credit quality profile of Republic of Ireland residential mortgages

The following table profiles the asset quality of the Republic of Ireland residential mortgage portfolio at 31 December 2015 and 2014:

	2015*			2014*		
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	**24,423**	**3,336**	**27,759**	23,656	3,209	26,865
Past due but not impaired	**744**	**242**	**986**	971	271	1,242
Impaired - provisions held	**3,713**	**1,998**	**5,711**	5,004	3,213	8,217
Gross residential mortgages	**28,880**	**5,576**	**34,456**	29,631	6,693	36,324
Provisions for impairment	**(1,347)**	**(847)**	**(2,194)**	(1,814)	(1,442)	(3,256)
	27,533	**4,729**	**32,262**	27,817	5,251	33,068

The percentage of the portfolio which is neither past due nor impaired increased in 2015 to 81% from 74% at 31 December 2014.

Republic of Ireland residential mortgages that were past due but not impaired

Residential mortgages are assessed for impairment if they are past due, typically, for more than 90 days or if the borrower exhibits an inability to meet their obligations to the Group based on objective evidence of loss events ('impairment triggers') such as a request for a forbearance measure. Loans are deemed impaired where the carrying value of the asset is shown to be in excess of the present value of future cash flows, and an appropriate provision is raised. Where loans are not deemed to be impaired, they are collectively assessed as part of the IBNR provision calculation.

The following table profiles the Republic of Ireland residential mortgages that were past due but not impaired at 31 December 2015 and 2014:

	2015*			2014*		
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	**425**	**86**	**511**	456	76	532
31 - 60 days	**103**	**35**	**138**	195	48	243
61 - 90 days	**53**	**21**	**74**	109	23	132
91 - 180 days	**42**	**22**	**64**	73	34	107
181 - 365 days	**37**	**24**	**61**	79	40	119
Over 365 days	**84**	**54**	**138**	59	50	109
Total past due but not impaired	**744**	**242**	**986**	971	271	1,242
Total gross residential mortgages	**28,880**	**5,576**	**34,456**	29,631	6,693	36,324

The amount of loans past due but not impaired at 31 December 2015 decreased by 21% when compared to 31 December 2014, driven by the improved economic environment and a continued increased focus on the management of early arrears.

*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

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

The following table profiles the collateral value of Republic of Ireland residential mortgages that were past due but not impaired at 31 December 2015 and 2014:

	2015*			2014*		
Republic of Ireland	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	409	82	491	428	71	499
31 - 60 days	99	29	128	181	44	225
61 - 90 days	50	19	69	101	21	122
91 - 180 days	40	21	61	71	30	101
181 - 365 days	37	22	59	76	37	113
Over 365 days	83	49	132	57	43	100
Total	**718**	**222**	**940**	914	246	1,160

The collateral value for the past due but not impaired portfolio was 95% of the outstanding loan balances at 31 December 2015, an increase from 93% at 31 December 2014.

Republic of Ireland residential mortgages that were impaired

The following table profiles the Republic of Ireland residential mortgages that were impaired at 31 December 2015 and 2014:

	2015*			2014*		
Republic of Ireland	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Not past due	966	453	1,419	1,174	706	1,880
1 - 30 days	189	50	239	267	98	365
31 - 60 days	87	37	124	125	67	192
61 - 90 days	65	28	93	101	60	161
91 - 180 days	163	80	243	306	180	486
181 - 365 days	234	137	371	536	352	888
Over 365 days	2,009	1,213	3,222	2,495	1,750	4,245
Total impaired	3,713	1,998	5,711	5,004	3,213	8,217
Total gross residential mortgages	28,880	5,576	34,456	29,631	6,693	36,324

Impaired loans decreased by € 2.5 billion during 2015 due to restructuring, cures and write-offs of provisions. In addition, the rate of new impairment continues to slow significantly compared to 2014 driven by an improved economic environment. Of the residential mortgage portfolio that was impaired at 31 December 2015, € 1.4 billion or 25% was not past due (31 December 2014: € 1.9 billion or 23%), of which € 1.0 billion (31 December 2014: € 1.2 billion) was subject to forbearance measures at 31 December 2015.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

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

AIB seeks to avoid repossession through working with customers, but where agreement cannot be reached, AIB proceeds to repossession of the property or the appointment of a receiver, using external agents to realise the maximum value as soon as is practicable. Where the Group believes that the proceeds of sale of a property will comprise only part of the recoverable amount of the loan against which it was being held as security, the customer remains liable for the outstanding balance and the remaining loan continues to be recognised on the statement of financial position.

The number (stock) of properties in possession at 31 December 2015 and 2014 is set out below:

	2015*		2014*	
	Stock	Balance outstanding € m	Stock	Balance outstanding € m
Owner-occupier	623	156	548	145
Buy-to-let	91	21	82	19
Total	714	177	630	164

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

The increase in the stock of residential properties in possession in 2015 relates to the addition of 523 properties (2014: 352 properties), partly offset by the disposal of 439 properties (2014: 100 properties). There continues to be an increase in stock from 2014 due to the continued focus on arrears management.

Republic of Ireland residential mortgages – repossessions disposed of

The following table analyses the disposals of repossessed properties for the financial years ended 31 December 2015 and 2014:

					2015*
	Number of disposals	Outstanding balance at repossession date € m	Gross sales proceeds on disposal € m	Costs to sell € m	Loss on sale[1] € m
Owner-occupier	390	108	46	4	66
Buy-to-let	49	12	5	–	7
Total	439	120	51	4	73

					2014*
	Number of disposals	Outstanding balance at repossession date € m	Gross sales proceeds on disposal € m	Costs to sell € m	Loss on sale[1] € m
Owner-occupier	60	17	7	–	10
Buy-to-let	40	12	5	–	7
Total	100	29	12	–	17

[1]Before specific impairment provisions.

The disposal of 439 residential properties in the Republic of Ireland resulted in a loss on disposal of € 73 million at 31 December 2015 (before specific impairment provisions) and compares to 2014 when 100 residential properties were disposed of resulting in a loss of € 17 million. Losses on the sale of such properties are recognised in the income statement as part of the specific provision charge.

*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

United Kingdom ("UK") residential mortgages

The following table analyses the UK residential mortgage portfolio showing impairment provisions for the financial years ended 31 December 2015 and 2014:

	2015*			2014*		
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	**2,048**	**314**	**2,362**	2,177	345	2,522
In arrears (>30 days past due)[1]	**253**	**47**	**300**	293	60	353
In arrears (>90 days past due)[1]	**230**	**45**	**275**	262	56	318
Of which impaired	**212**	**43**	**255**	239	53	292
Statement of financial position specific provisions	**90**	**25**	**115**	119	34	153
Statement of financial position IBNR provisions	**12**	**1**	**13**	16	2	18
Provision cover percentage	**%**	**%**	**%**	%	%	%
Specific provisions/impaired loans	**42.4**	**57.8**	**45.0**	49.7	64.2	52.4

Income statement (credit)/charge	**€ m**	**€ m**	**2015 € m**	€ m	€ m	2014 € m
Income statement specific provisions	**(7)**	**(2)**	**(9)**	24	4	28
Income statement IBNR provisions	**(5)**	**(1)**	**(6)**	(10)	(1)	(11)
Total impairment (credit)/charge	**(12)**	**(3)**	**(15)**	14	3	17

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

The UK mortgage portfolio is predominantly based in Northern Ireland (73% of total) with the remainder located in Great Britain. The UK mortgage portfolio has decreased in sterling terms by c.12% on the financial year end December 2014. However, due to a c.6% change in the euro/sterling exchange rate, the portfolio has decreased by c.6% in euro terms.

UK economic growth (estimated at 2.2%) has been slower than expected in 2015, although the labour market has remained strong and households continue to experience real growth in income as a result of a low inflation environment. The positive domestic economic factors have had a positive impact on mortgage arrears in general. Total loans in arrears of greater than 90 days have improved to 11.6% (31 December 2014: 12.6%).

Statement of financial position specific provisions of € 115 million were held at 31 December 2015 and provided cover of 45.0% for impaired loans (31 December 2014: € 153 million providing cover of 52.4%).

Statement of financial position IBNR provisions of € 13 million were held at 31 December 2015, down from €18 million at 31 December 2014, reflecting an improvement in estimated incurred loss in the non-impaired portfolio.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

United Kingdom residential mortgages by year of origination

The following table profiles the UK total residential mortgage portfolio and impaired residential mortgage portfolio by year of origination at 31 December 2015 and 2014:

	2015*				2014*			
	Total		Impaired		Total		Impaired	
United Kingdom	Number	Balance € m	Number	Balance € m	Number	Balance € m	Number	Balance € m
1996 and before	1,466	43	35	2	1,742	49	34	2
1997	403	11	5	–	444	13	5	–
1998	387	12	12	–	456	14	24	1
1999	736	30	34	2	795	32	36	2
2000	793	30	30	1	909	35	41	2
2001	835	38	55	3	897	42	49	3
2002	1,319	73	76	4	1,453	79	82	4
2003	1,806	124	136	8	1,964	138	164	16
2004	2,059	165	151	11	2,263	183	161	12
2005	2,789	270	288	31	3,025	291	305	31
2006	3,732	463	401	55	4,002	500	440	66
2007	3,277	570	461	104	3,531	608	499	111
2008	1,307	222	110	23	1,428	249	117	30
2009	616	71	25	5	702	82	34	6
2010	311	39	11	6	370	44	11	6
2011	159	15	4	–	178	18	3	–
2012	170	21	1	–	196	26	1	–
2013	303	42	1	–	326	44	1	–
2014	402	74	–	–	409	75	–	–
2015	241	49	–	–	–	–	–	–
Total	23,111	2,362	1,836	255	25,090	2,522	2,007	292

The majority (€ 1.5 billion or 65%) of the € 2.4 billion residential mortgage book in the UK was originated between 2005 and 2008, of which 14% (€ 0.2 billion) was impaired at 31 December 2015 driven by reduced household income and reflecting the decrease in property prices since their peak in 2007. 22% of the residential mortgage portfolio was originated before 2005 of which 6% was impaired at 31 December 2015, while the remaining 13% of the portfolio was originated since 2009 of which 4% was impaired at 31 December 2015.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

The property values in the completion of the following loan-to-value tables are determined with reference to the original or most recent valuation, indexed to the Nationwide House Price Index ("HPI") in the UK for Quarter 3 2015. The index for Quarter 3 2015 reported that house prices across the UK increased by 4% for the 12 months to the end of Quarter 3 2015.

Northern Ireland (being 73% of the UK residential mortgage portfolio) reported an increase of 6.5% for the 12 months to the end of Quarter 3 2015 but despite this increase house prices are 44% lower than pre-crisis peak.

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

The following table profiles the UK residential mortgage portfolio by the indexed loan-to-value ratios and the weighted average indexed loan-to-value ratios at 31 December 2015 and 2014:

2015*

United Kingdom	Owner-occupier € m	Owner-occupier %	Buy-to-let € m	Buy-to-let %	Total € m	Total %
Less than 50%	634	30.9	82	26.3	716	30.3
50% to 70%	431	21.1	40	12.9	471	20.0
71% to 80%	231	11.3	22	7.0	253	10.7
81% to 90%	177	8.6	23	7.2	200	8.5
91% to 100%	118	5.8	26	8.2	144	6.1
101% to 120%	172	8.4	47	14.9	219	9.3
121% to 150%	164	8.0	51	16.3	215	9.1
Greater than 150%	90	4.4	8	2.5	98	4.1
Unsecured	31	1.5	15	4.7	46	1.9
Total	**2,048**	**100.0**	**314**	**100.0**	**2,362**	**100.0**
Weighted average indexed loan-to-value[1]:						
Stock of residential mortgages at financial year end		73.4		81.3		74.4
New residential mortgages issued during the year		60.6		50.7		60.5
Impaired residential mortgages		117.8		111.3		116.9

2014*

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

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

21% of the total owner-occupier and 34% of the total buy-to-let mortgages were in negative equity at 31 December 2015 (excluding unsecured), compared to 26% and 42% respectively at 31 December 2014. The reduction was driven primarily by the increase in property prices in the year, coupled with amortisation of the loan book. The weighted average indexed loan-to-value for the total residential mortgage book was 74.4% at 31 December 2015 compared to 82.6% at 31 December 2014, reflecting the increase in residential property prices in the period.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

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

The following table profiles the UK residential mortgages that were neither past due nor impaired by the indexed loan-to-value ratios at 31 December 2015 and 2014:

						2015*
	Owner-occupier		Buy-to-let		Total	
United Kingdom	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	**592**	**33.4**	**80**	**30.0**	**672**	**33.0**
50% to 70%	**392**	**22.1**	**37**	**14.0**	**429**	**21.1**
71% to 80%	**203**	**11.5**	**20**	**7.7**	**223**	**10.9**
81% to 90%	**159**	**9.0**	**20**	**7.4**	**179**	**8.8**
91% to 100%	**103**	**5.8**	**19**	**7.1**	**122**	**6.0**
101% to 120%	**147**	**8.3**	**43**	**16.2**	**190**	**9.3**
121% to 150%	**132**	**7.4**	**43**	**16.3**	**175**	**8.6**
Greater than 150%	**44**	**2.5**	**3**	**1.3**	**47**	**2.3**
Total	**1,772**	**100.0**	**265**	**100.0**	**2,037**	**100.0**

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

Residential mortgages that were neither past due nor impaired and in negative equity at 31 December 2015 decreased in comparison to 31 December 2014, reflecting the increases in residential property prices in the year. 20% of residential mortgages that were neither past due nor impaired were in negative equity at 31 December 2015 compared to 25% at 31 December 2014.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

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

The following table profiles the UK residential mortgages that were greater than 90 days past due and/or impaired by the indexed loan-to-value ratios at 31 December 2015 and 2014:

2015*

	Owner-occupier		Buy-to-let		Total		Total residential mortgage portfolio	
United Kingdom	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**	**€ m**	**%**
Less than 50%	**25**	**11.0**	**2**	**5.1**	**27**	**10.0**	**716**	**30.3**
50% to 70%	**26**	**11.3**	**3**	**6.0**	**29**	**10.4**	**471**	**20.0**
71% to 80%	**25**	**10.9**	**1**	**2.8**	**26**	**9.6**	**253**	**10.7**
81% to 90%	**13**	**5.8**	**3**	**6.1**	**16**	**5.8**	**200**	**8.5**
91% to 100%	**12**	**5.2**	**7**	**15.0**	**19**	**6.8**	**144**	**6.1**
101% to 120%	**24**	**10.3**	**3**	**6.8**	**27**	**9.8**	**219**	**9.3**
121% to 150%	**30**	**13.0**	**7**	**15.7**	**37**	**13.5**	**215**	**9.1**
Greater than 150%	**44**	**19.2**	**4**	**9.5**	**48**	**17.6**	**98**	**4.1**
Unsecured	**31**	**13.3**	**15**	**33.0**	**46**	**16.5**	**46**	**1.9**
Total	**230**	**100.0**	**45**	**100.0**	**275**	**100.0**	**2,362**	**100.0**

2014*

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

The proportion of residential mortgages that was greater than 90 days past due and/or impaired and in negative equity (excluding unsecured loans) at 31 December 2015, decreased in comparison to 31 December 2014, driven by a decrease in the amount of loans greater than 90 days past due and/or impaired at financial year end coupled with an increase in property prices in 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 United Kingdom residential mortgages

The following table profiles the asset quality of the UK residential mortgage portfolio at 31 December 2015 and 2014:

	2015*			2014*		
United Kingdom	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Neither past due nor impaired	1,772	265	2,037	1,867	282	2,149
Past due but not impaired	64	6	70	71	10	81
Impaired - provisions held	212	43	255	239	53	292
Gross residential mortgages	2,048	314	2,362	2,177	345	2,522
Provisions for impairment	(102)	(26)	(128)	(135)	(36)	(171)
	1,946	288	2,234	2,042	309	2,351

United Kingdom residential mortgages that were past due but not impaired

Residential mortgages are assessed for impairment if they are past due, typically for more than 90 days, or if the borrower exhibits an inability to meet their obligations to the Group based on objective evidence of loss events ('impairment triggers') such as a request for forbearance. Loans are deemed impaired where the expected future cash flows either from the loan itself or from associated collateral will not be sufficient to repay the loan and an appropriate provision is raised. Where loans are not deemed to be impaired, they are collectively assessed as part of the IBNR provision calculation.

The following table profiles UK residential mortgages that were past due but not impaired at 31 December 2015 and 2014:

	2015*			2014*		
United Kingdom	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	23	2	25	17	3	20
31 - 60 days	12	1	13	13	3	16
61 - 90 days	11	1	12	18	1	19
91 - 180 days	7	2	9	8	1	9
181 - 365 days	4	–	4	7	1	8
Over 365 days	7	–	7	8	1	9
Total	64	6	70	71	10	81

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

The following table profiles the collateral value of UK residential mortgages that were past due but not impaired at 31 December 2015 and 2014:

	2015*			2014*		
United Kingdom	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
1 - 30 days	23	2	25	15	2	17
31 - 60 days	11	1	12	11	2	13
61 - 90 days	11	1	12	16	1	17
91 - 180 days	7	1	8	8	1	9
181 - 365 days	4	–	4	7	1	8
Over 365 days	6	–	6	7	1	8
Total	62	5	67	64	8	72

*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

United Kingdom residential mortgages that were impaired

The following table profiles the UK residential mortgages that were impaired at 31 December 2015 and 2014:

	2015*			2014*		
United Kingdom	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Not in arrears	17	3	20	13	3	16
1 - 30 days	3	1	4	3	–	3
31 - 60 days	5	1	6	6	2	8
61 - 90 days	4	1	5	8	1	9
91 - 180 days	15	2	17	19	3	22
181 - 365 days	31	12	43	34	13	47
Over 365 days	137	23	160	156	31	187
Total impaired	212	43	255	239	53	292
Total gross residential mortgages	2,048	314	2,362	2,177	345	2,522

10.8% of residential mortgages were impaired at 31 December 2015, compared with 11.6% at 31 December 2014.

United Kingdom residential mortgages – properties in possession[(1)]

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

The number (stock) of properties in possession at 31 December 2015 and 2014 is set out below:

	2015*		2014*	
	Stock	Balance outstanding € m	Stock	Balance outstanding € m
Owner-occupier	46	14	72	26
Buy-to-let	19	3	33	5
Total	65	17	105	31

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

The stock of residential properties continued to decrease in 2015, from 105 at December 2014 to 65 properties.

United Kingdom residential mortgages – repossessions disposed of

The disposal of 119 residential properties in possession resulted in a loss on disposal of € 15 million before specific impairment provisions (31 December 2014: disposal of 234 properties resulting in a loss on disposal of € 28 million). Losses on the sale of properties in possession are recognised in the income statement as part of the specific provision charge.

*Forms an integral part of the audited financial statements

3.1 Credit risk – credit profile of the loan portfolio

Loans and receivables to customers – Other personal

The following table analyses other personal lending by segment showing asset quality and impairment provisions for the financial years ended 31 December 2015 and 2014:

	2015				2014			
	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m
Analysed as to asset quality								
Satisfactory	2,051	247	–	2,298	1,972	253	–	2,225
Watch	137	23	–	160	176	46	–	222
Vulnerable	336	20	–	356	308	38	–	346
Impaired	632	66	–	698	974	70	–	1,044
Total criticised loans	1,105	109	–	1,214	1,458	154	–	1,612
Total gross loans and receivables	3,156	356	–	3,512	3,430	407	–	3,837
Total loans percentage	%	%	%	%	%	%	%	%
Criticised loans/total loans	35	31	–	35	43	38	–	42
Impaired loans/total loans	20	19	–	20	28	17	–	27
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	437	49	–	486	663	53	–	716
IBNR	44	5	–	49	50	2	–	52
Total impairment provisions	481	54	–	535	713	55	–	768
Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	69	74	–	70	68	76	–	69
Total provisions/impaired loans	76	82	–	77	73	79	–	74
Total provisions/total loans	15	15	–	15	21	14	–	20
Income statement (credit)/charge	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	(7)	2	–	(5)	15	3	–	18
IBNR	(7)	4	–	(3)	(1)	(2)	–	(3)
Total impairment (credit)/charge	(14)	6	–	(8)	14	1	–	15
	%	%	%	%	%	%	%	%
Impairment (credit)/charge /average loans	(0.40)	1.52	–	(0.19)	0.37	0.39	–	0.38

The other personal lending portfolio at € 3.5 billion reduced by € 0.3 billion during the year and comprises € 2.6 billion in loans and overdrafts and € 0.9 billion in credit card facilities.

During 2015, the level of loans and receivables with satisfactory credit quality increased by 3%, primarily driven by increased customer demand for credit. This is in contrast to the decline in satisfactory grades experienced in 2012 and 2013 and stabilisation in 2014. An increase in demand for personal loans which was observed during the year was due to both the improved economic environment and an expanded product offering, including on-line approval through internet, mobile and telephone banking applications.

The portfolio experienced a € 0.4 billion reduction in criticised loans in 2015, of which € 0.2 billion was written off. At 31 December 2015, € 1.2 billion or 35% of the portfolio was criticised of which impaired loans amounted to € 0.7 billion (2014: € 1.6 billion or 42% and € 1.0 billion).

The specific provision cover increased slightly from 69% to 70%. The income statement provision writeback of € 8 million compares to a €15 million charge in 2014.

3.1 Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Property and construction

The following table analyses property and construction lending by segment showing asset quality and impairment provisions for the financial years ended 31 December 2015 and 2014:

	2015				2014			
	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m
Investment:								
Commercial investment	5,154	1,453	–	6,607	6,411	2,012	–	8,423
Residential investment	1,002	456	–	1,458	1,435	798	–	2,233
	6,156	1,909	–	8,065	7,846	2,810	–	10,656
Land and development:								
Commercial development	583	69	–	652	911	84	–	995
Residential development	1,142	758	–	1,900	2,185	902	–	3,087
	1,725	827	–	2,552	3,096	986	–	4,082
Contractors	174	227	34	435	195	154	5	354
Housing associations	–	480	–	480	–	445	–	445
Total gross loans and receivables	8,055	3,443	34	11,532	11,137	4,395	5	15,537
Analysed as to asset quality								
Satisfactory	2,435	1,683	34	4,152	2,233	1,357	5	3,595
Watch	486	487	–	973	488	681	–	1,169
Vulnerable	1,839	260	–	2,099	1,487	450	–	1,937
Impaired	3,295	1,013	–	4,308	6,929	1,907	–	8,836
Total criticised loans	5,620	1,760	–	7,380	8,904	3,038	–	11,942
Total loans percentage	%	%	%	%	%	%	%	%
Criticised loans/total loans	70	51	–	64	80	69	–	77
Impaired loans/total loans	41	29	–	37	62	43	–	57
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	1,790	685	–	2,475	4,312	1,166	–	5,478
IBNR	151	23	–	174	129	45	–	174
Total impairment provisions	1,941	708	–	2,649	4,441	1,211	–	5,652
Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	54	68	–	57	62	61	–	62
Total provisions/impaired loans	59	70	–	61	64	64	–	64
Total provisions/total loans	24	21	–	23	40	28	–	36
Income statement (credit)/charge	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	(187)	(29)	–	(216)	(122)	32	–	(90)
IBNR	22	(20)	–	2	(115)	(39)	–	(154)
Total impairment (credit)	(165)	(49)	–	(214)	(237)	(7)	–	(244)
	%	%	%	%	%	%	%	%
Impairment (credit)/ average loans	(1.71)	(1.13)	–	(1.54)	(1.84)	(0.15)	–	(1.36)

3.1 Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Property and construction *(continued)*

The property and construction sector amounted to 16% of total loans and receivables. The portfolio is comprised of 70% investment loans (€ 8.1 billion), 22% land and development loans (€ 2.6 billion) and 8% other property and construction loans (€0.9 billion). AIB UK accounts for 30% of the total property and construction portfolio.

Overall, the portfolio reduced by €4 billion or 26% during 2015, with all of the reduction coming from the criticised grades. This reduction was due primarily to the continuing impact of restructuring activity as described on page 88 and to write-offs, amortisations and repayments, resulting from asset disposals by customers within the criticised grades. Specific provisions attached to this sector have reduced by €3 billion in 2015. The restructuring of impaired loans during the year resulted in an increase in vulnerable loans in the sector as most individually assessed restructured loans are initially graded as vulnerable. This, in turn, resulted in impaired loans reducing by € 4.5 billion which were partially offset by a € 0.6 billion growth in satisfactory loans. Accordingly, the rate of downward grade migration and new impairments continued to decrease in 2015.

2015 proved to be another positive year in the Irish commercial property market, continuing the momentum of 2014. Transaction volumes in the occupational and investment sectors of the market were strong with annual average volumes of activity well exceeded before the year end in most sectors. The continued momentum was seen across all sectors driven by the sale of individual assets and several large portfolios in 2015.

There was a writeback of specific provisions net of top-ups of € 270 million (c. 4.3% of opening impaired loans) mainly due to the improved economic environment and the restructuring process described on page 88. This was partially off-set by provisions for new impairments which amounted to € 54 million.

Investment

Investment property loans amounted to € 8.1 billion at 31 December 2015 (31 December 2014: € 10.7 billion) of which € 6.6 billion related to commercial investment. The reduction was largely as a result of loan redemptions (asset sales by customers), restructures within the criticised loan portfolio and write-offs of provisions. € 5.6 billion of the investment property portfolio related to loans for the purchase of property in the Republic of Ireland, € 2.4 billion in the United Kingdom and € 0.1 billion in other geographical locations.

The domestic economic conditions continued to improve over the course of the year. This boosted the interest from real estate investors in the Irish market and led to a recovery in yields being experienced across the board.

€ 4.9 billion or 61% of the investment property portfolio was criticised at 31 December 2015 compared with €7.8 billion or 73% at 31 December 2014. Included in criticised loans was € 2.4 billion loans which were impaired (31 December 2014: € 5.2 billion) and on which the Group had € 1.2 billion in statement of financial position specific provisions, providing cover of 49% (31 December 2014: € 2.7 billion and 53%). Total impairment provisions as a percentage of total loans is 16%, down from 27% at 31 December 2014. The impairment writeback to the income statement was € 140 million on the investment property element of the property and construction portfolio compared to a writeback of € 193 million in 2014.

Land and development

At 31 December 2015, land and development loans amounted to € 2.6 billion (31 December 2014: € 4.1 billion). € 1.7 billion of this portfolio related to loans in AIB Ireland and € 0.8 billion in AIB UK.

€ 2.2 billion of the land and development portfolio was criticised at 31 December 2015 (31 December 2014: € 3.8 billion), including € 1.8 billion of loans which were impaired (31 December 2014: € 3.5 billion) and on which the Group had € 1.2 billion in statement of financial position specific provisions, providing cover of 68% (31 December 2014: 75%). The impairment writeback of € 74 million to the income statement compares to a writeback of € 40 million in 2014.

Risk management - 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

Loans and receivables to customers – Non-property business

The following table analyses non-property business lending by segment showing asset quality and impairment provisions for the financial years ended 31 December 2015 and 2014:

	2015				2014			
	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m
Agriculture	1,681	104	10	1,795	1,738	71	9	1,818
Distribution:								
Hotels	1,458	855	43	2,356	1,635	720	–	2,355
Licensed premises	594	101	63	758	817	146	–	963
Retail/wholesale	1,959	436	–	2,395	2,253	309	97	2,659
Other distribution	144	9	169	322	170	20	87	277
	4,155	1,401	275	5,831	4,875	1,195	184	6,254
Other services	2,492	2,569	827	5,888	2,437	2,608	601	5,646
Other	1,895	1,218	1,674	4,787	1,758	1,010	1,126	3,894
Total gross loans and receivables	10,223	5,292	2,786	18,301	10,808	4,884	1,920	17,612
Analysed as to asset quality								
Satisfactory	6,576	4,510	2,723	13,809	5,821	3,637	1,826	11,284
Watch	567	299	17	883	791	399	36	1,226
Vulnerable	1,347	149	–	1,496	1,098	231	–	1,329
Impaired	1,733	334	46	2,113	3,098	617	58	3,773
Total criticised loans	3,647	782	63	4,492	4,987	1,247	94	6,328
Total loans percentage	%	%	%	%	%	%	%	%
Criticised loans/total loans	36	15	2	25	46	26	5	36
Impaired loans/total loans	17	6	2	12	29	13	3	21
Impairment provisions – statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	952	178	22	1,152	1,864	346	34	2,244
IBNR	137	30	7	174	290	20	5	315
Total impairment provisions	1,089	208	29	1,326	2,154	366	39	2,559
Provision cover percentage	%	%	%	%	%	%	%	%
Specific provisions/impaired loans	55	53	48	55	60	56	59	59
Total provisions/impaired loans	63	62	63	63	70	59	67	68
Total provisions/total loans	11	4	1	7	20	7	2	15
Income statement (credit)/charge	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Specific	(98)	6	9	(83)	(69)	66	4	1
IBNR	(152)	8	2	(142)	131	(7)	2	126
Total impairment (credit)/charge	(250)	14	11	(225)	62	59	6	127
	%	%	%	%	%	%	%	%
Impairment (credit)/charge /average loans	(2.36)	0.27	0.51	(1.24)	0.57	1.16	0.25	0.71

3.1 Credit risk – credit profile of the loan portfolio

Loans and receivables to customers – Non-property business *(continued)*

The non-property business portfolio mainly comprises of Small Medium Enterprises ("SME") which are reliant on the domestic economies in which they operate and larger corporate and institutional borrowers who are impacted by global economies. There was increased activity across most sub-sectors in the portfolio due to increased credit demand resulting in new lending of c. € 4.8 billion in 2015. The portfolio amounted to 26% of total loans and receivables as at 31 December 2015. 56% of the portfolio is in AIB Ireland, 29% in AIB UK with the remaining 15% in Group & International.

Satisfactory loans and receivables increased in 2015, continuing the positive trend experienced in 2014. In AIB Ireland, the satisfactory portfolio increased by € 0.8 billion through a combination of new drawdowns exceeding amortisation and repayment coupled with upward grade migration through improved performance. The AIB UK satisfactory portfolio increased by € 0.9 billion in 2015, due to both the impact of sterling appreciation and growth. The level of criticised loans reduced from € 6.3 billion at 31 December 2014 to € 4.5 billion at 31 December 2015, mainly due to a reduction of € 1.7 billion in impaired loans.

The following are the key themes within the main sub-sectors of the non-property business portfolio:

- The agriculture sub-sector (10% of the portfolio) continued to perform well in 2015.
- The hotels sub-sector comprises 13% of the portfolio. The improvement observed in 2014 due to a stronger local economy and increased number of tourists has continued into 2015. Valuations for hotels have continued to increase, with a number of foreign investors and fund managers competing for available properties.
- The licensed premises sub-sector comprises 4% of the portfolio. There continues to be some weakness in this market. However, some locations such as Dublin, central Cork and Galway are showing improved performances based on the improving economic outlook.
- The retail/wholesale sub-sector (13% of the portfolio) has continued to improve in 2015 due to the stronger economic environment, nevertheless, there is still stress in the sub-sector, particularly in rural areas.
- The other services sub-sector comprises 32% of the portfolio which includes businesses such as solicitors, accounting, audit, tax, computer services, research and development, consultancy, hospitals, nursing homes and plant and machinery. This sub-sector performed well in 2015 with an increase in drawdowns.

In the table on the preceding page there is a category of "Other" totalling € 4.8 billion. This category includes a broad range of sub-sectors such as energy, manufacturing, transport and financial.

2015 was another year of strong economic growth in the Republic of Ireland. Notwithstanding this improved economic performance and a positive outlook, there are still challenges in the domestic market, with many trading entities experiencing difficulties, particularly, outside urban areas. The Group continues to strongly engage in restructuring existing facilities in order to sustain viable businesses as described on page 88.

The Group & International business segment includes €2.2 billion (2014: €1.5 billion) in international leveraged lending exposures. The Group has specialised leveraged lending teams in North America and Europe which are involved in participating in the provision of finance to US and European corporations for mergers, acquisitions, buy-outs and general corporate purposes. Loans originated by these teams, reported on the basis of the booking office are Ireland € 2.1 billion and Rest of the World € 0.1 billion.

At 31 December 2015, c. 70% of the portfolio had a facility credit rating of BB– or better, with € 13 million loans classified as impaired. 85% of the customers in this portfolio are domiciled in the USA, 3% in Canada, 4% UK, and 8% in the Rest of the World (31 December 2014: 92% domiciled in the USA, 4% in Canada and 4% in the Rest of the World respectively). The largest sub-sectors within the portfolio include business services, healthcare, pharmaceuticals, media, telecoms, and manufacturing.

The income statement provision writeback in 2015 was € 225 million compared to a charge of € 127 million in 2014.

IBNR provisions reduced from € 315 million to € 174 million, or from 2.3% to 1.1% of non-impaired loans and receivables, in line with improved impairment trends.

The specific provision cover decreased from 59% at 31 December 2014 to 55% at 31 December 2015 impacted by writebacks and write-offs of provisions for loans with higher provision cover.

Specific provisions on new impairments amounted to € 95 million, and were off-set by a writeback of € 178 million (net of top-ups). This writeback amounted to c. 4.7% of opening impaired loans and was driven by the improved economic environment and the restructuring assessment process described on page 88.

Risk management – 3. Individual risk types

3.1 Credit risk – credit profile of the loan portfolio

Large exposures

AIB's Group Large Exposure Policy sets out maximum exposure limits to, or on behalf of, a customer or a group of connected customers.

At 31 December 2015, the Group's top 50 exposures amounted to € 4.8 billion, and accounted for 6.9% (31 December 2014: € 5.1 billion and 6.8%) of the Group's on-balance sheet total gross loans and receivables to customers. In addition, these customers have undrawn facilities amounting to € 266 million (31 December 2014: € 200 million). No single customer exposure exceeded regulatory requirements. In addition, the Group holds NAMA senior bonds amounting to € 5.6 billion (31 December 2014: € 9.4 billion).

Credit ratings*

Internal credit ratings

The Group uses various rating tools in managing its credit risk. The role of rating tools in identifying and managing loans including those of lower credit quality is highlighted in further detail on pages 63 to 66. These lower credit quality loans are referred to as 'Criticised loans' and include Watch, Vulnerable and Impaired, and are defined on page 64.

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

– Neither past due nor impaired;
– Past due but not impaired; and
– Impaired.

Neither past due nor impaired are those loans that are neither contractually past due and/or have not been categorised as impaired by the Group.

Past due but not impaired are those loans where a contractually due payment has not been made. 'Past due days' is a term used to describe the cumulative number of days a missed payment is overdue. In the case of instalment type facilities, days past due arise once an approved limit has been exceeded. This category can also include an element of facilities where negotiation with the borrower on new terms and conditions has not yet concluded to fulfilment while the original loan facility remains outside its original terms. When a facility is past due, the entire exposure is reported as past due, not just the amount of any excess or arrears.

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

Loans that are neither past due nor impaired are further classified into 'Good upper, Good lower, Watch and Vulnerable', which are defined as follows:

Good upper: Strong credit with no weakness evident. Typically includes elements of the residential mortgages portfolio combined with strong corporate and commercial lending.

Good lower: Satisfactory credit with no weakness evident. Typically includes new business written and existing satisfactorily performing exposures across all portfolios.

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

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

*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 of loans and receivables to customers

The internal credit ratings profile of loans and receivables to customers by asset class at 31 December 2015 and 2014 is set out below:

					2015
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Neither past due nor impaired					
Good upper	14,894	203	122	1,167	16,386
Good lower	10,106	2,048	3,980	12,507	28,641
Watch	1,972	131	912	836	3,851
Vulnerable	2,824	282	1,806	1,270	6,182
Total	29,796	2,664	6,820	15,780	55,060
Past due but not impaired					
Good upper	5	2	–	2	9
Good lower	86	45	50	133	314
Watch	292	29	61	47	429
Vulnerable	673	74	293	226	1,266
Total	1,056	150	404	408	2,018
Total impaired	5,966	698	4,308	2,113	13,085
Total gross loans and receivables	36,818	3,512	11,532	18,301	70,163
Unearned income					(139)
Deferred costs					48
Impairment provisions					(6,832)
Total					63,240

					2014
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Neither past due nor impaired					
Good upper	13,711	181	96	812	14,800
Good lower	10,956	1,989	3,433	10,332	26,710
Watch	2,207	192	1,115	1,146	4,660
Vulnerable	2,140	228	1,582	1,026	4,976
Total	29,014	2,590	6,226	13,316	51,146
Past due but not impaired					
Good upper	4	1	–	10	15
Good lower	76	54	66	130	326
Watch	348	30	54	80	512
Vulnerable	895	118	355	303	1,671
Total	1,323	203	475	523	2,524
Total impaired	8,509	1,044	8,836	3,773	22,162
Total gross loans and receivables	38,846	3,837	15,537	17,612	75,832
Unearned income					(123)
Deferred costs					59
Impairment provisions					(12,406)
Total					63,362

The table above shows an increase in "Good" grades in the year, primarily in non-property business, which is offset by a reduction in criticised grades (watch, vulnerable and impaired) as a result of on-going restructuring activities and paydowns. The total reduction in loans in the year was € 5.7 billion representing an increase in "Good" loans of € 3.5 billion and a reduction in criticised of € 9.2 billion.

*Forms an integral part of the audited financial statements

3.1 Credit risk – credit profile of the loan portfolio

Credit ratings* *(continued)*

External credit ratings of financial assets

The external credit ratings profile of loans and receivables to banks, NAMA senior bonds, trading portfolio financial assets (excluding equity securities), financial investments available for sale (excluding equity shares) and financial investments held to maturity at 31 December 2015 and 2014 is set out below:

	2015				
	Bank € m	**Corporate € m**	**Sovereign € m**	**Other € m**	**Total € m**
AAA/AA	**4,963**	**–**	**2,758**	**328**	**8,049**
A/A-	**1,258**	**–**	**14,716**[1]	**–**	**15,974**
BBB+/BBB/BBB-	**166**	**–**	**2,317**	**1**	**2,484**
Sub investment	**549**	**86**	**–**	**–**	**635**
Unrated	**3**	**1**	**–**	**–**	**4**
Total	**6,939**	**87**	**19,791**[2]	**329**	**27,146**

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

[1]Includes NAMA senior bonds which do not have an external credit rating and to which the Group has attributed a rating of A- at 31 December 2015 i.e. the external rating of the Sovereign (31 December 2014: A-).

[2]Includes supranational banks and government agencies.

*Forms an integral part of the audited financial statements

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 2015 and 2014:

	2015*			2014*		
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	**5,406**	**587**	**–**	9,107	1,327	–
Euro government securities	**3,033**	**140**	**(3)**	3,631	170	–
Non Euro government securities	**245**	**7**	**(1)**	182	9	–
Supranational banks and government agencies	**2,008**	**78**	**–**	2,852	119	–
Collateralised mortgage obligations	**328**	**–**	**(3)**	99	–	(1)
Other asset backed securities	**1**	**–**	**–**	1	–	–
Euro bank securities	**4,600**	**81**	**(8)**	3,897	105	–
Euro corporate securities	**30**	**–**	**–**	–	–	–
Non Euro corporate securities	**57**	**3**	**(2)**	3	–	(1)
Total debt securities	**15,708**	**896**	**(17)**	19,772	1,730	(2)
Equity securities[1]	**781**	**696**	**(2)**	413	338	(3)
Total financial investments available for sale	**16,489**	**1,592**	**(19)**	20,185	2,068	(5)

[1]Includes NAMA subordinated bonds with a fair value of € 432 million (2014: € 374 million) of which unrealised gains amount to € 385 million (2014:€ 327 million).

The following tables categorise AIB Group's available-for-sale debt securities by contractual residual maturity and weighted average yield at 31 December 2015 and 2014:

	2015							
	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	**816**	**8.1**	**3,889**	**4.1**	**414**	**1.8**	**287**	**2.1**
Euro government securities	**–**	**–**	**687**	**1.6**	**2,346**	**1.5**	**–**	**–**
Non Euro government securities	**–**	**–**	**136**	**2.0**	**109**	**0.8**	**–**	**–**
Supranational banks and government agencies	**–**	**–**	**1,545**	**1.1**	**437**	**1.3**	**26**	**2.0**
Collateralised mortgage obligations	**–**	**–**	**–**	**–**	**–**	**–**	**328**	**1.6**
Other asset backed securities	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**0.1**
Euro bank securities	**–**	**–**	**3,602**	**0.9**	**998**	**0.8**	**–**	**–**
Euro corporate securities	**–**	**–**	**20**	**4.1**	**10**	**2.8**	**–**	**–**
Non Euro corporate securities	**1**	**–**	**35**	**5.2**	**21**	**5.9**	**–**	**–**
Total	**817**	**8.1**	**9,914**	**2.3**	**4,335**	**1.3**	**642**	**1.8**

	2014							
	Within 1 year		After 1 but within 5 years		After 5 but within 10 years		After 10 years	
	€ m	Yield %	€ m	Yield %	€ m	Yield %	€ m	Yield %
Irish Government securities	–	–	5,632	4.7	2,933	3.3	542	3.3
Euro government securities	230	2.0	1,167	1.5	2,234	1.7	–	–
Non Euro government securities	29	2.2	90	2.7	63	1.8	–	–
Supranational banks and government agencies	150	2.0	1,775	1.1	900	1.3	27	2.0
Collateralised mortgage obligations	–	–	–	–	–	–	99	1.5
Other asset backed securities	–	–	–	–	–	–	1	0.3
Euro bank securities	95	1.0	3,014	1.0	788	1.3	–	–
Non Euro corporate securities	3	–	–	–	–	–	–	–
Total	507	1.8	11,678	2.9	6,918	2.3	669	3.0

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Financial investments available for sale

The following tables analyse the available for sale portfolio by geography at 31 December 2015 and 2014:

	2015*			2014*		
Government securities	**Irish Government € m**	**Euro government € m**	**Non Euro government € m**	Irish Government € m	Euro government € m	Non Euro government € m
Republic of Ireland	**5,406**	**–**	**–**	9,107	–	–
Italy	**–**	**1,164**	**–**	–	1,253	–
France	**–**	**275**	**–**	–	468	–
Spain	**–**	**1,153**	**–**	–	1,209	–
Netherlands	**–**	**260**	**–**	–	294	–
Germany	**–**	**96**	**–**	–	225	–
Austria	**–**	**30**	**–**	–	102	–
United Kingdom	**–**	**–**	**89**	–	–	146
Finland	**–**	**–**	**–**	–	26	–
Slovakia	**–**	**55**	**–**	–	54	–
Czech Republic	**–**	**–**	**36**	–	–	12
Poland	**–**	**–**	**120**	–	–	24
	5,406	**3,033**	**245**	9,107	3,631	182

	2015*	2014*
Asset backed securities	**Total € m**	Total € m
United States of America	**328**	99
Spain	**1**	1
	329	100

	2015*		2014*	
Bank securities	**Euro € m**	**Non Euro € m**	Euro € m	Non Euro € m
Republic of Ireland	**483**	**–**	266	–
France	**777**	**–**	818	–
Netherlands	**496**	**–**	561	–
United Kingdom	**446**	**–**	439	–
Australia	**347**	**–**	380	–
Sweden	**376**	**–**	263	–
Canada	**667**	**–**	378	–
Finland	**244**	**–**	234	–
Norway	**318**	**–**	253	–
Belgium	**282**	**–**	183	–
Germany	**49**	**–**	50	–
Denmark	**76**	**–**	72	–
New Zealand	**16**	**–**	–	–
Switzerland	**23**	**–**	–	–
	4,600	**–**	3,897	–

*Forms an integral part of the audited financial statements

3.1 Credit risk – Financial investments available for sale

Debt securities

Debt securities available for sale ("AFS") have decreased from a fair value of € 19.8 billion at 31 December 2014 to € 15.7 billion at 31 December 2015. Sales, maturities and redemptions of € 4.6 billion (nominal € 4.2 billion) were offset by purchases of € 4.3 billion (nominal € 4 billion). Net unrealised gains in the portfolio decreased by € 0.8 billion which was made up of a reduction in fair value of € 0.3 billion and gains amounting to € 0.5 billion on Irish sovereign debt securities of € 3.5 billion fair value (€ 2.9 billion nominal) transferred from the available for sale portfolio to the held to maturity ("HTM") portfolio in December 2015.

Within the AFS portfolio, supranational banks and government agencies reduced by € 0.8 billion and euro government securities reduced by € 0.6 billion as these holdings had moved to record low yields against a backdrop of ECB quantitative easing. Re-investment in euro denominated securities issued by non-european banks (0.5 billion) was deemed to offer better relative value returns.

The decrease in fair value of the overall portfolio was due to a widening of Irish, Spanish and Italian sovereign spreads and the impact of higher interest rates on fixed rate security holdings.

The external ratings profile remained relatively static with total investment grade ratings remaining at 99%. The breakdown by rating was AAA: 29% (2014: 25%), AA: 17% (2014: 16%), A: 38% (2014: 46%), BBB: 15% (2014: 12%) and sub investment grade 1% (2014: 1%).

Republic of Ireland securities

The fair value of Irish debt securities in the AFS category amounted to € 5.9 billion at 31 December 2015 (2014: € 9.4 billion) and consisted of sovereign debt € 5.4 billion (31 December 2014: € 9.1 billion), senior unsecured bonds of € 0.2 billion (2014: € 0.14 billion) and covered bonds of € 0.3 billion (2014: € 0.13 billion). € 2.9 billion nominal (€ 3.5 billion fair value) of Irish Sovereign debt securities were transferred from the AFS portfolio to the HTM portfolio in December 2015. The EBS Promissory Note which had been held in the AFS portfolio was redeemed in December 2015 at its carrying value of € 0.2 billion as part of the Capital Reorganisation exercise.

Euro government securities

The fair value of government securities denominated in euro (excluding those issued by the Irish Government) decreased by € 0.6 billion to € 3.0 billion (2014: € 3.6 billion). This decrease was largely due to net sales/maturities and included reductions in French Government securities - € 0.2 billion, German - € 0.1 billion, Italian - € 0.1 billion and Austrian - € 0.1 billion.

Bank securities

At 31 December 2015, the fair value of bank securities of € 4.6 billion (2014: € 3.9 billion) included € 3.2 billion in covered bonds (2014: € 2.9 billion), € 1.2 billion in senior unsecured bank debt (2014: € 0.9 billion) and € 0.2 billion in government guaranteed senior bank debt (2014: € 0.1 billion). The bank debt was diversified across banks in 14 countries with the largest exposures being to French banks (€ 0.8 billion) and Canadian banks (€ 0.7 billion).

Asset backed securities

Asset backed securities increased to € 0.3 billion (2014: € 0.1 billion). This was due to new purchases of AAA rated US collateralised mortgage obligations.

Equity securities

Equity securities held as AFS increased by € 368 million with the increase being primarily attributable to an increase of € 294 million in fair value of the Group's holding in VISA Europe.

The fair value of the NAMA subordinated bonds which are also included within AFS increased to € 432 million at 31 December 2015 (2014: € 374 million). The estimated fair value was increased from 79.4% to 91.81% of nominal value due to continued improvements in NAMA's financial position and forecasts.

In addition to Irish Government securities outlined above, the Group holds NAMA senior debt amounting to € 5.6 billion (2014: € 9.4 billion), which is guaranteed by the Irish Government. However, this is classified as loans and receivables to customers and accounted for at amortised cost.

Risk management – 3. Individual risk types

3.1 Credit risk – Financial investments held to maturity

In December 2015, following a Board decision to reduce the AFS portfolio, € 3.5 billion (€2.9 billion nominal) in Irish Government securities were transferred to a new held to maturity ("HTM") portfolio. The transfer covered a range of issues with maturities ranging from 2018 to 2030. The reclassification reflects the Group's positive intention and ability to hold these securities to maturity. On the date of reclassification, the accumulated fair value gain held in other comprehensive income was c. € 0.5 billion. This unrealised gain will be amortised to interest income using the effective income method over the remaining life of the bonds. There are no immediate plans to increase this portfolio.

	2015* € m	2014* € m
At 1 January	**–**	–
Transfers from available for sale securities *(note 29 to the consolidated financial statements)*	**3,487**	–
Amortisation of fair value gain	**(4)**	–
At 31 December	**3,483**	–

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3.2 Additional credit risk information – Forbearance*

The Group's forbearance initiatives are detailed on pages 73 to 75.

The following table sets out the risk profile of loans and receivables to customers (before impairment provisions) analysed as to non-forborne and forborne at 31 December 2015:

					2015
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Non-forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	14,326	203	122	1,166	15,817
Good lower	9,483	1,849	3,892	12,334	27,558
Watch	1,571	105	813	733	3,222
Vulnerable	1,588	134	482	501	2,705
Total	26,968	2,291	5,309	14,734	49,302
Past due but not impaired	581	95	245	300	1,221
Impaired	3,737	476	3,668	1,500	9,381
Total	31,286	2,862	9,222	16,534	59,904
Forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	568	–	–	1	569
Good lower	623	199	88	173	1,083
Watch	401	26	99	103	629
Vulnerable	1,236	148	1,324	769	3,477
Total	2,828	373	1,511	1,046	5,758
Past due but not impaired	475	55	159	108	797
Impaired	2,229	222	640	613	3,704
Total	5,532[1]	650	2,310	1,767	10,259
Total gross loans and receivables to customers	36,818	3,512	11,532	18,301	70,163
	%	%	%	%	%
Weighted average interest rate of forborne loans and receivables to customers	2.5	6.4	3.1	3.7	3.1

[1]Republic of Ireland: € 5,481 million and United Kingdom: € 51 million.

The Republic of Ireland residential mortgage forbearance portfolio is profiled in more detail on pages 130 to 135 and further detail on the non-mortgage forbearance portfolio is included on pages136 to 140.

Interest income is recognised, based on the original effective interest rate, on forborne loans in accordance with Accounting policy (f) 'Interest income and expense recognition' in note 1 to the consolidated financial statements and is included in 'Interest and similar income' in the income statement. Interest income on non-impaired forborne loans is based on the gross loan balance, whereas the net carrying amount after specific provisions is used for impaired forborne loans.

Interest income on impaired loans amounted to € 244 million in 2015 (2014: € 329 million). At 31 December 2015, the net carrying amount of impaired loans amounted to € 6,927 million (2014: € 10,847 million) which included forborne impaired mortgages of € 1,600 million (2014: € 2,421 million) and forborne impaired non-mortgages of € 623 million (2014: € 854 million).

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.2 Additional credit risk information – Forbearance*

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

					2014
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Non-forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	13,285	180	96	811	14,372
Good lower	10,485	1,750	3,362	10,076	25,673
Watch	1,856	153	1,041	1,000	4,050
Vulnerable	1,520	117	446	585	2,668
Total	27,146	2,200	4,945	12,472	46,763
Past due but not impaired	867	141	354	391	1,753
Impaired	5,188	788	7,888	3,073	16,937
Total	33,201	3,129	13,187	15,936	65,453
Forborne loans and receivables to customers					
Neither past due nor impaired:					
Good upper	426	1	–	1	428
Good lower	471	239	71	256	1,037
Watch	351	39	74	146	610
Vulnerable	620	111	1,136	441	2,308
Total	1,868	390	1,281	844	4,383
Past due but not impaired	456	62	121	132	771
Impaired	3,321	256	948	700	5,225
Total	5,645[1]	708	2,350	1,676	10,379
Total gross loans and receivables to customers	38,846	3,837	15,537	17,612	75,832
	%	%	%	%	%
Weighted average interest rate of forborne loans and receivables to customers	2.8	6.5	3.1	3.9	3.3

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

Republic of Ireland residential mortgages

The Group has developed a Mortgage Arrears Resolution Strategy ("MARS") for dealing with mortgage customers in difficulty or likely to be in difficulty, which builds on and formalises the Group's Mortgage Arrears Resolution Process. The core objectives of MARS are to ensure that arrears solutions are sustainable in the long term and that they comply with the spirit and the letter of all regulatory requirements. MARS includes long-term forbearance solutions which have been devised to assist existing Republic of Ireland primary residential mortgage customers in difficulty.

Further details on MARS together with available forbearance strategies in operation to assist borrowers who have difficulty in meeting repayment commitments are set out on page 74.

In the following forbearance tables, temporary forbearance solutions (e.g. interest only, reduced payment) are included in the forbearance stock for as long as they are active, but are removed from the forbearance stock when the temporary agreement with the customer expires.

*Forms an integral part of the audited financial statements

3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages

The following table analyses the movements in the stock of loans subject to forbearance by (i) owner-occupier, (ii) buy-to-let and (iii) total residential mortgages at 31 December 2015 and 2014:

Republic of Ireland owner-occupier	2015 Number	2015 Balance € m	2014 Number	2014 Balance € m
At 1 January	27,714	3,830	19,848	2,952
Additions	6,778	952	12,561	1,693
Expired arrangements	(4,095)	(578)	(4,156)	(639)
Payments	–	(199)	–	(219)
Interest	–	102	–	77
Closed accounts[1]	(824)	(58)	(507)	(30)
Advanced forbearance arrangements - valuation adjustments	–	(17)	–	–
Write-offs[2]	(34)	(37)	–	(2)
Transfer between owner-occupier and buy-to-let	(25)	–	(32)	(2)
At 31 December	**29,514**	**3,995**	27,714	3,830

Republic of Ireland buy-to-let	2015 Number	2015 Balance € m	2014 Number	2014 Balance € m
At 1 January	7,936	1,740	8,309	1,998
Additions	1,868	289	1,893	355
Expired arrangements	(1,198)	(240)	(2,155)	(480)
Payments	–	(123)	–	(125)
Interest	–	43	–	26
Closed accounts[1]	(640)	(82)	(143)	(26)
Advanced forbearance arrangements - valuation adjustments	–	(2)	–	–
Write-offs[2]	(165)	(139)	–	(10)
Transfer between owner-occupier and buy-to-let	25	–	32	2
At 31 December	**7,826**	**1,486**	7,936	1,740

Republic of Ireland – Total	2015 Number	2015 Balance € m	2014 Number	2014 Balance € m
At 1 January	35,650	5,570	28,157	4,950
Additions	8,646	1,241	14,454	2,048
Expired arrangements	(5,293)	(818)	(6,311)	(1,119)
Payments	–	(322)	–	(344)
Interest	–	145	–	103
Closed accounts[1]	(1,464)	(140)	(650)	(56)
Advanced forbearance arrangements - valuation adjustments	–	(19)	–	–
Write-offs[2]	(199)	(176)	–	(12)
At 31 December	**37,340**	**5,481**	35,650	5,570

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

[2]Includes contracted and non-contracted write-offs in 2015. For 2014, contracted write-offs are included across other categories.

The stock of loans subject to forbearance measures decreased by € 0.1 billion from 31 December 2014 to € 5.5 billion at 31 December 2015 driven by lower numbers of customers seeking new forbearance solutions (i.e. new requests, renewals or extensions) and is reflective of improving customer ability to meet their mortgage terms. A key feature of the forbearance portfolio is the continued growth in the proportion of advanced forbearance solutions (split mortgages, low fixed interest rate, voluntary sale for loss, negative equity trade down and positive equity solutions) driven by the Group's strategy to deliver sustainable long-term solutions to customers and to support customers in remaining in their family home – the number of customers (6,085) on advanced forbearance solutions increased by 71% in the year to 31 December 2015 with 'Interest Only' customers (3,338) reducing by c.41% in the same period.

*Forms an integral part of the audited financial statements

3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by type of forbearance

The following table further analyses by type of forbearance, (i) owner-occupier, (ii) buy-to-let and (iii) total residential mortgages that were subject to forbearance measures in the Republic of Ireland at 31 December 2015 and 2014:

	2015					
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
Republic of Ireland owner-occupier	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	2,017	338	909	165	1,108	173
Reduced payment (greater than interest only)	754	157	454	107	300	50
Payment moratorium	426	61	133	18	293	43
Arrears capitalisation	15,664	2,122	7,184	1,032	8,480	1,090
Term extension	4,850	510	444	49	4,406	461
Split mortgages	2,872	450	1,169	177	1,703	273
Voluntary sale for loss	453	24	244	17	209	7
Low fixed interest rate	1,241	195	108	20	1,133	175
Positive equity solutions	1,221	134	96	11	1,125	123
Other[1]	16	4	–	–	16	4
Total forbearance	29,514	3,995	10,741	1,596	18,773	2,399

	2015					
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
Republic of Ireland buy-to-let	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	1,321	291	539	127	782	164
Reduced payment (greater than interest only)	646	158	327	74	319	84
Payment moratorium	256	34	181	26	75	8
Fundamental restructure	1,184	185	99	16	1,085	169
Arrears capitalisation	3,190	657	2,095	443	1,095	214
Term extension	931	128	138	24	793	104
Split mortgages	30	5	14	2	16	3
Voluntary sale for loss	240	24	104	20	136	4
Low fixed interest rate	9	2	1	–	8	2
Positive equity solutions	19	2	3	–	16	2
Total forbearance	7,826	1,486	3,501	732	4,325	754

	2015*					
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
Republic of Ireland – Total	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	3,338	629	1,448	292	1,890	337
Reduced payment (greater than interest only)	1,400	315	781	181	619	134
Payment moratorium	682	95	314	44	368	51
Fundamental restructure	1,184	185	99	16	1,085	169
Arrears capitalisation	18,854	2,779	9,279	1,475	9,575	1,304
Term extension	5,781	638	582	73	5,199	565
Split mortgages	2,902	455	1,183	179	1,719	276
Voluntary sale for loss	693	48	348	37	345	11
Low fixed interest rate	1,250	197	109	20	1,141	177
Positive equity solutions	1,240	136	99	11	1,141	125
Other[1]	16	4	–	–	16	4
Total forbearance	37,340	5,481	14,242	2,328	23,098	3,153

[1]Includes 15 negative equity trade downs (€ 4 million).

*Forms an integral part of the audited financial statements

3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

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

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

	2014					
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
Republic of Ireland buy-to-let		€ m		€ m		€ m
Interest only	2,017	468	1,119	289	898	179
Reduced payment (greater than interest only)	836	195	466	115	370	80
Payment moratorium	352	48	183	26	169	22
Arrears capitalisation	3,641	881	3,058	775	583	106
Term extension	860	118	190	32	670	86
Split mortgages	15	2	14	2	1	–
Voluntary sale for loss	208	27	162	25	46	2
Low fixed interest rate	2	–	1	–	1	–
Positive equity solutions	5	1	3	–	2	1
Total forbearance	7,936	1,740	5,196	1,264	2,740	476

	2014					
	Total		Loans > 90 days in arrears and/or impaired		Loans neither > 90 days in arrears nor impaired	
	Number	Balance	Number	Balance	Number	Balance
Republic of Ireland – Total		€ m		€ m		€ m
Interest only	5,626	1,034	2,923	583	2,703	451
Reduced payment (greater than interest only)	2,162	446	1,320	298	842	148
Payment moratorium	862	127	335	49	527	78
Arrears capitalisation	17,050	2,741	11,088	1,962	5,962	779
Term extension	6,378	710	814	107	5,564	603
Split mortgages	2,399	372	2,319	351	80	21
Voluntary sale for loss	550	53	382	45	168	8
Low fixed interest rate	377	59	261	40	116	19
Positive equity solutions	228	23	115	11	113	12
Other[1]	18	5	4	1	14	4
Total forbearance	35,650	5,570	19,561	3,447	16,089	2,123

[1]Includes 11 negative equity trade downs (€ 3 million).

*Forms an integral part of the audited financial statements

3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

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

A key feature of the forbearance portfolio is the growth in the proportion of advanced forbearance solutions (split mortgages, low fixed interest rate, voluntary sale for loss, negative equity trade down and positive equity solutions) driven by the Group's strategy to deliver sustainable long-term solutions to customers. Advanced forbearance solutions at € 840 million accounted for 15% of the total forbearance portfolio as at 31 December 2015, compared to 9% (€ 510 million) as at 31 December 2014. Following restructure, loans are reported as impaired for a probationary period of at least 12 months (unless a larger individually assessed case).

Other permanent standard forbearance solutions are term extensions and arrears capitalisation (which often includes a term extension). Permanent forbearance solutions are reported within the stock of forbearance for 5 years, and therefore, represent in some cases forbearance solutions which were agreed up to 5 years ago. They also include loans where a subsequent interest only or other temporary arrangement had expired at 31 December 2015, but where an arrears capitalisation or term extension was awarded previously.

Arrears capitalisation continues to be the largest category of forbearance solutions at 31 December 2015, accounting for 51% by value of the total forbearance portfolio (31 December 2014: 49% of the total forbearance portfolio). While actually increasing year on year, a high proportion of the arrears capitalisation portfolio (53% by value) is impaired or 90 days in arrears at 31 December 2015, reduced from 72% at 31 December 2014. This reflects the historic nature of the forbearance event for part of the portfolio and the requirement that loans complete a probationary period of at least 12 months before being upgraded from impairment, as described above.

The Group's processes for assessing customers and agreeing sustainable forbearance solutions have significantly improved over the last 2 years with the development of a suite of advanced forbearance products. This is reflected in the performance of the forbearance portfolio where the proportion of the portfolio being 90 days in arrears and/or impaired reduced to 42% at 31 December 2015 from 62% at 31 December 2014.

Residential mortgages subject to forbearance measures – past due but not impaired

All loans that are assessed for a forbearance solution are tested for impairment either individually or collectively, irrespective of whether such loans are past due or not. Where the loans are deemed not to be impaired, they are collectively assessed as part of the IBNR provision calculation.

The following table profiles the Republic of Ireland residential mortgage portfolio that was subject to forbearance measures and which was past due but not impaired at 31 December 2015 and 2014:

	2015			2014		
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
1 – 30 days	**199**	**49**	**248**	138	31	169
31 – 60 days	**52**	**22**	**74**	63	14	77
61 – 90 days	**25**	**11**	**36**	42	8	50
91 – 180 days	**17**	**10**	**27**	33	15	48
181 – 365 days	**19**	**9**	**28**	41	16	57
Over 365 days	**40**	**18**	**58**	33	18	51
Total past due but not impaired	**352**	**119**	**471**	350	102	452

Loans subject to forbearance and past due but not impaired increased by € 19 million in 2015 with later arrears (greater than 90 days in arrears) decreasing by € 43 million. The proportion of the portfolio past due but not impaired increased slightly to 8.6% at 31 December 2015 compared with 8.1% at 31 December 2014.

*Forms an integral part of the audited financial statements

3.2 Additional credit risk information – Forbearance*

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures – impaired

The following table profiles the Republic of Ireland residential mortgage portfolio that was subject to forbearance measures and which was impaired at 31 December 2015 and 2014:

	2015			2014		
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Not past due	**736**	**229**	**965**	874	363	1,237
1 – 30 days	**146**	**29**	**175**	221	52	273
31 – 60 days	**62**	**17**	**79**	87	29	116
61 – 90 days	**41**	**14**	**55**	62	28	90
91 – 180 days	**96**	**31**	**127**	143	75	218
181 – 365 days	**97**	**57**	**154**	191	159	350
Over 365 days	**342**	**318**	**660**	498	509	1,007
Total impaired	**1,520**	**695**	**2,215**	2,076	1,215	3,291

Impaired loans subject to forbearance reduced by € 1.1 billion during the year. Statement of financial position specific provisions of € 0.6 billion were held against the forborne impaired book at 31 December 2015 (2014: € 0.9 billion), providing cover of 28.4% (2014: 26.9%), while the income statement specific provision writeback was € 120 million for the year (2014: € 124 million).

Within the impaired portfolio of € 2.2 billion above, c.€ 1 billion is currently performing in accordance with agreed terms for forbearance sustainable solutions and the continued compliance to these terms over a period of 12 months will result in an upgrade out of impairment . The remaining € 1.2 billion in the table above includes loans that have been the subject of a temporary or short term forbearance solution but will remain classified as impaired and in arrears until a sustainable solution has been put in place. Following this, they will be required to maintain at least 12 months satisfactory performance before being considered for upgrade out of impairment.

Residential mortgages subject to forbearance measures by indexed loan-to-value ratios

The following table profiles the Republic of Ireland residential mortgage portfolio that was subject to forbearance measures by the indexed loan-to-value ratios at 31 December 2015 and 2014:

	2015			2014		
Republic of Ireland	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Less than 50%	**703**	**195**	**898**	557	126	683
50% – 70%	**805**	**242**	**1,047**	648	164	812
71% – 80%	**449**	**128**	**577**	391	128	519
81% – 90%	**454**	**135**	**589**	397	151	548
91% – 100%	**398**	**156**	**554**	387	165	552
101% – 120%	**627**	**272**	**899**	632	330	962
121% – 150%	**481**	**201**	**682**	640	383	1,023
Greater than 150%	**54**	**133**	**187**	151	266	417
Unsecured	**24**	**24**	**48**	27	27	54
Total forbearance	**3,995**	**1,486**	**5,481**	3,830	1,740	5,570

Negative equity in the residential mortgage portfolio in the Republic of Ireland that was subject to forbearance measures reduced to 29% of the owner-occupier and 41% of the buy-to-let mortgages at 31 December 2015 compared to 37% and 56% respectively at 31 December 2014, due primarily to the continued increase in property prices in 2015 and loan repayments.

*Forms an integral part of the audited financial statements

3.2 Additional credit risk information – Forbearance*

Non-mortgage

The following tables analyse, at 31 December 2015, the movements in the stock of loans subject to forbearance in the Republic of Ireland and the United Kingdom, excluding residential mortgages which are analysed on page 131:

Republic of Ireland	Other personal € m	Property and construction € m	Non-property business € m	2015 Total € m
At 1 January	693	1,976	1,514	4,183
Additions	230	1,026	757	2,013
Fundamental restructures - valuation adjustments	(10)	(38)	(18)	(66)
Write-offs	(20)	(167)	(29)	(216)
Expired arrangements	(151)	(129)	(270)	(550)
Closed accounts	(72)	(430)	(226)	(728)
Other movements	(24)	(56)	(49)	(129)
At 31 December	646	2,182	1,679	4,507

United Kingdom	Other personal € m	Property and construction € m	Non-property business € m	2015 Total € m
At 1 January	15	374	162	551
Additions	1	31	25	57
Write-offs	–	(10)	(8)	(18)
Expired arrangements	(1)	(161)	(83)	(245)
Closed accounts	–	(11)	–	(11)
Asset disposals	(11)	(107)	(16)	(134)
Exchange translation adjustments	1	26	11	38
Other movements	(1)	(14)	(3)	(18)
At 31 December	4	128	88	220

Total	Other personal € m	Property and construction € m	Non-property business € m	2015 Total € m
At 1 January	708	2,350	1,676	4,734
Additions	231	1,057	782	2,070
Fundamental restructures - valuation adjustments	(10)	(38)	(18)	(66)
Write-offs	(20)	(177)	(37)	(234)
Expired arrangements	(152)	(290)	(353)	(795)
Closed accounts	(72)	(441)	(226)	(739)
Asset disposals	(11)	(107)	(16)	(134)
Exchange translation adjustments	1	26	11	38
Other movements	(25)	(70)	(52)	(147)
At 31 December	650	2,310	1,767	4,727

*Forms an integral part of the audited financial statements

3.2 Additional credit risk information – Forbearance*

Non-mortgage *(continued)*

The following tables set out an analysis of non-mortgage forbearance solutions at 31 December 2015 and 2014:

2015*	Total	Loans neither > 90 days in arrears nor impaired	Loans > 90 days in arrears but not impaired	Impaired loans	Specific provisions on impaired loans	Specific provision cover %
	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m	%
Other personal						
Interest only	71	36	3	32	20	63
Reduced payment (greater than interest only)	14	10	1	3	2	62
Payment moratorium	51	49	–	2	2	74
Arrears capitalisation	23	3	1	19	8	42
Term extension	123	114	1	8	6	69
Fundamental restructure	49	47	1	1	1	59
Restructure	304	146	7	151	113	75
Other	15	8	1	6	4	71
Total	650	413	15	222	156	70
Property and construction						
Interest only	203	88	6	109	59	54
Reduced payment (greater than interest only)	38	20	4	14	5	39
Payment moratorium	5	2	–	3	2	74
Arrears capitalisation	43	13	1	29	15	53
Term extension	207	160	1	46	14	30
Fundamental restructure	1,089	1,032	28	29	17	58
Restructure	556	250	17	289	176	61
Other	169	34	14	121	85	70
Total	2,310	1,599	71	640	373	58
Non-property business lending						
Interest only	188	73	8	107	58	54
Reduced payment (greater than interest only)	37	22	2	13	8	59
Payment moratorium	14	12	–	2	1	33
Arrears capitalisation	64	10	1	53	37	70
Term extension	154	104	1	49	17	34
Fundamental restructure	498	490	4	4	1	27
Restructure	617	314	28	275	166	60
Other	195	84	1	110	35	32
Total	1,767	1,109	45	613	323	52
Total non-mortgage forbearance	4,727	3,121	131	1,475	852	58

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3.2 Additional credit risk information – Forbearance*
Non-mortgage *(continued)*

2014*

	Total	Loans neither > 90 days in arrears nor impaired	Loans > 90 days in arrears but not impaired	Impaired loans	Specific provisions on impaired loans	Specific provision cover %
	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m	%
Other personal						
Interest only	67	29	9	29	19	66
Reduced payment (greater than interest only)	7	5	–	2	2	100
Payment moratorium	4	3	–	1	1	100
Arrears capitalisation	36	2	3	31	17	55
Term extension	105	98	2	5	2	40
Fundamental restructure	17	16	–	1	–	–
Restructure	462	262	16	184	129	70
Other	10	5	2	3	2	67
Total	708	420	32	256	172	67
Property and construction						
Interest only	455	119	11	325	166	51
Reduced payment (greater than interest only)	29	10	1	18	8	44
Payment moratorium	18	18	–	–	–	–
Arrears capitalisation	60	6	8	46	26	57
Term extension	294	240	7	47	16	34
Fundamental restructure	722	710	3	9	–	–
Restructure	663	202	16	445	279	63
Other	109	50	1	58	31	53
Total	2,350	1,355	47	948	526	55
Non-property business lending						
Interest only	198	87	8	103	50	49
Reduced payment (greater than interest only)	39	9	4	26	13	50
Payment moratorium	22	7	–	15	9	60
Arrears capitalisation	54	10	2	42	23	55
Term extension	172	120	7	45	12	27
Fundamental restructure	197	186	4	7	3	43
Restructure	874	457	34	383	232	61
Other	120	38	3	79	10	13
Total	1,676	914	62	700	352	50
Total non-mortgage forbearance	4,734	2,689	141	1,904	1,050	55

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3.2 Additional credit risk information – Forbearance*

Non-mortgage *(continued)*

The Group has developed treatment strategies for customers in the non-mortgage portfolio who are experiencing financial difficulties and who require a restructure. The approach has been to develop strategies on an asset class basis, and to then apply those strategies at the customer level to deliver a holistic debt management solution. The approach is based on assessing the affordability level of the customer, and then applying asset based treatment strategies to determine the long term levels of sustainable and unsustainable debt. Further information on non-mortgage forbearance is included on pages 74 to 75.

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

As at 31 December 2015, non-mortgage loans reported as being subject to forbearance amounted to € 4.7 billion, of which € 1.5 billion is impaired with specific provision cover of 58%. The majority of these forborne loans are in property and construction (€ 2.3 billion) and non-property business (€ 1.8 billion).

Within non-mortgage forbearance categories, 'Fundamental restructure' (€ 1.6 billion in total) includes long term solutions where customers have been through a full review, have proven sustainable cash flows/repayment capacity (through business cash flow and/or asset sales) and their debt has been restructured. Loans to borrowers that are fundamentally restructured typically result in the original loans together with any related impairment provision being derecognised and new facilities being classified as loans and receivables and recognised on day 1 at fair value ("main" and "secondary") and being graded as "vulnerable".

At the time the fundamental restructure is agreed, the size of the main facility reflects the estimated sustainable cash flows from the customer such that the main facility will be repaid in full. Since no further cash flows are expected on the secondary facilities, the fair value of secondary facilities at inception is considered immaterial. During 2015, approximately € 1.1 billion of main facilities were recognised following the derecognition of c. € 2.5 billion of impaired loans with related impairment provisions of c. € 1.4 billion.

While the new facilities are subject to legal agreements, the repayment conditions attaching to each facility is different and usually customer specific. Depending on the co-operation of the customer and the repayment of the main facilities, additional cash flows over the initial cash flow estimation may subsequently arise. This could occur where the disposal of collateral is at higher values than originally expected, stronger trading performance or new sources of income. There are incentives from a customer perspective to meet the repayment terms of the main facility as doing so would result in some cases where the secondary facilities would be contractually written off.

As part of its ongoing monitoring of fundamental restructure loans, AIB keeps under review the likelihood of any additional cash flows arising on the secondary facilities. There remains significant uncertainties involved in the crystallisation of future additional cash flows (in excess of the initial estimation) through asset sales over an extended period against a backdrop of a relatively illiquid property market (in the case of property-related lending) that would be applied to secondary facilities. In the case of other lending, additional cash flows materialising either through trading conditions or other sources of income are equally uncertain. In this regard, income of € 43 million was received and recognised in 2015 (2014: € 24 million) and reported as 'Other income' following receipt of additional payments/ updated cash flows.

At 31 December 2015, the carrying value of the main facilities in fundamental restructures, including buy-to-let mortgages, amounted to € 1.8 billion.

Main facilities that rely principally on the realisation of collateral (property assets held as security) are as follows:

- Buy-to-let € 185 million which have associated contractual secondary facilities of € 215 million.
- Property and construction € 1,089 million which have associated contractual secondary facilities of € 2,013 million.

These are further analysed as:

- Commercial real estate primary facilities of € 927 million which have associated contractual secondary facilities of € 1,224 million.
- Land and development primary facilities of € 162 million which have associated contractual secondary facilities of € 789 million.

Non-property business lending and other personal lending where fundamental restructures have been granted amount to € 547 million which have associated secondary facilities of € 753 million.

*Forms an integral part of the audited financial statements

3.2 Additional credit risk information – Forbearance*

Non-mortgage *(continued)*

The 'Restructure' category (€ 1.5 billion) includes some longer term/permanent solutions where the existing customer debt was deemed to be sustainable post restructuring. The solutions offered include interest only with asset disposal or bullet/fixed payment, debt consolidation, amongst others. This category also includes cases which were restructured prior to the current treatment strategies being developed. Some of these cases may yet qualify for a 'Fundamental restructure' following a full review of sustainable repayment capacity.

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

During 2015 there was no material change in the stock of forborne non-mortgage loans with new forborne borrowers (€ 2.1 billion) being offset by reductions due to expired and closed forbearance arrangements and repayments.

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3.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to fund its assets and meet its payment obligations as they come due, without incurring unacceptable costs or losses. The objective of liquidity management is to ensure that, at all times, the Group holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties at an economic price.

Risk identification and assessment

Liquidity risk is assessed by modelling cash flows of the Group over a series of maturity bands. Behavioural assumptions are applied to those assets and liabilities whose contractual repayment dates are not reflective of their inherent stability. Both contractual and behaviourally adjusted cash flows are compared against the Group's stock of unencumbered liquid assets to determine, by maturity bands, the adequacy of the Group's liquidity position. In addition, the Group monitors and manages the funding support provided by its deposit base to its loan portfolio through a series of measures including the CRD IV related liquidity ratios i.e. the Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR") as required by the 2013 Capital Requirements Regulation ("CRR") and the Capital Requirements Directive ("CRD") and ultimately the LCR as required by the published European Commission Delegated Regulation ("the Delegated Act") to supplement the CRR and which came into force on 1 October 2015.

Risk management and mitigation

The Group manages liquidity and funding risks through its Internal Liquidity Adequacy Assessment Process ("ILAAP"). The ILAAP encompasses all aspects of funding and liquidity management, including planning, analysis, stress testing, control, governance, policy and contingency planning. The ILAAP considers evolving regulatory standards and aims to ensure that the Group maintains sufficient financial resources of appropriate quality for the Group's funding profile. AIB has a comprehensive Funding and Liquidity Framework for managing the Group's liquidity risk. The Funding and Liquidity Framework is designed to comply with evolving regulatory standards and ensure that the Group maintains sufficient financial resources of appropriate quality for the Group's funding profile. The Funding and Liquidity Framework is delivered through a combination of policy formation, review and governance, analysis, stress testing and limit setting and monitoring.

In addition to the CRR liquidity requirements, the Group's liquidity management policy seeks to ensure AIB's compliance with the "Principles for the Sound Liquidity Risk Management and Supervision" as set out by the Basel Committee on Banking Supervision (September 2008) and the Central Bank of Ireland's ("CBI") "Requirements for the Management of Liquidity Risk" (June 2009) and in doing so ensures that it has sufficient liquidity to meet its current and forecasted requirements. AIB is required to comply with the liquidity requirements of the Single Supervisory Mechanism ("SSM")/CBI and also with the requirements of local overseas regulators which include regulatory restrictions on the transfer of liquidity within the Group. In addition, it operates a funding strategy designed to anticipate additional funding requirements based on projected balance sheet movements and to maintain a diversified funding base with an emphasis on high quality, stable customer deposit funding whilst maintaining an appropriate balance between short term and long term funding sources at an appropriate cost.

The liquidity and funding requirements of the Group are managed and controlled by the Treasury function. Euro and sterling are the most important currencies to the Group from a liquidity and funding perspective. The Group manages its liquidity in a number of ways:

- firstly, through the active management of its liability maturity profile, it aims to ensure a balanced spread of repayment obligations with a key focus on periods up to 1 month. Monitoring ratios also apply to longer periods for long term funding stability;
- secondly, the Group aims to maintain a stock of high quality liquid assets to meet its obligations as they fall due. Discounts are applied to these assets based upon their cash-equivalence and price sensitivity; and
- finally, net inflows and outflows are monitored on a daily basis.

Risk monitoring and reporting*

In common with other areas of risk management, the Group operates a "three lines of defence" model. Liquidity risk management is undertaken in the Treasury function. Reporting and monitoring is carried out by the Capital and Liquidity unit which reports to the Chief Financial Officer ("CFO"). Management in these areas comprises the first line of defence. Control and assurance is provided by Financial Risk reporting to the Chief Risk Officer ("CRO"). This area comprises the second line. Group Internal Audit comprises the third line. The Group liquidity and funding position is reported regularly to Group Asset and Liability Committee ("ALCo"), the Executive Risk Committee ("ERC") and Board Risk Committee ("BRC"). In addition, the Leadership Team and the Board are briefed on liquidity and funding on an on-going basis.

*Forms an integral part of the audited financial statements

3.3 Liquidity risk

At 31 December 2015, the Group held € 34 billion (31 December 2014: € 40 billion) in qualifying liquid assets/contingent funding (including € 4 billion in liquid assets only available for use within AIB Group (UK) p.l.c.) of which approximately € 14 billion was not available due to repurchase, secured loan and other agreements. The available Group liquidity pool comprises the remainder and is held to cover contractual and stress outflows. As at 31 December 2015, the Group liquidity pool was € 16 billion (31 December 2014: € 17 billion). During 2015, the month-end liquidity pool ranged from € 15 billion to € 19 billion and the average balance was € 17 billion.

Composition of the Group liquidity pool

The following table shows the composition of the Group's liquidity pool at 31 December 2015 and 2014:

			2015	
			Liquidity pool of which LCR eligible[1]	
	Liquidity pool[1]	Liquidity pool available (ECB eligible)	Level 1	Level 2
	€ bn	€ bn	€ bn	€ bn
Cash and deposits with central banks	0.6	–	3.2	–
Total government bonds	6.2	6.1	6.2	–
Other:				
Covered bonds	1.2	1.1	1.2	–
Other including NAMA senior bonds	8.0	7.7	4.3	–
Total other	9.2	8.8	5.5	–
Total	16.0	14.9	14.9	–

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

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

Liquidity pool by currency

	EUR € bn	GBP € bn	USD € bn	Other € bn	Total € bn
Liquidity pool at 31 December 2015	15.9	–	0.1	–	16.0
Liquidity pool at 31 December 2014	16.7	–	0.1	–	16.8

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

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

The above definitions are based on the CRR. The Delegated Act came into force in October 2015 and contained some changes in relation to qualifying liquid assets.

*Forms an integral part of the audited financial statements

3.3 Liquidity risk

Management of the Group liquidity pool*

AIB manages the liquidity pool on a centralised basis. The composition of the liquidity pool is subject to limits set by the Board and the independent Risk functions. These pool assets primarily comprise government guaranteed bonds. AIB's liquidity buffer decreased in 2015 by € 0.8 billion which was predominantly due to a decrease in customer accounts which were replaced by interbank repos.

Other contingent liquidity*

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

Liquidity regulation

AIB Group is required to comply with the liquidity requirements of the SSM/CBI and also with the requirements of local regulators in jurisdictions in which it operates.

The Group also monitors and reports its current and forecast position against Basel III and CRD IV related liquidity metrics – the LCR and the NSFR. The LCR is designed to promote short term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. The NSFR has a time horizon of one year and has been developed to promote a sustainable maturity structure of assets and liabilities.

Based on the CRR regulatory LCR rules, AIB had a LCR of c.113% as at 31 December 2015 (31 December 2014: c.116%). The minimum LCR requirement was 60%, rising to 100% by 1 January 2018. AIB Group have fully complied with the requirement.

Under the Delegated Act (implementing 'Commission Delegated Regulation (EU) No 2015/61') which came into effect on 1 October 2015 and is being reported in parallel with the CRR calculation, AIB Group had a LCR of c. 116%.

The minimum NSFR requirement is scheduled to be introduced in January 2018 at 100%. At 31 December 2015, the Group had an estimated NSFR of c. 111% (31 December 2014: c.112%).

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3.3 Liquidity risk

The LCR table below has been produced in line with the Group's interpretation of the 2014 Basel Committee on Banking Supervision ("BCBS") Guidelines. All figures included in the table are averages of the 12 month ends from January to December 2015 CRR regulatory LCR rules.

	2015	
	Total unweighted value (average) € m	Total weighted value (average) € m
High Quality Liquid Assets ("HQLA")		
Total HQLA		15,322
Cash outflows		
Retail deposits and deposits from small business customers, of which:		
Stable deposits	19,865	993
Less stable deposits	10,869	1,711
Unsecured wholesale funding of which:		
Operational deposits (all counterparties) and deposits in networks of co-operative banks	–	–
Non-operational deposits (all counterparties)	15,885	8,131
Unsecured debt	404	404
Secured wholesale funding	–	438
Additional requirements, of which:		
Outflows related to derivative exposures and other collateral requirements	452	452
Outflows related to loss of funding on debt products	71	71
Credit and liquidity facilities	9,564	969
Other contractual funding obligations	–	–
Other contingent funding obligations	1,326	1,326
Total cash outflows		14,495
Cash inflows		
Secured lending (reverse repos)	756	42
Inflows from fully performing exposures	1,999	788
Other cash inflows	252	252
Total cash inflows	3,007	1,082
		€ m
Total HQLA		15,322
Total net cash outflows		13,413
		%
Liquidity coverage ratio (average)		114[1]

The month-end LCR ranged from 106% to 125% throughout 2015 being c. 113% as at 31 December 2015. The average HQLA for the year ended 31 December 2015 were c. € 15,322 million of which government securities constituted about 78%. The outflows related to derivative exposures (net of cash inflows) and undrawn commitments constituted about 0.1% and 6% respectively of average cash outflows of € 13,413 million. Average inflows from assets were c. € 1,082 million.

[1]LCR = Total HQLA/total net cash outflows.

3.3 Liquidity risk

Liquidity risk stress testing

Stress testing is a key component of the liquidity risk management framework and ILAAP. The Group undertakes liquidity stress testing and has established the Liquidity Contingency Plan ("LCP") which is designed to ensure that the Group can manage its business in stressed liquidity conditions and emerge from a temporary liquidity crisis as a creditworthy institution. The LCP is determined with reference to net contractual and contingent outflows under a variety of stress scenarios and is used to size liquidity pool requirements.

Stress tests include both firm-specific and systemic risk events and a combination of both. Stressed assumptions are applied to the Group's liquidity buffer and liquidity risk drivers. These scenario events are reviewed in the context of the Group's LCP, which details corrective action options under various levels of stress events. European Banking Authority ("EBA") prescribed stress scenarios are also measured. Survival periods of various durations are measured as part of liquidity stress testing (i.e. the length of time the Group's liquidity buffer will remain positive in a stress scenario).

The purpose of these tests 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 ALCo, Leadership Team and Board, and to other committees. Once Board approved survival limits are breached, the LCP will be activated. The LCP can also be activated by management decision independently of the stress tests. The LCP is a key element in the Group's Recovery Plan in relation to funding and liquidity.

Under normal market conditions, the liquidity pool is managed to be at least 100% of anticipated net outflows under each of the stress scenarios.

Regulatory liquidity stress tests comparison

The LCP stress scenarios, including the EBA prescribed stress scenarios and CRD IV LCR, are all broadly comparable short term stress scenarios in which the adequacy of defined liquidity resources are assessed against contractual and contingent stress outflows. The EBA stress scenarios and the Basel III/CRD IV related ratios provide an independent assessment of the Group's liquidity risk profile.

Stress test	EBA liquidity stress	LCR	NSFR
Time horizon	1 month to 1 year	30 days	1 year
Calculation	Liquid assets to net cash outflows	Liquid assets to net cash outflows	Stable funding resources to stable funding requirements

At 31 December 2015, the Group held liquid assets in excess of minimum required levels for internal stress measurement purposes and the CRD IV LCR requirement.

Compliance with regulatory stress tests at 31 December 2015 and 2014

Liquidity pool as percentage of anticipated net cash flows	2015 %	2014 %
Liquidity holding as % of one month stress requirement	**234**	182
CRR LCR	**113**	116

3.3 Liquidity risk

Funding structure*

The Group's funding strategy is to deliver a sustainable, diversified and robust customer deposit base at economic pricing and to continue building a strong wholesale funding franchise with appropriate access to term markets in order to support core lending activities. The strategy aims to deliver a solid funding structure that complies with internal and regulatory policy requirements and reduces the probability of a liquidity stress, i.e. an inability to meet funding obligations as they fall due.

	31 December 2015		31 December 2014	
Sources of funds	**€ bn**	**%**	€ bn	%
Customer accounts	**63.4**	**64**	64.0	63
Deposits by central banks and banks – secured	**13.4**	**14**	16.4	16
– unsecured	**0.5**	**–**	0.4	–
Certificates of deposit and commercial paper	**0.1**	**–**	–	–
Asset covered securities ("ACS")	**4.7**	**5**	3.8	4
Asset backed securities ("ABS")	**0.6**	**–**	0.8	1
Senior debt	**1.6**	**2**	3.3	3
Capital	**14.4**	**15**	13.0	13
Total source of funds	**98.7**	**100**	101.7	100
Other	**4.4**		5.8	
	103.1		107.5	

Customer accounts

The following table analyses average deposits by customers for 2015 and 2014:

	Year to 2015	Year to 2014
	Total € m	Total € m
Current accounts	**23,753**	19,710
Deposits:		
Demand	**11,165**	9,504
Time	**27,711**	31,032
Repurchase agreements	**1,219**	4,890
Total	**63,848**	65,136

Current accounts include both interest bearing and non-interest bearing cheque accounts raised through the Group's branch network in the Republic of Ireland, Northern Ireland and Great Britain.

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

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

Customer accounts by currency

The following table analyses customer deposits by currency:

	31 December 2015	2014
	Total € m	Total € m
Euro	**49,190**	50,245
US dollar	**1,223**	1,212
Sterling	**12,717**	12,458
Other currencies	**253**	103
Total	**63,383**	64,018

*Forms an integral part of the audited financial statements

3.3 Liquidity risk

Funding structure* *(continued)*

Customer deposits represent the largest source of funding for the Group, and the core retail franchises and accompanying deposit base in both the Republic of Ireland and the UK provide a stable and reasonably predictable source of funds. Customer accounts have decreased by € 0.6 billion in 2015, which was mainly due to a reduction in customer repos offset by sterling foreign exchange rate movements. The Group's loan to deposit ratio at 31 December 2015 was 100% (2014: 99%).

The Group maintains access to a variety of sources of wholesale funds, including those available from money markets, repo markets and term investors.

The Group participates in CBI/ECB operations, the funding from which amounted to € 2.9 billion at 31 December 2015 (2014: € 3.4 billion). Included in the € 2.9 billion is € 1.9 billion of Targeted Longer-Term Refinancing Operations ("TLTRO") which locks in low cost term funding. CBI/ECB funding levels have returned to normalised operating levels compared to "Central Bank support" levels experienced prior to 2014.

Wholesale funding markets have shown positive sentiment towards both AIB and Ireland in 2015. In the 12 months to December 2015, AIB raised secured funding through two € 750 million covered bond issuances and unsecured funding through a € 500 million medium term note issuance. This was executed against a backdrop where c. €0.6 billion of secured funding and c. € 2.2 billion of unsecured issued debt matured in 2015.

The covered bond issuances were issued at spreads over mid-swaps of 27 bps and 22 bps whilst the unsecured funding was issued at spreads over mid-swaps of 108 bps. This represented a price reduction of 65-75 bps compared to equivalent issuances in 2014. Notwithstanding this net reduction in term wholesale funding, the Group continued to reduce CBI/ECB drawings in 2015. This was predominantly due to continued balance sheet deleveraging as a result of NAMA senior bond redemptions.

In advance of the €1.36 billion partial redemption (repayment amount € 1.7 billion) of the 2009 Preference Shares, approved at the Extraordinary General Meeting ("EGM") on 16 December 2015, AIB issued € 750 million of Subordinated Tier 2 notes and € 500 million of fixed rate reset Additional Tier 1 Perpetual Contingent Temporary Write-down Securities ("AT1s").

Senior debt funding of € 1.6 billion at 31 December 2015 decreased from € 3.3 billion at 31 December 2014. This was due to € 2.2 billion of senior debt maturities in the first quarter of 2015 which was offset by the € 0.5 billion unsecured issuance outlined above.

The Group continues to engage with the markets in a measured and consistent manner extending the duration of funding transactions.

The performance of the economy will drive credit demand and the retention and gathering of stable customer accounts in a challenging and increasingly competitive market environment, together with continued access to unsecured wholesale term markets, will be the key factors influencing the Group's capacity for asset growth and the future shape of the Group. This is paramount to the Group's overall funding/liquidity strategy.

Composition of wholesale funding*

At 31 December 2015, total wholesale funding outstanding was € 23 billion (2014: € 26 billion). € 16 billion of wholesale funding matures in less than one year (2014: € 17 billion) including € 1.9 billion of TLTRO drawings (2014: € 1.9 billion). € 7 billion of wholesale funding had a residual maturity of over one year (2014: € 9 billion).

Outstanding wholesale funding comprised € 19 billion of secured funding (2014: € 21 billion) and € 4 billion of unsecured funding (2014: € 5 billion).

*Forms an integral part of the audited financial statements

3.3 Liquidity risk

Composition of wholesale funding* *(continued)*

2015	Not more than 1 month € bn	Over 1 month but not more than 3 months € bn	Over 3 months but not more than 6 months € bn	Over 6 months but not more than 1 year € bn	Total less than 1 year € bn	Over 1 year but not more than 3 years € bn	Over 3 years but not more than 5 years € bn	Over 5 years € bn	Total € bn
Deposits by central banks and banks	5.9	5.7	0.2	1.9	13.7	0.2	–	–	13.9
Certificate of deposits and commercial paper	–	0.1	–	–	0.1	–	–	–	0.1
Senior debt	–	–	–	0.6	0.6	–	1.0	–	1.6
ACS/ABS	–	–	–	0.5	0.5	2.3	0.8	1.7	5.3
Subordinated liabilities and other capital instruments	–	–	–	1.5	1.5	–	–	0.8	2.3
Total 31 December 2015	5.9	5.8	0.2	4.5	16.4	2.5	1.8	2.5	23.2
Of which:									
Secured	5.4	5.7	0.2	2.4	13.7	2.5	0.8	1.7	18.7
Unsecured	0.5	0.1	–	2.1	2.7	–	1.0	0.8	4.5
	5.9	5.8	0.2	4.5	16.4	2.5	1.8	2.5	23.2

2014	Not more than 1 month € bn	Over 1 month but not more than 3 months € bn	Over 3 months but not more than 6 months € bn	Over 6 months but not more than 1 year € bn	Total less than 1 year € bn	Over 1 year but not more than 3 years € bn	Over 3 years but not more than 5 years € bn	Over 5 years € bn	Total € bn
Deposits by central banks and banks	9.9	4.6	–	–	14.5	2.3	–	–	16.8
Senior debt	–	2.2	–	–	2.2	0.6	0.5	–	3.3
ACS/ABS	–	–	–	0.6	0.6	2.4	1.1	0.5	4.6
Subordinated liabilities and other capital instruments	–	–	–	–	–	1.4	–	–	1.4
Total 31 December 2014	9.9	6.8	–	0.6	17.3	6.7	1.6	0.5	26.1
Of which:									
Secured	9.5	4.6	–	0.6	14.7	4.8	1.1	0.5	21.1
Unsecured	0.4	2.2	–	–	2.6	1.9	0.5	–	5.0
	9.9	6.8	–	0.6	17.3	6.7	1.6	0.5	26.1

*Forms an integral part of the audited financial statements

3.3 Liquidity risk

Currency composition of wholesale debt*

At 31 December 2015, 97% (31 December 2014: 99%) of wholesale funding was in euro. A negligible balance was held in other currencies, mainly GBP and USD. AIB manages cross-currency refinancing risk to foreign exchange cash-flow limits.

					2015
	EUR € bn	GBP € bn	USD € bn	Other € bn	Total € bn
Deposits by central banks and banks	13.3	0.2	0.4	–	13.9
Certificate of deposits and commercial paper	0.1	–	–	–	0.1
Senior debt	1.6	–	–	–	1.6
ACS/ABS	5.2	0.1	–	–	5.3
Subordinated liabilities and other capital instruments	2.3	–	–	–	2.3
Total funding	22.5	0.3	0.4	–	23.2
% of total funding	%	%	%	%	%
	97	1	2	–	100

					2014
	EUR € bn	GBP € bn	USD € bn	Other € bn	Total € bn
Deposits by central banks and banks	16.6	0.1	0.1	–	16.8
Senior debt	3.3	–	–	–	3.3
ACS/ABS	4.4	0.2	–	–	4.6
Subordinated liabilities and other capital instruments	1.4	–	–	–	1.4
Total funding	25.7	0.3	0.1	–	26.1
% of total funding	%	%	%	%	%
	99	1	–	–	100

Encumbrance

The asset encumbrance disclosure has been produced in line with the Group's interpretation of the 2014 EBA Guidelines on disclosure of encumbered and unencumbered assets. An asset is defined as encumbered if it has been pledged as collateral against an existing liability, and as a result is no longer available to the Group to secure funding, satisfy collateral needs or to be sold.

The ability to encumber certain pools of assets is a key element of the Group's funding and liquidity strategy. In particular, encumbrance through the repo markets plays an important role in funding the Group's NAMA senior bonds and financial investments available for sale portfolios. The funding of customer loans is also supported through the issuance of covered bonds and securitisations. Other lesser sources of encumbrance include cash placed, mainly with banks, in respect of derivative liabilities, sterling notes and coins issued and loan collateral pledged in support of pension liabilities in AIB Group (UK) p.l.c..

The Group has seen and would expect to continue to see a downward trend in encumbrance as the Group's funding requirement is reduced through NAMA bond redemptions. The Group includes two authorised mortgage banks, AIB Mortgage Bank and EBS Mortgage Finance, that issue residential mortgage asset backed covered securities ("ACS"). In addition, the Group uses a number of securitisation vehicles for funding purposes. As well as direct market issuance, the mortgage banks and the securitisation vehicles repo bonds centrally for liquidity management purposes. Bonds held centrally contribute to the Group's liquidity buffer and do not add to the Group's encumbrance level unless used in a secured transaction. Secured funding between the parent company and other Group entities (e.g. EBS Limited, and AIB Group (UK) p.l.c.) is an element of the Group's liquidity management processes.

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3.3 Liquidity risk

Encumbrance *(continued)*

The following table analyses total assets by encumbered assets and unencumbered assets at 31 December 2015 and 2014:

	2015			
			Unencumbered assets	
	Assets	Encumbered assets	Readily available	Not readily available and not available for collateral
	€ m	€ m	€ m	€ m
Loans and receivables to banks	**2,339**	**1,518**	**173**	**648**
Loans and receivables to customers	**63,240**	**13,487**	**9,217**	**40,536**
NAMA senior bonds	**5,616**	**1,240**	**4,376**	**–**
Financial investments available for sale:				
Debt securities	**15,708**	**9,227**	**6,481**	**–**
Equity securities	**781**	**–**	**–**	**781**
Financial investments held to maturity	**3,483**	**1,570**	**1,913**	**–**
Other	**11,955**	**222**	**2,953**	**8,780**
Total	**103,122**	**27,264**	**25,113**	**50,745**

	2014			
			Unencumbered assets	
	Assets	Encumbered assets	Readily available	Not readily available and not available for collateral
	€ m	€ m	€ m	€ m
Loans and receivables to banks	1,865	1,727	138	–
Loans and receivables to customers	63,362	11,102	13,523	38,737
NAMA senior bonds	9,423	1,405	8,018	–
Financial investments available for sale:				
Debt securities	19,772	14,893	4,879	–
Equity securities	413	–	–	413
Other	12,620	175	2,650	9,795
Total	107,455	29,302	29,208	48,945

The Group had an encumbrance ratio of 26% at 31 December 2015 (2014: 27%). The encumbrance level is based on the amount of assets that are required in order to meet regulatory and contractual commitments. Both mortgage banks hold higher levels of assets in their covered pools in order to meet rating agency requirements and beyond this for reasons of operational flexibility. At 31 December 2015, € 9,217 million of residential loan mortgages are unencumbered but are regarded by the Group as readily available as they are held in covered bond and securitisation structures (2014: € 13,523 million). The remaining loan assets in this category amounting to € 40,536 million, whilst unencumbered, are not regarded as being available in support of liquidity management at present (2014: € 38,737 million). Other assets such as deferred tax assets, derivative assets, property, plant and equipment are not regarded as encumberable.

Asset encumbrance of loans and receivables to customers

Loans and receivables to customers are only classified as readily available if they are already in a form such that they can be used to raise funding without further management actions. This includes excess collateral already in secured funding vehicles and collateral pre-positioned at central banks and available for use in secured financing transactions. All other loans and receivables are conservatively classified as not readily available, however, a proportion would be suitable for use in secured funding structures. The potential for the creation of such funding structures is continually under review.

3.3 Liquidity risk

Encumbrance *(continued)*

The following table analyses the encumbrance of loans and receivables to customers as at 31 December 2015 and 2014:

	2015			
	Assets[1]	Externally issued notes	Other secured funding	Retained[4] notes
	€ bn	€ bn	€ bn	€ bn
Mortgages (residential mortgage backed securities)	21.4	5.4[2]	3.2[3]	3.1
Retail and SME (credit card issuance)	0.3	–	0.2[5]	–
Other	1.0	–	–	–
Total	22.7	5.4	3.4	3.1

	2014			
	Assets[1]	Externally issued notes	Other secured funding	Retained[4] notes
	€ bn	€ bn	€ bn	€ bn
Mortgages (residential mortgage backed securities)	23.3	4.5[2]	3.1[3]	4.3
Retail and SME (credit card issuance)	0.3	–	0.2[5]	–
Other	1.0	–	–	–
Total	24.6	4.5	3.3	4.3

[1]Loans and receivables which are both encumbered and readily available for encumbrance.

[2]Mortgage covered securities issued by the Group and held by third parties

[3]Mortgage covered securities issued and retained by the Group which were used in secured transactions at the reporting date.

[4]Mortgage covered securities retained by the Group and not used in secured transactions at the reporting date, were available as collateral.

[5]Funding arising from securitisation of credit card receivables.

AIB issues asset backed securities ("ABS"), covered bonds and other similar secured instruments that are secured primarily over customer loans and receivables. Notes issued under these programmes are also used in repurchase agreements with market counterparties and in central bank facilities.

In addition to securities already in issue, at 31 December 2015, the Group had excess collateral within its asset backed funding programmes that could readily be used to issue additional bonds of € 2.9 billion (2014: € 3.8 billion).

Interbank repurchase agreements and ECB refinancing operations

The following table analyses the interbank repurchase agreements and ECB refinancing operations as at 31 December 2015 and 2014:

	2015				2014			
	Less than 1 month € bn	1 month to 3 months € bn	Over 3 months € bn	Total € bn	Less than 1 month € bn	1 month to 3 months € bn	Over 3 months € bn	Total € bn
Highly liquid	5	6	–	11	9	5	–	14
Less liquid	1	–	2	3	2	–	2	4
Maturity profile	6	6	2	14	11	5	2	18

Credit ratings

The Group's debt ratings as at 2 March 2016 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 "BB+" and short-term "B"; and
- Moody's long-term "Baa3" for deposits and "Ba1" for senior unsecured debt and short-term "Prime 3" for deposits and "Not Prime" for senior unsecured debt.

Bank and sovereign rating downgrades have the potential to adversely affect the Group's liquidity position and this has been factored into the Group's stress tests.

3.3 Liquidity risk

Financial assets and financial liabilities by contractual residual maturity*

	Repayable on demand € m	3 months or less but not repayable on demand € m	1 year or less but over 3 months € m	5 years or less but over 1 year € m	Over 5 years € m	Total € m
31 December 2015						
Financial assets						
Derivative financial instruments[1]	–	62	96	659	881	1,698
Loans and receivables to banks[2]	1,654	685	–	–	–	2,339
Loans and receivables to customers[2]	15,270	1,086	2,760	12,913	38,134	70,163
NAMA senior bonds[3]	–	5,616	–	–	–	5,616
Financial investments available for sale[4]	1	–	816	9,914	4,977	15,708
Financial investments held to maturity	–	–	–	2,204	1,279	3,483
Other financial assets	–	938	–	–	–	938
	16,925	8,387	3,672	25,690	45,271	99,945
Financial liabilities						
Deposits by central banks and banks	290	11,471	1,902	200	–	13,863
Customer accounts	37,632	14,666	7,436	3,596	53	63,383
Trading portfolio financial liabilities[5]	–	86	–	–	–	86
Derivative financial instruments[1]	–	85	74	737	885	1,781
Debt securities in issue	–	100	1,055	4,125	1,721	7,001
Subordinated liabilities and other capital instruments	–	–	1,524	–	794	2,318
Other financial liabilities	456	–	–	–	–	456
	38,378	26,408	11,991	8,658	3,453	88,888

	Repayable on demand € m	3 months or less but not repayable on demand € m	1 year or less but over 3 months € m	5 years or less but over 1 year € m	Over 5 years € m	Total € m
31 December 2014						
Financial assets						
Derivative financial instruments[1]	–	23	75	820	1,120	2,038
Loans and receivables to banks[2]	1,828	37	–	–	–	1,865
Loans and receivables to customers[2]	25,078	873	3,212	9,624	37,045	75,832
NAMA senior bonds[3]	–	9,423	–	–	–	9,423
Financial investments available for sale[4]	3	226	278	11,678	7,587	19,772
Other financial assets	–	499	–	–	–	499
	26,909	11,081	3,565	22,122	45,752	109,429
Financial liabilities						
Deposits by central banks and banks	366	14,151	–	2,251	–	16,768
Customer accounts	31,678	16,779	10,895	4,665	1	64,018
Derivative financial instruments[1]	–	131	156	806	1,241	2,334
Debt securities in issue	–	2,241	548	3,972	1,100	7,861
Subordinated liabilities and other capital instruments	–	–	–	1,411	40	1,451
Other financial liabilities	443	3	–	–	–	446
	32,487	33,305	11,599	13,105	2,382	92,878

[1]Shown by maturity date of contract.

[2]Shown gross of provisions for impairment, unearned income and deferred costs.

[3]New notes will be issued at each maturity date, with the next maturity date being 1 March 2016. Upon maturity, the issuer has the option to settle in cash or issue new notes and to date has issued new notes.

[4]Excluding equity shares.

[5]Trading portfolio financial liabilities are shown in the above table based on their contractual maturity. However, in the 'Undiscounted contractual maturity' table trading portfolio liabilities are shown in the 'on demand' bucket reflecting their nature.

*Forms an integral part of the audited financial statements

3.3 Liquidity risk

Financial liabilities by undiscounted contractual maturity* *(continued)*

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 have been analysed based on their contractual maturity undiscounted cash flows.

In the daily management of liquidity risk, the Group adjusts the contractual outflows on customer deposits to reflect the inherent stability of these deposits. Offsetting the liability outflows are cash inflows from the assets on the statement of financial position. Additionally, the Group holds a stock of high quality liquid assets, which are held for the purpose of covering unexpected cash outflows.

The following table analyses, on an undiscounted basis, financial liabilities by remaining contractual maturity at 31 December 2015 and 2014:

						2015
	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Financial liabilities						
Deposits by central banks and banks	290	11,470	1,909	201	–	13,870
Customer accounts	37,660	14,752	7,564	3,784	55	63,815
Trading portfolio financial liabilities[1]	86	–	–	–	–	86
Derivative financial instruments	–	107	309	912	543	1,871
Debt securities in issue	–	125	1,205	4,414	1,766	7,510
Subordinated liabilities and other capital instruments	–	–	1,791	124	963	2,878
Other financial liabilities	456	–	–	–	–	456
	38,492	26,454	12,778	9,435	3,327	90,486

						2014
	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Financial liabilities						
Deposits by central banks and banks	366	14,156	7	2,260	–	16,789
Customer accounts	31,678	16,961	11,070	4,931	1	64,641
Derivative financial instruments	–	139	415	1,161	721	2,436
Debt securities in issue	–	2,342	726	4,328	1,136	8,532
Subordinated liabilities and other capital instruments	–	–	160	1,761	128	2,049
Other financial liabilities	443	3	–	–	–	446
	32,487	33,601	12,378	14,441	1,986	94,893

[1]Shown as 'on demand' reflecting their nature but by contractual maturity in the 'Financial assets and financial liabilities by contractual residual maturity' table.

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3.3 Liquidity risk

Financial liabilities by undiscounted contractual maturity* *(continued)*

The undiscounted cash flows potentially payable under guarantees and similar contracts, included below within contingent liabilities, are classified on the basis of the earliest date the facilities can be called. The Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The Group expects that most guarantees it provides will expire unused.

The Group has given commitments to provide funds to customers under undrawn facilities. The undiscounted cash flows have been classified on the basis of the earliest date that the facility can be drawn. The Group does not expect all facilities to be drawn, and some may lapse before drawdown.

						2015
	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	**1,375**	**–**	**–**	**–**	**–**	**1,375**
Commitments	**9,747**	**–**	**–**	**–**	**–**	**9,747**
	11,122	**–**	**–**	**–**	**–**	**11,122**

						2014
	Payable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Contingent liabilities	1,246	–	–	–	–	1,246
Commitments	9,082	–	–	–	–	9,082
	10,328	–	–	–	–	10,328

*Forms an integral part of the audited financial statements

3.4 Market risk*

Market risk is the risk relating to the uncertainty of returns attributable to fluctuations in market factors. Where the uncertainty is expressed as a potential loss in earnings or value, it represents a risk to the income and capital position of the Group. The Group is primarily exposed to market risk through the interest rate and credit spread factors and to a lesser extent through foreign exchange, equity and inflation rate risk factors.

The Group assumes market risk as a result of its banking and trading book activities.

Credit spread risk is the exposure of the Group's financial position to adverse movements in the credit spreads of bonds held in the trading or AFS securities portfolio. Credit spreads are defined as the difference between bond yields and interest rate swap rates of equivalent maturity. The AFS bond portfolio is the principal source of credit spread risk.

Interest rate risk in the banking book ("IRRBB") is the current or prospective risk to both the earnings and capital of the Group as a result of adverse movements in interest rates being applied to positions held in the banking book. Changes in interest rates impact the underlying value of the Group's assets, liabilities and off-balance sheet instruments and, hence, its economic value (or capital position). Similarly, interest rate changes will impact the Group's net interest income through interest-sensitive income and expense effects.

The Group also assumes market risk through its trading book activities which relate to all positions in financial instruments (principally derivatives) that are held with trading intent or in order to hedge positions held with trading intent. Risks associated with valuation adjustments such as credit value adjustment ("CVA") and funding value adjustment ("FVA") are managed by the trading unit in the Group's Treasury function.

The Group's Treasury function is responsible for managing market risk that has been transferred to it by the customer facing businesses and the Group's Asset and Liability Management ("ALM") function. Treasury also has a mandate to trade on its own account in selected wholesale markets. The trading strategies employed by Treasury are desk and market specific with risk tolerances approved on an annual basis through the Group's Risk Appetite Statement.

Risk identification and assessment

Market risk is identified and assessed using portfolio sensitivities, Value at Risk ("VaR") and stress testing. Interest rate gaps and sensitivities to various risk factors are measured and reported on a daily basis. In terms of the industry standard VaR metric, the Group calculates a daily historical simulation VaR to a 95% confidence level, using a one day holding period and based on one year of historic data. The Group's VaR models are regularly back-tested to ensure robustness. VaR is augmented using stressed measures where various portfolios are revalued using a range of severe but plausible market rate scenarios under alternative measurement approaches and holding periods.

The Group Asset and Liability Committee ("ALCo") is a sub-committee of the Leadership Team and advises the Chief Financial Officer ("CFO") on the management of the Group's assets and liabilities (including the management of capital, funding and liquidity, and net interest margin) and on the management of market risks (including structural foreign exchange hedging). ALCo monitors the Group's IRRBB and approves relevant policies, limits, behavioural assumptions and the Market Risk Strategy and Appetite Statement.

The Group's Capital and Liquidity unit, reporting to the CFO, is responsible for identifying, measuring, monitoring and reporting the Group's aggregate market risk profile and managing the Group's financial instruments valuation processes, in addition to estimating the level of capital required to support market risks.

The Financial Risk function, reporting to the Chief Risk Officer ("CRO"), is responsible for exercising independent risk oversight and control over the Group's market risk. In particular, Financial Risk provides oversight on the integrity and effectiveness of the risk and control environment. It proposes and maintains the Market Risk Management Framework and Policies as the basis of the Group's control architecture for market risk activities, including the annual agreement of market risk limits (subject to the Board approved Risk Appetite Statement). The Financial Risk function is also responsible for the integrity of the market risk measurement methodologies.

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Risk management - 3. Individual risk types

3.4 Market risk*

Risk management and mitigation

Market risk in the Group is transferred to and managed by Treasury, subject to Capital and Liquidity review and oversight by ALCo. Treasury proactively manages the market risk on the Group's balance sheet, as well as providing risk management solutions to the core retail and corporate customers. Within Treasury, credit spread risk on the AFS portfolio, IRRBB and trading risk are managed by distinct front office teams.

Market risk is managed against a range of limits approved at ALCo, which incorporate forward-looking measures such as VaR limits and stress test limits and financial measures such as 'stop-loss' and embedded value limits. Treasury documents an annual Risk Strategy and Appetite Statement as part of the annual financial planning cycle which ensures Treasury's market risk aligns with the Group's strategic business plan.

Market risk is managed subject to the Market Risk Management Framework and its associated policies. Credit risk issues inherent in the market risk portfolios are also subject to the credit risk framework that was described in the previous section.

Risk monitoring and reporting

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

Market risk exposures are reported to the Executive Risk Committee ("ERC") and Board Risk Committee ("BRC") on a monthly basis through the CRO Report.

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3.4 Market risk*

The following table sets out the allocation of financial assets and financial liabilities subject to market risk between trading and non-trading portfolios, showing the principal market risks to which the assets and liabilities are exposed at 31 December 2015 and 2014:

2015

	Carrying amount € m	Market risk measures: Trading portfolios € m	Market risk measures: Non-trading portfolios € m	Risk factors
Assets subject to market risk				
Cash and balances at central banks	**4,950**	**–**	**4,950**	**Interest rate, foreign exchange**
Trading portfolio financial assets	**1**	**1**	**–**	**Equity**
Derivative financial instruments	**1,698**	**877**	**821**	**Interest rate, foreign exchange, credit spreads**
Loans and receivables to banks	**2,339**	**–**	**2,339**	**Interest rate, foreign exchange**
Loans and receivables to customers	**63,240**	**–**	**63,240**	**Interest rate, foreign exchange**
NAMA senior bonds	**5,616**	**–**	**5,616**	**Interest rate**
Financial investments available for sale	**16,489**	**–**	**16,489**	**Interest rate, credit spreads, equity**
Financial investments held to maturity	**3,483**	**–**	**3,483**	**Interest rate, credit spreads**
Liabilities subject to market risk				
Deposits by central banks and banks	**13,863**	**–**	**13,863**	**Interest rate**
Customer accounts	**63,383**	**–**	**63,383**	**Interest rate**
Trading portfolio financial liabilities	**86**	**86**	**–**	**Interest rate, credit spreads**
Derivative financial instruments	**1,781**	**933**	**848**	**Interest rate, foreign exchange, credit spreads, equity**
Debt securities in issue	**7,001**	**–**	**7,001**	**Interest rate, credit spreads**
Subordinated liabilities and other capital instruments	**2,318**	**–**	**2,318**	**Interest rate, credit spreads**

2014

	Carrying amount € m	Market risk measures: Trading portfolios € m	Market risk measures: Non-trading portfolios € m	Risk factors
Assets subject to market risk				
Cash and balances at central banks	5.393	–	5,393	Interest rate, foreign exchange
Trading portfolio financial assets	1	1	–	Interest rate, foreign exchange, credit spreads
Derivative financial instruments	2,038	1,024	1,014	Interest rate, foreign exchange, credit spreads
Loans and receivables to banks	1,865	–	1,865	Interest rate, foreign exchange
Loans and receivables to customers	63,362	–	63,362	Interest rate, foreign exchange
NAMA senior bonds	9,423	–	9,423	Interest rate
Financial investments available for sale	20,185	–	20,185	Interest rate, credit spreads equity
Liabilities subject to market risk				
Deposits by central banks and banks	16,768	–	16,768	Interest rate
Customer accounts	64,018	–	64,018	Interest rate
Derivative financial instruments	2,334	1,150	1,184	Interest rate, foreign exchange, credit spreads, equity
Debt securities in issue	7,861	–	7,861	Interest rate, credit spreads
Subordinated liabilities and other capital instruments	1,451	–	1,451	Interest rate, credit spreads

*Forms an integral part of the audited financial statements

Risk management - 3. Individual risk types

3.4 Market risk*

Interest rate sensitivity

The net interest rate sensitivity of the Group at 31 December 2015 and 2014 is illustrated in the following table which sets 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 table shows the sensitivity of the statement of financial position at one point in time and is not necessarily indicative of positions at other dates. In developing the classifications used in the table, it has been necessary to make certain assumptions and approximations in assigning assets and liabilities to different repricing categories.

The fair value of derivative financial instruments is included within other assets and other liabilities as interest rate insensitive. However, some derivative instruments are derived from interest sensitive financial instruments, and are shown separately below in the table.

*Forms an integral part of the audited financial statements

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	2015 Total € m
Assets											
Disposal groups and non-current assets held for sale	–	–	–	–	–	–	–	–	8	–	8
Trading portfolio financial assets	–	–	–	–	–	–	–	–	–	1	1
Loans and receivables to banks	1,344	497	–	–	–	–	–	–	498	–	2,339
Loans and receivables to customers	56,381	7,047	2,077	940	1,006	554	843	1,303	(6,911)	–	63,240
NAMA senior bonds	–	5,616	–	–	–	–	–	–	–	–	5,616
Financial investments available for sale	388	588	816	2,410	1,531	3,172	1,902	4,901	781	–	16,489
Financial investments held to maturity	–	–	–	–	823	557	824	1,279	–	–	3,483
Other assets	4,415	–	–	–	–	–	–	–	6,654	877	11,946
Total assets	62,528	13,748	2,893	3,350	3,360	4,283	3,569	7,483	1,030	878	103,122
Liabilities											
Deposits by central banks and banks	5,980	5,872	1,902	–	–	–	–	–	109	–	13,863
Customer accounts	26,289	4,213	7,486	2,393	663	303	126	3	21,907	–	63,383
Trading portfolio financial liabilities	–	–	–	–	–	–	–	–	–	86	86
Debt securities in issue	446	290	1,000	1,675	500	565	1,250	1,275	–	–	7,001
Subordinated liabilities and other capital instruments	–	–	1,524	–	–	–	750	44	–	–	2,318
Other liabilities	–	–	–	–	–	–	–	–	3,390	933	4,323
Shareholders' equity	–	–	–	–	–	–	–	–	12,148	–	12,148
Total liabilities and shareholders' equity	32,715	10,375	11,912	4,068	1,163	868	2,126	1,322	37,554	1,019	103,122
Derivatives affecting interest rate sensitivity	11,997	591	(2,092)	(2,554)	(1,062)	398	(1,649)	(5,629)	–	–	
Interest sensitivity gap	17,816	2,782	(6,927)	1,836	3,259	3,017	3,092	11,790	(36,524)	(141)	
Cumulative interest sensitivity gap	17,816	20,598	13,671	15,507	18,766	21,783	24,875	36,665	141	–	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	13,549	494	(6,176)	1,732	3,342	2,514	2,864	11,055	(30,110)	(108)	
Cumulative interest sensitivity gap	13,549	14,043	7,867	9,599	12,941	15,455	18,319	29,374	(736)	(844)	
($ in euro equivalents)	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	
Interest sensitivity gap	137	1,074	(188)	–	(1)	174	–	72	(969)	(11)	
Cumulative interest sensitivity gap	137	1,211	1,023	1,023	1,022	1,196	1,196	1,268	299	288	
(£ in euro equivalents)	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	
Interest sensitivity gap	4,326	1,205	(578)	104	(82)	329	228	663	(5,951)	(27)	
Cumulative interest sensitivity gap	4,326	5,531	4,953	5,057	4,975	5,304	5,532	6,195	244	217	
(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	(196)	9	15	–	–	–	–	–	506	5	
Cumulative interest sensitivity gap	(196)	(187)	(172)	(172)	(172)	(172)	(172)	(172)	334	339	

Interest rate sensitivity* *(continued)*

	0<1 Month € m	1<3 Months € m	3<12 Months € m	1<2 Years € m	2<3 Years € m	3<4 Years € m	4<5 Years € m	5 years + € m	Non-interest bearing € m	Trading € m	2014 Total € m
Assets											
Disposal groups and non-current assets held for sale	–	–	–	–	–	–	–	–	14	–	14
Trading portfolio financial assets	–	–	–	–	–	–	–	–	–	1	1
Loans and receivables to banks	1,400	8	–	3	–	–	–	–	454	–	1,865
Loans and receivables to customers	63,398	6,806	1,898	947	691	214	434	1,380	(12,406)	–	63,362
NAMA senior bonds	–	9,423	–	–	–	–	–	–	–	–	9,423
Financial investments available for sale	538	625	296	1,350	2,747	2,693	4,192	7,329	415	–	20,185
Other assets	4,879	–	–	–	–	–	–	–	6,702	1,024	12,605
Total assets	70,215	16,862	2,194	2,300	3,438	2,907	4,626	8,709	(4,821)	1,025	107,455
Liabilities											
Deposits by central banks and banks	10,109	4,714	–	1,900	1	–	–	–	44	–	16,768
Customer accounts	25,612	4,585	10,900	2,387	1,559	601	113	1	18,260	–	64,018
Debt securities in issue	605	2,470	521	1,000	1,675	500	565	525	–	–	7,861
Subordinated liabilities and other capital instruments	–	–	–	1,411	–	–	–	40	–	–	1,451
Other liabilities	–	–	–	–	–	–	–	–	4,635	1,150	5,785
Shareholders' equity	–	–	–	–	–	–	–	–	11,572	–	11,572
Total liabilities and shareholders' equity	36,326	11,769	11,421	6,698	3,235	1,101	678	566	34,511	1,150	107,455
Derivatives affecting interest rate sensitivity	10,260	(4,659)	(2,126)	649	(2,601)	(800)	1,179	(1,902)	–	–	
Interest sensitivity gap	23,629	9,752	(7,101)	(5,047)	2,804	2,606	2,769	10,045	(39,332)	(125)	
Cumulative interest sensitivity gap	23,629	33,381	26,280	21,233	24,037	26,643	29,412	39,457	125	–	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	19,087	7,383	(6,495)	(4,949)	2,767	2,553	2,709	10,116	(31,474)	(114)	
Cumulative interest sensitivity gap	19,087	26,470	19,975	15,026	17,793	20,346	23,055	33,171	1,697	1,583	
($ in euro equivalents)	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	
Interest sensitivity gap	447	762	21	2	4	–	(6)	(41)	(554)	(11)	
Cumulative interest sensitivity gap	447	1,209	1,230	1,232	1,236	1,236	1,230	1,189	635	624	
(£ in euro equivalents)	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	
Interest sensitivity gap	4,115	1,608	(641)	(100)	33	53	66	(30)	(7,803)	(7)	
Cumulative interest sensitivity gap	4,115	5,723	5,082	4,982	5,015	5,068	5,134	5,104	(2,699)	(2,706)	
(Other currencies in euro equivalents)	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	
Interest sensitivity gap	(20)	(1)	14	–	–	–	–	–	499	7	
Cumulative interest sensitivity gap	(20)	(21)	(7)	(7)	(7)	(7)	(7)	(7)	492	499	

3.4 Market risk*

Market risk profile

The table below shows the sensitivity of the Group's banking book to a hypothetical immediate and sustained 100 basis point ("bp") movement in interest rates and the impact on net interest income over a twelve month period:

Sensitivity of projected net interest income to interest rate movements	31 December 2015 € m	2014 € m
+ 100 basis point parallel move in all interest rates	**99**	21
– 100 basis point parallel move in all interest rates	**(45)**	(35)[1]

[1]An assumption is made that rates will not fall below negative 0.50%. This is a change from the assumptions used in 2014 when it was assumed rates would not fall below 0%. In 2014, this figure was reported as negative € 25 million under the former assumption that rates would not fall below 0%.

The above analysis is subject to certain simplifying assumptions such as all interest rate movements occurring simultaneously and in a parallel manner. Additionally, it is assumed that no management action is taken in response to the rate movements.

The following table summarises Treasury's VaR profile for the financial years ended 31 December 2015 and 2014. For VaR measurement, AIB computes VaR using historical simulation to a 95% confidence level, with a 1 day holding period and a 1 year sample period. AIB recognises the limitations of this VaR model, in particular the one year history means that events that did not occur in the previous twelve months are not included in the set of events used to compute VaR. AIB supplements its VaR measures with stress tests which draw from a longer set of historical data and also with sensitivity and stop loss risk measures.

	VaR (trading book)		VaR (banking book)		Total VaR	
	2015 € m	2014 € m	**2015 € m**	2014 € m	**2015 € m**	2014 € m
Interest rate risk						
1 day holding period:						
Average	**0.3**	0.1	**2.7**	3.5	**2.7**	3.5
High	**1.1**	0.5	**4.9**	5.6	**5.2**	5.6
Low	**–**	–	**1.3**	1.2	**1.3**	1.2
At 31 December	**1.1**	0.1	**3.0**	1.5	**2.9**	1.5

The following table sets out the VaR for foreign exchange rate and equity risk for the financial years ended 31 December 2015 and 2014:

	Foreign exchange rate risk		Equity risk	
	VaR (trading book)		VaR (trading book)	
	2015 € m	2014 € m	**2015 € m**	2014 € m
1 day holding period:				
Average	**0.07**	0.04	**0.04**	0.05
High	**0.16**	0.10	**0.10**	0.11
Low	**0.02**	0.02	**0.01**	0.02
At 31 December	**0.02**	0.03	**0.02**	0.02

The VaR position during 2015 is explained by the very low levels of open risk being run in Treasury across interest rate, foreign exchange and equity positions.

*Forms an integral part of the audited financial statements

Risk management - 3. Individual risk types

3.5 Operational risk*

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk, but excludes strategic and business risk. In essence, operational risk is a broad canvas of individual risk types which include product and change risk, outsourcing, information security, cyber, business continuity, health and safety risks, and legal risk.

Operational risk operating model

AIB's operating model for operational risk is designed to ensure the framework outlined below is embedded and executed robustly across the Group. The key principles of the model are:

– A strong operational risk function, appropriately staffed and clearly independent of the first line of defence; and
– Technology in place to support assessment and mitigation of operational risks.

Risk identification and assessment

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

Risk management and mitigation

Each business area is primarily responsible for managing its own operational risks. An overarching Operational Risk Management ("ORM") framework is in place, designed to establish an effective and consistent approach to operational risk management across the Group. The ORM framework is also supported by a range of specific policies addressing issues such as information security and continuity and resilience.

An important element of the Group's ORM framework is the on-going monitoring through self-assessment of risks, control deficiencies and weaknesses, including the tracking of incidents and loss events. The role of Operational Risk is to review operational risk management activities across the Group including setting policy and promoting best practice disciplines, augmented by an independent assurance process.

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

Risk monitoring and reporting

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

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

*Forms an integral part of the audited financial statements

3.6 Regulatory compliance risk*

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

Regulatory Compliance is a Group-wide function which operates independently of the business. The function is responsible for identifying compliance obligations arising in each of the Group's operating markets. Regulatory Compliance work closely with Management in assessing compliance risks and provide advice and guidance on addressing these risks. Risk-based monitoring of compliance by the business with regulatory obligations is undertaken.

Risk identification and assessment

The Regulatory Compliance function is specifically responsible for independently identifying and assessing current and forward looking 'conduct of business' compliance obligations, as well as Financial Crime regulation and regulation on privacy and data protection. The identification, interpretation and communication roles relating to other legal and regulatory obligations have been assigned to functions with specialist knowledge in those areas. For example, employment law is assigned to Human Resources, taxation law to Group Taxation and prudential regulation to the Finance and Risk functions, with emerging prudential regulations being monitored by the Compliance Upstream unit. Regulatory Compliance undertakes a periodic detailed assessment of the key conduct of business compliance risks and associated mitigants. The Regulatory Compliance function operates a risk framework approach that is used in collaboration with business units to identify, assess and manage key compliance risks at business unit level. These risks are incorporated into the SARTs for the relevant business unit.

Risk management and mitigation

The Board, operating through the Board Audit Committee, approves the Group's compliance policy and the mandate for the Regulatory Compliance function.

The Board is responsible for ensuring that the Group complies with its regulatory responsibilities. The Board'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. The Board ensure that Regulatory Compliance is suitably independent from business activities and that it is adequately resourced.

The primary role of the Regulatory Compliance function is to provide direction and advice to enable management to discharge its responsibility for managing the Group's compliance risks. The principal compliance risk mitigants are risk identification, assessment, measurement and the establishment of suitable controls at business level. In addition, the Group has insurance policies that cover a number of risk events which fall under the regulatory compliance umbrella.

Risk monitoring and reporting

Regulatory Compliance undertakes risk-based monitoring of compliance with relevant policies, procedures and regulatory obligations. Monitoring can be undertaken by either dedicated compliance monitoring teams, or in collaboration with other control functions such as Group Internal Audit and/or Operational Risk.

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

Regulatory Compliance report to the Group General Counsel and independently to the Board, through the Board 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

Risk management - 3. Individual risk types

3.7 Structural foreign exchange risk*

Structural foreign exchange risk is the exposure of the Group's consolidated capital ratios to changes in exchange rates and results from net investment in subsidiaries, associates and branches, the functional currencies being currencies other than euro. The Group is exposed to foreign exchange risk as it translates foreign currencies into euro at each reporting period and the currency profile of the Group's capital may not necessarily match that of its assets and risk-weighted assets.

Exchange differences on structural exposures are recognised in 'other income' in the financial statements. The ALCo monitors structural foreign exchange risk and the foreign exchange sensitivity of consolidated capital ratios. This impact is measured in terms of basis points sensitivities using scenario analysis. The amount of structural foreign exchange risk is not material to the Group.

3.8 Pension risk*

Pension risk is the risk that the funding position of the Group's defined benefit schemes would deteriorate to such an extent that the Group would be required to make additional contributions above what is already planned to cover its pension obligations towards current and former employees. Furthermore, IAS pension deficits as reported are now a deduction from capital under CRD IV which came into force on 1 January 2014.

The Group maintains a number of defined benefit pension schemes for current and former employees, further details of which are included in note 13 to the consolidated financial statements. These defined benefit schemes were closed to future accrual from the 31 December 2013. Approval was received from the Pensions Authority in 2013 in relation to a funding plan up to January 2018 with regard to regulatory Minimum Funding Standard requirements of the AIB Group Irish Pension Scheme. In the United Kingdom, the Group has established an asset backed funding vehicle to provide the required regulatory funding to the UK Scheme.

While the Group has taken certain risk mitigating actions, a level of volatility associated with pension funding remains due to potential financial market fluctuations and possible changes to pension and accounting regulations. This volatility can be classified as market risk and actuarial risk.

Market risk arises because the estimated market value of the pension scheme assets may decline or their investment returns may reduce due to market movements.

Actuarial risk arises due to the risk that the estimated value of the pension scheme liabilities may increase due to changes in actuarial assumptions.

The ability of the pension schemes to meet the projected pension payments is managed by the Trustees through the active management of the investment portfolios across geographies and asset classes.

As the schemes are closed to future accrual, each Trustee Board has commenced a process of de-risking their investment strategy to reduce market risk.

*Forms an integral part of the audited financial statements

Governance and oversight

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Governance and oversight – The Board

Board of Directors

Non-Executive Chairman

Richard Pym, CBE

Age: 66
Appointed: 13/10/2014 (Chairman Designate)
01/12/2014 (Chairman)

Background and experience:

Mr Pym was co-opted to the Board on 13 October 2014 as Chairman Designate and Non-Executive Director and was appointed Chairman with effect from 1 December 2014. Mr Pym is a Chartered Accountant with extensive experience in financial services having held a number of senior roles including Group Chief Executive Officer of Alliance & Leicester plc. He is Chairman of UK Asset Resolution Limited, the entity which manages, on behalf of the UK Government, the run off of the Government owned closed mortgage books of Bradford & Bingley plc and NRAM plc. Mr Pym is a Director and former Chairman of Nordax Bank AB (publ). He was also previously Chairman of the Boards of The Co-operative Bank plc, BrightHouse Group plc, Halfords Group plc and a former Non-Executive Director of The British Land Company plc, Old Mutual plc and Selfridges plc.

Committee memberships:

Chairman of the Nomination and Corporate Governance Committee
Remuneration Committee

Non-Executive Directors

Dr Michael Somers, B.Comm, M.Econ.Sc, Ph.D – Deputy Chairman

Age: 73
Appointed: 14/10/2010 as a Nominee of the Minister for Finance under the Government's National Pensions Reserve Fund Act 2000 (as amended)

Background and experience:

Dr Somers is former Chief Executive Officer of the National Treasury Management Agency. He is Chairman of Goodbody Stockbrokers, a Non-Executive Director of Fexco Holdings Limited, Hewlett-Packard International Bank plc, the Institute of Directors, and President of the Ireland Chapter of the Ireland-US Council. He has previously held the posts of Secretary, National Debt Management, in the Department of Finance, and Secretary, Department of Defence. He is a former Chairman of the Audit Committee of the European Investment Bank and Director of the European Investment Bank and former Member of the EC Monetary Committee.

Dr Somers was Chairman of the group that drafted the National Development Plan 1989-1993 and of the European Community group that established the European Bank for Reconstruction and Development. He was formerly a member of the Council of the Dublin Chamber of Commerce and a Non-Executive Director of St. Vincent's Healthcare Group Limited and Willis Group Holdings plc.

Committee memberships:

Board Risk Committee
Nomination and Corporate Governance Committee

Non-Executive Directors

Catherine Woods, BA, Mod (Econ) – Senior Independent Non-Executive Director

Age: 53
Appointed: 13/10/2010

Background and experience:
Ms Woods is a Non-Executive Director of AIB Mortgage Bank, and Chairman of EBS Limited. She has been a Director of Beazley Re DAC since July 2015 and became a Director of Beazley plc in January 2016. 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 JPMorgan European Banks Equity Research Team, 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 was appointed Senior Independent Non-Executive Director in January 2015.

Committee memberships:
Chairman of the Board Audit Committee
Board Risk Committee

Simon Ball, B.Sc (Econ), FCA

Age: 55
Appointed: 13/10/2011

Background and experience:
Mr Ball has previously held roles as Non-Executive Deputy Chairman and Senior Independent Director of Cable & Wireless Communications plc and has served as Group Finance Director of 3i Group plc and the Robert Fleming Group. He has held a series of senior finance and operational roles at Dresdner Kleinwort Benson and was Director General, Finance, for HMG Department for Constitutional Affairs. He is Chairman of Anchura Group Limited and a member of the Board of Commonwealth Games England. Mr Ball was appointed Chairman of the Nomination and Corporate Governance Committee in June 2013 to oversee the process to appoint a new Non-Executive Chairman and stood down from that role in December 2014 following the Chairman's appointment.

Committee memberships:
Board Risk Committee
Remuneration Committee

Tom Foley, B.Comm, FCA

Age: 62
Appointed: 13/09/2012

Background and experience:
Mr Foley is a former Executive Director of KBC Bank Ireland, former CEO of KBC Homeloans and has held a variety of senior management and board positions with KBC in Corporate, Treasury and Personal Banking in Ireland and the UK. He was a member of the Nyberg Commission of Investigation into the Banking Sector during 2010 and 2011 and the Department of Finance 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. He is a Non-Executive Director of AIB Group (UK) p.l.c. since April 2015 and of Intesa SanPaolo Life Limited, and he is a former Non-Executive Director of BPV Finance (International) plc. He was appointed Non-Executive Director of EBS Limited in November 2012.

Committee memberships:
Board Audit Committee
Remuneration Committee

Governance and oversight – The Board

Non-Executive Directors

Peter Hagan, B.Sc, Dip BA

Age: 67
Appointed: 26/07/2012

Background and experience:
Mr Hagan is former Chairman and CEO of Merrill Lynch's US commercial banking subsidiaries and was also a director of Merrill Lynch International Bank (London), Merrill Lynch Bank (Swiss), ML Business Financial Services, FDS Inc & The Thomas Edison State College Foundation. Over a period of 35 years he has held senior positions in the international banking industry, including as Vice Chairman and Representative Director of the Aozora Bank (Tokyo, Japan). During 2011 and until September 2012, he was a director of each of the US subsidiaries of IBRC. He is at present a consultant in the fields of financial service litigation and regulatory change. He is currently a Director and Treasurer of 179 East 70th Corp.

Committee memberships:
Chairman of the Board Risk Committee
Board Audit Committee

Helen Normoyle, BBS

Age: 48
Appointed: 17/12/2015

Background and experience:
Ms Normoyle is currently the Chief Marketing Officer at DFS, Britain's leading upholstered furniture retailer, responsible for all aspects of the company's marketing communications and PR, and is moving to take up a new role on 8 March 2016 as Chief Marketing Officer with Countrywide, the UK's largest estate agency group. Prior to joining DFS, she was Director of Marketing & Audiences at the BBC, responsible for the corporation's marketing, research, planning and audience services. In 2003, she joined Ofcom, the UK's telecoms and communications regulator as Director of Market Research where she established and led Ofcom's market research and intelligence team and, latterly, the Media Literacy team. Before joining Ofcom, she held a range of posts over an eight year period at Motorola, including Director of Marketing and Director of Global Consumer Insights and Product Marketing. She started her career working for one of Europe's leading market research agencies, Infratest+GfK, based in Germany.

Committee memberships:
None

Jim O'Hara

Age: 65
Appointed: 13/10/2010

Background and experience:
Mr O'Hara is a former Vice President of Intel Corporation and General Manager of Intel Ireland, where he was responsible for Intel's technology and manufacturing group in Ireland. He is a Non-Executive Director of Fyffes plc and Chairman of a number of indigenous technology start-up companies. He is a past President of the American Chamber of Commerce in Ireland and former board member of Enterprise Ireland.
Mr O'Hara joined the Board in October 2010 and has been a member of the Audit Committee, Remuneration Committee and Nomination and Corporate Governance Committee since January 2011, and was appointed Chairman of the Remuneration Committee in July 2012. He was appointed Non-Executive Director of EBS Limited in June 2012.

Committee memberships:
Chairman of the Remuneration Committee
Board Audit Committee
Nomination and Corporate Governance Committee

Executive Directors

Bernard Byrne, FCA – Chief Executive Officer

Age: 47
Appointed: 24/06/2011

Background and experience:

Mr Byrne was appointed Chief Executive Officer in May 2015. He joined AIB in May 2010 as Group Chief Financial Officer and member of the Bank's Leadership Team and was co-opted to the Board on 24 June 2011. Since then he has held a number of leading director roles including Director of Personal, Business & Corporate Banking and more recently Director of Retail & Business Banking. Mr Byrne was appointed to the Board of EBS Limited in July 2011. In January 2015, he was appointed President of Banking & Payments Federation Ireland (BPFI). A Chartered Accountant by profession, Mr Byrne joined PricewaterhouseCoopers (PwC) in 1988 and moved to ESB International in 1994, where he worked as Commercial Director for International Investments. He later became Group Finance Director and Commercial Director with parent company, ESB, until he left to join AIB. Prior to that, he was Finance Director, and later the Deputy CEO of IWP International plc.

Committee memberships:

None

Mark Bourke, B.E., ACA, AITI – Chief Financial Officer

Age: 49
Appointed: 29/05/2014

Background and experience:

Mr Bourke joined AIB in April 2014 as Chief Financial Officer and member of the Leadership Team and was co-opted to the Board on 29 May 2014. He joined AIB from IFG Group plc where he held a number of senior roles, including Group Chief Executive Officer, Deputy Chief Executive Officer and Finance Director. Mr Bourke began his career at PricewaterhouseCoopers (PwC) in 1989 and is a former partner in international tax services with PwC US in California. He is a member of Chartered Accountants Ireland and the Irish Taxation Institute.

Committee memberships:

None

Governance and oversight – The Leadership Team

The Leadership Team[1] is the Bank's most senior executive committee. The membership comprises the two Executive Directors and the heads of the businesses and support and control functions, biographies for whom are included below. Two roles are currently subject to executive searches, namely the Head of Wholesale and Institutional Banking and the Chief People Officer.

Dominic Clarke, LLB, ACA – Chief Risk Officer

Background and experience:

Mr Clarke joined AIB in May 2012 as Head of Internal Audit and was appointed to his current role as Chief Risk Officer in November 2014. He was previously a Managing Director in Deutsche Bank London, prior to that he worked for Barclays. He trained as a chartered accountant in PricewaterhouseCoopers' (PwC) Banking and Capital Markets practice and also holds a Law degree. Mr Clarke is an external member of the audit committee of the Department of Communications, Energy and Natural Resources and is Chairman of Inter Alpha Governing Council, a cross bank educational forum.

Age: 43
Appointed: 01/11/2014

Helen Dooley, LLB – Group General Counsel

Background and experience:

Ms Dooley was appointed to her current role as Group General Counsel and as a member of the Leadership Team in October 2012. In June 2014 she also assumed responsibility for the Compliance function. Ms Dooley previously held the role of Head of Legal in EBS Limited. Prior to this, she held a number of other senior roles in EBS Limited 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: 47
Appointed: 10/10/2012

Tom Kinsella, B.Comm, FMII, CBD – Chief Marketing Officer

Background and experience:

Mr Kinsella joined AIB in November 2012 as Group Marketing Director and was appointed to his current role as Chief Marketing Officer and to the Leadership Team in November 2015. Prior to joining AIB, he worked in a variety of senior marketing roles in Diageo, working locally and internationally across Europe, Asia and the Americas on a wide variety of leading brands including Guinness and Baileys. In 2015 he was made a Fellow of the Marketing Institute of Ireland in recognition of his contribution to the profession in Ireland and his achievements in driving brand growth.

Age: 46
Appointed: 02/11/2015

[1]Ms. Orlagh Hunt, Chief People Officer and Mr. Stephen White, Chief Operating Officer, members of the Leadership Team at 31 December 2015 are resigning from the Group in early 2016.

Robert Mulhall – Managing Director, Retail, Corporate and Business Banking

Background and experience:

Mr Mulhall has over 20 years experience in financial services, with a career which has included many roles up to senior executive management level in AIB in such areas as Digital Channels Innovation and Management, Retail Banking Distribution Management, Customer Relationship Management, Business Intelligence, Strategic Marketing, Strategy Development, Operations and Sales Management. Mr Mulhall spent two years building and leading the Distribution & Marketing Consulting Practice for Accenture in Financial Services, North America. In this capacity he brought his industry experience to build a rapidly growing consulting practice in the fast moving and innovative area of financial services in North America. He returned to AIB in October 2015 as Managing Director of Retail, Corporate and Business Banking.

Age: 42
Appointed: 19/10/2015

Brendan O'Connor, BA, MBA – Managing Director, AIB Group (UK) p.l.c.

Background and experience:

Mr O'Connor joined the Leadership Team in February 2013 as Head of Financial Solutions Group and was appointed to his current role in October 2015. He joined AIB in 1984 and from 1988 to 2009 he worked in AIB Group Treasury in New York and Dublin before moving to AIB Corporate Banking in 2009. Mr O'Connor has held a number of senior roles throughout the organisation including Head of AIB Global Treasury Services, Head of Corporate Banking International and Head of AIB Business Banking.

Age: 50
Appointed: 15/02/2013

Jim O'Keeffe, BA, H.Dip – Head of Financial Solutions Group

Background and experience:

Mr O'Keeffe has over 26 years banking experience with AIB. During his career, he has worked across many aspects of banking from IT to the Retail Business. From 2004 to 2008 he relocated to AIB's then subsidiary BZWBK in Poland as Head of Personal & SME Business Development. Following his return to Ireland, from 2009 to 2011 he was Head of AIB's Direct Channels before taking up his previous role as Head of AIB's Mortgage Business in June 2011. He was appointed as Head of Financial Solutions Group in November 2015.

Age: 48
Appointed: 02/11/2015

Tomás O'Midheach, B.Comm, MBS, FCCA – Chief Operating Officer

Background and experience:

Mr O'Midheach was appointed to the role of Chief Operating Officer in February 2016. He has over 22 years experience in the Financial Services Industry. His experience has spanned many diverse areas of banking including Finance, Data, Customer Analytics, Direct Channels and Digital. He spent 11 years with Citibank in the UK, Spain and Dublin where he held several senior positions in Finance. He joined AIB in June 2006 as Business Lead Finance Operating Model and has since held a number of senior executive positions including Head of Direct Channels and Analytics and Chief Digital Officer.

Age: 46
Appointed: 01/02/2016

Governance and oversight – Group Directors' report *for the financial year ended 31 December 2015*

The Directors of Allied Irish Banks, p.l.c. ('the Company') present their report and the audited financial statements for the financial year ended 31 December 2015. A Statement of the Directors' responsibilities is shown on page 202.

Results

The Group's profit attributable to the ordinary shareholders of the Company amounted to € 1,380 million and was arrived at as shown in the consolidated income statement on page 207.

Dividend

There was no dividend paid to ordinary shareholders in 2015.

Going concern

The Directors have prepared the financial statements on a going concern basis.

In making its assessment, the Directors have considered a wide range of information relating to present and future conditions. These have included financial plans approved by the Board in December 2015 covering the period 2016 to 2018, the Restructuring Plan approved by the European Commission in May 2014, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios. In addition, the Directors have considered the outlook for the Irish, the eurozone and UK economies and the factors and uncertainties impacting their performance.

Capital

At an EGM held on 16 December 2015, shareholders approved a capital reorganisation for the purpose of simplification and rationalisation of the capital structure and to create a sound and sustainable base on which to grow AIB's business. All resolutions approved at the EGM were subsequently implemented.

Information on the capital reorganisation and on the structure of the Company's share capital, including the rights and obligations attaching to each class of shares, is set out in the Schedule on pages 174 to 176 and in note 42 to the consolidated financial statements.

Accounting policies

The principal accounting policies, together with the basis of preparation of the financial statements, are set out in note 1 to the consolidated financial statements.

Review of activities

The Statement by the Chairman on pages 4 to 5, the review by the Chief Executive Officer on pages 6 to 11 and the Operating and financial review on pages 22 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 David Duffy resigned as Chief Executive Officer and Executive Director on 29 May 2015; Mr Bernard Byrne was appointed Chief Executive Officer on 29 May 2015;
– Ms. Helen Normoyle was appointed Non-Executive Director on 17 December 2015.

The names of the Directors, together with a short biographical note on each Director, are shown on pages 166 to 169.

The appointment and replacement of Directors, and their powers, are governed by law and the Constitution of the Company, and information on these is set out on pages 175 to 176.

Directors' and Secretary's Interests in the Share Capital

The interests of the Directors and Secretary in the share capital of the Company are shown in the Directors' Remuneration report on page 195.

Directors' Remuneration

The Company's policy with respect to Directors' remuneration is included in the Directors' Remuneration report on page 192. Details of the total remuneration of the Directors in office during 2015 and 2014 are shown in the Remuneration report on pages 193 to 194.

Substantial Interests in the Share Capital

The following substantial interests in the Ordinary Share Capital had been notified to the Company at 21 December 2015:

– Ireland Strategic Investment Fund 99.9%.

Corporate Governance

The Directors' Corporate Governance report set out on pages 177 to 181 and forms part of this report. Additional information, being disclosed in accordance with the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006, is included in the Schedule to the Report of the Directors on pages 174 to 176.

Political Donations

The Directors have satisfied themselves that there were no political contributions during the year that require disclosure under the Electoral Act 1997.

Accounting records

The measures taken by the Directors to secure compliance with the Company's obligation to keep adequate accounting records include the use of appropriate systems and procedures, incorporating those set out in the Internal controls section of the Corporate Governance report on pages 196 to 197, and the employment of competent persons. The accounting records are kept at the Company's Registered Office at 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 50 to 59.

Branches outside the State

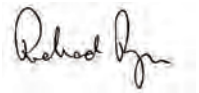
The Company has established branches, within the meaning of EU Council Directive 89/666/EEC (implemented in Ireland by the European Communities (Branch Disclosures) Regulations 1993), in the United Kingdom and the United States of America.

Disclosure Notice under Section 33AK of the Central Bank Act 1942

The Company did not receive a Disclosure Notice under Section 33AK of the Central Bank Act 1942 during 2015.

Auditors

The Auditors, Deloitte, have signified willingness to continue in office in accordance with Section 383(2) of the Companies Act 2014.



Richard Pym
Chairman

Bernard Byrne
Chief Executive Officer

2 March 2016

Governance and oversight – Schedule to the Group Directors' report

for the financial year ended 31 December 2015

Additional 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 2015.

Capital Structure

The authorised share capital of the Company is € 2,500,000,000 divided into 4,000,000,000 Ordinary Shares of € 0.625 each ('Ordinary Shares'). The issued share capital of the company is 2,714,381,238 Ordinary Shares.

Rights and Obligations of Each Class of Share

The following rights attach to the Ordinary Shares:

- The right to receive duly declared dividends, in cash or, where offered by the Directors, by allotment of additional Ordinary Shares.
- The right to attend and speak, in person or by proxy, at general meetings of the Company.
- The right to vote, in person or by proxy, at general meetings of the Company having, in a vote taken by show of hands, one vote, and, on a poll, a vote for each Ordinary Share held.
- The right to appoint a proxy, in the required form, to attend and/or vote at general meetings of the Company.
- The right to receive, (by post or electronically), twenty-one days at least before the Annual General Meeting, a copy of the Directors' and Auditors' reports accompanied by (a) copies of the balance sheet, profit and loss account and other documents required by the Companies Act to be annexed to the balance sheet or (b) such summary financial statements as may be permitted by the Companies Act.
- 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.

Restrictions on the Transfer of Shares

Save as set out below, there are no limitations in Irish law or in the Company's Constitution 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.

The Ordinary Shares are, in general, freely transferable but the Directors may decline to register a transfer of Ordinary Shares upon notice to the transferee, within two months after the lodgement of a transfer with the Company, in the following cases:

(i) a lien held by the Company on the shares;
(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 2014.
- 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.

Exercise of Rights of Shares in Employees' Share Schemes

The AIB Approved Employees' Profit Sharing Scheme 1998 and the Allied Irish Banks, p.l.c. Share Ownership Plan (UK) provide that voting rights in respect of shares held in trust for employees who are participants in those schemes are, on a poll, to be exercised only in accordance with any directions in writing by the employees concerned to the Trustees of the relevant scheme.

Deadlines for exercising Voting Rights

Voting rights at general meetings of the Company are exercised when the chairman puts the resolution at issue to the vote of the meeting. A vote decided by a show of hands is

taken forthwith. A vote taken on a poll for the election of the Chairman or on a question of adjournment is also taken forthwith and a poll on any other question is taken either immediately, or at such time (not being more than thirty days from the date of the meeting at which the poll was demanded or directed) as the chairman of the meeting directs. Where a person is appointed to vote for a shareholder as proxy, the instrument of appointment must be received by the Company not less than forty-eight hours before the time appointed for holding the meeting or adjourned meeting at which the appointed proxy proposes to vote, or, in the case of a poll, not less than forty-eight hours before the time appointed for taking the poll.

Rules Concerning Amendment of the Company's Constitution

As provided in the Companies Act 2014, the Company may, by special resolution, alter or add to its Constitution. A resolution is a special resolution when it has been passed by not less than three-fourths of the votes cast by shareholders entitled to vote and voting in person or by proxy, at a general meeting at which not less than twenty-one clear days' notice specifying the intention to propose the resolution as a special resolution, has been duly given. A resolution may also be proposed and passed as a special resolution at a meeting of which less than twenty-one clear days' notice has been given if it is so agreed by a majority in number of the members having the right to attend and vote at any such meeting, being a majority together holding not less than ninety per cent in nominal value of the shares giving that right.

Rules Concerning the Appointment and Replacement of Directors of the Company

- Other than in the case of a casual vacancy, Directors are appointed on a resolution of the shareholders at a general meeting, usually the Annual General Meeting.
- No person, other than a Director retiring at a general meeting is eligible for appointment as a Director without a recommendation by the Directors for that person's appointment unless, not less than forty-two days before the date of the general meeting, written notice by a shareholder, duly qualified to be present and vote at the meeting, of the intention to propose the person for appointment and notice in writing signed by the person to be proposed of willingness to act, if so appointed, shall have been given to the Company.
- A shareholder may not propose himself or herself for appointment as a Director.
- The Directors have power to fill a casual vacancy or to appoint an additional Director (within the maximum number of Directors fixed by the Company in general meeting) and any Director so appointed holds office only until the conclusion of the next Annual General Meeting following his appointment, when the Director concerned shall retire, but shall be eligible for reappointment at that meeting.
- One-third of the Directors for the time being (or if their number is not three or a multiple of three, not less than one-third), are obliged to retire from office at each Annual General Meeting on the basis of the Directors who have been longest in office since their last appointment. While not obliged to do so, the Directors have, in recent years, adopted the practice of all (those wishing to continue in office) offering themselves for re-election at the Annual General Meeting.
- A person is disqualified from being a Director, and their office as a Director ipso facto vacated, in any of the following circumstances:
  - if at any time the person has been adjudged bankrupt or has made any arrangement or composition with his or her creditors generally;
  - if found to be mentally disordered in accordance with law;
  - if the person be prohibited or restricted by law from being a Director;
  - if, without prior leave of the Directors, he or she be absent from meetings of the Directors for six successive months (without an alternate attending) and the Directors resolve that his or her office be vacated on that account;
  - if, unless the Directors or a court otherwise determine, he or she be convicted of an indictable offence;
  - 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 therefor has been given to the Director; or
  - 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.
- In addition, the office of Director is vacated, subject to any right of appointment or reappointment under the Company's Constitution, if:
  - not being a Director holding for a fixed term an executive office in his or her capacity as a Director, if he or she resigns their office by a written notice given to the Company, upon the expiry of such notice; or
  - being the holder of an executive office other than for a fixed term, the Director ceases to hold such executive office on retirement or otherwise; or
  - the Director tenders his or her resignation to the Directors and the Directors resolved to accept it; or
  - he or she ceases to be a Director pursuant to any provision of the Company's Constitution.
- Notwithstanding anything in the Company's Constitution 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 Act, remove any Director before the expiry of his or her period of office.

– The Minister for Finance has power to nominate such number of non-executive directors equal to either (a) 25 per cent of the Directors when the total number of Directors is 15 or less or (b) 4 Directors where the total number of Directors is 16, 17 or 18.

The Powers of the Directors Including in Relation to the Issuing or Buying Back by the Company of its Shares

Under the Company's Constitution, 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 Act, the Constitution of the Company and to any directions given by special resolution of a general meeting. The Company's Constitution further provides 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 Act, the Directors are unconditionally authorised until 16 December 2020 to exercise all the powers of the Company to allot relevant securities up to the aggregate nominal amount of € 1,191,314,686. By such authority, the Directors may make offers or agreements which would, or might, require the allotment of such securities after 16 December 2020.

Governance and oversight – Corporate Governance report

Corporate Governance arrangements and practices

AIB's Governance Framework ('the Framework') encompasses the leadership, direction and control of AIB and its subsidiaries (collectively referred to as 'AIB', the 'Group' or the 'Company'). The Framework reflects best practice standards, guidelines and statutory obligations and ensures that organisation and control arrangements are appropriate to governance of the Group's strategy, operations and mitigation of related material risks. The Framework underpins effective decision making and accountability and is the basis on which the Group conducts its business and engages with customers and stakeholders.

The Framework reflects Irish company law, various corporate governance codes and regulations, the Listing Rules of the Enterprise Securities Market of the Irish Stock Exchange, European Banking Authority ("EBA") Guidelines, Basel Committee on Banking Supervision Guidelines on Corporate Governance Principles for Banks, and other relevant EU best practice guidelines and, in relation to the UK businesses, UK company law. Further detail on AIB's governance practices is available on http://investorrelations.aib.ie.

The Group's governance arrangements include:

- a Board of Directors of sufficient size and expertise, the majority of whom are independent Non-Executive Directors, to oversee the operations of the Group;
- a Chief Executive Officer to whom the Board has delegated responsibility for the day-to-day running of the Group, ensuring an effective organisation structure, the appointment, motivation and direction of Senior Executive Management, and for the operational management, compliance and performance of all the Group's businesses;
- an Executive Leadership Team comprising strong and diverse management capabilities;
- a clear organisational structure with well defined, transparent and consistent lines of responsibility;
- a well-documented and executed delegation of authority framework;
- a framework and policy architecture which comprises a comprehensive and coherent suite of frameworks, policies, procedures and standards covering business and financial planning, corporate governance and risk management;
- effective structures and processes to identify, manage, monitor and report the risks to which the Group is or might be exposed;
- adequate internal control mechanisms, including sound administrative and accounting procedures, IT systems and controls, and remuneration policies and practices which are consistent with and promote sound and effective risk management; and
- strong and functionally independent internal and external audit functions.

AIB has been subject to the provisions of the Central Bank of Ireland's 2010 Corporate Governance Code for Credit Institutions and Insurance Undertakings ('the 2010 Code' which is available on www.centralbank.ie), including compliance with requirements which specifically relate to 'major/high impact institutions'. The 2010 Code imposed minimum core standards upon all credit institutions and insurance undertakings licensed or authorised by the Central Bank of Ireland (the 'Central Bank'). The Directors believe that the Company materially complied with the provisions of the 2010 Code throughout 2015.

During December 2015, the Central Bank published revised Corporate Governance Requirements for Credit Institutions 2015 ('the 2015 Requirements' are available on www.centralbank.ie), which became effective for all credit institutions on 11 January 2016. AIB is now subject to the 2015 Requirements, including requirements which specifically relate to 'high impact institutions', and additional corporate governance obligations on credit institutions which are deemed significant for the purposes of the European Union (Capital Requirements) Regulations 2014 ("CRD IV") [S.I. 158/2014].

The Company has also adopted the provisions of the UK Corporate Governance Code ('the UK Code' which is available on www.frc.org.uk). The Directors believe the Company is in compliance with the provisions of the UK Code, other than in the following instances:

- provision B.7.1 which requires that all directors should be subject to annual election by shareholders; Dr Michael Somers was appointed Non-Executive Director in 2010 as a nominee of the Minister for Finance under the Irish Government's National Pensions Reserve Fund Act 2000 (as amended), the terms of which do not require him to stand for election or regular re-election by shareholders;
- provision D.2.2 with regard to the Remuneration Committee's delegated responsibility for setting remuneration for all Executive Directors and the Chairman, including pension rights and any compensation payments; under the terms of capital agreements with the Irish Government and the Relationship Framework agreed with the Minister, neither the Committee nor the Board has autonomy in that regard.

The Board of Directors

The Board is responsible for corporate governance, encompassing leadership, direction and control of the Group, and is accountable to shareholders for financial performance.

While arrangements have been made by the Directors for delegation of the management, organisation and administration of the Company's affairs, the following matters are specifically reserved for decision by the Board:

- to retain primary responsibility for corporate governance within the Company at all times and oversee the efficacy of governance arrangements;
- to determine the Company's strategic objectives and policies, and to ensure that the necessary financial and human resources and operational capabilities are in place for the Company to meet its objectives;
- to approve the annual financial plan, interim and annual financial statements, operating and capital budgets, major acquisitions and disposals, and risk appetite limits, designated frameworks and relevant policies;
- to appoint the Chairman of the Board, Board Directors,

Governance and oversight – Corporate Governance report

Chief Executive Officer and Members of the Leadership Team, to address related succession planning, and to approve, where appropriate, the removal of persons in charge of Control Functions;
- to endorse the appointment of people who may have a material impact on the risk profile of the Company and monitor on an ongoing basis their appropriateness for the role;
- to render an account of the Company's activities to its shareholders;
- to protect the assets of the Company taking into account the interests of the shareholders and the employees in general with appropriate regard for the interests of other stakeholders; and
- to put in place and monitor procedures designed to ensure that the Company complies with the law and good corporate citizenship.

The Board is responsible for approving high level policy and strategic direction in relation to the nature and scale of risk that AIB is prepared to assume in order to achieve its strategic objectives. The Board ensures that an appropriate system of internal controls is maintained and that effectiveness is reviewed.

Specifically the Board:
- sets the Group's Risk Appetite, incorporating risk limits;
- approves designated Risk Frameworks, incorporating risk strategies, policies, and principles;
- approves stress testing and capital plans under the Group's Internal Capital Adequacy Assessment Process ("ICAAP"); and
- approves other high-level risk limits as required by Credit, Capital, Liquidity and Market policies.

The Board receives regular updates on the Group's risk profile through the Chief Risk Officer's monthly report, and relevant updates from the Chairman of the Board Risk Committee. An overview of the Board Risk Committee's activities is detailed on pages 185 and 186.

AIB has received significant support from the Irish State ('the State') in the context of the financial crisis because of its systemic importance to the Irish financial system, as a result of which the State holds c. 99.9% of the issued ordinary shares of the Company. The relationship between AIB and the State as shareholder is governed by a Relationship Framework. Within the Relationship Framework, with the exception of a number of items requiring advanced consultation with or approval by the State, the Board retains full responsibility and authority for all of the operations and business of the Group in accordance with its legal and fiduciary duties and retains responsibility and authority for ensuring compliance with the regulatory and legal obligations of the Group. The Relationship Framework is available on the website at http://investorrelations.aib.ie.

The names of the Directors, with brief biographical notes, are shown on pages 166 to 169.

Chairman

The Chairman's responsibilities include the leadership of the Board, ensuring its effectiveness, setting its agenda, ensuring that the Directors receive adequate, accurate and timely information, facilitating the effective contribution of the Non-Executive Directors, ensuring the proper induction of new directors, the on-going training and development of all directors, and reviewing the performance of individual directors.

Mr Richard Pym was appointed Chairman Designate on 13 October 2014 and assumed the role of Non-Executive Chairman with effect from 1 December 2014. In addition to his role as Chairman, Mr Pym is Chairman of the Nomination and Corporate Governance Committee and a Member of the Remuneration Committee.

Mr Pym was formerly Chairman of Nordax Bank AB (publ). He stood down from this role on 15 October 2015, and remains a Non-Executive Director of that company. There have been no other changes to Mr Pym's commitments during 2015. Mr Pym's biographical details are available on page 166.

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.

Deputy Chairman

Dr Michael Somers was appointed as Deputy Chairman in June 2010. In addition to this role, Dr Somers is a Member of the Nomination and Corporate Governance Committee and the Board Risk Committee. Dr Somers was Chairman of the Board Risk Committee from 10 November 2010 until 27 January 2016. Dr Somers' biographical details are available on page 166.

Senior Independent Non-Executive Director

The Senior Independent Non-Executive Director is available to shareholders if they have concerns which contact through the normal channels of Chairman or Chief Executive Officer have failed to resolve, or for which such contact is considered by the shareholder(s) concerned to be inappropriate. Ms Catherine Woods was appointed Senior Independent Non-Executive Director with effect from 30 January 2015.

In addition to her role as Senior Independent Non-Executive Director, Ms Woods is Chairman of the Board Audit Committee and Member of the Board Risk Committee. Ms Woods' biographical details are available on page 167.

Independent Non-Executive Directors

As an integral component of the Board, Independent Non-Executive Directors represent a key layer of oversight of the activities of the Company. It is essential for Independent Non-Executive Directors to bring an independent viewpoint to the deliberations of the Board that is objective and independent of the activities of the management and of the Company. Biographical details for each of the Independent Non-Executive Directors are available on page 167 and 168.

Executive Directors

Executive Directors have executive functions in the Company in addition to their Board duties. The role of Executive Directors, led by the Chief Executive Officer, is to propose strategies to the Board and following challenging Board scrutiny, to execute the agreed strategies to the highest possible standards. Biographical details for each of the Executive Directors are available on page 169.

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 Bernard Byrne was appointed Chief Executive Officer on 29 May 2015, succeeding Mr David Duffy who resigned with effect from that date.

Leadership Team

The Leadership Team is the most senior executive committee of the Group and is accountable to the Chief Executive Officer. Subject to financial and risk limits set by the Board, and excluding those matters which are reserved specifically for the Board, the Leadership Team under the stewardship of the Chief Executive Officer has responsibility for the day-to-day management of the Group's operations. It assists and advises the Chief Executive Officer in reaching decisions on the Group's strategy, governance and internal controls, and performance and risk management.

Company Secretary

The Directors have access to the advice and services of the Company Secretary, Mr David O'Callaghan, who is responsible for advising the Board through the Chairman on all governance matters, ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Company Secretary facilitates information flows within the Board and its Committees and between Senior Executive Management and Non-Executive Directors, as well as facilitating induction and assisting with professional development as required.

Board Meetings

The Chairman sets the agenda for each Board meeting. The Directors are provided with relevant papers in advance of the meetings to enable them to consider the agenda items, and are encouraged to participate fully in the Board's deliberations.

The Board held 13 scheduled meetings and 6 additional out-of-course meetings during 2015. Attendance at Board meetings and meetings of Committees of the Board is reported on below. During a number of Board meetings, the Non-Executive Directors met in the absence of the Executive Directors, in accordance with good governance standards. A number of Non-Executive Directors of Allied Irish Banks, p.l.c. are also Non-Executive Directors of the Company's major regulated subsidiary companies, namely AIB Group (UK) p.l.c., AIB Mortgage Bank and EBS Limited.

Board Membership

It is the policy of the Board that a majority of the Directors should be Non-Executive. At 31 December 2015, there were 8 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.

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.

Balance and Independence

Responsibility has been delegated by the Board to the Nomination and Corporate Governance Committee for ensuring an appropriate balance of experience, skills and independence on the Board. Non-Executive Directors are appointed so as to provide strong and effective leadership and appropriate challenge to executive management.

The independence of each Director is considered by the Nomination and Corporate Governance Committee prior to appointment and reviewed annually thereafter. In reviewing the independence of Directors, the Committee considers the independence criteria contained in the 2010 Code, 2015 Requirements and the UK Code.

The Board has determined that all Non-Executive Directors in office at December 2015, namely Mr Simon Ball, Mr Tom Foley, Mr Peter Hagan, Ms Helen Normoyle, Mr Jim O'Hara, Mr Richard Pym, Dr Michael Somers and Ms Catherine Woods are independent in character and judgement and free from any business or other relationship with the Company or the Group that could affect their judgement. In 2011, the Central Bank of Ireland confirmed that Dr Somers should be considered independent for the purposes of the 2010 Code.

Notwithstanding Dr Somers' designation as non-independent under the UK Code arising from his appointment by the Irish State as shareholder, the Board is satisfied that Dr Somers exercises independence of thought and action in fulfilling his duties as a Non-Executive Director.

Conflicts of Interest

The Board approved Code of Conduct and Conflicts of Interest Policy sets out how actual, potential or perceived conflicts of interest are to be evaluated, reported and managed to ensure that Directors act at all times in the best interests of the Company and its stakeholders.

Executive Directors, as employees of AIB, are also subject to the organisation's Code of Conduct and Conflicts of Interests Policy for employees.

Governance and oversight – Corporate Governance report

Performance Evaluation

There is a formal process in place for the annual evaluation of the Board's own performance and that of its principal Committees and individual Directors. In accordance with the 2010 Code, 2015 Requirements and the UK Code, an external evaluation is conducted at least every three years, with internal evaluations in the intervening years. The objective of these evaluations is to review past performance with the aim of identifying any opportunities for improvement, determining whether the Board and its Committees are as a whole effective in discharging their responsibilities and, in the case of individual Directors, to determine whether each Director continues to contribute effectively and to demonstrate commitment to the role.

An external independent evaluation was conducted by Boardroom Review Limited during 2014. On the basis of the outcome of that evaluation, and in accordance with the 2010 Code, 2015 Requirements and the UK Code, an internal evaluation was undertaken during 2015. This self-evaluation process, which was led by the Chairman and supported by the Company Secretary, included the completion of questionnaires including written evaluations by each Director (covering areas such as Board composition, Board meetings and the effectiveness thereof, information quality and flows, and Board priorities), one to one discussions between the Chairman and each Director, and Board discussion of the outcome of the evaluation process and agreed actions.

On reviewing the outcome of the evaluation process, the Board concluded that each individual Director continued to make a valuable contribution to the deliberations of the Board and demonstrated continuing commitment to the role, and that the recommendations identified during the 2014 external evaluation process had been adequately addressed. The Board agreed on its priority areas of focus for the year ahead, the Non-Executive Director skillset and experience required to enhance the current Board skillset, diversity and experience profile, and a number of actions to enhance the functioning of the Board, its Committees, and its training and development and to increase the Board's exposure to the Group's customers and staff.

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 subsequent pages.

The Chairman meets annually with each Director to review their performance. These reviews include discussion of, inter alia, the Director's individual contributions and performance at the Board and relevant Board Committees, the conduct of Board meetings, the performance of the Board as a whole and its committees, compliance with Director-specific provisions of the relevant 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.

Mr Pym was appointed to the role of Chairman during December 2014. Consideration of the Chairman's leadership was incorporated into the 2015 Board evaluation process. During 2016, the Senior Independent Non-Executive Director will lead an evaluation of the Chairman's performance with the other Directors for consideration by the Board and the Chairman.

Attendance at Board and Board Committee Meetings

Name	Board (scheduled)		Board (out of course)		Board Audit Committee		Board Risk Committee		Remuneration Committee		Nomination and Corporate Governance Committee	
Directors	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
Richard Pym	13	13	6	6					10	10	13	13
Simon Ball	13	13	6	6			10	10			13	13
Mark Bourke	13	13	6	6								
Bernard Byrne	13	13	6	6								
David Duffy *(resigned 29 May 2015)*	6	6	2	2								
Tom Foley	13	13	6	6	12	12			10	10		
Peter Hagan	13	13	6	5	12	12	10	10	10	10	13	13
Helen Normoyle *(appointed 17 December 2015)*	1	1										
Jim O'Hara	13	12	6	5	12	11			10	10	13	13
Dr Michael Somers	13	13	6	4			10	10			13	13
Catherine Woods	13	13	6	6	12	12	10	10				

Column A indicates the number of scheduled meetings held during 2015 which the Director was eligible to attend; Column B indicates the number of meetings attended by each Director during 2015.

Terms of appointment

Non-Executive Directors are generally appointed for a three year term, with the possibility of renewal for a further three years on the recommendation of the Nomination and Corporate Governance Committee. Any additional term beyond six years will be subject to annual review and approval by the Board.

Dr Michael Somers was appointed Non-Executive Director in 2010 as a nominee of the Minister for Finance under the Irish Government's National Pensions Reserve Fund Act 2000 (as amended) for a three year term to 31 December 2012. Dr Somers was reappointed a Non-Executive Director, under the same regime, for a further period of one year with effect from 1 January 2013, and for a further two years with effect from 1 January 2014. He was subsequently reappointed a Non-Executive Director for a further two year period from December 2015, on foot of a direction to the National Treasury Management Agency by the Minister for Finance pursuant to section 43(1) of the National Treasury Management (Amendment) Act 2014.

Following appointment, in accordance with the requirements of the Company's Constitution, 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 reappointment at intervals of not more than three years. Since 2005, all Directors have retired from office at each AGM and have offered themselves for reappointment with the exception of directors appointed by the Government. Under the terms of the Government's capital agreements, Government appointed Directors are not, and have not been, required to stand for election or regular re-election by shareholders.

Letters of appointment, as well as dealing with terms of appointment and appointees' responsibilities, stipulate that a specific time commitment is required from Directors. A copy of the standard terms of Non-Executive Directors letter of appointment is available on request from the Company Secretary.

Directors disclose details of their other significant commitments along with a broad indication of the time absorbed by such commitments before appointment. Before accepting any additional external commitments, including other directorships that might impact on the time available to devote to their role, the agreement of the Chairman and the Company Secretary, and in certain cases the Central Bank, must be sought.

Induction and professional development

There is an induction process for new Directors, the contents of which varies for Executive and Non-Executive Directors. In respect of the latter, the induction is designed to provide familiarity with the Group and its operations, and comprises the provision of relevant briefing material, including details of the Group's strategic, business and financial plans, and a programme of meetings with the Chief Executive Officer and the Senior Management of businesses and support and control functions. A programme of targeted and continuous professional development is in place for Non-Executive Directors.

Board Committees

The Board is assisted in the discharge of its duties by a number of Board Committees, whose purpose it is to consider, in greater depth than would be practicable at Board meetings, matters for which the Board retains responsibility. The composition of such Committees is reviewed annually. Each Committee operates under terms of reference approved by the Board. The minutes of all meetings of Board Committees are circulated to all Directors, for information and are formally noted by the Board. Papers for all Board Committee meetings are also made available to all Directors, irrespective of membership. This provides an opportunity for Directors who are not members of those Committees to seek additional information or to comment on issues being addressed at Committee level. The terms of reference of the Board Audit Committee, the Board Risk Committee, the Nomination and Corporate Governance Committee and the Remuneration Committee are available on AIB's website at http://investorrelations.aib.ie.

In carrying out their duties, Board Committees are entitled to take independent professional advice, at the Group's expense, where deemed necessary or desirable by the Committee Members.

Reports from the Board Audit Committee, the Board Risk Committee, the Nomination and Corporate Governance Committee and the Remuneration Committee are presented on the following pages.

Governance and oversight – Report of the Board Audit Committee

Letter from Catherine Woods, Chairman of the Board Audit Committee

Dear Shareholder,

On behalf of the Board Audit Committee, I am pleased to introduce the Board Audit Committee Report on the Committee's activities for the financial year ended 31 December 2015.

The Members of the Committee and a record of their meeting attendance during 2015, are outlined in the full report below.

The 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, taxation obligations and relevant Codes of Conduct;
- the independence and performance of the External Auditors ("the Auditors") 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 meetings with and the receipt of reports from the Auditors, the Chief Financial Officer, the Group Internal Auditor, the Chief Risk Officer, the Group General Counsel and the Head of Compliance, each of whom attend the Committee's meetings by invitation. Other senior executives also attend by invitation, where appropriate.

The objective of delivering a more simplified, effective and accountable organisation is at the forefront of the Committee's considerations, and the Committee continues to constructively challenge Management in that regard.

The Committee also recognises the importance of an effective three lines of defence model in strengthening internal controls across the organisation and, in conjunction with the Board Risk Committee, exercises oversight of the effectiveness of risk management and internal control systems.

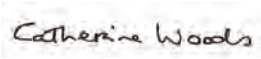
During 2015, key areas of focus for the Committee included:

- the monitoring of the integrity of the Group's 2014 full financial year and 2015 half year financial statements, focusing in particular on the quality and transparency of disclosure, and to support the ongoing strengthening of the internal control environment;
- the adequacy of loan impairment provisions, with focus applied on the governance and process supporting the provisioning process deployed throughout the Group and, in particular, the judgements and methodology applied; and
- the process to address the first of the Central Bank directed enhanced audit assurance reviews of the governance arrangements performed by the Board and Senior Executive Management in order to comply with the EBA Guidelines on Internal Governance ("GL44") in the areas of New Lending and System Security with respect to external threats (Cyber-Crime). The final report was submitted to the Central Bank during June 2015. The Central Bank has directed that the areas of Outsourcing and Regulatory Reporting be reviewed by May 2016.

Throughout the reporting period, through discussion and deliberation with Management, the Committee satisfied itself that the key accounting decisions, risks and significant Management judgements that underlie the financial statements were appropriate. The Committee reviewed the findings of the Auditors and, where applicable, other experts and concluded that disclosures in the financial statements about these judgements and estimates were transparent and appropriate.

More detail on the Committee's activities is outlined in the Committee's full report.

As Chairman of the Board Audit Committee, I reported after each meeting to the Board on the principal matters discussed to ensure all Directors were fully informed of the Committee's work. I would like to extend my appreciation to my colleagues on the Committee for their effective contribution to the Committee's performance during 2015. I am firmly of the view that the balance of skills and experience amongst the Committee Members has ensured a careful balance between independent oversight and challenge and support to Management.



Catherine Woods,
Chairman of the Board Audit Committee

Report of the Board Audit Committee

Membership and meetings

The Board Audit Committee comprises 4 Independent Non-Executive Directors. The Board is satisfied that the Committee is appropriately constituted in the context of the UK Code and other requirements regarding recent and relevant financial experience and competence. Mr Peter Hagan and Ms Catherine Woods are also Members of the Board Risk Committee, the common membership of which is considered to facilitate effective governance across all finance and risk issues. Biographical details of each of the Members are outlined on page 167 and 168.

A total of 12 scheduled meetings of the Committee were held during 2015. Meetings are attended by the Chief Financial Officer and relevant Internal Audit, Finance, Legal and Compliance executives along with the Auditors. At least twice a year the Committee meets in private session with the Auditors and separately with Internal Audit management.

The Chairman and Members of the Committee, together with their attendance at scheduled meetings, are shown below.

Members: Ms Catherine Woods (Chairman), Mr Tom Foley, Mr Peter Hagan, Mr Jim O'Hara

Member attendance during 2015:

	A	B
Tom Foley	12	12
Peter Hagan	12	12
Jim O'Hara	12	11
Catherine Woods	12	12

Column A indicates the number of Committee meetings held during 2015 which the Member was eligible to attend; Column B indicates the number of meetings attended by each Member during 2015.

Performance Evaluation

An evaluation of the Committee's effectiveness was incorporated in the external Board evaluation conducted by Boardroom Review Limited during 2014. The evaluation report highlighted matters relating to cross-membership between the risk and audit committees which has since been rectified.

An internal performance evaluation of the Committee was conducted during 2015. Overall the review concluded that the Committee continued to operate effectively. The outcome of the evaluation was shared with the Board.

Role and responsibilities

The Committee's primary responsibilities are set out in its terms of reference which are reviewed annually by the Committee and approved by the Board. The terms of references are available on the website at http://investorrelations.aib.ie.

Activities

The following, whilst not intended to be exhaustive, is a summary of the activities undertaken by the Committee in the past year in the discharge of its responsibilities.

The Committee:

- reviewed the Group's annual and interim financial statements prior to approval by the Board, including: the Group's accounting policies and practices; the minutes of the Group Disclosure Committee (an Executive Committee whose role is to ensure the compliance of AIB Group financial information with legal and regulatory requirements prior to external publication); reports on compliance; effectiveness of internal controls; and the findings, conclusions and recommendations of the Auditors and Group Internal Auditor;
- in the context of reviewing the financial statements, engaged with Management in respect of accounting matters, and considered matters where Management judgement was important to the results and financial position of the Group, the most significant of which related to:
  - the level of provisions for impairment on loans and receivables and other liabilities and commitments as at 31 December 2015;
  - the accounting considerations and treatments relating to engagement with customers in financial difficulty and associated loan restructuring activity;
  - Management's assessment of the appropriateness of preparing the financial statements of the Group for the financial year ended 31 December 2015 on a going concern basis;
  - the basis of recognition of deferred tax assets in Ireland and the UK;
  - retirement benefit obligations and related accounting treatment and disclosure requirements.

  In addressing these issues, the Committee considered the appropriateness of Management's judgements and estimates. The Auditors were present during such discussion and, where appropriate, the views of the Auditors on Management's approach were sought. The Committee satisfied itself that Management's estimates, judgements and disclosures were appropriate and in compliance with financial reporting standards. A detailed analysis of the significant matters is provided in note 2 to the consolidated financial statements;
- provided advice to the Board in respect of the Annual Financial Report, confirming that the Committee is satisfied that the Annual Financial Report for the financial year ended 31 December 2015, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- reviewed the scope of the independent audit, and the findings, conclusions and recommendations of the Auditors;
- satisfied itself through regular reports from the Group Internal Auditor, the Chief Financial Officer, the Chief Risk Officer, the Auditors and the Head of Compliance that the system of internal controls over financial reporting was effective;
- received regular updates from Group Internal Audit, including monthly reports detailing Internal Audit reports

issued during the previous month, control issues identified and related remediating actions;
– received rolling updates from the Group General Counsel and the Head of Compliance to satisfy itself that the Group was in compliance with all regulatory and compliance obligations and considered key developments and emerging issues, the operation of the Speak-Up process, through which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, 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 AIB UK Audit Committee chairman; and
– held formal confidential consultations during the year separately with the Auditors, the Chief Risk Officer, the Head of Compliance and the Group Internal Auditor, in each case with only Non-Executive Directors present.

Internal Audit

The Committee provides assurance to the Board regarding the independence and performance of the Group Internal Audit function. The Committee considered and approved the annual audit plan and the adequacy of resources allocated to the function. Throughout the year, the Chairman of the Committee met with Group Internal Audit management between scheduled meetings of the Committee to discuss forthcoming agendas for Committee meetings and material issues arising, and the Committee met with the Group Internal Auditor in confidential session once during 2015, in the absence of Management. The Group Internal Auditor has unrestricted access to the Chairman of the Board Audit Committee.

The Committee is responsible for making recommendations in relation to the Group Internal Auditor, including appointment, replacement, and remuneration, in conjunction with the Remuneration Committee, and confirming the Group Internal Auditor's independence. Mr Gareth Cronin was appointed to the role of Group Internal Auditor in October 2015, following the appointment of the previous incumbent to the role of Chief Risk Officer in November 2014. During the intervening period, two senior representatives of the Group Internal Audit function represented the Group Internal Audit function and ensured delivery of the 2015 Plan and the efficiency and effectiveness of the audit process.

External Audit

Deloitte were appointed Auditors by shareholders at the Company's AGM in 2013 following a competitive tender process which was overseen by the Members of the Board Audit Committee.

The Committee provided oversight in relation to the Auditors' effectiveness and relationship with the Group, including agreeing the Auditors' terms of engagement, remuneration, and monitoring the independence and objectivity of the Auditors. To help ensure the objectivity and independence of the Auditors, the Committee policy on the engagement of the Auditors to supply non-audit services outlines the types of non-audit service for which the use of the Auditors is pre-approved, for which specific approval from the Committee is required before they are contracted, and from which the external auditor is excluded. (see note 17 to the consolidated financial statements). Further detail can be found on the company's website at http://investorrelations.aib.ie

The Committee considered the detailed audit plan in respect of the annual and interim financial statements, and the Auditors' findings, conclusions and recommendations arising from the half-yearly and annual audits. The Committee, through consideration of the work undertaken, confidential discussions with the Auditors, feedback received from Management in respect of the audit process, and through its annual evaluation of the Committee's effectiveness, which incorporated questions regarding the external audit process, satisfied itself with regard to the Auditors' effectiveness, independence and objectivity.

The Committee met with the Auditors in confidential session twice during 2015, in the absence of Management, and the Committee Chairman met with the Auditors between scheduled meetings of the Committee to discuss material issues arising.

On the basis of all of the above, and the Committee's determination of the Auditors' effectiveness, independence and objectivity, the Committee recommended that Deloitte should be reappointed as the Auditors at the Annual General Meeting on 24 May 2016.

Governance and oversight – Report of the Board Risk Committee

Letter from Dr Michael Somers, Chairman of the Board Risk Committee (up to 27 January 2016)

Dear Shareholder,

On behalf of the Board Risk Committee, I am pleased to report on the Committee's activities during the financial year ended 31 December 2015.

The Members of the Committee, and their record of attendance at meetings during 2015, are outlined in the full report below.

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, commissioning, receiving and considering reports from the Chief Risk Officer, the Chief Credit Officer, the Chief Financial Officer and the Group Internal Auditor, all of whom attend each meeting of the Committee. Other members of Senior Management also attend meetings by invitation as appropriate.

Key areas of focus for the Committee during 2015 included consideration of:

- the trend and status of the overall risk profile of the Group and of individual risk categories;
- the risk appetite statement and the ongoing monitoring of performance against agreed risk metrics;
- the review of risk related policies and frameworks;
- the Group's capital and liquidity position, with particular reference to the Internal Capital Adequacy Assessment Process ("ICAAP") and Internal Liquidity Adequacy Assessment Process ("ILAAP");
- updates received on significant credit activity across the organisation.

Throughout the reporting period, through discussion and deliberation with Management, the Committee satisfied itself that the key risks facing the organisation were being appropriately managed with relevant mitigants in place and apposite actions taken where necessary.

Further detail on the Committee's activities is provided in the Committee's full report.

To ensure that all Directors are aware of the Committee's work, I provided an update to Board each month on the key topics considered by the Committee. I am satisfied that the balance of skills and experience amongst the Committee Members has ensured a careful balance between independent risk oversight and challenge and support to Management.

I wish to express my gratitude to my fellow Members for their effective contribution to the working of the Committee during 2015 and also for their support during my five year tenure as Chairman, which concluded on 27 January 2016. I wish my successor as Chairman, Mr Peter Hagan, every success in the role.

Dr Michael Somers,
Chairman of the Board Risk Committee during 2015

Governance and oversight – Report of the Board Risk Committee

Report of the Board Risk committee

Membership and meetings

The Board Risk Committee comprises 4 independent 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 Board Audit Committee, Mr Peter Hagan and Ms Catherine Woods are also Members of the Board Audit Committee and this common membership provides effective oversight across relevant risk and finance issues. In addition, to ensure that remuneration policies and practices are consistent with and promote sound and effective risk management, common membership between the Board Risk Committee and the Remuneration Committee is maintained, with Mr Peter Hagan having been a member of both Committees during 2015. With Mr Peter Hagan stepping down as a Member of the Remuneration Committee on 28 January 2016, common membership continues through the appointment to the Remuneration Committee of Mr Simon Ball. Biographical details of each of the Members are outlined on pages 166 to 168.

The Committee met on ten occasions during 2015 and all meetings were attended by the Auditors, the Chief Financial Officer, the Chief Risk Officer, the Chief Credit Officer, and Group Internal Audit and on occasion by the Chief Executive Officer. Other senior executives also attended by invitation where appropriate. The Committee meets individually, on an annual basis, with the Chief Risk Officer, the Group Internal Auditor and the Chief Credit 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 Chairman and Members of the Committee, together with their attendance at scheduled meetings, are shown below.

Members: Mr Peter Hagan, Chairman (with effect from 28 January 2016), Mr Simon Ball, Dr Michael Somers (Chairman up to 27 January 2016), Ms Catherine Woods.

Member attendance during 2015:

	A	B
Simon Ball	10	10
Peter Hagan	10	10
Dr Michael Somers	10	10
Catherine Woods	10	10

Column A indicates the number of Committee meetings held during 2015 which the Member was eligible to attend; Column B indicates the number of meetings attended by each Member during 2015.

Performance Evaluation

An internal evaluation of the Committee's performance was conducted in 2015. While identifying some areas for potential enhancement, the overall results concluded that the Committee continued to operate in an effective manner.

Role and responsibilities

The Board Risk Committee assists the Board in proactively fostering sound risk governance within the Group through ensuring that risks are appropriately identified and managed, and that the Group's strategy is informed by, and aligned with, the Board approved risk appetite. The Committee's Terms of Reference are available on the Group's website at http://investorrelations.aib.ie.

Activities

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 provide an overview of key risks including liquidity and funding, capital adequacy, credit risk, market risk, regulatory risk, business risk, conduct risk and related mitigants;
- periodic reports and presentations from Management and the Chief Credit Officer regarding the credit quality, performance, provision levels and outlook of key credit portfolios within the Group;
- items of a risk related nature, including:
  (a) governance and organisational frameworks;
  (b) the risk appetite framework and risk appetite statement;
  (c) the funding and liquidity policy, strategy and related stress tests;
  (d) risk frameworks and policies, including those relating to (i) credit and credit risk, (ii) capital management, (iii) financial risk, including market risk, and (iv) conduct risk;
  (e) capital planning, including consideration of the Group ICAAP and ILAAP reports and related firm wide stress test scenarios; and
  (f) macro-economic scenarios for financial planning;
- reports from Management on a number of specific areas in order to ensure that appropriate Management oversight and control was evident, including:
  (a) Anti-Money Laundering/Financial Sanctions policies and frameworks;
  (b) significant operational risk events and potential risks;
  (c) credit risk performance and trends, including monthly overview of significant credit transactions;
  (d) structure and operation of the Compliance function; and
  (e) regulatory developments, including business preparedness for the introduction of IFRS 9 *Financial Instruments* and the Capital Requirements Directive ("CRD IV")
- Recovery and Resolution planning;
- Management's plans and progress in meeting actions required under 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.

Governance and oversight – Report of the Nomination and Corporate Governance Committee

Letter from Richard Pym, Chairman of the Nomination and Corporate Governance Committee

Dear Shareholder,

On behalf of the Nomination and Corporate Governance Committee, I am pleased to introduce the Nomination and Corporate Governance Committee (the "Committee") Report on the Committee's activities for the financial year ended 31 December 2015.

The Members of the Committee and a record of their meeting attendance during 2015, are outlined in the full report below.

The Nomination and Corporate Governance Committee has oversight responsibility for:

- reviewing the size, structure and composition of the Board, including its numerical strength, the ratio of executive to non-executive directors, the balance of skills, knowledge and experience of individual Members of the Board and of the Board collectively, and the diversity and service profiles of the Directors, and making recommendations to the Board with regard to any changes considered appropriate;
- identifying persons who, having regard to the criteria laid down by the Board, appear suitable for appointment to the Board, evaluating the suitability of such persons and making recommendations to the Board;
- reviewing the size, structure, composition, diversity and skills of the Board Committees and subsidiary company Boards and the independence of Non-Executive Directors;
- reviewing Board and Senior Executive succession planning;
- monitoring the Group's corporate social responsibilities and activities concerning customers, staff, the marketplace, the environment and the community;
- reviewing and assessing the adequacy of the Company's corporate governance policies and practices.

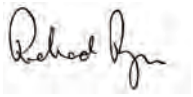
Discharge of these responsibilities is supported by meetings with and the receipt of reports from the Company Secretary and various other members of Senior Executive Management, including the Chief People Officer and the Chief Executive Officer, who attend Committee meetings by invitation.

Key areas of focus for the Nomination and Corporate Governance Committee during 2015 included:

- the search process to identify a suitable successor to the role of Chief Executive Officer, following notification from Mr David Duffy on 19 January 2015 of his decision to step down to pursue a career opportunity overseas;
- the search for a new Non-Executive Director with a particular skillset identified by the Board, resulting in the subsequent appointment of Ms Helen Normoyle on 17 December 2015;
- consideration of appointments to the Leadership Team, and Leadership Team development and succession planning;
- the Group's compliance with corporate governance requirements and related policies and practices.

More detail on the Committee's activities is outlined in the Committee's full report.

As Chairman of the Nomination and Corporate Governance Committee, I reported after each meeting to the Board on the principal matters discussed to ensure all Directors were fully informed of the Committee's work. I would like to extend my appreciation to my colleagues on the Committee for their effective contribution to the Committee's performance during 2015.



Richard Pym,
Chairman of the Nomination and Corporate Governance Committee

Governance and oversight – Report of the Nomination and Corporate Governance Committee

Report of the Nomination and Corporate Governance Committee

Membership and meetings

The Nomination and Corporate Governance Committee currently comprises 4 Independent Non-Executive Directors whom the Board has determined have the collective skills and experience to enable the Committee to discharge its responsibilities. Mr Peter Hagan stood down as a Member of the Committee on 28 January 2016. Biographical details of each of the Members are outlined on pages 166 to 168.

The Committee met on thirteen occasions during 2015.

The Chairman and Members of the Committee, together with their attendance at scheduled meetings, are shown below.

Members: Mr Richard Pym (Chairman), Mr Simon Ball, Mr Peter Hagan (Member to 28 January 2016), Mr Jim O'Hara, Dr Michael Somers

Member attendance during 2015:

	A	B
Richard Pym	13	13
Simon Ball	13	13
Jim O'Hara	13	13
Dr Michael Somers	13	13
Former member:		
Peter Hagan	13	13

Column A indicates the number of Committee meetings held during 2015 which the Member was eligible to attend; Column B indicates the number of meetings attended by each Member during 2015.

Performance Evaluation

An internal performance evaluation of the Committee was conducted during 2015. Overall, the review concluded that the Committee continued to operate effectively. The outcome of the evaluation was shared with the Board.

Role and responsibilities

The Committee's primary responsibilities are set out in its terms of reference which are reviewed annually by the Committee and approved by the Board. The terms of references are available on the website at http://investorrelations.aib.ie.

Activities

The following, whilst not intended to be exhaustive, is a summary of the activities undertaken by the Committee in the past year in the discharge of its responsibilities.

The Committee:

- considered and recommended to the Board the appointment of a successor as Chief Executive Officer, following an extensive candidate search and evaluation process;
- led the search process for the identification of a new Non-Executive Director with the requisite skillset for appointment to the Board;
- reviewed the schedule of matters reserved for the Board;
- considered Board skills and succession planning;
- recommended to the Board appointments to key executive positions;
- considered compliance with the Central Bank of Ireland and UK Corporate Governance Codes and other corporate governance requirements;
- reviewed the independence of individual Directors and the Board;
- considered the outcome of the leadership development review programme for the Leadership Team;
- monitored progress against the Board Diversity Policy and related targets;
- reviewed corporate governance related policies, including the Code of Conduct and Conflict of Interest Policy for Directors, the Board Governance Handbook, and the Policy for the Assessment of the Suitability of Members of the Board, and recommended their approval to the Board.

Board appointments

The search for suitable candidates for the Board is a continuous process, and recommendations for appointment are made based on merit and objective criteria, having regard to the collective skills, experience and diversity requirements of the Board.

In addressing appointments to the Board, a role profile for the proposed new Board Member is prepared by the Chief People Officer and the Company Secretary on the basis of the criteria laid down by the Board or the Nomination and Corporate Governance Committee, taking into account the existing skills and expertise of the Board and the anticipated time commitment required.

The services of experienced third party professional search firms are retained for Non-Executive Director appointments at the discretion of the Nomination and Corporate Governance Committee. The typical process involves a series of meetings and interviews with potential candidates, at different stages in the process by the Chairman and Members of the Committee. A comprehensive due diligence process is undertaken which includes candidates' self-certification of probity and financial soundness and external checks involving a review of various publicly available sources. The due diligence process facilitates the Committee in satisfying itself as to the candidate's independence, fitness and probity, and capacity to devote sufficient time to the role. A final recommendation is made to the Board by the Committee.

The Relationship Framework specified by the Minister for Finance, which governs the relationship between the Company and the State as shareholder, requires the Board to obtain the written consent of the Minister in accordance with a pre-determined consent/consultation procedure ("the procedure") before appointing, reappointing or removing the Chairman or Chief Executive Officer, and to consult with the Minister in accordance with the procedure in respect of all other Board appointments proposed.

On the recommendation of the Committee, the Board approved a formal Policy for the Assessment of the Suitability of Members of the Board, which outlines the board appointments process, in accordance with European Banking Authority Guidelines.

JCA Group were retained to assist with our Non-Executive Director search during 2015. JCA Group have no other connection with AIB, other than to provide executive recruitment services. Open advertising was not used in 2015 for Non-Executive Board positions as the Committee believes that targeted recruitment, based on the agreed role and skills profile specification, is the optimal way of recruiting for these positions.

Diversity

Employee diversity and inclusion in AIB is addressed through policy, practices and values which recognise that a productive workforce comprises different work styles, cultures, generations, genders and ethnic backgrounds and oppose all forms of unlawful or unfair discrimination. The efficacy of related policy and practices and the embedding of Company values is overseen by the Board.

The Board recognises and embraces the benefits of diversity among its own Members, including diversity of skills, experience, background, gender, ethnicity and other qualities, and is committed to achieving the most appropriate blend and balance of diversity possible over time. To this end, the Board approved a Board Diversity Policy during February 2015 which states that the Board's aim, with regard to gender diversity, is to ensure that the percentage of females on the Board reaches or exceeds 25 per cent by the end of 2016 and thereafter. A copy of the Board Diversity Policy is available on the website at http://investorrelations.aib.ie.

The Nomination and Corporate Governance Committee is responsible for developing measurable objectives to effect the implementation of this policy and for monitoring progress towards achievement of the objectives. The policy and performance relative to the target is reviewed annually by the Committee in conjunction with Board succession and skills planning.

Notwithstanding the lengthy approval process required to be undertaken prior to appointment to the Board, the Committee is satisfied that adequate progress is being made in addressing the underrepresentation of female members on the Board, with the percentage of females on the Board currently at 20%. Details of performance relative to targets outlined therein will be published during 2016 on the Company's website.

Governance and oversight – Report of the Remuneration Committee

Letter from Jim O'Hara, Chairman of the Remuneration Committee

Dear Shareholder,

As Chairman of the Remuneration Committee, I am pleased to introduce this report on the Committee's activities during 2015.

The Members of the Committee, and their record of attendance at meetings during 2015, are outlined in the full report below.

The Remuneration Committee has responsibility for:
- recommending Group remuneration policies and practices to the Board:
- the remuneration of the Chairman of the Board (which matter is considered in his absence);
- determining the remuneration of the Chief Executive Officer, other Executive Directors, and the other members of the Leadership Team, under advice to the Board;
- reviewing 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");
- performance-related and share-based incentive schemes, when appropriate.

AIB's Remuneration Policy continues to be governed by the Subscription and Placing Agreements in place with the Irish State and encompasses all financial benefits available to employees across the Group.

The Committee's responsibilities are discharged through regular meetings which consider relevant submissions and reports from Senior Management and ongoing interaction and consultation with the Chief People Officer.

During 2015, key areas of focus for the Committee included:
- the remuneration of the incoming Chief Executive Officer and newly appointed members of the Leadership Team;
- ongoing compliance with relevant statutory and regulatory remuneration requirements and guidelines;
- the appointment of new external independent remuneration consultants;
- the overall reward strategy for the Group;
- the resignation of certain senior executives.

Further detail on the Committee's activities during 2015 is included in the Committee's full report.

As Chairman, I have ensured that all Directors are kept up to date on the work of the Committee through the provision of periodic updates at Board meetings. I would like to acknowledge the valuable input of my colleagues on the Committee to its effective operation and thank them for their endeavours during 2015.

Jim O'Hara
Chairman of the Remuneration Committee

Report of the Remuneration Committee

Membership and Meetings

The Remuneration Committee comprises 4 Independent Non-Executive Directors whom the Board is satisfied possess the required knowledge and experience to enable the Committee to operate effectively. To ensure that remuneration policies and practices are consistent with and promote sound and effective risk management, common membership between the Remuneration Committee and the Board Risk Committee is maintained, with Mr Peter Hagan having been a member of both Committees during 2015. Mr Simon Ball was appointed to the Committee on 17 December 2015 and Mr Peter Hagan stood down as a Member of the Committee on 28 January 2016. The appointment of Mr Simon Ball to the Remuneration Committee ensures that common membership between the Remuneration Committee and the Board Risk Committee continues.

Biographical details of each of the Members are outlined on pages 166 to 168.

The Committee met on ten occasions during 2015. Meetings are attended by the Chief Executive Officer, the Chief People Officer, the Head of Pensions and Reward and, where relevant, by other Senior Management on the invitation of the Chairman.

The Chairman and Members of the Committee, together with their attendance at scheduled meetings, are shown below.

Members: Mr Jim O'Hara (Chairman), Mr Simon Ball (Member from 17 December 2015) Mr Tom Foley, Mr Peter Hagan (Member to 28 January 2016), Mr Richard Pym.

Member attendance during 2015:	A	B
Tom Foley	10	10
Simon Ball	–	–
Jim O'Hara	10	10
Richard Pym	10	10
Former member:		
Peter Hagan	10	10

Column A indicates the number of Committee meetings held during 2015 which the Member was eligible to attend; Column B indicates the number of meetings attended by each Member during 2015.

Performance Evaluation

The Committee undertakes an annual review of its effectiveness and the review completed in 2015 concluded that the Committee continued to operate in an effective manner.

Role and responsibilities

The Committee's primary responsibilities are described in its terms of reference which are reviewed annually with any proposed amendments submitted to the Board for approval. A copy of the terms of reference is available on the Group's website at http://investorrelations.aib.ie

Activities

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 2015:

- the proposed remuneration of the incoming Chief Executive Officer and that of newly appointed members of the Leadership team;
- the overall remuneration strategy for the organisation, including consideration of proposals regarding a general pay review implemented during 2015;
- ongoing compliance with relevant provisions of the Capital Requirements Directive ("CRD IV") and the Central Bank of Ireland's guidelines on the remuneration of sales staff;
- the appointment of external independent remuneration consultants and consideration of reports prepared by them;
- the 2014 Annual Financial Report remuneration disclosures and the 2014 Remuneration Disclosure Report;
- the resignation of certain senior executives.

Directors' remuneration

Details of the total remuneration of the Directors in office during 2015 and 2014 are shown in the Directors' Remuneration report on the following pages 193 to 194.

Governance and oversight – Directors' Remuneration report

Remuneration Policy and Governance

The Remuneration Policy is the governing framework which underpins AIB's remuneration policies, procedures and practices. The scope of the Remuneration Policy includes all financial benefits available to employees and extends to all areas of the Group. The key objectives of the Remuneration Policy are to support the achievement of the Group's long term objectives, to provide employees with fair and competitive remuneration, to promote effective risk management and to maintain and support strong capital and liquidity levels of the Group. The Remuneration Policy is governed by the Remuneration Committee on behalf of the Board. The Remuneration Committee's governance role in this respect is contained in the Committee's terms of reference. The terms of reference of the Remuneration Committee were reviewed in 2015 by the Committee.

Capital Requirements Directive and European Banking Authority Guidelines

During 2014, the Remuneration Policy was updated to incorporate the newly introduced provisions of the Capital Requirements Directive ("CRD") and accompanying Capital Requirements Regulations ("CRR") which came into force with effect from 1 January 2014. There were no changes made to the Remuneration Policy in 2015. In December 2015, the European Banking Authority ("EBA") issued its final guidelines on sound remuneration policies (the 'Guidelines'). The Guidelines are due to come into effect from 1 January 2017 and will replace the existing guidelines issued by the EBA's predecessor, the Committee of European Banking Supervisors ("CEBS"), in December 2010. The Remuneration Policy will be updated in 2016 to reflect the new Guidelines.

Disclosure

In May 2015, AIB published its Remuneration Disclosure Report for 2014 as part of the Group's Pillar III Disclosures. These are available on the Group's website. The Disclosure Report provided a summary of AIB's practices in relation to decision making and governance of remuneration, the link between pay and performance, the remuneration of those staff whose professional activities are considered to have a material impact on AIB's risk profile and the key components of AIB's remuneration structure. The Remuneration Disclosure Report for 2015 will be published in 2016 and will be available on the Group website. Furthermore, in accordance with EBA remuneration benchmarking requirements, AIB disclosed the remuneration data for 2014 in respect of Identified Staff and High Earners (those earning above €1 million) to the Central Bank of Ireland. There were no individuals whose earnings exceeded €1 million.

Remuneration Review

AIB's remuneration practices operate under a number of constraints arising from State ownership, principally from the provisions of Placing and Subscription Agreements and through commitments provided by AIB to the Minister for Finance in respect of remuneration practices. These constraints cover the remuneration of directors, executives, employees and service providers across the Group. The Board recognises the need to attract, retain and embed the right skill-sets and behaviours which reflect AIB's Brand Values and which will enable AIB to deliver long term sustainable growth within the parameters of AIB's Risk Appetite Statement and the State Agreements. The remuneration of Senior Executives within the Group was determined by the Remuneration Committee in accordance with these State Agreements.

On 6 August 2015, the Labour Relations Commission (LRC) issued a number of recommendations in relation to current and future pay arrangements. These included a 2% base pay increase for employees earning up to €100,000 or £80,000, effective from 1 January 2015. This was paid to eligible employees in September 2015.

The LRC further recommended that future salary increases be entirely performance based using an agreed performance matrix and determined by such factors as cost of living, the Group's financial performance, market movement and other relevant considerations. It was also recommended that the next pay review would be due from 1 April 2016.

Notwithstanding the general pay increase above, remuneration continued to be closely monitored in line with financial performance and the constraints arising under State Agreements. Out-of-course salary increases were managed within tight budgetary parameters with increases primarily restricted to retaining key staff and skills or to instances where staff stepped up to expanded roles in light of restructuring or staff departures.

Remuneration across the Group was principally comprised of fixed pay and pension provisions. Following the closure of all defined benefit schemes to future accrual on 31 December 2013, all employees were migrated to a new defined contribution scheme. There were no bonus schemes or share incentive schemes in operation in 2015.

Directors' remuneration*

The following tables detail the total remuneration of the Directors in office during 2015 and 2014:

Remuneration	Directors' fees Parent and Irish subsidiary companies[1] € 000	Directors' fees AIB Group (UK) p.l.c.[2] € 000	Salary € 000	Annual taxable benefits[3] € 000	Pension contribution[4] € 000	2015 Total € 000
Executive Directors						
Mark Bourke			450	30	90	570
Bernard Byrne			479	12	96	587
David Duffy *(Resigned 29 May 2015)*			177	3	27	207
			1,106	45	213	1,364
Non-Executive Directors						
Simon Ball	80					80
Tom Foley[2]	90	31				121
Peter Hagan	95					95
Helen Normoyle *(Appointed 17 December 2015)*	3					3
Jim O'Hara	100					100
Richard Pym[1(a)] *(Chairman)*	365					365
Dr Michael Somers[1(b)] *(Deputy Chairman)*	120					120
Catherine Woods	143					143
	996	31				1,027
Former Directors						
Declan Collier[2]		61				61
Stephen L Kingon[2]		63				63
Anne Maher[5]	39					39
David Pritchard[2]		110				110
Other[6]						10
Total						2,674

[1] Fees paid to Non-Executive Directors in 2015 were as follows:

(a) Mr Richard Pym, Chairman, was paid a non-pensionable flat fee of € 365,000, which includes remuneration for all services as a director of Allied Irish Banks, p.l.c.;

(b) Dr Michael Somers, Deputy Chairman and former Chairman of the Board Risk Committee, was paid a non-pensionable flat fee of € 120,000 which includes remuneration for all services as a director of Allied Irish Banks, p.l.c. (Note – Dr Somers resigned as Board Risk Committee Chairman in January 2016 and was replaced by Mr Peter Hagan);

(c) All other Non-Executive Directors were paid a basic, non-pensionable fee of € 65,000 in respect of service as a Director and additional non-pensionable remuneration in respect of other responsibilities, such as through the chairmanship or membership of Board Committees or the board of a subsidiary company or performing the role of Senior Independent Non-Executive Director;

[2] Current or former Non-Executive Directors of Allied Irish Banks, p.l.c. who also serve as Directors of AIB Group (UK) p.l.c. ("AIB UK") are separately paid a non-pensionable flat fee, which is independently agreed and paid by AIB UK, in respect of their service as a Director of that company. In that regard, Messrs Foley, Collier, Kingon and Pritchard earned fees as quoted during 2015;

[3] 'Annual taxable benefits' represents a non-pensionable cash allowance in lieu of company car, medical insurance and other contractual benefits;

[4] 'Pension contribution' represents agreed payments to a defined contribution scheme to provide post-retirement pension benefits for Executive Directors from normal retirement date. The fees of the Chairman, Deputy Chairman and Non-Executive Directors are non-pensionable;

[5] Ms Anne Maher is a former Non-Executive Director of Allied Irish Banks, p.l.c. who has, since her resignation, continued as a Director of the Corporate Trustee of the AIB Irish Pension Scheme and of the AIB Defined Contribution Scheme, in respect of which she earned fees as quoted;

[6] 'Other' represents the payment of pensions to former Directors or their dependants granted on an ex-gratia basis and are fully provided for in the Statement of financial position;

*Forms an integral part of the audited financial statements

Governance and oversight – Directors' Remuneration report

Directors' remuneration* *(continued)*

Remuneration	Directors' fees Parent and Irish subsidiary companies € 000	Directors' fees AIB Group (UK) p.l.c. € 000	Salary € 000	Annual taxable benefits € 000	Pension contribution € 000	2014 Total € 000
Executive Directors						
Mark Bourke *(Appointed 29 May 2014)*			266	18	53	337
Bernard Byrne			450	30	90	570
David Duffy			425	–	64	489
			1,141	48	207	1,396
Non-Executive Directors						
Simon Ball	85					85
Tom Foley	90					90
Peter Hagan	88					88
David Hodgkinson *(Chairman to 30 November 2014, retired on 18 December 2014)*	265					265
Jim O'Hara	100					100
Richard Pym *(Appointed 13 October 2014, Chairman from 1 December 2014)*	80					80
Dr Michael Somers *(Deputy Chairman)*	120					120
Dick Spring *(retired on 18 December 2014)*	77					77
Tom Wacker *(retired on 12 October 2014)*	59	44				103
Catherine Woods	115					115
	1,079	44				1,123
Former Directors						
Declan Collier		56				56
Kieran Crowley		50				50
Stephen L Kingon		64				64
Anne Maher	41					41
David Pritchard		108				108
Other						26
Total						2,864

*Forms an integral part of the audited financial statements

Directors' remuneration* *(continued)*
Interests in shares

Following consolidation of the Company's ordinary shares on 21 December 2015, on foot of shareholder approval, the beneficial interests of the Directors and the Secretary in office at 31 December 2015, and of their spouses and minor children, in the Company's ordinary shares are as follows:

Ordinary shares	31 December 2015	1 January 2015**
Directors:		
Simon Ball	–	–
Mark Bourke	–	–
Bernard Byrne	–	–
Tom Foley	1	100
Peter Hagan	–	–
Helen Normoyle	–	–
Jim O'Hara	–	–
Richard Pym	–	–
Dr Michael Somers	55	13,437
Catherine Woods	–	–
Secretary:		
David O'Callaghan	31	7,490

**or date of appointment, if later

The following table sets out the beneficial interests of the Directors and Leadership Team (Senior Executive Officers) members of AIB as a group (including their spouses and minor children) at 31 December 2015.

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	115	***

***The total shares in issue at 31 December 2015, was 2,714,381,238.

Directors' remuneration* *(continued)*
Share options

No share options were granted or exercised during 2015 and there were no options to subscribe for ordinary shares outstanding in favour of the Executive Directors or Company Secretary at 31 December 2015.

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 2015 in the names of Executive Directors and members of the Leadership Team was Nil as follows:

Outstanding as at 31 December 2014:	5,000
Add: Options held by Senior Executive Officers appointed during 2015	–
Add: Options granted during 2015	–
Less: Options exercised during 2015	–
Less: Options lapsed during 2015	(5,000)
Less: Options held by Senior Executive Officers who left office during 2015	–
Options outstanding as at 31 December 2015	–

Performance shares

There were no conditional grants of awards of ordinary shares outstanding to Executive Directors or the Company Secretary at 31 December 2015.

Apart from the interests set out above, the Directors and Secretary in office at 31 December 2015, 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 2015 and 2 March 2016.

The year-end closing price, on the Enterprise Securities Market of the Irish Stock Exchange, of the Company's ordinary shares was € 6.66 per share; during the year, the price ranged from € 0.04 to € 0.11 prior to the share consolidation completed on 21 December 2015 and from € 8.50 to € 6.66 between then and the year end.

Service contracts

There are no service contracts in force for any Director with the Company or any of its subsidiaries.

*Forms an integral part of the audited financial statements

Governance and oversight – Viability statement / Internal controls

Viability statement

In accordance with provision C.2.2 of the 2014 revision of the UK Corporate Governance Code, the Directors have assessed the viability of the Group taking into account its current position and the principal risks facing the Group over the next three years to 31 December 2018. The Directors concluded that a three year time span was an appropriate period for the annual assessment given that this is the key period of focus within the Group's strategic planning process. The strategic plan is considered annually and is subject to stress testing to reflect the potential impact of plausible yet severe scenarios which take account of the principal risks and uncertainties facing the Group.

The assessment considered the current financial performance, funding and liquidity management and capital management of the Group, as set out in the Business review section on pages 22 to 42 and the governance and organisation framework through which the Group manages and seeks, where possible, to mitigate risk, as described on pages 60 to 62. A robust assessment of the principal risks facing the Group including those that would threaten the business operations, governance and internal control systems was also undertaken and considered, the details of which are included on pages 50 to 59.

The Directors have a reasonable expectation, taking into account the Group's current position, and subject to the identified principal risks, that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period of assessment.

Internal controls

Directors' Statement on Risk Management and Internal Controls

The Board of Directors is responsible for the effective management of risks and opportunities and for the system of internal controls in the Group. The Group operates a continuous risk management process which identifies and evaluates the key risks facing the Group and its subsidiaries. The system of internal controls is designed to ensure that there is thorough and regular evaluation of the nature and extent of risks and the ability of the Group to react accordingly, rather than to eliminate risk. This is done through a process of identification, measurement, monitoring and reporting, which provides reasonable, but not absolute, assurance against material misstatement, error, loss or fraud. This process includes an assessment of the effectiveness of internal controls, which was in place for the full year under review up to the date of approval of the accounts, and which accords with the Central Bank Code and the UK Corporate Governance Code.

Supporting this process, the Group's system of internal control is based on the following:

Board governance and oversight

- The Board reviews the effectiveness of the system of internal control on a continuous basis supported by a number of sub-committees including a Board Risk Committee ("BRC"), a Board Audit Committee, a Remuneration Committee and a Nomination and Corporate Governance Committee.
- The BRC is responsible for fostering sound risk governance within the Group, ensures risks within the Group are appropriately identified, managed and controlled and ensures that the Group's strategy is informed by, and aligned with, the Group's Risk Appetite Statement.
- The Board Audit Committee reviews various aspects of internal control, including the design and operating effectiveness of the financial reporting framework, the Group's statutory accounts and other published financial statements and information. It also ensures that no restrictions are placed on the scope of the statutory audit or the independence of the Internal Audit and Regulatory Compliance functions.
- The Board Audit Committee's review of the Business Governance Assurance process at regular intervals throughout the year forms an integral part of its assessment of the internal control environment.
- The Chief Financial Officer ("CFO"), the Chief Risk Officer ("CRO") and the Group Internal Auditor are involved in all meetings of the Board Audit Committee and BRC.
- AIB's remuneration policies are set and governed by the Remuneration Committee whose purpose, duties and membership are to ensure that remuneration policies and practices are consistent with and promote effective risk management.
- The Nomination and Corporate Governance Committee's responsibilities include, amongst others, recommending candidates to the Board for appointment as Directors and reviewing the size, structure and composition of the Board and the Board Committees.

Executive risk management and control

- At the executive level, a Leadership Team is in place with responsibility for establishing business strategy, risk appetite, enterprise risk management and control.
- The Group operates a 'three lines of defence' framework in the delineation of accountabilities for risk governance.
- The Executive Risk Committee ("ERC") which is a sub-committee of the Leadership Team reviews the effectiveness and application of the Group's risk frameworks and policies, risk profile, risk concentrations and adherence to Board approved risk appetite and limits.
- The Group Asset and Liability Committee ("ALCo") is a sub-committee of the Leadership Team and acts as the Group's strategic balance sheet management forum that combines a business decisioning and risk governance mandate.

Governance and oversight – Internal controls

Internal controls *(continued)*

- There is a centralised risk control function headed by the CRO who is responsible for ensuring that risks are identified, measured, monitored and reported on, and for reporting on risk mitigation actions.
- The Risk function is responsible for establishing and embedding risk management frameworks, ensuring that material risk policies are reviewed, and reporting on adherence to risk limits as set by the Board of Directors.
- The Group's risk profile is measured against its risk appetite on a monthly basis and exceptions are reported to the ERC and BRC via the monthly CRO report. Material breaches of risk appetite are escalated to the Board and reported to the Central Bank of Ireland/SSM.
- The centralised Credit function is headed by a Chief Credit Officer who reports to the CRO.
- There is an independent Compliance function which provides advisory services to the Group and which monitors and reports on conduct of business and financial crime compliance and forthcoming regulations across the Group, and on Management's focus on compliance matters.
- There is an independent Group Internal Audit function which is responsible for independently assessing the effectiveness of the Group's corporate governance, risk management and internal controls and which reports directly to the Chairman of the Board Audit Committee.
- AIB employees who perform Pre-Approved Controlled functions/Controlled functions meet the required standards as outlined in AIB's Fitness and Probity programme.

For further information on the Risk management framework of the Group see pages 60 to 62 of this report.

In the event that material failings or weaknesses in the systems of risk management or internal control are identified, the relevant Leadership Team member is required to attend the relevant Board forum to provide an explanation of the issue and to present a proposed remediation plan. Agreed remediation plans are tracked to conclusion, with regular status updates provided to the relevant Board forum.

Given the work of the Board, BRC, Board Audit Committee and representations made by the Leadership Team during the year, the Board is satisfied that the necessary actions to address any material failings or weaknesses identified through the operation of the Group's risk management and internal control framework have been taken, or are currently being undertaken. In addition, the Board has considered the identification in 2015 of failings that originated in prior years that require customer redress.

Taking this and all other information into consideration as outlined above, the Board is satisfied that there has been an effective system of control in place throughout the year.

Code of conduct

In June 2012, the Group adopted a new Code of Conduct in relation to business ethics that applies to all employees (the "Code of Conduct"). The Code of Conduct sets out the key standards for behaviour and conduct that apply to all employees, and includes particular requirements regarding responsibilities of Management for ensuring that business and support activities are carried out to the highest standards of behaviour. The application of the Code of Conduct is underpinned by policies, practices and training which are designed to ensure that the Code is understood and that all employees act in accordance with it. The Code of Conduct is reviewed and re-launched annually, with the most extensive revisions to the Code taking place in September 2014.

The Code of Conduct is supported by the Group's Speak-Up policy which 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, the Group will not tolerate any victimisation or unfair treatment of the employee as a result.

The Protected Disclosure Act 2014 (Republic of Ireland) came into law in July 2014 and provides statutory protection for whistleblowers in relation to reporting potential wrongdoing in the workplace. An extensive review of the Speak-Up policy in 2014 addressed the requirements of the Protected Disclosure Act 2014, as well as the UK Public Interest Disclosure Act 1998 (as amended 2013) and the recommendations of the UK Whistleblowing Commission (2013). The Speak-Up policy is reviewed at least annually to ensure that it continues to address all legislative requirements within the jurisdictions in which the Group operates and continues to promote industry practice.

The Code of Conduct and supporting policies are subject to annual review and update to the Board.

Governance and oversight – Other governance information

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 available on the Company's website at http://investorrelations.aib.ie and is sent in hard copy to those shareholders who request it, the following communication tools are used by the Group:

Shareholders' Report

The Shareholders' Report ('the Report') is a summary version of AIB's Annual Financial Report. This Report, which covers AIB's performance in the previous year, is sent to shareholders who have opted to receive it instead of the full Annual Financial Report. This summary report does not form part of the Annual Financial Report and is referred to for reference purposes only.

Website

The website, http://investorrelations.aib.ie, contains, for the previous five years, the Annual Financial Report, the Interim Report/Half-yearly Financial Report, and the Annual Report on Form 20-F for relevant years. In accordance with the Transparency (Directive 2004/109/EC)(Amendment)(No.2) Regulations 2015, this and all future Annual and Half-Yearly Financial Reports will remain available to the public for at least ten years. For the period 2008 to 2013, the Annual Financial Report and the Annual Report on Form 20-F were combined. The Group's presentation to fund managers and analysts of annual and interim financial results are also available on the Company's website. None of the information on the website is incorporated in, or otherwise forms part of, this Annual Financial Report.

Annual General Meeting ("AGM")

All shareholders are invited to attend the AGM and to participate in the proceedings. At the AGM, it is practice to give a brief update on the Group's performance and developments of interest for the year to date. Separate resolutions are proposed on each separate issue and voting is conducted by way of poll. The votes for, against, and withheld, on each resolution, including proxies lodged, are subsequently published on AIB's website. Proxy forms provide the option for shareholders to direct their proxies to withhold their vote. It is usual for all Directors to attend the AGM and to be available to meet shareholders before and after the meeting. The Chairmen of the Board Committees are available to answer questions about the Committees' activities. A help desk facility is available to shareholders attending. The Company's 2016 AGM is scheduled to be held on 24 May 2016, at the RDS Concert Hall, Merrion Road, Ballsbridge, Dublin 4 and it is intended that the Notice of the Meeting will be posted to shareholders at least 20 working days before the meeting, in accordance with UK Code requirements.

Governance and oversight – Supervision and Regulation

Current climate of regulatory change

The level of regulatory risk remained high in 2015 as the regulatory landscape for the banking sector continued to evolve with a strong focus on supporting the stability of the banking system and ensuring appropriate resolution and recovery mechanisms are in place post the global financial crisis.
The Group is committed to proactively identifying regulatory and compliance obligations arising in each of the Group's operating markets in Ireland, the United Kingdom and the United States and ensuring the timely implementation of regulatory change. Throughout 2015, projects were mobilised within the Group to prepare for the significant regulatory change horizon as outlined below.

The level of regulatory change is expected to continue in 2016.

Conduct risk

The Group is exposed to many forms of conduct risk, which may arise in a number of ways. The Group needs to be able to demonstrate how it delivers fair treatment and transparency to, and uphold the best interests of customers. The evidential standards required by the Group's regulators in this regard are very high. The Group may be subject to allegations of mis-selling of financial products, including, as a result of having sales practices and/or reward structures in place that are determined to have been inappropriate. The Group may also be subject to allegations of overcharging and breach of contract and/or regulation. Any of the foregoing may result in adverse regulatory action (including significant fines) or requirements to amend sales processes, withdraw products or provide restitution to affected customers, any or all of which could result in the incurrence of significant costs, may require provisions to be recorded in the financial statements and could adversely impact future revenues from affected products.

Ireland

Overview of financial services legislation in 2015

The development of the banking union framework (committed to at European Union ("EU") level by heads of state and governments in 2012) progressed in 2015 with the implementation of the EU Single Resolution Mechanism ("SRM") which became fully operational on 1 January 2016 and with the implementation and transposition of the Bank Recovery and Resolution Directive (Directive 2014/59 EU) ("BRRD") during 2015. In addition, the recast Deposit Guarantee Schemes Directive (Directive 2014/49/EU) ("DGSD") was transposed into national law.

During 2015 the Group's key areas of focus included:

(i) at a European level, the SRM; BRRD; DGSD; Capital Requirements Regulation (Regulation (EU) No 575/2013) and the Capital Requirements Directive IV (Directive 2013/36/EU) (together "CRD IV"); European Markets Infrastructure Regulation (Regulation (EU) 648/2012) ("EMIR"); the directive on credit agreements relating to residential immovable property (Directive 2014/17/EU), known as the Mortgage Credit Directive ("MCD"); the recast Directive on Markets in Financial Instruments (Directive 2014/65/EU) ("MiFID II") and a Regulation on Markets in Financial Instruments (Regulation (EU) No 600/2014) ("MiFIR"); and

(ii) at a national level, the Credit Reporting Act 2013; Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Housing Loan Requirements) Regulations 2015 (S.I. 47 of 2015) ("Housing Loan Requirements Regulations"); the Regulation of Lobbying Act 2015 (No. 5/2015) (the "Lobbying Act"); and the Companies Act 2014 (No. 38/2014) (the "Companies Act").

BRRD

BRRD was published in June 2014 and came into effect in 2015. The overarching goal of BRRD is to break the linkages between national banking systems and member states. In particular, it is intended to enable authorities to resolve failing banks at a national level (including cross-border banks) to lower the risk of impacting the broader financial system, while sharing the costs of resolution with bank shareholders and creditors. To achieve this objective, the BRRD includes explicit provisions for the 'bail-in' of senior creditors, where necessary.

During 2015, the Group further updated its recovery plan and will continue to work with the Central Bank on resolution planning in 2016.

DGSD

Throughout 2015, the Group worked on the implementation of DGSD. The DGSD requires the harmonisation of deposit guarantee schemes across Europe concentrating on faster pay-out, improved financing and enhanced customer information. In November 2015, the DGSD was transposed into national legislation.

CRD IV

CRD IV which, amongst other things, implements Basel III rules in the EU became applicable on 1 January 2014 on a phased basis, with full effect on 1 January 2019. During 2015, the Group continued to implement CRD IV to ensure the timely alignment with its new requirements.

EMIR

EMIR increased the stability and transparency of over-the-counter derivative markets in the EU and during 2015 the Group continued to introduce processes to ensure compliance with the new regulatory obligations.

MCD

The MCD was published in March 2014 and must be implemented by March 2016. The MCD will bring about some key changes in relation to pre-contractual information to be provided to customers, revised Annual Percentage Rate calculation, restrictions on early repayment and minimum competency levels for staff "manufacturing" mortgages. The MCD has yet to be transposed into Irish law and, therefore, its final impact is uncertain. However, notwithstanding the absence of national legislation, the Group continues to prepare for implementation.

Governance and oversight – Supervision and Regulation

MiFID II and MiFIR

MiFID II and MiFIR were published in the official journal of the EU in May 2014. MiFID II covers investor protection, transparency rules and organisational requirements. MiFIR covers pre- and post-trade transparency. MiFID II and MiFIR must be implemented in all EU Member States by Quarter 1 2017 though there are indications from Europe that this date may be delayed. Much of the detailed requirements of MiFID II and MiFIR are set out in the regulatory and implementing technical standards published by the European Securities Market Authority ("ESMA") which the Group will focus on during 2016.

Central Bank Regulations and other national legislation

On a national level, the Group addressed the regulatory obligations set out in the Central Bank's publication of the Housing Loan Requirements Regulations and the enactment of the Lobbying Act and the Companies Act. In addition, the Group continued to liaise with the Central Bank in relation to the implementation of the Credit Reporting Act 2013 with regard to the central credit register.

Regulatory change horizon 2016 - Ireland

Throughout 2016, as further regulatory reform continues to emerge from our regulators, the Group will continue to focus on the management of regulatory change and its compliance obligations.

In particular, the Group will focus on the implementation of EU regulation such as: the MCD; the Directive of the European Parliament and of the Council on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (known as the 4th AML Directive); the recast directive on payment services in the internal market (known as PSD2); the Market Abuse Regulation and Directive on Criminal Sanctions for Market Abuse (together known as MAD2); and the EBA Guidelines on Product Oversight and Governance Arrangements for Retail Banking Products.

Furthermore, the Group will focus on the implementation of key Central Bank regulations and codes such as the Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Lending to Small and Medium-Sized Enterprises) Regulations 2015 (S.I. 585 of 2015) which will become effective on 1 July 2016 and the expected revisions to the Consumer Protection Code 2012.

United Kingdom

During 2015, AIB Group (UK) p.l.c. continued to prioritise compliance with its regulatory obligations in Great Britain and Northern Ireland and will remain focussed on this throughout 2016.

AIB Group (UK) p.l.c. is subject to most of the European Regulation described in 6.3 and 6.4 above and works closely with Group to ensure the requirements are implemented compliantly taking into consideration UK regulatory guidance.

Strengthening accountability in banking

A key focus for the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") in 2015 has been to strengthen the framework by which they can hold senior management in banks accountable for their decisions and actions. Final rules have now been published in respect of the Senior Managers and Certification Regimes which comes into force in March 2016. The new regime involves new conduct requirements that will apply to all in-scope staff, clearer accountability mapping at both individual senior manager and organisational level and a requirement to certify a wider range of staff to carry out their roles.

Culture, Conduct and Competition

The FCA continued to drive its "principles-based" regulation in 2015 with an ongoing focus on how institutions conduct business, particularly with regard to the delivery of fair outcomes for customers and orderly transparent markets. There have been ongoing regulatory reviews to assess the conduct culture within banks in the UK. There has also been a drive to promote effective competition in the interests of consumers. The Competition and Markets Authority ("CMA") has been running a Retail Banking Market Investigation into the Personal Current Account and SME Banking markets in the UK. The provisional report which was issued in October 2015, identified a number of adverse effects on competition and proposed draft remedies to address these. The final report is expected in Quarter 1 2016. Other regulatory interventions to improve competition include the FCA Cash Savings Remedies which aims to provide greater transparency on rates of interest to depositors, due to be implemented in Quarter 4 2016 and the Small Business Enterprise and Employment Act which, among other things, will create a platform to enable lenders to quote for SME lending opportunities that other lenders have declined.

United States

Applicable federal and state securities laws and regulations

On 9 December 2014, AIB filed a certificate under Form 15F with the SEC. This filing enabled AIB to terminate the registration of its American Depositary Shares ("ADSs") (representing 10 ordinary shares of EUR 0.0025 each) under Section 12(g) of the Securities Exchange Act 1934 (the "Exchange Act"), and its reporting obligations under Section 13(a) and Section 15(d) of the Exchange Act with the SEC. Upon such filing, AIB's reporting obligations with the SEC were immediately suspended. AIB did not file its 2014 Annual Report on Form 20F with the SEC and will no longer file any such report with the SEC.

Compliance with federal and state banking laws and regulations

During 2015, AIB's state-licensed branch in New York continued to prioritise compliance with its regulatory obligations in the United States and will remain focussed on this throughout 2016. In particular, it will continue to monitor ongoing business activities with regard to the Dodd Frank Act 2010.

Financial statements

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Statement of Directors' responsibilities

The following statement which should be read in conjunction with the statement of Auditors' responsibilities set out with their Audit Report, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditors in relation to the financial statements.

The Directors are responsible for preparing the Annual Financial 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 prepare the Group and Company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU and in the case of the Company financial statements in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2014. The Directors have also elected to prepare the Group financial statements in accordance with IFRSs as issued by the International Accounting Standards Board ("IASB").

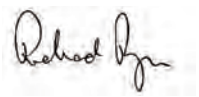
In preparing both the Group and Company financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the EU and IFRSs issued by the IASB; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records 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 Act 2014. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and Company and to prevent and detect fraud and other irregularities. Under applicable law, the Directors are also responsible for preparing a Directors' Report and reports relating to Directors' remuneration and corporate governance that comply with that law and Enterprise Securities Market ("ESM") Rules.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors confirm, to the best of their knowledge and belief, that:
- they have complied with the above requirements in preparing the financial statements;
- the Group financial statements, prepared in accordance with IFRSs as issued by the IASB and as adopted by the EU, give a true and fair view of the state of the Group's affairs as at 31 December 2015 and of its profit for the year then ended;
- the Company financial statements prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the state of the Company's affairs as at 31 December 2015;
- the Directors' report, Business review and Risk management sections, contained in the Annual Financial Report provide a fair review of the development and performance of the business and the financial position of the Group, together with a description of the principal risks and uncertainties faced by the Group; and
- the Annual Financial Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

For and on behalf of the Board



Richard Pym
Chairman

Bernard Byrne
Chief Executive Officer

2 March 2016

Independent Auditors' Report

Independent Auditors' Report to the members of Allied Irish Banks, p.l.c.

Opinion on the financial statements of Allied Irish Banks, p.l.c.

In our opinion the financial statements:

- **give a true and fair view of the assets, liabilities and financial position of the Group and the parent company as at 31 December 2015 and of the Group's profit for the financial year then ended; and**
- **have been properly prepared in accordance with the relevant financial reporting framework and in particular, with the requirements of the Companies Act 2014 and, as regards the Group financial statements, Article 4 of the IAS Regulation.**

The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows and the consolidated statement of changes in equity; and the parent company statement of financial position, the parent company statement of cash flows, and the parent company statement of changes in equity; and the related notes to the financial statements. The financial reporting framework that has been applied in the preparation of the Group and parent company financial statements is Irish law and IFRSs as adopted by the European Union.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team –

Risk	How the scope of our audit responded to the risk
Loan impairment and restructuring The risk that provisions for impairment of loans and receivables do not represent an appropriate estimate of the losses incurred. This includes the risk that the estimate of cash flows on restructuring cases is not appropriately measured. The determination of appropriate provisions requires a significant amount of Management judgement and relies on available data. Please refer to the Report of the Board Audit Committee on page 185, Accounting policy 'Impairment of financial assets' on pages 229 to 230, note 2 'Critical accounting judgements and estimates' on page 244 and note 27 'Provisions for impairment on loans and receivables' on page 277.	We undertook an assessment of the provisioning practices to compare them with the requirements of IFRS. We tested credit management processes and controls over: new lending and restructuring transactions; and front line credit monitoring and assessment. Furthermore, we conducted a review of the operations and controls over collective and latent models; and the work of the credit review function. In examining both sample loan cases and models we challenged Management on the judgements made regarding the application of triggers, status of restructures, collateral valuation and realisation time frames; and examined the credit risk functions analysis of data at a portfolio level. As such, we tested samples of the data used in the models together with the calculations involved and the output from the models. Where appropriate this work involved assessing: third party valuations of collateral; internal valuation guidelines derived from benchmark data; external expert reports on borrowers' business plans; and enterprise valuations. This allowed us to determine whether appropriate valuation methodologies were employed.
Deferred tax The risk relates to the incorrect recognition or measurement of deferred taxation. Deferred tax assets are recognised for unused tax losses to the extent that it is probable that there will be sufficient future taxable profits against which the losses can be used. The assessment of the conditions for the recognition of a deferred tax asset is a critical judgement given the inherent uncertainties associated with projecting profitability over a long time period. Please refer to the Report of the Board Audit Committee on page 183, Accounting policy 'Income tax, including deferred income tax' on page 222, note 2 'Critical accounting judgements and estimates' on pages 245 to 246 and note 34 'Deferred taxation' on page 286.	We reviewed the plans and the model used by Management to assess the likelihood of future profitability and challenged Management's assessment of a range of positive and negative evidence for the projection of long-term future profitability. We reviewed Management's analysis of their consideration of the "more likely than not" test and reviewed the sensitivity analysis disclosed.

Independent Auditors' Report *(continued)*

Risk	How the scope of our audit responded to the risk
IT controls The Group's IT environment is complex with financial accounting systems dependent on IT. Deficiencies in the privileged user access controls over a number of significant applications could have had a significant impact on financial reporting controls and systems, with a potential risk over the recording of transactions. Please refer to the Report of the Board Audit Committee on page 183, and the Internal controls disclosure on pages 196 to 197.	We examined the design and execution of IT controls including those relating to system access, IT operations and program change, including mitigating controls where relevant. Where we identified deficiencies in controls, we reported the deficiency to Management and either identified compensating controls upon which we relied, or extended our substantive testing to obtain the required audit evidence.
Retirement Benefit Obligations The risk that the recognition and measurement of pension and other retirement benefit obligations are inappropriate. Please refer to the Report of the Board Audit Committee on page 182, Accounting policy 'Employee benefits' on page 221, note 2 'Critical accounting judgements and estimates' on page 247 and note 13 'Retirement benefits' on page 258.	We challenged the appropriateness of key assumptions and sensitivities used in determining retirement benefits including discount rates, inflation rates and mortality assumptions. We used Deloitte actuarial specialists to assist the audit team to challenge Management in relation to the assumptions applied, including benchmarking to external data as appropriate. Additionally, we tested the calculation of the asset and liability which determine the retirement benefit obligation.
Conduct risk provisions The risk that the recognition, measurement and disclosure of provisions in respect of allegations of mis-selling of financial products, allegations of overcharging and breach of contract and/or regulation are inappropriate. Please refer to the Report of the Board Audit Committee on page 182, Accounting policy 'Non-credit risk provisions' on page 235, note 2 'Critical accounting judgements and estimates' on page 248, and note 40 'Provisions for liabilities and commitments' on page 291.	We tested the design of the Group's key controls over the identification and measurement of the provision and the disclosure of exposures. We challenged the key assumptions used by Management in the provisioning calculations. We met with Group General Counsel and Group Compliance and reviewed correspondence with regulators and legal advice.

The description of risks above should be read in conjunction with the significant issues considered by the Board Audit Committee which are discussed on page 182.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person relying on the financial statements, would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be € 60 million, which we determined at less than 1% of shareholders' equity and which we have determined, in our professional judgement, to be one of the principal benchmarks within the financial statements of the Group.

We agreed with the Board Audit Committee that we would report to the Committee all audit differences in excess of € 3 million as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit of the Group was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at Group level.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group engagement team, or by auditors within Deloitte network firms operating under our instruction ('component auditors'). Where the work was performed by component auditors, we determined the level of involvement we needed to have in their audit work in order to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

Based on that assessment, we focussed our Group audit scope primarily on the four legal entities, as disclosed on page 307, note 49 to the consolidated financial statements, all of which were subject to individual statutory audits. The remaining legal entities were subject to specified audit procedures. The extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations in those entities. These audits and specified audit procedures covered over 95% of the Groups' total assets. In addition, audits are performed for statutory purposes for all legal entities. We also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement arising from the aggregated financial information of the remaining entities not subject to audit or specified audit procedures.

Opinion on other matters prescribed by the Companies Act 2014

Group Directors' report and Corporate Governance report

In our opinion the information given in the Group Directors' report is consistent with the financial statements and based on the work undertaken in the course of the audit the description in the Corporate Governance report of the main features of the internal control and risk management systems in relation to the financial reporting process is consistent with the financial statements and has been prepared in accordance with section 1373 Companies Act 2014. Based on our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in this information. In our opinion, the information required pursuant to section 1373(2)(a), (b), (e) and (f) of the Companies Act 2014 is contained in the Group's Corporate Governance report.

Adequacy of explanations received and accounting records

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion, the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited.
- In our opinion, information and returns adequate for our audit have been received from branches of the company not visited by us.
- The parent company statement of financial position is in agreement with the accounting records and returns.

Matters on which we are required to report by exception

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements;
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between the knowledge acquired during our audit and the Directors' statement that they consider the Annual Financial Report is fair, balanced and understandable and whether the Annual Financial Report appropriately discloses those matters that we communicated to the Board Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Directors' remuneration

Under the Companies Act 2014, we are required to report to you if, in our opinion, the disclosures of Directors' remuneration and transactions specified by law are not made. We have nothing to report arising from our review of these matters.

Corporate Governance report

We reviewed the Corporate Governance report for compliance with the following provisions of Section C "Accountability" of the UK Corporate Governance Code: C1.1; C.2.1 and C3.1 – C3.7. We have nothing to report arising from our review of these matters.

Independent Auditors' Report *(continued)*

Matters on which we are required to report by exception *(continued)*

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

We have reviewed the Directors' statement contained within note 1 to the consolidated financial statements that the Group is a going concern.

As a result of our audit work, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on page 172 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 54 to 59 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in note 1 to the consolidated financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the Director's explanation on page 196 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Respective responsibilities of directors and auditors

As detailed in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the company's members, as a body, in accordance with section 391 of the Companies Act 2014. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, as a result of fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies with our audit of the financial statements we consider the implications for our report.

Gerard Fitzpatrick
For and on behalf of Deloitte
Chartered Accountants and Statutory Audit Firm
Dublin 2

2 March 2016

Deloitte.

Consolidated income statement

for the financial year ended 31 December 2015

	Notes	2015 € m	2014 € m	2013 € m
Continuing operations				
Interest and similar income	4	**2,955**	3,090	3,321
Interest expense and similar charges	5	**(1,028)**	(1,403)	(1,973)
Net interest income		**1,927**	1,687	1,348
Dividend income	6	**26**	25	4
Fee and commission income	7	**449**	430	414
Fee and commission expense	7	**(44)**	(40)	(36)
Net trading income/(loss)	8	**95**	(1)	102
(Loss)/profit on disposal/transfer of loans and receivables	9	**(22)**	52	(226)
Other operating income	10	**197**	379	104
Other income		**701**	845	362
Total operating income		**2,628**	2,532	1,710
Administrative expenses	11	**(1,604)**	(1,527)	(1,359)
Impairment and amortisation of intangible assets	32	**(39)**	(65)	(73)
Impairment and depreciation of property, plant and equipment	33	**(35)**	(46)	(51)
Total operating expenses		**(1,678)**	(1,638)	(1,483)
Operating profit before provisions		**950**	894	227
Writeback/(provisions) for impairment on loans and receivables	27	**925**	185	(1,916)
Writeback/(provisions) for liabilities and commitments	40	**11**	4	(17)
(Provisions)/writeback for impairment on financial investments available for sale	14	**–**	(1)	9
Operating profit/(loss)		**1,886**	1,082	(1,697)
Associated undertakings	31	**25**	23	7
Profit on disposal of property	15	**3**	6	2
Profit on disposal of businesses	16	**–**	–	1
Profit/(loss) before taxation from continuing operations		**1,914**	1,111	(1,687)
Income tax (charge)/credit from continuing operations	18	**(534)**	(230)	90
Profit/(loss) after taxation from continuing operations		**1,380**	881	(1,597)
Discontinued operations				
Profit after taxation from discontinued operations	19	**–**	34	–
Profit/(loss) for the year		**1,380**	915	(1,597)
Attributable to:				
Owners of the parent:				
Profit/(loss) from continuing operations		**1,380**	881	(1,597)
Profit from discontinued operations		**–**	34	–
		1,380	915	(1,597)
Basic earnings/(loss) per share				
Continuing operations	20(a)	**44.0c**	42.2c	(76.8c)
Discontinued operations	20(a)	**–**	1.6c	–
		44.0c	43.8c	(76.8c)
Diluted earnings/(loss) per share				
Continuing operations	20(b)	**43.0c**	40.9c	(76.8c)
Discontinued operations	20(b)	**–**	1.2c	–
		43.0c	42.1c	(76.8c)

Consolidated statement of comprehensive income

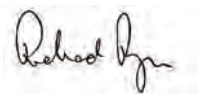
for the financial year ended 31 December 2015

	Notes	2015 € m	2014 € m	2013 € m
Profit/(loss) for the year		**1,380**	915	(1,597)
Other comprehensive income – continuing operations				
Items that will not be reclassified to profit or loss:				
Net change in property revaluation reserves		**–**	(1)	(1)
Net actuarial gains/(losses) in retirement benefit schemes, net of tax	18	**743**	(939)	251
Total items that will not be reclassified to profit or loss		**743**	(940)	250
Items that are or may be reclassified subsequently to profit or loss:				
Net change in foreign currency translation reserves	18	**31**	27	(9)
Net change in cash flow hedges, net of tax	18	**(29)**	348	(18)
Net change in fair value of available for sale securities, net of tax	18	**103**	728	513
Total items that may be reclassified subsequently to profit or loss		**105**	1,103	486
Other comprehensive income for the year, net of tax from continuing operations		**848**	163	736
Total comprehensive income for the year		**2,228**	1,078	(861)
Attributable to:				
Owners of the parent:				
Continuing operations		**2,228**	1,044	(861)
Discontinued operations		**–**	34	–
		2,228	1,078	(861)

Consolidated statement of financial position

as at 31 December 2015

	Notes	2015 € m	2014 € m
Assets			
Cash and balances at central banks	53	**4,950**	5,393
Items in course of collection		**153**	146
Disposal groups and non-current assets held for sale	22	**8**	14
Trading portfolio financial assets	23	**1**	1
Derivative financial instruments	24	**1,698**	2,038
Loans and receivables to banks	25	**2,339**	1,865
Loans and receivables to customers	26	**63,240**	63,362
NAMA senior bonds	28	**5,616**	9,423
Financial investments available for sale	29	**16,489**	20,185
Financial investments held to maturity	30	**3,483**	–
Interests in associated undertakings	31	**70**	69
Intangible assets	32	**289**	171
Property, plant and equipment	33	**344**	290
Other assets		**785**	211
Current taxation		**35**	10
Deferred taxation	34	**2,897**	3,576
Prepayments and accrued income		**503**	526
Retirement benefit assets	13	**222**	175
Total assets		**103,122**	107,455
Liabilities			
Deposits by central banks and banks	35	**13,863**	16,768
Customer accounts	36	**63,383**	64,018
Trading portfolio financial liabilities	37	**86**	–
Derivative financial instruments	24	**1,781**	2,334
Debt securities in issue	38	**7,001**	7,861
Current taxation		**31**	–
Other liabilities	39	**1,108**	1,225
Accruals and deferred income		**653**	729
Retirement benefit liabilities	13	**368**	1,239
Provisions for liabilities and commitments	40	**382**	258
Subordinated liabilities and other capital instruments	41	**2,318**	1,451
Total liabilities		**90,974**	95,883
Shareholders' equity			
Share capital	42	**1,696**	1,344
Share premium	42	**1,386**	1,752
Other equity interests	44	**494**	–
Reserves		**8,572**	8,476
Total shareholders' equity		**12,148**	11,572
Total liabilities and shareholders' equity		**103,122**	107,455



Richard Pym	**Bernard Byrne**	**Mark Bourke**	**David O'Callaghan**
Chairman	Chief Executive Officer	Chief Financial Officer	Company Secretary

2 March 2016

Consolidated statement of cash flows

for the financial year ended 31 December 2015

	Notes	2015 € m	2014 € m	2013 € m
Cash flows from operating activities				
Profit/(loss) before taxation for the year from continuing operations		**1,914**	1,111	(1,687)
Adjustments for:				
– Non-cash and other items	53	**(875)**	(573)	1,779
– Change in operating assets	53	**4,230**	9,449	7,852
– Change in operating liabilities	53	**(5,353)**	(11,161)	(4,101)
– Taxation (paid)/refund		**(9)**	(26)	40
Net cash (outflow)/inflow from operating activities		**(93)**	(1,200)	3,883
Cash flows from investing activities				
Net cash outflow on acquisition of business combinations		**–**	–	(325)[1]
Purchase of financial investments available for sale	29	**(4,270)**	(7,336)	(6,666)
Proceeds from sales and maturity of financial investments available for sale[2]		**4,624**	8,791	3,040
Additions to property, plant and equipment	33	**(89)**	(47)	(32)
Disposal of property, plant and equipment	22	**16**	9	15
Additions to intangible assets	32	**(156)**	(60)	(62)
Proceeds of disposal of investment in associated undertakings		**–**	2	10
Proceeds of disposal of investment in businesses and subsidiaries		**–**	336[4]	190[3]
Dividends received from associated undertakings	31	**24**	11	3
Net cash inflow/(outflow) from investing activities		**149**	1,706	(3,827)
Cash flows from financing activities				
Net proceeds on issue of Additional Tier 1 Securities	44	**494**	–	–
Net proceeds on issue of € 750 million Tier 2 Notes due 2025	41	**750**	–	–
Redemption of 2009 Preference Shares	42	**(1,700)**	–	–
Interest paid on subordinated liabilities and other capital instruments		**(160)**	(160)	(160)
Dividends paid on 2009 Preference Shares		**(446)**	–	–
Net cash outflow from financing activities		**(1,062)**	(160)	(160)
Change in cash and cash equivalents		**(1,006)**	346	(104)
Opening cash and cash equivalents		**6,384**	5,730	5,926
Effect of exchange translation adjustments		**294**	308	(92)
Closing cash and cash equivalents	53	**5,672**	6,384	5,730

[1]Acquisition of Ark Life Assurance Company Limited.

[2]Transfer from financial investments available for sale to financial investments held to maturity € 3,487 million not reflected in cash flows (note 30).

[3]Disposal of Aviva Life Holdings Ireland Limited.

[4]Disposal of Ark Life Assurance Company Limited.

Consolidated statement of changes in equity

for the financial year ended 31 December 2015

	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
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2015	1,344	1,752	–	1,958	–	17	1,369	383	5,621	(415)	(462)	5	11,572
Total comprehensive income for the year													
Profit for the year	–	–	–	–	–	–	–	–	1,380	–	–	–	1,380
Other comprehensive income *(note 18)*	–	–	–	–	–	–	103	(29)	743	31	–	–	848
Total comprehensive income for the year	–	–	–	–	–	–	103	(29)	2,123	31	–	–	2,228
Transactions with owners, recorded directly in equity													
Contributions by and distributions to owners of the Group													
Capital contributions *(note 46)*	–	–	–	(398)	–	–	–	–	398	–	–	–	–
Dividend on 2009 Preference Shares	–	–	–	–	–	–	–	–	(280)	–	–	–	(280)
Share based payments	–	–	–	–	–	–	–	–	5	–	–	(5)	–
Cancellation of treasury shares	–	–	–	–	–	–	–	–	(462)	–	462	–	–
Issue of Additional Tier 1 Securities	–	–	494	–	–	–	–	–	–	–	–	–	494
Other movements	–	–	–	–	–	(1)	–	–	1	–	–	–	–
Capital reorganisation (note 42)													
2009 Preference Shares – conversion	(21)	–	–	–	–	–	–	–	–	–	–	–	(21)
2009 Preference Shares – redemption	(14)	–	–	–	14	–	–	–	(1,700)	–	–	–	(1,700)
	(35)	–	–	–	14	–	–	–	(1,700)	–	–	–	(1,721)
Ordinary shares issued on conversion of 2009 Preference Shares	21	–	–	–	–	–	–	–	–	–	–	–	21
Bonus ordinary shares issued on conversion of 2009 Preference Shares	366	(366)	–	–	–	–	–	–	–	–	–	–	–
Dividend paid on 2009 Preference Shares to date of conversion/redemption	–	–	–	–	–	–	–	–	(166)	–	–	–	(166)
Total contributions by and distributions to owners of the Group	352	(366)	494	(398)	14	(1)	–	–	(2,204)	–	462	(5)	(1,652)
At 31 December 2015	1,696	1,386	494	1,560	14	16	1,472	354	5,540	(384)	–	–	12,148

Consolidated statement of changes in equity

for the financial year ended 31 December 2014

	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 2014	5,248	2,848	2,597	–	18	641	35	(2)	(442)	(462)	13	10,494
Total comprehensive income for the year												
Profit for the year	–	–	–	–	–	–	–	915	–	–	–	915
Other comprehensive income *(note 18)*	–	–	–	–	(1)	728	348	(939)	27	–	–	163
Total comprehensive income for the year	–	–	–	–	(1)	728	348	(24)	27	–	–	1,078
Transactions with owners, recorded directly in equity												
Contributions by and distributions to owners of the Group												
Capital contributions *(note 46)*	–	–	(564)	–	–	–	–	564	–	–	–	–
Ordinary shares issued in lieu of dividend *(note 42)*	22	(22)	–	–	–	–	–	–	–	–	–	–
Cancellation of deferred shares *(notes 42 and 45)*	(3,926)	–	–	3,926	–	–	–	–	–	–	–	–
Reduction of capital *(notes 42 and 45)*	–	(1,074)	–	(3,926)	–	–	–	5,000	–	–	–	–
Share based payments	–	–	–	–	–	–	–	8	–	–	(8)	–
Other movements *(note 45)*	–	–	(75)	–	–	–	–	75	–	–	–	–
Total contributions by and distributions to owners of the Group	(3,904)	(1,096)	(639)	–	–	–	–	5,647	–	–	(8)	–
At 31 December 2014	1,344	1,752	1,958	–	17	1,369	383	5,621	(415)	(462)	5	11,572

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*Forms an integral part of the audited financial statements.

1 Accounting policies

The significant accounting policies that the Group applied in the preparation of the financial statements are set out in this section.

(a) Reporting entity

Allied Irish Banks, p.l.c. ('the parent company' or 'the Company') is a company domiciled in Ireland. The address of the Company's registered office is Bankcentre, Ballsbridge, Dublin 4, Ireland. The consolidated financial statements include the financial statements of Allied Irish Banks, p.l.c. and its subsidiary undertakings, collectively referred to as the 'Group', where appropriate, including certain special purpose entities and are prepared to the end of the financial year. The Group is and has been primarily involved in retail and corporate banking.

(b) 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 financial year ended 31 December 2015. The consolidated financial statements also comply with those parts of the Companies Act 2014 applicable to companies reporting under IFRS, the European Union (Credit Institutions: Financial Statements) Regulations, 2015 and the Asset Covered Securities Acts 2001 and 2007. The accounting policies have been consistently applied by Group entities and are consistent with the previous year, unless otherwise described.

(c) Basis of preparation

Functional and presentation currency

The financial statements are presented in euro, which is the functional currency of the parent company and a significant number of its subsidiaries, rounded to the nearest million.

Basis of measurement

The financial statements have been prepared under the historical cost basis, with the exception of the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit or loss, certain hedged financial assets and financial liabilities and financial assets classified as available-for-sale.

The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and parent company statements of financial position, the consolidated and parent company statements of cash flows, and the consolidated and parent company statements of changes in equity together with the related notes. These notes also include financial instrument related disclosures which are required by IFRS 7 and revised IAS 1, contained in the Financial review and the Risk management sections of this Annual Financial Report. The relevant information on those pages is identified as forming an integral part of the audited financial statements.

Use of judgements and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management's judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. The estimates that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in the areas of loan impairment and impairment of other financial instruments; the recoverability of deferred tax; determination of the fair value of certain financial assets and financial liabilities; retirement benefit obligations; and provisions for liabilities and commitments. In addition, the designation of financial assets and financial liabilities has a significant impact on their income statement treatment and could have a significant impact on reported income.

A description of these judgements and estimates is set out in 'Critical accounting judgements and estimates' on pages 244 to 248.

1 Accounting policies *(continued)*

(c) Basis of preparation *(continued)*

Going concern

The financial statements for the financial year ended 31 December 2015 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting the Group, that it has the ability to continue in business for the period of assessment. The period of assessment used by the Directors is twelve months from the date of approval of these annual financial statements.

In making its assessment, the Directors have considered a wide range of information relating to present and future conditions. These have included financial plans covering the period 2016 to 2018 approved by the Board in December 2015, the restructuring plan approved by the European Commission in May 2014, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios. In formulating these plans, the current Irish economic environment and forecasts for growth and employment were considered as well as the stabilisation of property prices. The Directors have also considered the outlook for the eurozone and UK economies, and the factors and uncertainties impacting their performance.

The Directors have also considered the principal risks and uncertainties which could materially affect the Group's future business performance and profitability and which are outlined on pages 50 to 59.

The Directors believe that the capital resources are sufficient to ensure that the Group is adequately capitalised both in a base and stress scenario. The Group's regulatory capital resources are detailed on pages 43 to 48.

The Group funding and liquidity profile is outlined on page 141 to 154. In relation to liquidity and funding, the Directors are satisfied, based on AIB's position in the market place, that in all reasonable circumstances required liquidity and funding from the Central Bank of Ireland/ECB would be available to the Group during the period of assessment.

Conclusion

On the basis of the above, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern over the period of assessment.

Adoption of new accounting standards

During the financial year to 31 December 2015, the Group adopted amendments to standards and interpretations which had an insignificant impact on these annual financial statements.

1 Accounting policies *(continued)*

(d) Basis of consolidation

Subsidiary undertakings

A subsidiary undertaking is an investee controlled by the Group. The Group controls an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated in the Group's financial statements from the date on which control commences until the date that control ceases.

The Group reassesses whether it controls a subsidiary when facts and circumstances indicate that there are changes to one or more elements of control.

Loss of control

If the Group loses control of a subsidiary, the Group:

(i) derecognises the assets (including any goodwill) and liabilities of the former subsidiary at their carrying amounts at the date control is lost;
(ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date control is lost (including any attributable amounts in other comprehensive income);
(iii) recognises the fair value of any consideration received and any distribution of shares of the subsidiary;
(iv) recognises any investment retained in the former subsidiary at its fair value at the date when control is lost; and
(v) recognises any resulting difference of the above items as a gain or loss in the income statement.

The Group subsequently accounts for any investment retained in the former subsidiary in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, or when appropriate, IAS 28 *Investments in Associates and Joint Ventures*.

Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. The Group assesses whether it has control over such an entity by considering factors such as the purpose and design of the entity; the nature of its relationship with the entity; and the size of its exposure to the variability of returns of the entity.

Business combinations

The Group accounts for the acquisition of businesses using the acquisition method except for those businesses under common control. Under the acquisition method, the consideration transferred in a business combination is measured at fair value, which is calculated as the sum of:

– the acquisition date fair value of assets transferred by the Group;
– liabilities incurred by the Group to the former owners of the acquiree; and
– the equity interests issued by the Group in exchange for control of the acquiree.

Acquisition related costs are recognised in the income statement as incurred.

Goodwill is measured as the excess of the sum of:

– the fair value of the consideration transferred;
– the amount of any non-controlling interests in the acquiree; and
– the fair value of the acquirer's previously held equity interest in the acquiree, if any; less
– the net of the acquisition date fair value of the identifiable assets acquired and liabilities assumed.

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets, and income arising thereon, are excluded from the financial statements, as they are not assets of the Group.

Non-controlling interests

For each business combination, the Group recognises any non-controlling interest in the acquiree either:

– at fair value; or
– at their proportionate share of the acquiree's identifiable net assets.

For changes in the Group's interest in a subsidiary that do not result in a loss of control, the Group adjusts the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The difference between the

1 Accounting policies *(continued)*

(d) Basis of consolidation *(continued)*

change in value of the non-controlling interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the parent.

Common control transactions

The Group accounts for the acquisition of businesses or investments in subsidiary undertakings between members of the Group at carrying value at the date of the transaction unless prohibited by company law or IFRS. This policy also applies to the acquisition of businesses by the Group of other entities under the common control of the Irish Government. Where the carrying value of the acquired net assets exceeds the fair value of the consideration paid, the excess is accounted for as a capital contribution (accounting policy (ab) 'Shareholders' equity' - capital contributions). On impairment of the subsidiary in the parent company's separate financial statements, an amount equal to the impairment charge net of tax in the income statement is transferred from capital contribution reserves to revenue reserves. The entire capital contribution is transferred to revenue reserves on final sale of the subsidiary.

For acquisitions under common control, comparative data is not restated. The consolidation of the acquired entity is effective from the acquisition date with intercompany balances eliminated at a Group level on this date.

Associated undertakings

An associated undertaking is an entity over which the Group has significant influence, but not control, over the entity's operating and financial policy decisions. If the Group holds 20% or more of the voting power of an entity, it is presumed that the Group has significant influence, unless it can be clearly demonstrated that this is not the case.

Investments in associated undertakings are initially recorded at cost and increased (or decreased) each year by the Group's share of the post acquisition net income (or loss), and other movements reflected directly in other comprehensive income of the associated undertaking.

Goodwill arising on the acquisition of an associated undertaking is included in the carrying amount of the investment. When the Group's share of losses in an associate has reduced the carrying amount to zero, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations to make payments on behalf of the associate.

Where the Group continues to hold more than 20% of the voting power in an investment but ceases to have significant influence, the investment is no longer accounted for as an associate. On the loss of significant influence, the Group measures the investment at fair value and recognises any difference between the carrying value and fair value in profit or loss and accounts for the investment in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

The Group's share of the results of associated undertakings after tax reflects the Group's proportionate interest in the associated undertaking and is based on financial statements made up to a date not earlier than three months before the period end reporting date, adjusted to conform with the accounting policies of the Group.

Since goodwill that forms part of the carrying amount of the investment in an associate is not recognised separately, it is, therefore, not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

Transactions eliminated on consolidation

Intra-group balances and any unrealised income and expenses arising from intra-group transactions are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Unrealised gains and losses on transactions with associated undertakings are eliminated to the extent of the Group's interest in the investees.

Consistent accounting policies are applied throughout the Group for the purposes of consolidation.

1 Accounting policies *(continued)*

(e) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using their functional currency, being the currency of the primary economic environment in which the entity operates.

Transactions and balances

Foreign currency transactions are translated into the respective entity's functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-translation at period end exchange rates of the amortised cost of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Exchange differences on equities and similar non-monetary items held at fair value through profit or loss are reported as part of the fair value gain or loss. Exchange differences on equities classified as available for sale financial assets, together with exchange differences on a financial liability designated as a hedge of the net investment in a foreign operation are reported in other comprehensive income.

Foreign operations

The results and financial position of all Group entities that have a functional currency different from the euro are translated into euro as follows:

- assets and liabilities including goodwill and fair value adjustments arising on consolidation of foreign operations are translated at the closing rate;
- income and expenses are translated into euro at the average rates of exchange during the period where these rates approximate to the foreign exchange rates ruling at the dates of the transactions;
- foreign currency translation differences are recognised in other comprehensive income; and
- since 1 January 2004, the Group's date of transition to IFRS, all such exchange differences are included in the foreign currency translation reserve within shareholders' equity. When a foreign operation is disposed of in full, the relevant amount of the foreign currency translation reserve is transferred to the income statement. When a subsidiary is partly disposed of, the relevant proportion of foreign currency translation reserve is re-attributed to the non-controlling interest.

(f) Interest income and expense recognition

Interest income and expense is recognised in the income statement for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The application of the method has the effect of recognising income receivable and expense payable on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating the effective interest rate, the Group estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding future credit losses. The calculation takes into account all fees, including those for any expected early redemption, and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

All costs associated with mortgage incentive schemes are included in the effective interest rate calculation. Fees and commissions payable to third parties in connection with lending arrangements, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the effective interest rate.

Interest income and expense presented in the consolidated income statement includes:

- Interest on financial assets and financial liabilities at amortised cost on an effective interest method;
- Interest on financial investments available for sale on an effective interest method;
- Net interest income and expense on qualifying hedge derivatives designated as cash flow hedges or fair value hedges which are recognised in interest income or interest expense; and
- Interest income and funding costs of trading portfolio financial assets, excluding dividends on equity shares.

1 Accounting policies *(continued)*

(g) 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.

(h) 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 has 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.

(i) 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.

1 Accounting policies *(continued)*

(j) Employee benefits

Retirement benefit obligations

The Group provides employees with post-retirement benefits mainly in the form of pensions.

The Group provides a number of retirement benefit schemes including defined benefit and defined contribution as well as a hybrid scheme that has both defined benefit and defined contribution elements. In addition, the Group contributes, according to local law in the various countries in which it operates, to governmental and other schemes which have the characteristics of defined contribution schemes. The majority of the defined benefit schemes are funded.

Full actuarial valuations of defined benefit schemes are undertaken every three years and are updated to reflect current conditions at each year-end reporting date. Scheme assets are measured at fair value determined by using current bid prices. Scheme liabilities are measured on an actuarial basis by estimating the amount of future benefit that employees have earned for their service in current and prior periods and discounting that benefit at the market yield on a high quality corporate bond of equivalent term and currency to the liability. The calculation is performed by a qualified actuary using the projected unit credit method. The difference between the fair value of the scheme assets and the present value of the defined benefit obligation at the year-end reporting date is recognised in the statement of financial position. Schemes in surplus are shown as assets and schemes in deficit, together with unfunded schemes, are shown as liabilities. Actuarial gains and losses are recognised immediately in other comprehensive income.

Changes with regard to benefits payable to retirees which represent a constructive obligation under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* are accounted for as a negative past service cost. These are recognised in the income statement.

The cost of providing defined benefit pension schemes to employees, comprising the service cost and net interest on the net defined benefit liability (asset), calculated by applying the discount rate to the net defined benefit liability (asset), is charged to the income statement within personnel expenses. Remeasurements of the net defined benefit liability (asset), comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net deferred benefit liability (asset)) are recognised in other comprehensive income. Amounts recognised in other comprehensive income in relation to remeasurements of the net defined benefit liability (asset) will not be reclassified to profit or loss in a subsequent period.

The Group recognises the effect of an amendment to a defined benefit scheme when the plan amendment occurs, which is when the Group introduces or withdraws a defined benefit scheme, or changes the benefits payable under existing defined benefit schemes. A curtailment is recognised when a significant reduction in the number of employees covered by a defined benefit scheme occurs. Gains or losses on plan amendments and curtailments are recognised in the income statement as a past service cost.

The costs of managing the defined benefit scheme assets are deducted from the return on scheme assets. All costs of running the defined benefit schemes are recognised in profit or loss when they are incurred.

The cost of the Group's defined contribution schemes is charged to the income statement in the accounting period in which it is incurred. Any contributions unpaid at the year-end reporting date are included as a liability. The Group has no further obligation under these schemes once these contributions have been paid.

Short-term employee benefits

Short-term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period during which employees have provided services. Bonuses are recognised to the extent that the Group has a legal or constructive obligation to its employees that can be measured reliably. The cost of providing subsidised staff loans is charged within personnel expenses.

Termination benefits

Termination benefits are recognised as an expense at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which includes the payment of termination benefits.

For termination benefits payable as a result of an employee's decision to accept an offer of voluntary redundancy, which is not within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the Group recognises the expense at the earlier of when the employee accepts the offer and when a restriction on the Group's ability to withdraw the offer takes effect.

1 Accounting policies *(continued)*

(k) 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.

(l) Income tax, including deferred income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income. Income tax relating to items in equity is recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided, using the balance sheet liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the reporting date and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred income tax assets are recognised when it is probable that future taxable profits will be available against which the temporary differences will be utilised. The deferred tax asset is reviewed at the end of each reporting period and the carrying amount will reflect the extent that sufficient taxable profits will be available to allow all of the asset to be recovered.

The tax effects of income tax losses available for carry forward are recognised as an asset to the extent that it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle the current tax assets and liabilities on a net basis or to realise the asset and settle the liability simultaneously.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and financial liabilities including derivative contracts, provisions for pensions and other post-retirement benefits, and in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

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.

1 Accounting policies *(continued)*

(m) Financial assets

The Group classifies its financial assets into the following categories: - financial assets at fair value through profit or loss; loans and receivables; available for sale financial assets; and financial investments held to maturity.

Purchases and sales of financial assets are recognised on trade date, being the date on which the Group commits to purchase or sell the assets. Loans are recognised when cash is advanced to the borrowers.

Interest is calculated using the effective interest method and credited to the income statement. Dividends on available for sale equity securities are recognised in the income statement when the entity's right to receive payment is established.

Impairment losses and translation differences on the amortised cost of monetary items are recognised in the income statement.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss

This category can have two sub categories: - Financial assets held for trading; and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the near term; part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or if it is so designated at initial recognition by management, subject to certain criteria.

The assets are recognised initially at fair value and transaction costs are taken directly to the income statement. Interest and dividends on assets within this category are reported in interest income, and dividend income, respectively. Gains and losses arising from changes in fair value are included directly in the income statement within net trading income.

Derivatives are also classified in this category unless they have been designated as hedges or qualify as financial guarantee contracts.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. They arise when the Group provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognised at fair value adjusted for direct and incremental transaction costs and are subsequently carried on an amortised cost basis.

Available for sale

Available for sale financial assets are non-derivative financial investments that are designated as available for sale and are not categorised into any of the other categories described above. Available for sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available for sale financial assets are initially recognised at fair value adjusted for direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income until sale or impairment when the cumulative gain or loss is transferred to the income statement as a recycling adjustment. Assets reclassified from the held for trading category are recognised at fair value.

Held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments that the Group's management has the intention and ability to hold to maturity. If the Group was to sell other than an insignificant amount of held to maturity assets, the remainder would be required to be reclassified as available for sale. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and are carried on an amortised cost basis using the effective interest method.

Any available for sale financial investments reclassified into the held to maturity category are transferred at fair value and are subsequently carried at amortised cost using the effective interest rate method. Unrealised gains or losses held in equity in respect of such reclassified assets are amortised to the income statement using the effective interest rate method.

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.

1 Accounting policies *(continued)*

(n) 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.

Issued financial instruments are classified as equity when the Group has no contractual obligation to transfer cash, or other financial assets or to issue a variable number of its own equity instruments. Incremental costs directly attributable to the issue of equity instruments are shown as a deduction from the proceeds of issue, net of tax.

(o) 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.

(p) Determination of fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The Group considers the impact of non-performance risk when valuing its financial liabilities.

Financial instruments are initially recognised at fair value and, with the exception of financial assets at fair value through profit or loss, the initial carrying amount is adjusted for direct and incremental transaction costs. In the normal course of business, the fair value on initial recognition is the transaction price (fair value of consideration given or received). If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is determined by a quoted price in an active market for the same financial instrument, or by a valuation technique which uses only observable market inputs, the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss. If the fair value is calculated by a valuation technique that features significant market inputs that are not observable, the difference between the fair value at initial recognition and the transaction price is deferred. Subsequently, the difference is recognised in the income statement on an appropriate basis over the life of the financial instrument, but no later than when the valuation is supported by wholly observable inputs; the transaction matures; or is closed out.

1 Accounting policies *(continued)*

(p) Determination of fair value of financial instruments *(continued)*

Subsequent to initial recognition, the methods used to determine the fair value of financial instruments include quoted prices in active markets where those prices are considered to represent actual and regularly occurring market transactions. Where quoted prices are not available or are unreliable because of market inactivity, fair values are determined using valuation techniques. These valuation techniques maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The valuation techniques used incorporate the factors that market participants would take into account in pricing a transaction. Valuation techniques include the use of recent orderly transactions between market participants, reference to other similar instruments, option pricing models, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Quoted prices in active markets

Quoted market prices are used where those prices are considered to represent actual and regularly occurring market transactions for financial instruments in active markets.

Valuations for negotiable instruments such as debt and equity securities are determined using bid prices for asset positions and offer prices for liability positions.

Where securities are traded on an exchange, the fair value is based on prices from the exchange. The market for debt securities largely operates on an 'over the counter' basis which means that there is not an official clearing or exchange price for these security instruments. Therefore, market makers and/or investment banks ('contributors') publish bid and offer levels which reflect an indicative price that they are prepared to buy and sell a particular security. The Group's valuation policy requires that the prices used in determining the fair value of securities quoted in active markets must be sourced from established market makers and/or investment banks.

Valuation techniques

In the absence of quoted market prices, and in the case of over-the-counter derivatives, fair value is calculated using valuation techniques. Fair value may be estimated using quoted market prices for similar instruments, adjusted for differences between the quoted instrument and the instrument being valued. Where the fair value is calculated using discounted cash flow analysis, the methodology is to use, to the extent possible, market data that is either directly observable or is implied from instrument prices, such as interest rate yield curves, equities and commodities prices, credit spreads, option volatilities and currency rates. In addition, the Group considers the impact of own credit risk and counterparty risk when valuing its derivative liabilities.

The valuation methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. The assumptions involved in these valuation techniques include:

– The likelihood and expected timing of future cash flows of the instrument. These cash flows are generally governed by the terms of the instrument, although management judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. In addition, future cash flows may also be sensitive to the occurrence of future events, including changes in market rates; and
– Selecting an appropriate discount rate for the instrument, based on the interest rate yield curves including the determination of an appropriate spread for the instrument over the risk-free rate. The spread is adjusted to take into account the specific credit risk profile of the exposure.

All adjustments in the calculation of the present value of future cash flows are based on factors market participants would take into account in pricing the financial instrument.

Certain financial instruments (both assets and liabilities) may be valued on the basis of valuation techniques that feature one or more significant market inputs that are not observable. When applying a valuation technique with unobservable data, estimates are made to reflect uncertainties in fair values resulting from a lack of market data, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on non-observable data are inherently uncertain because there is little or no current market data available from which to determine the price at which an orderly transaction between market participants would occur under current market conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments will be based on some market observable inputs even where the non-observable inputs are significant. All unobservable inputs used in valuation techniques reflect the assumptions market participants would use when fair valuing the financial instrument.

1 Accounting policies *(continued)*

(p) Determination of fair value of financial instruments *(continued)*

The Group tests the outputs of the valuation model to ensure that it reflects current market conditions. The calculation of fair value for any financial instrument may require adjustment of the quoted price or the valuation technique output to reflect the cost of credit risk and the liquidity of the market, if market participants would include one, where these are not embedded in underlying valuation techniques or prices used.

The choice of contributors, the quality of market data used for pricing, and the valuation techniques used are all subject to internal review and approval procedures.

Transfers between levels of the fair value hierarchy

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

(q) 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.

(r) NAMA senior bonds

NAMA senior bonds were received as consideration for financial assets transferred to NAMA and also as part of the 'Anglo' and 'EBS' transactions. These bonds are designated as loans and receivables and are separately disclosed in the statement of financial position as 'NAMA senior bonds'.

The bases for measurement, interest recognition and impairment are the same as those for loans and receivables (see accounting policies (m), (f) and (t)).

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.

On an on-going basis and in accordance with IAS 39, AG8, the Group reviews its assumptions as regards the amount and timing of expected cash flows based on experience to date and other relevant information. The revised cash flows are discounted at the bonds' original effective interest rate. Any difference between the revised discounted cash flows and the previous carrying value is recognised as 'other operating income' in the income statement.

1 Accounting policies *(continued)*

(s) 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.

1 Accounting policies *(continued)*

(s) Derivatives and hedge accounting *(continued)*

In certain circumstances, the Group may decide to cease hedge accounting even though the hedge relationship continues to be highly effective by no longer designating the financial instrument as a hedge.

Fair value hedge accounting

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the fair value hedging adjustment cumulatively made to the carrying value of the hedged item is, for items carried at amortised cost, amortised over the period to maturity of the previously designated hedge relationship using the effective interest method. For available for sale financial assets, the fair value adjustment for hedged items is recognised in the income statement using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash flow hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is initially recognised directly in other comprehensive income and included in the cash flow hedging reserve in the statement of changes in equity. The amount recognised in other comprehensive income is reclassed to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in other comprehensive income from the time when the hedge was effective remains in equity and is reclassified to the income statement as a reclassification adjustment as the forecast transaction affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income from the period when the hedge was effective is reclassified to the income statement.

Net investment hedge

Hedges of net investments in foreign operations, including monetary items that are accounted for as part of the net investment, are accounted for similarly to cash flow hedges. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and the ineffective portion is recognised immediately in the income statement. The cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement on the disposal or partial disposal of the foreign operation. Hedges of net investments may include non-derivative liabilities as well as derivative financial instruments.

Derivatives that do not qualify for hedge accounting

Certain derivative contracts entered into as economic hedges do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the income statement.

1 Accounting policies *(continued)*

(t) 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 under the collective incurred but not reported ("IBNR") assessment. An IBNR impairment provision represents an interim step pending the identification of impairment losses on an individual asset in a group of financial assets. As soon as information is available that specifically identifies losses on individually impaired assets in a group, those assets are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

Collective evaluation for impairment

For the purpose of collective evaluation of impairment (individually insignificant impaired assets and IBNR), financial assets are grouped on the basis of similar risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

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

Impairment loss

For loans and receivables and assets held to maturity, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and is included in the income statement.

1 Accounting policies *(continued)*

(t) Impairment of financial assets *(continued)*

Following impairment, interest income is recognised using the original effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When a loan has been subjected to a specific provision and the prospects of recovery do not improve, a time will come when it may be concluded that there is no real prospect of recovery. When this point is reached, the amount of the loan which is considered to be beyond the prospect of recovery is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

Collateralised financial assets – Repossessions

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, costs for obtaining and settling the collateral, and whether or not foreclosure is probable.

For loans which are impaired, the Group may repossess collateral previously pledged as security in order to achieve an orderly realisation of the loan. AIB will then offer this repossessed collateral for sale. However, if the Group believes the proceeds of the sale will comprise only part of the recoverable amount of the loan with the customer remaining liable for any outstanding balance, the loan continues to be recognised and the repossessed asset is not recognised. However, if the Group believes that the sale proceeds of the asset will comprise all or substantially all of the recoverable amount of the loan, the loan is derecognised and the acquired asset is accounted for in accordance with the applicable accounting standard. Any further impairment of the repossessed asset is treated as an impairment of the relevant asset and not as an impairment of the original loan.

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.

1 Accounting policies *(continued)*

(t) Impairment of financial assets *(continued)*

Forbearance

A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable to repay both the principal and interest on their loan in accordance with their original contract. Following an assessment of the customer's repayment capacity, a potential solution will be determined from the options available. There are a number of different types of forbearance options including interest and/or arrears capitalisation, interest rate adjustments, payment holidays, term extensions and equity swaps. These are detailed in the Credit Risk sections 3.1 and 3.2. A request for a forbearance solution acts as a trigger for an impairment test.

All loans that are assessed for a forbearance solution are tested for impairment under IAS 39 and where a loan is deemed impaired, an appropriate provision is raised to cover the difference between the loan's carrying value and the present value of estimated future cash flows discounted at the loan's original effective interest rate. Where, having assessed the loan for impairment and the loan is not deemed to be impaired, it is included within the collective assessment as part of the IBNR provision calculation.

Forbearance mortgage loans, classified as impaired, may be upgraded from impaired status, subject to a satisfactory assessment by the appropriate credit authority as to the borrower's continuing ability and willingness to repay and confirmation that the relevant security held by the Group continues to be enforceable. In this regard, the borrower is required to display a satisfactory performance following the restructuring of the loan in accordance with new agreed terms, comprising typically, a period of twelve months of consecutive payments of full principal and interest and, the upgrade would initially be to Watch/Vulnerable grades. In some individually assessed mortgage and non-mortgage cases, based on assessment by the relevant credit authority, the upgrade out of impaired to performing status may be earlier than twelve months, as the debt may have been reduced to a sustainable level. Where upgraded out of impaired, loans are included in the Group's collective assessment for IBNR provisions.

Where the terms on a renegotiated loan which has been subject to an impairment provision differ substantially from the original loan terms either in a quantitative or qualitative analysis, the original loan is derecognised and a new loan is recognised at fair value. Any difference between the carrying amount of the loan and the fair value of the new renegotiated loan terms is recognised in the income statement. Interest accrues on the new loan based on the current market rates in place at the time of the renegotiation.

Where a loan has been subject to an impairment provision and the renegotiation leads to a customer granting equity to the Group in exchange for any loan balance outstanding, the new instrument is recognised at fair value with any difference to the loan carrying amount recognised in the income statement.

Non-forbearance renegotiation

Occasionally, the Group may temporarily amend the contractual repayments terms on a loan (e.g. payment moratorium) for a short period of time due to a temporary change in the life circumstances of the borrower. Because such events are not directly linked to repayment capacity, these amendments are not considered forbearance. The changes in expected cash flows are accounted for under IAS 39 paragraph AG8 i.e. the carrying amount of the loan is adjusted to reflect the revised estimated cash flows which are discounted at the original effective interest rate. Any adjustment to the carrying amount of the loan is reflected in the income statement.

However, where the terms on a renegotiated loan differ substantially from the original loan terms either in a quantitative or qualitative analysis, the original loan is derecognised and a new loan is recognised at fair value. Any difference arising between the derecognised loan and the new loan is recognised in the income statement.

Where a customer's request for a modification to the original loan agreement is deemed not to be a forbearance request (i.e. the customer is not in financial difficulty to the extent that they are unable to repay both the principal and interest), these loans are not disaggregated for monitoring/reporting or IBNR assessment purposes.

1 Accounting policies *(continued)*

(u) 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.

(v) 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.

1 Accounting policies *(continued)*

(w) 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.

(x) Intangible assets

Computer software and other intangible assets

Computer software and other intangible assets are stated at cost, less amortisation on a straight line basis and provisions for impairment, if any. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred. Capitalised computer software is amortised over 3 to 7 years. Other intangible assets are amortised over the life of the asset. Computer software and other intangible assets are reviewed for impairment when there is an indication that the asset may be impaired. Intangible assets not yet available for use are reviewed for impairment on an annual basis.

(y) Impairment of property, plant and equipment, goodwill and intangible assets

Annually, or more frequently where events or changes in circumstances dictate, property, plant and equipment and intangible assets are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. Goodwill and intangible assets not yet available for use are subject to an annual impairment review.

The impairment review comprises a comparison of the carrying amount of the asset or cash generating unit with its recoverable amount. Cash-generating units are the lowest level at which management monitors the return on investment in assets. The recoverable amount is determined as the higher of fair value less costs to sell of the asset or cash generating unit and its value in use. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis. For intangible assets not yet available for use, the impairment review takes into account the cash flows required to bring the asset into use.

The carrying values of property, plant and equipment and intangible assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss may be reversed in part or in full when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the asset's recoverable amount. The carrying amount of the asset will only be increased up to the amount that it would have been had the original impairment not been recognised. Impairment losses on goodwill are not reversed.

1 Accounting policies *(continued)*

(z) 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.

Impairment losses subsequent to classification of assets as held for sale are recognised in the income statement. Subsequent increases in fair value, less costs to sell of the assets that have been classified as held for sale are recognised in the income statement, to the extent that the increase is not in excess of any cumulative impairment loss previously recognised in respect of the asset. Assets classified as held for sale are not depreciated.

Gains and losses on remeasurement and impairment losses subsequent to classification as disposal groups and non-current assets held for sale are shown within continuing operations in the income statement, unless they qualify as discontinued operations.

Disposal groups and non-current assets held for sale which are not classified as discontinued operations are presented separately from other assets and liabilities on the statement of financial position. Prior periods are not reclassified.

Acquisition of a subsidiary acquired exclusively with a view to its resale

A subsidiary that is acquired and held exclusively for disposal and meets the definition of an asset held for sale is not excluded from consolidation. However, it is measured and accounted for under IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, initially at fair value less costs to sell. It is consolidated but the results of the subsidiary are treated as a discontinued operation.

AIB acquired its investment in Ark Life in March 2013 with a view to its resale. Accordingly, AIB adopted the approach set out in IFRS 5 implementation guidance, example 13, in accounting for its investment in Ark Life at the acquisition date and at subsequent reporting dates. This required Ark Life to be valued at the lower of its carrying value and its fair value less costs to sell at each reporting date. Individual assets and liabilities acquired with a view to resale were not fair valued. For presentation purposes in the statement of financial position, Ark Life's identifiable liabilities were measured at fair value and this amount was added to the fair value less costs to sell figure to ascertain the value of the assets to be disclosed. Separate analysis of individual assets and liabilities was not required in the notes to the financial statements.

Inter-company assets and liabilities were eliminated against the carrying amount of the disposal group where applicable. Inter-company interest income/expense of the continuing group was recorded in the consolidated income statement. Hedge accounting for deposits accepted by AIB from Ark Life was discontinued with effect from the acquisition date of Ark Life.

1 Accounting policies *(continued)*

(aa) Non-credit risk provisions

Provisions are recognised for present legal or constructive obligations arising as consequences of past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

When the effect is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Payments are deducted from the present value of the provision, and interest at the relevant discount rate, is charged annually to interest expense using the effective interest method. Changes in the present value of the liability as a result of movements in interest rates are included in other income. The present value of provisions is included in other liabilities.

When a decision is made that a leasehold property will cease to be used in the business, provision is made, where the unavoidable costs of future obligations relating to the lease are expected to exceed anticipated income. Before the provision is established, the Group recognises any impairment loss on the assets associated with the lease contract.

Restructuring costs

Where the Group has a formal plan for restructuring a business and has raised valid expectations in the areas affected by the restructuring by starting to implement the plan or announcing its main features, provision is made for the anticipated cost of restructuring, including retirement benefits and redundancy costs, when an obligation exists. The provision raised is normally utilised within twelve months. Future operating costs are not provided for.

Legal claims and other contingencies

Provisions are made for legal claims where the Group has present legal or constructive obligations as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Contingent liabilities are possible obligations whose existence will be confirmed only by the occurrence of uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably estimated. Contingent liabilities are not recognised but are disclosed in the notes to the financial statements unless the possibility of the transfer of economic benefit is remote.

A provision is recognised for a constructive obligation where a past event has led to an obligating event. This obligating event has left the Group with little realistic alternative but to settle the obligation and the Group has created a valid expectation in other parties that it will discharge the obligation.

1 Accounting policies *(continued)*

(ab) 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 end of the reporting date are disclosed in note 61.

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 Additional Tier 1 Perpetual Contingent Temporary Write-down Securities (AT1) issued on 3 December 2015 which are accounted for as equity instruments in the statement of financial position (note 44).

Other capital reserves

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

Revaluation reserves

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

Capital redemption reserves

In 2015, the capital redemption reserves arose from the redemption of 2,140 million 2009 Preference Shares whereby on redemption, the nominal value of shares redeemed was transferred from the share capital account to the capital redemption reserve account. In addition, the nominal value of treasury shares cancelled was transferred from the share capital to the capital redemption reserve account.

In 2014, the capital redemption reserves arose from the renominalisation of the ordinary shares of the Company where deferred shares were created and cancelled.

Available for sale securities reserves

Available for sale securities reserves represent the net unrealised gain or loss, net of tax, arising from the recognition in the statement of financial position of available for sale financial investments at fair value.

In addition, unrealised gains/losses on financial assets transferred from available for sale to held to maturity are held in this caption. Unrealised gains or losses held in equity in respect of such reclassified assets are amortised to the income statement using the effective interest rate method.

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.

1 Accounting policies *(continued)*

(ab) Shareholders' equity *(continued)*

Capital contributions

Capital contributions represent the receipt of non-refundable considerations arising from transactions with the Irish Government (note 46). These contributions comprise both financial and non-financial net assets. The contributions are classified as equity and may be either distributable or non-distributable. Capital contributions are distributable if the assets received are in the form of cash or another asset that is readily convertible to cash, otherwise, they are treated as non-distributable. Capital contributions arose during 2011 from (a) EBS transaction; (b) Anglo transaction; (c) issue of contingent capital notes; and (d) non-refundable receipts from the Irish Government and the NPRFC[1].

The capital contribution from the EBS transaction is treated as non-distributable as the related net assets received were largely non-cash in nature. In the case of the Anglo transaction, the excess of the assets over the liabilities comprised of NAMA senior bonds. On initial recognition, this excess was accounted for as a non-distributable capital contribution. However, according as NAMA repays these bonds, the proceeds received will be deemed to be distributable and the relevant amount will be transferred from the capital contribution account to revenue reserves.

AIB issued contingent convertible capital notes to the Irish Government (note 41) where the proceeds of issue amounting to €1.6 billion exceeded the fair value of the instruments issued. This excess was accounted for as a capital contribution and will be treated as distributable according as the fair value adjustment on the notes amortises to the income statement.

The non-refundable receipts of € 6,054 million from the Irish Government and the NPRFC[1] are distributable. These are included in revenue reserves.

Revenue reserves

Revenue reserves represent retained earnings of the parent company, subsidiaries and associated undertakings together with amounts transferred from share premium and capital redemption reserves following Irish High Court approval. It is shown net of the cumulative deficit within the defined benefit pension schemes and other appropriate adjustments.

Foreign currency translation reserves

The foreign currency translation reserves represent the cumulative gains and losses on the retranslation of the Group's net investment in foreign operations, at the rate of exchange at the year-end reporting date net of the cumulative gain or loss on instruments designated as net investment hedges.

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.

(ac) Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value and with a maturity of less than three months from the date of acquisition.

[1]Transferred to the Ireland Strategic Investment Fund ("ISIF") on 22 December 2014. Ownership of ISIF vests with the Minister for Finance and is controlled and managed by the NTMA.

1 Accounting policies *(continued)*

(ad) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses. The Group has identified reportable segments on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker ("CODM") in order to allocate resources to the segment and assess its performance. Based on this identification, the reportable segments are the operating segments within the Group, the head of each being a member of the Leadership Team. The Leadership Team is the CODM and it relies primarily on the management accounts to assess performance of the reportable segments and when making resource allocation decisions.

Transactions between operating segments are on normal commercial terms and conditions, with internal charges and transfer pricing adjustments reflected in the performance of each operating segment. Revenue sharing agreements are used to allocate external customer revenues to an operating segment on a reasonable basis.

Geographical segments provide products and services within a particular economic environment that is subject to risks and rewards that are different to those components operating in other economic environments. The geographical distribution of profit before taxation is based primarily on the location of the office recording the transaction. In addition, geographic distribution of loans and related impairment is also based on the location of the office recording the transaction.

1 Accounting policies *(continued)*

(ae) Prospective accounting changes

The following new standards and amendments to existing standards which have been 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 new standards and amendments. The new accounting standards and amendments which are more relevant to the Group are detailed below:

Pronouncement	Nature of change	IASB effective date
Amendments to IFRS 11 *Joint Arrangements:* Accounting for Acquisitions of Interests in Joint Operations	The amendments to IFRS 11 *Joint Arrangements* state that, where a joint operator acquires an interest in a joint operation that constitutes a business, it must apply all of the principles on business combinations accounting in IFRS 3 *Business Combinations*, and other IFRSs. The joint operator must disclose the information that is required in those IFRSs in relation to business combinations. These amendments are not expected to have a significant impact on AIB Group	Annual periods beginning on or after 1 January 2016
Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*: Clarification of Acceptable Methods of Depreciation and Amortisation	The amendment to IAS 16 *Property, Plant and Equipment* clarifies that the use of a revenue-based method to calculate depreciation of an asset is not appropriate. The amendment to IAS 38 *Intangible Assets* introduces a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate. There are limited circumstances when this presumption can be overturned. These amendments will not impact AIB Group.	Annual periods beginning on or after 1 January 2016
Amendments to IAS 27 *Separate Financial Statements*: Equity Method in Separate Financial Statements	The amendments to IAS 27 *Separate Financial Statements* allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. These amendments will not impact on AIB Group consolidated financial statements.	Annual periods beginning on or after 1 January 2016
Amendments to IAS 1 *Presentation of Financial Statements:* Disclosure Initiative	These amendments to IAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures. These amendments are not expected to have a significant impact on AIB Group	Annual periods beginning on or after 1 January 2016

1 Accounting policies *(continued)*

(ae) Prospective accounting changes

Pronouncement	Nature of change	IASB effective date
Annual Improvements to IFRSs 2012-2014 Cycle	The IASB's annual improvements project provides a process for making amendments to IFRSs that are considered non-urgent but necessary. The amendments clarify guidance and wording, or correct for relatively minor unintended consequences, conflicts or oversights in existing IFRSs. Annual Improvements to IFRSs 2012-2014 Cycle amends IFRSs in relation to four issues addressed during this cycle. None of the amendments are expected to have a significant impact on reported results or disclosures.	Annual periods beginning on or after 1 January 2016
Amendments to IAS 7 *Statement of Cash Flows*	The amendments to IAS 7 Statement of Cash Flows, which were issued in January 2016, require that the following changes in liabilities arising from financing activities be disclosed to the extent necessary: – Changes from financing cash flows; – Changes arising from obtaining or losing control of subsidiaries or other businesses; – The effect of changes in foreign exchange rates; and – Other changes. It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the definition. These amendments are not expected to have a significant impact on AIB Group. The amendments are subject to EU endorsement.	Annual periods beginning on or after 1 January 2017
Amendments to IAS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*	The amendments in *Recognition of Deferred Tax Assets for Unrealised Losses,* which were issued in January 2016, clarify the following aspects: – Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use; – The carrying amount of an asset does not limit the estimation of probable future taxable profits; – Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences; and – An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type. These amendments are not expected to have a significant impact on AIB Group. The amendments are subject to EU endorsement.	Annual periods beginning on or after 1 January 2017

1 Accounting policies *(continued)*

(ae) Prospective accounting changes

Pronouncement	Nature of change	IASB effective date
IFRS 15 *Revenue from Contracts with Customers*	IFRS 15, which was issued in May 2014, replaces IAS 11 *Construction Contracts* and IAS 18 *Revenue* in addition to IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. IFRS 15 specifies how and when an entity recognises revenue from a contract with a customer through the application of a single, principles based five-step model. The standard specifies new qualitative and quantitative disclosure requirements to enable users of financial statements understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The impacts of this standard are being considered by AIB Group. The standard is subject to EU endorsement.	Annual periods beginning on or after 1 January 2018
IFRS 9 *Financial Instruments*	IFRS 9 Financial Instruments was issued in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes a revised classification and measurement model, a forward looking 'expected credit loss' impairment methodology and modifies the approach to hedge accounting. Unless early adopted, the standard is effective for accounting periods beginning 1 January 2018. The key changes under the standard are: **Classification and measurement** – Financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics. The classification and measurement categories are amortised cost, fair value through other comprehensive income and fair value through profit and loss; – A financial asset is measured at amortised cost if two criteria are met: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest; – If a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch; – Interest is calculated on the gross carrying amount of a financial assets, except where the asset is credit impaired in which case interest is calculated on the carrying amount after deducting the impairment provision; – There is no separation of an embedded derivative where the instrument is a financial asset; – Equity instruments must be measured at fair value, however, an entity can elect on initial recognition to present fair value changes, including any related foreign exchange component on non-trading equity investments directly in other comprehensive income. There is no subsequent recycling of fair value gains and losses to profit or loss; however dividends from such investments will continue to be recognised in profit or loss;	Annual periods beginning on or after 1 January 2018

1 Accounting policies *(continued)*

(ae) Prospective accounting changes

Pronouncement	Nature of change	IASB effective date
IFRS 9 *Financial Instruments (continued)*	**Impairment** – Requires more timely recognition of expected credit losses using a three stage approach. For financial assets where there has been no significant increase in credit risk since origination, a provision for 12 months expected credit losses is required. For financial assets where there has been a significant increase in credit risk or where the asset is credit impaired, a provision for full lifetime expected losses is required; – The assessment of whether credit risk has increased significantly since origination is performed for each reporting period by considering the change in risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in expected credit loss. – The assessment of credit risk, and the estimation of expected credit loss, are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of expected credit loss should take into account the time value of money. As a result, the recognition and measurement of impairment is more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month expected credit loss and the population of financial assets to which lifetime expected credit loss applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39. **Financial liabilities** – The classification of financial liabilities is essentially unchanged, except that, for certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income; **Hedge accounting** – The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The standard does not explicitly address macro hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting. **Transition** A Group-wide Programme, led jointly by Risk and Finance, commenced work during 2015 to oversee delivery of the requirements for implementation of IFRS 9.	Annual periods beginning on or after 1 January 2018

1 Accounting policies *(continued)*

(ae) Prospective accounting changes

Pronouncement	Nature of change	IASB effective date
IFRS 9 *Financial Instruments (continued)*	**Transition *(continued)*** The governance structure includes a Steering Committee mandated to oversee implementation in accordance with the standard, a Technical Approval Group to approve key accounting policy change decisions and an Operating Model Design Authority to approve operating model specifications. Detailed planning was completed during 2015 and the Design Phase commenced thereafter, with a number of key decisions required over the course of the first few months in 2016. The Programme is structured with various work streams responsible for designing and implementing the end state target operating model, technical accounting interpretations, building and validating IFRS 9 provision models and assessing data and systems requirements. Classification and measurement of financial assets is not expected to result in any significant changes for the Group. Given that the Group does not fair value its own debt, there is no impact as a result of changes required under IFRS 9. In relation to impairment, due to the complexity of decisions required, it is not possible at this stage to quantify the potential impact. The Group is evaluating its approach to the hedge accounting requirements given that the macro hedge accounting requirements have not yet been finalised by the IASB. This standard is subject to EU endorsement	Annual periods beginning on or after 1 January 2018
IFRS 16 *Leases*	IFRS 16, which was issued in January 2016, replaces IAS 17 Leases. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Under IFRS 16, a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. These amendments will impact AIB Group. However, this impact has not yet been determined but will be in due course. This standard is subject to EU endorsement	Annual periods beginning on or after 1 January 2019

2 Critical accounting judgements and estimates

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

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

Going concern

The financial statements for the financial year ended 31 December 2015 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting the Group, that it has the ability to continue in business for the period of assessment.

In making its assessment, the Directors have considered a wide range of information relating to present and future conditions. These have included: financial plans approved in January 2016 covering the period 2016 to 2018; the Restructuring Plan approved by the European Commission in May 2014; liquidity and funding forecasts, and capital resources projections. These have all been prepared under base and stress scenarios having considered the outlook for the Irish, the eurozone and UK economies. In addition, the Directors have considered the commitment of support provided to AIB by the Irish Government.

Loan impairment

AIB's accounting policy for impairment of financial assets is set out in accounting policy (t) in note 1. The provisions for impairment on loans and receivables at 31 December 2015 represent management's best estimate of the losses incurred in the loan portfolios at the reporting date.

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

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

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

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

After a period of time, when it is concluded that there is no real prospect of recovery of loans/part of loans which have been subjected to a specific provision, the Group writes off that amount of the loan deemed irrecoverable against the specific provision held against the loan.

Specific provisions

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

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

2 Critical accounting judgements and estimates *(continued)*

Specific provisions (continued)

is model driven, the total amount of the Group's impairment provisions on these loans is somewhat uncertain as it may not totally reflect the impact of the prevailing market conditions. For further details please refer to: 'Impact of changes to key assumptions and estimates on the impairment provisions' on pages 81 to 82 of the Risk management section of this report.

The amount of specific provision required on an individually assessed loan is highly dependent on estimates of the amount of future cash flows and their timing. Individually insignificant impaired loans are collectively evaluated for impairment provisions. As this process is model driven, the total amount of the Group's impairment provisions on these loans is somewhat uncertain as it may not totally reflect the impact of the prevailing market conditions. For further details please refer to: 'Impact of changes to key assumptions and estimates on the impairment provisions' on pages 81 to 82 of the Risk management section of this report.

The property and construction loan portfolio continues to have a high level of provisions following the downturn in both the Irish and UK economies. While collateral values have stabilised and recovered somewhat, market activity remains low relative to normalised levels. Accordingly, the estimation of cash flows likely to arise from the realisation of such collateral is subject to a high degree of uncertainty.

Incurred but not reported provisions

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

The total amount of impairment loss in the Group's non-impaired portfolio, and therefore, the adequacy of the IBNR allowance, is inherently uncertain. There may be factors in the portfolio that have not been a feature of the past and changes in credit grading profiles and grading movements may lag the change in the credit profile of the customer. In addition, current estimates of loss within the non-impaired portfolio and the period of time it takes following a loss event for an individual loan to be recognised as impaired ('emergence period') are subject to a greater element of estimation due to the speed of change in the economies in which the Group operates. For further details of the potential impact of an increase in the emergence period, please refer to: 'Impact of changes to key assumptions and estimates on the impairment provisions' on pages 81 to 82 of the Risk management section of this report.

Forbearance

The Group's accounting policy for forbearance is set out in accounting policy (t) 'Impairment of financial assets' in note 1 which incorporates forbearance.

The Group has developed a number of forbearance strategies for both short-term and longer-term solutions to assist customers experiencing financial difficulties. The forbearance strategies involve modifications to contractual repayment terms in order to improve the collectability of outstanding debt, to avoid default, and where relevant, to avoid repossessions. Forbearance strategies take place in both retail and business portfolios, particularly, residential mortgages. Where levels of forbearance are significant, higher levels of uncertainty with regard to judgement and estimation are involved in determining their effects on impairment provisions and on the future cashflows arising from restructured loans. 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 (l) in note 1. Details of the Group's deferred tax assets and liabilities are set out in note 34.

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

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

- the financial support provided to the Irish State under the EU/IMF programme and the fact that Ireland successfully exited the three-year bailout programme in December 2013;
- the financial support provided by the Irish Government to AIB as agreed with the EU/IMF from 2009 to 2011;
- the Irish Government's committed support to AIB and its nomination of the Group as one of two pillar banks in the smaller reconstructed Irish banking sector;

2 Critical accounting judgements and estimates *(continued)*

Deferred taxation *(continued)*

- the Restructuring Plan approved by the European Commission in May 2014, targeting a return to profitability in 2014 and the ability to grow profits thereafter;
- Management actions taken in 2012 to 2014 in returning the Group to a normalised earnings path, the benefits of which have become apparent in the past year with the Group returning to profitability;
- the absence of any expiry dates for Irish and UK tax losses;
- the non-enduring nature of the loan impairments at levels which resulted in losses in prior years; and
- external forecasts for Ireland, and the UK economies which indicate continued economic recovery through the period of the medium-term financial plan. This is evident in a levelling off of bad debts growth, reductions in unemployment and increased spending.

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

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

The Group's strategy and its medium term financial plan targeted a return to profitability by 2014 and growth in profitability thereafter. The return to profitability objective was realised in 2014 and has continued during 2015. Growth thereafter has been reaffirmed in the annual planning exercise covering the period 2016 to 2018 undertaken by the Group in the second half of 2015. Growth assumptions and profitability levels underpinning the plan are within market norms.

Taking account of all relevant factors, and in the absence of any expiry date for tax losses in Ireland, the Group further believes that it is more likely than not that there will be future profits in the medium term, and beyond, in the relevant Irish Group companies against which to use the tax losses. In this regard, the Group has carried out an exercise to determine the likely number of years required to utilise the deferred tax asset under the following scenario based on the financial planning outturn 2016-2018. Assuming a sustainable market return on equity (9%) over the long term for future profitability levels in Ireland and a GDP growth in Ireland of 2.5%, based on this scenario, it will take in excess of 20 years for the deferred tax asset (€ 3 billion) to be utilised. Furthermore, under this scenario, it is expected that 60% of the deferred tax asset will be utilised by 31 December 2030 with 92% utilised by 31 December 2035.

In a more stressed scenario with a return on equity of 8% and GDP growth of 1.5%, the utilisation period increases by a further 4 years. The Group's analysis of the results of the scenarios examined would not alter the basis of recognition or the current carrying value.

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

Furthermore, in March 2015, legislation was enacted in the UK, effective from 1 April 2015, whereby only fifty per cent of a bank's annual trading profits can be offset by unused tax losses arising before that date. This resulted in an immediate reduction of £178 million (€ 242 million) in the Group's UK deferred tax asset.

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 € 3,203 million of which € 3,015 million relates to Irish tax losses and € 188 million relates to UK tax losses. IAS 12 does not permit a company to apply present value discounting to its deferred tax assets or liabilities, regardless of the estimated timescales over which those assets or liabilities are projected to be realised. The Group's deferred tax assets are projected to be realised over a long timescale, benefiting from the absence of any expiry date for Irish or UK tax losses. As a result, the carrying value of the deferred tax assets on the statement of financial position does not reflect the economic value of those assets.

Determination of fair value of financial instruments

The Group's accounting policy for the determination of fair value of financial instruments is set out in accounting policy (p) in note 1..
The best evidence of fair value is quoted prices in an active market. The absence of quoted prices increases reliance on valuation

2 Critical accounting judgements and estimates *(continued)*

Determination of fair value of financial instruments *(continued)*

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 (r) in note 1. 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 (m). (f)) and (t) in note 1). There is no active market for the NAMA senior bonds, accordingly, the fair value at initial recognition was determined using a valuation technique.

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

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

AIB continually reviews its assumptions as to the expected timing of future cash flows based on its experience of repayments to date, as required by IAS 39, AG8. If the revised assumptions when reassessed prove to be different, this will impact the carrying value and income statement in future periods. Following reviews, in particular, 2014 and 2013, AIB adjusted the carrying value of the bonds and reflected the difference between the previous carrying value and new carrying value (2014: € 132 million and 2013: € 62 million) in the income statement.

NAMA senior bonds are subject to the same credit review processes and procedures as for loans and receivables (accounting policy (t) in note 1).

Retirement benefit obligations

The Group's accounting policy for retirement benefit plans is set out in accounting policy (j) in note 1.

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

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

In calculating the scheme liabilities and the charge to the income statement, the Directors have chosen a number of financial and demographic assumptions within an acceptable range, under advice from the Group's actuaries which include price inflation, pension increases, earnings growth and the longevity of scheme members. The impact on the income statement and statement of financial position could be materially different if a different set of assumptions were used or when it was deemed an inability to fund discretionary increases to members. The assumptions adopted for the Group's pension schemes are set out in note 13 to the financial statements, together with a sensitivity analysis of the scheme liabilities to changes in those assumptions.

2 Critical accounting judgements and estimates *(continued)*

Provisions for liabilities and commitments

The Group's accounting policy for provisions for liabilities and commitments is set out in accounting policy number (aa) 'Non-credit risk provisions' in note 1.

The Group recognises liabilities where it has present legal or constructive obligations as a result of past events and it is more likely than not that these obligations will result in an outflow of resources to settle the obligations and the amount can be reliably estimated. Details of the Group's liabilities and commitments are shown in note 40 to the financial statements.

The recognition and measurement of liabilities, in certain instances, may involve a high degree of uncertainty, and thereby, considerable time is expended on research in establishing the facts, scenario testing, assessing the probability of the outflow of resources and estimating the amount of any loss. This process will, of its nature, require significant management judgement and will require revisions to earlier judgements and estimates as matters progress towards resolution. However, at the earlier stages of provisioning, the amount provided for can be very sensitive to the assumptions used and there may be a wide range of possible outcomes in particular cases. Accordingly, in such cases, it is often not practicable to quantify a range of possible outcomes. In addition, it is also not practicable to measure ranges of outcomes in aggregate in a meaningful way because of the diverse nature of these provisions and the differing fact patterns.

In this regard, the Central Bank of Ireland ('CBI') in December 2015, requested the Irish banking industry, including AIB, to conduct a broad examination of tracker mortgage related issues, comprising of a review of mortgage loan books (including both PDH and Buy-to- Let properties and loans that have been redeemed and/or sold), to assess compliance with both contractual and regulatory requirements. These regulatory requirements require the Group to demonstrate that the customers' interest are protected, that customers are being treated fairly, and in the context of customers' understanding with regard to their entitlement to a tracker rate, to consider information provided and the disclosures made to such customers over time. In situations where customer detriment is identified from this examination, AIB is required to provide appropriate redress and compensation in line with the CBI 'Principles for Redress'. The CBI has also indicated that any tax liability that impacted customers may incur, in respect of redress, compensation or other payment by the lender, is to be discharged by the lender. This examination is required to cover the period of time from when AIB, including EBS, commenced offering tracker interest rates to 31 December 2015.

The Group has instigated a project which is on-going to identify all mortgage loans where customer detriment may have occurred and to determine appropriate redress and compensation in such cases. The recognition of provisions for customer redress and related matters which are included in 'provisions for liabilities and commitments' requires significant levels of judgement and estimation in such cases. The project involves determining the population potentially subject to redress, reviewing the relevant contractual documentation, determining changes that have occurred in the interest rates and computing the financial impact and related accounting of such redress.

To date, the Group has identified areas where redress is relevant. In one area, interest rates have been applied that are not in accordance with the relevant contractual documentation. In other areas, where customers identified as no longer having a tracker rate applied to their account, the Group is reviewing whether the circumstances that led to the mortgage account ceasing to be subject to a tracker interest rate met relevant regulatory standards. In a limited number of cases where relevant regulatory standards were not met, notwithstanding that the Group is in compliance with contractual requirements, the Group has determined it appropriate to offer revised terms on such mortgages.

At 31 December 2015, the Group has provided € 105 million where either the interest rates are not in accordance with the relevant contractual documentation or where the Group will offer revised terms on mortgage accounts. This mainly relates to the refund of interest (difference in interest charged to customers compared to the interest that would have been charged when the tracker rate is applied). The provision also includes amounts for compensating customers, such as reimbursement for the time value of money and other compensation amounts.

Furthermore, the Group has recognised a provision of € 85 million for (a) the accounting impact of a constructive obligation under IAS 37 for fair value remeasurement losses that will be recognised in areas where the Group will offer revised terms on mortgage accounts; (b) tax liabilities arising from redress or other compensation which the Group may be required to discharge on behalf of impacted customers; and (c) other costs associated with the examination.

Validation of the examination process is currently being undertaken by the Group and the resultant final redress is subject to independent third party assurance and also subject to assessment and challenge by the CBI.

Given the uncertainty attaching to certain of the assumptions and judgements underpinning the above provisions, it is possible that the eventual outcome may differ from the current estimates with a resultant charge/credit to the income statement in future periods.

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.

3 Segmental information

The Group has reorganised its business in 2015 to enable a customer focused, profitable and low risk enterprise which is well positioned to support the economic recovery in Ireland while seeking to generate sustainable shareholder returns. This change focuses on the needs of its customers, so as to combine customer groups with similar needs into franchises able to deliver co-ordinated services. Previously the Group's loan restructuring activity was reported within the Financial Solutions Group ("FSG") segment and has now been integrated back into business as usual. Customers are included in respective segments regardless of the credit quality of the customer.

The Group reported the following key segments in the Half-Yearly Financial Report 2015: Retail & Business Banking ("RBB"), Corporate & Institutional Banking ("CIB"), AIB UK and Group. Reporting on this segment basis commenced in 2015.

Following further enhancements to the Group structure, Corporate Ireland was moved from CIB to RBB, forming a new segment called AIB Ireland. Wholesale Treasury and the International businesses were moved from CIB to Group to form the new segment Group & International. In the Annual Financial Report 2015, the Group reports the following key segments: AIB Ireland, AIB UK, and Group & International:

- **AIB Ireland;**
- **AIB UK; and**
- **Group & International.**

The years to 31 December 2015, 2014 and 2013 have been presented in the new operating structure. These segments reflect the internal reporting structure which is used by management to assess performance and allocate resources. A description of each segment is set out below as follows:

AIB Ireland

AIB Ireland comprises Personal, Business and Corporate Banking. It is the leading franchise bank across key segments and products in the domestic market and is well positioned for growth. With an integrated customer focussed approach, from product design to distribution, AIB Ireland has over 2.3 million customers. AIB Ireland is divided into the following sub-segments: Retail Ireland, which consists of personal and business, and Corporate Ireland, which consists of corporate and property lending.

AIB UK

AIB UK comprises of two long established and distinct businesses offering full banking services operating as Allied Irish Bank (GB) in Great Britain and First Trust Bank in Northern Ireland.

Group & International

Group & International includes the businesses outside Ireland and the UK. It also includes wholesale treasury activities, central control and support functions (business and customer services, risk, audit, finance, general counsel, human resources and corporate affairs). Certain overheads related to these activities are managed and reported in the Group & International segment.

Segment allocations

The segments' performance statements include all income and direct costs but exclude certain overheads which are managed centrally and the costs of these are included in Group & International. Funding and liquidity charges are based on each segment's funding requirements and the Group's funding cost profile, which is informed by wholesale and retail funding costs.

Income attributable to capital is allocated to segments based on each segment's capital requirement.

3 Segmental information *(continued)*

	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m	Bank levies[1] € m	Exceptional[2] items € m	2015 Total € m
Operations by business segment							
Net interest income	1,445	297	185	1,927	–	–	1,927
Other income	443	50	203	696	–	5[3]	701
Total operating income	1,888	347	388	2,623	–	5	2,628
Personnel expenses	(462)	(96)	(167)	(725)	–	(38)[4][5]	(763)
General and administrative expenses	(251)	(63)	(183)	(497)	(68)	(276)[5][6]	(841)
Depreciation, impairment and amortisation	(42)	(3)	(29)	(74)	–	–	(74)
Total operating expenses	(755)	(162)	(379)	(1,296)	(68)	(314)	(1,678)
Operating profit/(loss) before provisions	1,133	185	9	1,327	(68)	(309)	950
Bank levies	–	–	(68)	(68)	68	–	–
Writeback/(provisions) for impairment on loans and receivables	892	44	(11)	925	–	–	925
Writeback/(provisions) for liabilities and commitments	9	–	(11)	(2)	–	13[5]	11
Total writeback/(provisions)	901	44	(22)	923	–	13	936
Operating profit/(loss)	2,034	229	(81)	2,182	–	(296)	1,886
Associated undertakings	21	3	1	25	–	–	25
Profit on disposal of property	3	–	–	3	–	–	3
Profit/(loss) before taxation from continuing operations	2,058	232	(80)	2,210	–	(296)	1,914

[1]In the consolidated financial statements, bank levies are shown as part of general and administrative expenses, They are disclosed separately in the 'Operating and Financial Review' - see page 22.

[2]Exceptional and one-off items are shown separately above. These are items that Management believes obscures the underlying performance trends in the business. Exceptional items include:

[3]Gain on transfer of financial instruments;

[4]Termination benefits;

[5]Restitution and restructuring expenses; and

[6]Other exceptional items.

For further information on these items see page 23.

3 Segmental information *(continued)*

	2014						
	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m	Bank levies[1] € m	Exceptional[2] items € m	Total € m
Net interest income	1,298	246	143	1,687	–	–	1,687
Other income	436	68	339	843	–	2[3]	845
Total operating income	1,734	314	482	2,530	–	2	2,532
Personnel expenses	(488)	(101)	(178)	(767)	–	(24)[4]	(791)
General and administrative expenses	(291)	(58)	(202)	(551)	(60)	(125)[5]	(736)
Depreciation, impairment and amortisation	(49)	(3)	(33)	(85)	–	(26)	(111)
Total operating expenses	(828)	(162)	(413)	(1,403)	(60)	(175)	(1,638)
Operating profit/(loss) before provisions	906	152	69	1,127	(60)	(173)	894
Bank levies	–	–	(60)	(60)	60	–	–
Writeback/(provisions) for impairment on loans and receivables	254	(70)	1	185	–	–	185
Writeback of provisions for liabilities and commitments	3	–	1	4	–	–	4
Provisions for impairment on financial investments available for sale	–	–	(1)	(1)	–	–	(1)
Total writeback/(provisions)	257	(70)	1	188	–	–	188
Operating profit/(loss)	1,163	82	10	1,255	–	(173)	1,082
Associated undertakings	18	5	–	23	–	–	23
Profit on disposal of property	3	3	–	6	–	–	6
Profit/(loss) before taxation from continuing operations	1,184	90	10	1,284	–	(173)	1,111

[1]In the consolidated financial statements, bank levies are shown as part of general and administrative expenses, They are disclosed separately in the 'Operating and Financial Review' - see page 22.

[2]Exceptional and one-off items are shown separately above. These are items that Management believes obscures the underlying performance trends in the business. Exceptional items include:

[3]Profit on transfer of financial instruments to NAMA;

[4]Termination benefits; and

[5]Restitution and restructuring expenses.

For further information on these items see page 23.

3 Segmental information *(continued)*

	AIB Ireland € m	AIB UK € m	Group & International € m	Total € m	Exceptional[1] items € m	2013 Total € m
Operations by business segment						
Net interest income	949	170	226	1,345	3	1,348
Other income/(loss)	384	70	125	579	(217)[2]	362
Total operating income/(loss)	1,333	240	351	1,924	(214)	1,710
Personnel expenses	(541)	(120)	(190)	(851)	147[3]	(704)
General and administrative expenses	(272)	(52)	(195)	(519)	(136)[4]	(655)
Depreciation, impairment and amortisation	(61)	(3)	(36)	(100)	(24)	(124)
Total operating expenses	(874)	(175)	(421)	(1,470)	(13)	(1,483)
Operating profit/(loss) before provisions	459	65	(70)	454	(227)	227
(Provisions)/writeback for impairment on loans and receivables	(1,698)	(226)	8	(1,916)	–	(1,916)
(Provisions)/writeback for liabilities and commitments	(8)	10	1	3	(20)	(17)
(Provisions)/writeback for impairment on financial investments available for sale	(9)	–	18	9	–	9
Total (provisions)/writeback	(1,715)	(216)	27	(1,904)	(20)	(1,924)
Operating loss	(1,256)	(151)	(43)	(1,450)	(247)	(1,697)
Associated undertakings	8	2	(3)	7	–	7
Profit on disposal of property	1	–	–	1	1	2
Profit on disposal of business	–	–	1	1	–	1
(Loss)/profit before taxation from continuing operations	(1,247)	(149)	(45)	(1,441)	(246)	(1,687)

[1]Exceptional and one-off items are shown separately above. These are items that Management believes obscures the underlying performance trends in the business. Exceptional items include:

[2]Loss on disposal of loans/loss on transfer of financial instruments.

[3]Termination benefits/retirement benefit curtailment; and

[4]Restitution and restructuring expenses and capital restructuring costs.

For further information on these items see page 23.

Other amounts – statement of financial position

	AIB Ireland € m	**AIB UK € m**	**Group & International € m**	**2015 Total € m**
Loans and receivables to customers	**50,077**	**10,343**	**2,820**	**63,240**
Customer accounts	**50,250**	**11,665**	**1,468**	**63,383**

	AIB Ireland € m	AIB UK € m	Group & International € m	2014 Total € m
Loans and receivables to customers	51,108	10,374	1,880	63,362
Customer accounts	48,525	11,504	3,989	64,018

3 Segmental information *(continued)*

Geographic information - continuing operations[1][2]	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	2015 Total € m
Gross external revenue	2,218	397	13	2,628
Inter-geographical segment revenue	(43)	47	(4)	–
Total revenue	2,175	444	9	2,628

Geographic information - continuing operations[1][2]	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	2014 Total € m
Gross external revenue	1,975	547	10	2,532
Inter-geographical segment revenue	314	(308)	(6)	–
Total revenue	2,289	239	4	2,532

Geographic information - continuing operations[1][2]	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	2013 Total € m
Gross external revenue	1,546	169	(5)	1,710
Inter-geographical segment revenue	(47)	53	(6)	–
Total revenue	1,499	222	(11)	1,710

Revenue from external customers comprises interest and similar income (note 4) interest expense and similar charges (note 5) and all other items of income (notes 6 to 10).

Geographic information	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	2015 Total € m
Non-current assets[3]	608	24	1	633

Geographic information	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	2014 Total € m
Non-current assets[3]	441	19	1	461

[1]The geographical distribution of total revenue is based primarily on the location of the office recording the transaction.

[2]For details of significant geographic concentrations, see the Risk management section.

[3]Non-current assets comprise intangible assets, and property, plant and equipment.

4 Interest and similar income

	2015 € m	2014 € m	2013 € m
Interest on loans and receivables to customers	**2,381**	2,421	2,520
Interest on loans and receivables to banks	**24**	22	19
Interest on trading portfolio financial assets	**1**	–	–
Interest on NAMA senior bonds	**31**	80	130
Interest on financial investments available for sale	**514**	567	652
Interest on financial investments held to maturity	**4**	–	–
	2,955	3,090	3,321

Interest income includes a credit of € 150 million (2014: a credit of € 138 million; 2013: a credit of € 138 million) transferred from other comprehensive income in respect of cash flow hedges.

Interest income of € 2,954 million (2014: € 3,090 million; 2013: € 3,321 million), included in 'Interest and similar income' calculated using the effective interest method, relates to financial assets not carried at fair value through profit or loss.

Interest income recognised on impaired loans amounts to € 244 million (2014: € 329 million; 2013: € 373 million).

5 Interest expense and similar charges

	2015 € m	2014 € m	2013 € m
Interest on deposits by central banks and banks	**4**	46	123
Interest on customer accounts	**539**	766	1,265
Interest on debt securities in issue	**207**	335	344
Interest on subordinated liabilities and other capital instruments	**278**	256	241
	1,028	1,403	1,973

Interest expense includes a charge of € 86 million (2014: a charge of € 92 million; 2013: a charge of € 133 million) transferred from other comprehensive income in respect of cash flow hedges.

Included within interest expense is a charge of € 30 million (2014: a charge of € 59 million; 2013: a charge of € 173 million) in respect of the Irish Government's Eligible Liabilities Guarantee ("ELG") Scheme.

Interest expense reported above, calculated using the effective interest method, relates to financial liabilities not carried at fair value through profit or loss.

6 Dividend income

Dividend income relates to income from equity shares held as financial investments available for sale and amounts to € 26 million (2014: € 25 million; 2013: € 4 million). € 25 million of this dividend income was received on NAMA subordinated bonds (2014: € 25 million; 2013: Nil).

7 Net fee and commission income

	2015 € m	2014 € m	2013 € m
Retail banking customer fees	381	373	351
Credit related fees	38	30	31
Insurance commissions	30	27	32
Fee and commission income	449	430	414
Fee and commission expense[1]	(44)	(40)	(36)
	405	390	378

[1]Fee and commission expense includes ATM expenses of € 6 million (2014: € 5 million; 2013: € 5 million) and credit card commissions of € 28 million (2014: € 26 million; 2013: € 23 million).

Fees and commissions which are an integral part of the effective interest rate are recognised as part of interest and similar income (note 4) or interest expense and similar charges (note 5).

8 Net trading income/(loss)

	2015 € m	2014 € m	2013 € m
Foreign exchange contracts	41	45	37
Interest rate contracts and debt securities	52[1]	(68)[1]	53
Credit derivative contracts	(6)	(2)	–
Equity securities, index contracts and warrants	8[2]	24[2]	12[3]
	95	(1)	102

[1]Includes a gain of € 17 million (2014: loss of € 76 million) in relation to XVA adjustments.

[2]€ 8 million (2014: € 24 million) mark to market gain on equity warrants

[3]Includes a gain of € 10 million arising on disposal of ALH (note 19).

The total hedging ineffectiveness on cash flow hedges reflected in the income statement amounted to Nil (2014: Nil; 2013: a credit of € 7 million).

9 (Loss)/profit on disposal/transfer of loans and receivables

The following table sets out details of the (loss)/profit on disposal/transfer of loans and receivables:

	2015 € m	2014 € m	2013 € m
(Loss)/profit on disposal of loans and receivables to customers	(27)	50	(201)[1]
Gain/(loss) on transfer of loans and receivables to NAMA	5	2	(25)
Total	(22)	52	(226)

[1]In 2013, a loss of € 193 million included in the (loss)/profit on disposal of loans and receivables to customers related to the deleveraging of non-core assets.

In February 2010, AIB was designated a participating institution under the NAMA Act and following the enactment of legislation in November 2009, financial instruments transferred to NAMA during 2010 and 2011. Whilst these transfers were practically complete at 31 December 2011, a provision was made in respect of adjustments to transfers which had not settled at that date (note 40). NAMA has continued to resolve certain issues in relation to loans and receivables which had transferred in 2010 and 2011. This resulted in a net release of provisions in the current year as set out above.

10 Other operating income

	2015 € m	2014 € m	2013 € m
Profit on disposal of available for sale debt securities	**158**	369	30
Loss on termination of hedging swaps[1]	**(81)**	(208)	(10)
Profit on disposal of available for sale equity securities	**8**	20	11
Acceleration/ re-estimation of the timing of cash flows on NAMA senior bonds *(note 28)*	**6**	132	62
Net gains/(losses) on buy back of debt securities in issue	**8**	(1)	–
Miscellaneous operating income[2]	**98**	67	11
	197	379	104

[1]The majority of the loss on termination relates to the disposal of available for sale debt securities. In addition, it includes € 5 million transferred from other comprehensive income in respect of cash flow hedges (2014: Nil; 2013: Nil).

[2]Miscellaneous operating income includes:

- Foreign exchange gains € 15 million (2014: a gain of € 11 million; 2013; a gain of € 1 million).
- Income on settlement of claims of € 38 million (2014: € 27 million; 2013: Nil).
- Effect of realisation/re-estimation of cash flows on loans and receivables previously restructured - credit of € 45 million (2014: a credit of € 24 million; 2013: Nil).

11 Administrative expenses

	2015 € m	2014 € m	2013 € m
Personnel expenses:			
Wages and salaries	**562**	599	653
Termination benefits[1]	**37**	24	86
Retirement benefits[2] *(note 13)*	**106**	91	(112)
Social security costs	**58**	66	77
Other personnel expenses[3]	**–**	11	–
Total personnel expenses	**763**	791	704
General and administrative expenses:			
Irish banking levy	**60**	60	–
Bank Recovery and Resolution Directive levy	**8**	–	–
Other general and administrative expenses	**773**	676	655
Total general and administrative expenses	**841**	736	655
	1,604	1,527	1,359

[1]At 31 December 2015, a charge of € 37 million (2014: a charge of € 24 million; 2013: a charge of € 86 million) was made to the income statement in respect of termination benefits arising from the voluntary severance programme. This amount comprises Nil (2014: Nil; 2013: € 23 million) in respect of past service costs relating to the early retirement scheme and € 37 million (2014: € 24 million; 2013: € 92 million) relating to the voluntary severance scheme (note 13) and Nil (2014: Nil; 2013: a credit of € 29 million) in respect of a pension curtailment gain for voluntary severance employees.

[2]Comprises a charge of € 21 million relating to defined benefit expense (2014: credit of € 3 million; 2013: credit of € 131 million), a defined contribution expense charge of € 79 million (2014: charge of € 86 million; 2013: € 13 million) and a long term disability payments expense charge of € 6 million (2014: € 8 million; 2013: € 6 million) (note 13).

[3]Other personnel expenses include other compensation costs of Nil (2014: Nil; 2013: Nil).

Personnel expenses of € 34 million (2014: € 10 million; 2013: € 14 million) were capitalised as part of the cost of intangible assets.

12 Share-based compensation schemes

The Group has operated 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 has operated 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; and
(iii) AIB Group Performance Share Plan 2005.

(i) AIB Group Share Option Scheme

Options were last granted under this scheme in 2005. This scheme terminated in April 2015 with all outstanding options either being forfeited or lapsed.

The following table summarises the share option scheme activity over each of the financial years ended 31 December 2015, 2014 and 2013:

	2015		2014		2013	
	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	**1,205.0**	**16.20**	3,490.7	13.85	5,746.5	13.64
Exercised	**–**	**–**	–	–	–	–
Forfeited/lapsed	**1,205.0**	**16.20**	(2,285.7)	12.62	(2,255.8)	13.30
Outstanding at 31 December	**–**	**–**	1,205.0	16.20	3,490.7	13.85
Exercisable at 31 December	**–**	**–**	1,205.0	16.20	3,490.7	13.85

(ii) Employees' Profit Sharing Schemes

The Company operates the **'AIB Approved Employees' Profit Sharing Scheme 1998'** ('the Scheme') on terms approved by the shareholders at the 1998 Annual General Meeting. All employees, including executive directors of the Company and certain subsidiaries are eligible to participate, subject to minimum service periods and being in employment on the date on which an invitation to participate is issued. The Directors, at their discretion, may set aside each year, for distribution under the Scheme, a sum not exceeding 5% of eligible profits of participating companies. No shares have been awarded under this Scheme since 2008.

(iii) AIB Group Performance Share Plan 2005

There were no awards of performance shares in the years 2015, 2014 or 2013. This plan terminated in April 2015.

Income statement expense

The total expense arising from share-based payment transactions amounted to Nil for the financial year ended 31 December 2015 (2014: Nil; 2013: Nil).

13 Retirement benefits

The Group operates a number of defined contribution and defined benefit schemes for employees. All defined benefit schemes are closed to future accrual.

Defined contribution schemes

From 1 January 2014, all Group staff transferred to defined contribution schemes with a standard employer contribution of 10% plus an additional matched employer contribution, subject to limits based on age bands of 12%, 15% or 18%.

For the two years from 1 January 2014 to 31 December 2015, the employer contribution was 12%, 15% or 18% for each employee who was employed on or before 31 December 2013, irrespective of whether the staff member made a contribution.

The total cost in respect of the Irish DC scheme, the EBS DC scheme and the UK DC scheme for 2015 was € 79 million (2014: € 86 million; 2013: € 13 million) and is included in administrative expenses (note 11).

Defined benefit schemes

All defined benefit schemes operated by the Group closed to future accrual with effect from 31 December 2013 and staff transferred to defined contribution schemes for future pension benefits. The most significant defined benefit schemes operated by the Group are the AIB Group Irish Pension Scheme ('the Irish scheme') and the AIB Group UK Pension Scheme ('the UK scheme').

Retirement benefits for the defined benefit schemes are calculated by reference to service and Final Pensionable Salary at 31 December 2013. The Final Pensionable Salary used in the calculation of this benefit for staff is based on their average pensionable salary in the period between 30 June 2009 and 31 December 2013. This calculation of benefit for each staff member will revalue between 1 January 2014 and retirement date in line with the statutory requirement to revalue deferred benefits. There is no link to any future changes in salaries.

Regulatory framework

In Ireland, the Pensions Act provisions set out the requirement for a defined benefit scheme that fails the Minimum Funding Standard ("MFS") to have a funding plan in place and approved by the Pensions Authority. The objective of an MFS funding plan is to set out the necessary corrective action to restore the funding of the scheme over a reasonable time period and enable the scheme to meet the MFS standard, together with the additional risk reserve requirements, at a future date.

The AIB MFS funding proposal, which was agreed in 2013 under these regulatory requirements with the Pensions Authority and Trustee of the Irish Scheme, has three annual contributions of € 40 million remaining at 31 December 2015.

Responsibilities for governance

The Trustees of each Group pension scheme are ultimately responsible for the governance of the schemes.

Risks

Details of the Pension risk to which the Group is exposed is set out in the Risk section on page 164 of this report.

Valuations

Independent actuarial valuations for the main Irish and UK schemes are carried out on a triennial basis by the Schemes' actuary, Mercer. The last such valuations of the Irish and UK schemes were carried out as at 30 June 2012 and 31 December 2014 respectively using Projected Unit Methods. The next actuarial valuations of the Irish and UK schemes as at 30 June 2015 and 31 December 2017, will be completed by 31 March 2016 and 31 December 2018 respectively. Actuarial valuations are available for inspection by the members of the schemes.

Pension Levy

The Irish Finance (No 2) Act 2011 which was signed into law in June 2011, introduced a stamp duty levy of 0.6% on the market value of assets under management in Irish pension schemes, for the years 2011 to 2014 (inclusive). The levy was based on the market value of the assets at 30 June in each relevant year, or as at the end of the preceding financial year.

The Irish Finance Act 2014 which was signed into law in December 2014, introduced an additional stamp duty levy of 0.15% on the market value of the assets under management in Irish pension schemes, for the years 2014 and 2015 (inclusive). The levy was based on the market value of the assets at 30 June in each relevant year, or as at the end of the preceding financial year.

In 2015, a levy of € 6.7 million (2014: € 30.3 million) was paid in respect of the Irish defined benefit schemes and a levy of € 0.7 million (2014: € 2.4 million) was paid in respect of the Irish DC schemes. The payment of the levy in respect of the Irish defined benefit schemes was incorporated into the return on pension scheme assets.

13 Retirement benefits *(continued)*

Contributions

The total contributions to all the defined benefit pension schemes operated by the Group in the year ended 31 December 2016 are estimated to be € 68 million. Payments in the year to 31 December 2015 amounted to € 84 million, of which € 82 million related to the Irish scheme, as required by regulation, as part of the Scheme's Minimum Funding Standard regulatory funding plan.

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 2015 and 2014. The assumptions have been set based upon the advice of the Group's actuary.

Financial assumptions	2015 %	2014 %
Irish scheme		
Rate of increase of pensions in payment	**1.45**[1]	1.40
Discount rate	**2.70**	2.20
Inflation assumptions	**1.50**	1.75
UK scheme		
Rate of increase of pensions in payment	**3.00**	3.00
Discount rate	**3.90**	3.70
Inflation assumptions (RPI)	**3.00**	3.00
Other schemes		
Rate of increase of pensions in payment	**0.00 – 3.00**	0.00 – 3.00
Discount rate	**2.70 – 4.35**	2.20 – 4.00
Inflation assumptions	**1.50 – 3.00**	1.75 – 3.00

[1]Nil for the next 2 years and 1.50% per annum thereafter.

Mortality assumptions

The life expectancies underlying the value of the scheme liabilities for the Irish and UK schemes at 31 December 2015 and 2014 are shown in the following table:

		Life expectancy - years			
		Irish scheme		UK scheme	
		2015	2014	2015	2014
Retiring today age 63					
	Males	**24.8**	24.8	**25.6**	26.3
	Females	**26.8**	26.2	**27.8**	28.6
Retiring in 10 years at age 63					
	Males	**26.0**	26.1	**26.7**	27.5
	Females	**28.1**	27.3	**29.0**	29.8

The mortality assumptions for the Irish and UK schemes were updated in 2015 to reflect emerging market experience. The table shows that a member of the Irish scheme retiring at age 63 on 31 December 2015 is assumed to live on average for 24.8 years for a male (25.6 years for the UK scheme) and 26.8 years for a female (27.8 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 2015 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.

13 Retirement benefits *(continued)*

Movement in defined benefit obligation and scheme assets

The following table sets out the movement in the defined benefit obligation and scheme assets during 2015 and 2014:

	2015			2014		
	Defined benefit obligation € m	**Fair value of scheme assets € m**	**Net defined benefit (liability) asset € m**	Defined benefit obligation € m	Fair value of scheme assets € m	Net defined benefit (liability) asset € m
At 1 January	**(7,071)**	**6,007**	**(1,064)**	(5,336)	5,242	(94)
Included in profit or loss						
Past service cost	**(1)**	**–**	**(1)**	4	–	4
Interest (cost) income	**(177)**	**158**	**(19)**	(215)	215	–
Administration costs	**–**	**(1)**	**(1)**	–	(1)	(1)
	(178)	**157**	**(21)**	(211)	214	3
Included in other comprehensive income						
Remeasurements (loss) gain:						
Actuarial (loss) gain arising from:						
Experience adjustments	**(60)**	**–**	**(60)**	16	–	16
Changes in demographic assumptions	**(10)**	**–**	**(10)**	–	–	–
Changes in financial assumptions	**863**	**–**	**863**	(1,631)	–	(1,631)
Return on scheme assets excluding interest income[1]	**–**	**53**	**53**	–	548	548
Translation adjustment on non-euro schemes	**(87)**	**95**	**8**	(87)	94	7
	706	**148**	**854**	(1,702)	642	(1,060)
Other						
Contributions by employer	**–**	**84**	**84**	–	87	87
Benefits paid	**200**	**(199)**	**1**	178	(178)	–
	200	**(115)**	**85**	178	(91)	87
At 31 December	**(6,343)**	**6,197**	**(146)**	(7,071)	6,007	(1,064)

Recognised on the statement of financial position as:

Retirement benefit assets		
– UK scheme	**203**	164
– Other schemes	**19**	11
Total retirement benefit assets	**222**	175
Retirement benefit liabilities		
– Irish scheme	**(293)**	(1,125)
– EBS scheme	**(55)**	(97)
– Other schemes	**(20)**	(17)
Total retirement benefit liabilities	**(368)**	(1,239)
Net pension deficit	**(146)**	(1,064)

[1]Includes payment of pension levy.

13 Retirement benefits *(continued)*

Scheme assets

The following table sets out an analysis of the scheme assets at 31 December 2015 and 2014:

	2015 € m	2014 € m
Cash and cash equivalents	169	185
Equity instruments		
Quoted equity instruments		
Basic materials	62	70
Consumer goods	206	180
Consumer services	166	148
Energy	91	106
Financials	330	312
Healthcare	172	147
Industrials	178	169
Technology	169	150
Telecoms	53	49
Utilities	47	48
Total quoted equity instruments	1,474	1,379
Unquoted equity instruments	10	10
Total equity instruments	1,484	1,389
Debt instruments		
Quoted debt instruments		
Corporate bonds	1,021	823
Government bonds	1,031	869
Total quoted debt instruments	2,052	1,692
Unquoted debt instruments		
Corporate bonds	53	49
Government bonds	–	28
Total unquoted debt instruments	53	77
Total debt instruments	2,105	1,769
Real estate[1] [2]	255	230
Derivatives[2]	14	5
Investment funds		
Quoted investment funds		
Alternatives	14	13
Bonds	421	420
Cash	23	24
Equity	91	133
Fixed interest	95	82
Forestry	36	35
Liability driven	728	801
Multi-asset	318	423
Property	1	1
Total quoted investment funds	1,727	1,932
Total investment funds	1,727	1,932
Mortgage backed securities[2]	434	486
Structured debt	9	11
Fair value of scheme assets	6,197	6,007

[1]Located in Europe.

[2]A quoted market price in an active market is not available.

13 Retirement benefits *(continued)*

Sensitivity analysis for principal assumptions used to measure scheme liabilities

There are inherent uncertainties surrounding the financial assumptions adopted in calculating the actuarial valuation of the pension schemes. Set out in the table below is a sensitivity analysis of the key assumptions for the Irish scheme and the UK scheme at 31 December 2015.

Note that the changes in assumptions are independent of each other i.e. the effect of the reflected change in the discount rate assumes that there has been no change in the rate of mortality assumption and vice versa.

	Irish scheme defined benefit obligation		UK scheme defined benefit obligation	
	Increase € m	Decrease € m	Increase € m	Decrease € m
Discount rate (0.25% movement)	(240)	253	(58)	62
Inflation (0.25% movement)	211	(238)	21	(20)
Future mortality (1 year movement)	136	(136)	32	(32)

Maturity of the defined benefit obligation

The weighted average duration of the Irish scheme at 31 December 2015 is 21 years and of the UK scheme at 31 December 2015 is 19 years.

Asset-liability matching strategies

The Irish Scheme continues to review its investment strategies which included a consideration of the nature and duration of its liabilities. The current Minimum Funding Standard regulatory funding plan requires that the scheme's investment strategy takes account of the liabilities by the completion of the plan in 2018. The UK scheme has already implemented a de-risking strategy that has resulted in a significant investment in liability matching assets. This strategy includes the elimination of all equity investments and the investment of all assets in a combination of corporate bonds, sovereign bonds, and liability matching instruments.

Funding arrangements and policy

In addition to the funding arrangement set out in 'Regulatory framework' on page 258, AIB executed a series of agreements on 22 October 2013 to give effect to an asset backed funding plan for the UK scheme which replaced the previous funding plan. The asset backed funding plan will grant the UK scheme annual payments from 1 January 2016 to 31 December 2032. Based on the results of the December 2014 valuation, the asset backed funding plan will pay the UK scheme £ 19 million in 2016. In addition, if the 31 December 2032 actuarial valuation of the scheme reveals a deficit, the scheme will receive a termination payment equal to the lower of that deficit or £ 60 million (note 50).

Long-term disability payments

AIB provides an additional benefit to employees who suffer prolonged periods of sickness, subject to qualifying terms of the insurer. It provides for the partial replacement of income in the event of illness or injury resulting in the employee's long term absence from work. In 2015, the Group contributed € 6 million (2014: €8 million; 2013: € 6 million) towards insuring this benefit. This amount is included in administrative expenses (note 11).

14 (Provisions)/writeback for impairment on financial investments available for sale

	2015 € m	2014 € m	2013 € m
Debt securities *(note 29)*	–	(1)	18
Equity securities *(note 29)*	–	–	(9)
	–	(1)	9

15 Profit on disposal of property

The sale of properties surplus to requirements in 2015 gave rise to profit on disposal of € 3 million (2014: € 6 million; 2013: € 2 million).

16 Profit on disposal of businesses

In 2015, there was no profit on disposal of businesses (2014: Nil; 2013: € 1 million relating to an additional consideration which had been deferred in 2012 following the disposal of an offshore subsidiary).

17 Auditors' fees

The disclosure of Auditors' fees is in accordance with Section 322 of the Companies Act 2014. This mandates disclosure of fees paid/payable to the Group Auditors only (Deloitte Ireland) for services to the parent company in the categories set out below. All years presented are on that basis.

	2015 € m	2014 € m	2013* € m
Auditors' fees *(excluding VAT)*:			
Audit of Group financial statements	**3.4**[1]	2.2	1.9
Other assurance services	**4.7**[2]	0.4	0.3
Taxation advisory services	**–**	–	–
Other non-audit services	**2.1**	0.1	0.1
	10.2	2.7	2.3

Included in the above are amounts paid to the Group Auditors, for services provided to other Group companies:

- audit € 0.3 million (2014: € 0.3 million; 2013*: € 0.1 million);
- other assurance services € 0.07 million (2014: € 0.05 million; 2013*: Nil);
- taxation advisory services Nil (2014: Nil; 2013*: € 0.01 million); and
- other non–audit services Nil (2014: Nil; 2013*: Nil).

Other assurance services include fees for additional assurance issued by the firm outside of the audit of the statutory financial statements of the Group and subsidiaries. These fees include assignments where the Auditors, 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 Board Audit Committee of the engagement of the Auditors for non-audit work.

The Board Audit Committee has reviewed the level of non-audit services fees and is satisfied that it has not affected the independence of the Auditors. It is Group policy to subject all large consultancy assignments to competitive tender, where appropriate.

The following table shows fees paid to overseas auditors (excluding Deloitte Ireland)

	2015 € m	2014 € m	2013* € m
Auditors' fees excluding Deloitte Ireland *(excluding VAT)*[3]*:*	**1.9**	4.8	3.2

[1]Includes fee related to the audit of the Half-Yearly Financial Report 2015.

[2]In anticipation of an application to list on the Main Securities Market of the Irish Stock Exchange, Deloitte have been appointed as Reporting Accountant for the Group. Work commenced during 2015 and fees paid are included in "Other assurance services".

[3]In conjunction with the Prudential Regulatory Authority in the UK, Deloitte LLP were appointed to undertake a Section 166 Review in AIB Group (UK) p.l.c. in 2012. During 2015, € 1.3 million was paid to Deloitte LLP as this review has continued throughout the year (2014: € 4.3 million; 2013*: € 2.8 million).

*Amounts paid in 2013 are from 20 June 2013 (date of appointment of Deloitte as Group Auditors).

18 Taxation

	2015 € m	2014 € m	2013 € m
Allied Irish Banks, p.l.c. and subsidiaries:			
Corporation tax in Republic of Ireland			
Current tax on income for the year	(12)	(1)	–
Adjustments in respect of prior years	1	–	17
	(11)	(1)	17
Foreign tax			
Current tax on income for the year	(8)	–	(32)
Adjustments in respect of prior years	(2)	34	1
	(10)	34	(31)
	(21)	33	(14)
Deferred taxation			
Origination and reversal of temporary differences	(26)	6	88
Adjustments in respect of prior years	(11)	(21)	16
Reduction in carrying value of deferred tax assets in respect of carried forward losses	(234)	(248)	–
Impact of change in tax legislation on deferred tax asset[1]	(242)	–	–
	(513)	(263)	104
Total tax (charge)/credit for the year	(534)	(230)	90
Effective tax rate	27.9%	20.7%	5.3%

Factors affecting tax charge

The following table explains the difference between the tax charge that would result from applying the standard corporation tax rate in Ireland of 12.5% and the actual tax charge for the year:

	2015		2014		2013	
	€ m	%	€ m	%	€ m	%
Profit/(loss) before tax from continuing operations	1,914		1,111		(1,687)	
Tax (charge)/credit at standard corporation tax rate in Ireland of 12.5%	(239)	12.5	(139)	12.5	211	12.5
Effects of:						
Foreign profits/(losses) taxed at other rates	(21)	1.1	2	(0.2)	29	1.7
Expenses not deductible for tax purposes	(20)	1.1	(20)	1.8	(30)	(1.8)
Exempted income, income at reduced rates and tax credits	1	(0.1)	2	(0.2)	13	0.8
Share of results of associates shown post tax in the income statement	4	(0.2)	3	(0.3)	–	–
Income taxed at higher rates	(25)	1.3	–	–	(27)	(1.6)
Deferred tax assets not recognised/reversal of amounts previously not recognised	43	(2.2)	(95)	8.6	(47)	(2.8)
Other differences	–	–	4	(0.3)	4	0.3
Change in tax rates[1]	(23)	1.2	–	–	(75)	(4.5)
Adjustments to tax charge in respect of previous years	(12)	0.6	13	(1.2)	12	0.7
Impact of change in tax legislation on deferred tax asset[1]	(242)	12.6	–	–	–	–
Tax (charge)/credit	(534)	27.9	(230)	20.7	90	5.3

[1] See note 34.

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18 Taxation *(continued)*

Analysis of selected other comprehensive income

Continuing operations	2015 Gross €m	2015 Tax €m	2015 Net €m	2014 Gross €m	2014 Tax €m	2014 Net €m	2013 Gross €m	2013 Tax €m	2013 Net €m
Retirement benefit schemes									
Actuarial gains/(losses) in retirement benefit schemes	**846**	**(103)**	**743**	(1,067)	128	(939)	(292)	41	(251)
Total	**846**	**(103)**	**743**	(1,067)	128	(939)	(292)	41	(251)
Foreign currency translation reserves									
Change in foreign currency translation reserves	**31**	**–**	**31**	27	–	27	(9)	–	(9)
Total	**31**	**–**	**31**	27	–	27	(9)	–	(9)
Cash flow hedging reserves									
Fair value (gains) transferred to income statement	**(59)**	**7**	**(52)**	(46)	5	(41)	(5)	–	(5)
Fair value gains/(losses) taken to other comprehensive income	**30**	**(7)**	**23**	445	(56)	389	(15)	2	(13)
Total	**(29)**	**–**	**(29)**	399	(51)	348	(20)	2	(18)
Available for sale securities reserves									
Fair value (gains) transferred to income statement	**(166)**	**17**	**(149)**	(388)	48	(340)	(51)	10	(41)
Fair value gains taken to other comprehensive income	**352**	**(100)**	**252**	1,223	(155)	1,068	631	(77)	554
Total	**186**	**(83)**	**103**	835	(107)	728	580	(67)	513

19 Discontinued operations

2015

There were no discontinued operations in 2015.

2014

In May 2014, AIB disposed of its investment in Ark Life Assurance Company Limited ('Ark Life') resulting in a gain on disposal of € 34 million (tax Nil).

2013

Following the exercise of put options in January 2012, AIB's investment in Aviva Life Holdings Ireland Limited ("ALH") was held for sale within 'Disposal groups and non-current assets held for sale' at 31 December 2012. This was designated as an equity investment at fair value through profit or loss. The sale was completed on 8 March 2013, resulting in a gain on disposal of € 10 million and a tax charge of nil. This gain was reported in 'Net trading income/(loss)' (note 8).

AIB then acquired a 100% interest in Ark Life for a consideration of € 325 million. The put option that required AIB to acquire Ark Life had a negative valuation of € 23 million at the date of acquisition.

The investment in Ark Life was initially measured at a fair value less costs to sell of € 302 million being a market related valuation of Ark Life, primarily taking account of Ark Life's market consistent embedded value ("MCEV") of € 447 million. The fair value of the liabilities acquired amounted to € 3.8 billion, while the fair value of the assets acquired amounted to € 4.1 billion. Acquisition related costs for Ark Life amounted to € 3 million and were included in 'Administrative expenses' (note 11).

Since Ark Life was acquired exclusively with a view to its subsequent disposal, it was classified on acquisition date as a discontinued operation in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The investment was accounted for in accordance with accounting policy (z) in note 1. As set out in the accounting policy, the disposal group was reported at the lower of its carrying amount and fair value less costs to sell at each reporting date. The fair value was equal to or greater than the carrying value at 31 December 2013. However, no income was recorded in the year in accordance with the accounting policy for a subsidiary acquired exclusively for resale.

20 Earnings per share

The calculation of basic earnings per unit of ordinary shares is based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue, excluding treasury shares and own shares held.

The calculation of the weighted average number of ordinary shares in issue for each of the years presented has been adjusted for the share consolidation which occurred on 21 December 2015. All ordinary shares of nominal value € 0.0025 each were consolidated into one 'new ordinary share' with a nominal value € 0.625 for every 250 shares held (note 42). In addition, in calculating the diluted earnings per share, the number of ordinary shares that would be issuable on conversion of the CCNs has, likewise, been adjusted resulting in 640 million shares being included in the calculation below.

On 17 December 2015, AIB issued 155,147 million ordinary shares of € 0.0025 each nominal value to the NTMA (for the ISIF) on conversion of 2,140 million 2009 Preference Shares (note 42).

The diluted earnings per share is based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue, excluding treasury shares and own shares held, adjusted for the effect of dilutive potential ordinary shares.

(a) Basic	**2015 € m**	2014 € m	2013 € m
Profit/(loss) attributable to equity holders of the parent from continuing operations	**1,380**	881	(1,597)
Dividend on the 2009 Preference Shares	**(446)**[1]	–	–
Profit/(loss) attributable to ordinary shareholders of the parent from continuing operations	**934**	881	(1,597)
Profit attributable to ordinary shareholders from discontinued operations	**–**	34	–
Profit/(loss) attributable to ordinary shareholders	**934**	915	(1,597)
	Number of shares (millions)		
Weighted average number of ordinary shares in issue during the year	**2,119.3**	2,090.6	2,079.0
Earnings/(loss) per share from continuing operations – basic	**EUR 44.0c**	EUR 42.2c	EUR (76.8c)
Earnings per share from discontinued operations – basic	**–**	EUR 1.6c	–

(b) Diluted	**2015 € m**	2014 € m	2013 € m
Profit/(loss) attributable to ordinary shareholders of the parent from continuing operations *(note 20 (a))*	**934**	881	(1,597)
Dilutive effect of CCN's interest charge	**252**	234	–
Adjusted profit/(loss) attributable to ordinary shareholders from continuing operations	**1,186**	1,115	(1,597)
Profit attributable to ordinary shareholders of the parent from discontinued operations	**–**	34	–
Adjusted profit/(loss) attributable to ordinary shareholders	**1,186**	1,149	(1,597)
	Number of shares (millions)		
Weighted average number of ordinary shares in issue during the year	**2,119.3**	2,090.6	2,079.0
Dilutive effect of options outstanding	**–**	–	–
Dilutive effect of CCNs	**640.0**	640.0	–
Potential weighted average number of shares	**2,759.3**	2,730.6	2,079.0
Earnings/(loss) per share from continuing operations - diluted	**EUR 43.0c**	EUR 40.9c	EUR (76.8c)
Earnings per share from discontinued operations - diluted	**–**	EUR 1.2c	–

[1] Includes the annual dividend to 13 May 2015 and a dividend paid for the period from 13 May 2015 to 17 December 2015 i.e. date of conversion/ redemption of the 2009 Preference Shares.

20 Earnings per share *(continued)*

– Bonus shares in lieu of the dividend on the 2009 Preference Shares were issued to the NPRFC[1] in both 2014 and 2013, amounting to 2,177,293,934 and 4,144,055,254 ordinary shares respectively (note 42). These bonus shares were 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 were not included in calculating the diluted per share amounts because they were anti-dilutive. All outstanding options lapsed or were forfeited during the year to 31 December 2015.
– In July 2011, AIB issued € 1.6 billion in contingent capital notes ("CCNs"). These notes are mandatorily redeemable and will convert to AIB ordinary shares, by dividing the capital amount of € 1.6 billion by the conversion price of € 2.50 resulting in 640 million new ordinary shares (note 41), if the Core Tier 1 capital ratio falls below 8.25%. These incremental shares have been included in calculating the diluted per share amounts in the years to 31 December 2015 and 2014 because they were dilutive. However, the impact is minimal.

The ordinary shares are included in the weighted average number of shares on a time apportioned basis.

[1]Transferred to the Ireland Strategic Investment Fund ("ISIF") on 22 December 2014. Ownership of ISIF vests with the Minister for Finance and is controlled and managed by the NTMA.

21 Distributions on equity shares

Dividends were not paid in either 2015 or 2014 on the ordinary equity shares. A dividend amounting to € 280 million was paid on 13 May 2015 on the 2009 Preference Shares and a dividend amounting to € 166 million was paid on 17 December 2015 on conversion/redemption of the 2009 Preference Shares. In 2014 and 2013, bonus ordinary shares were issued in lieu of dividend to the 2009 Preference Shareholders (note 42).

22 Disposal groups and non-current assets held for sale

	2015 € m	2014 € m
Total disposal groups and non-current assets held for sale	**8**	14

Disposal groups and non-current assets held for sale comprise property surplus to requirements and repossessed assets.

23 Trading portfolio financial assets

	2015 € m	2014 € m
Equity shares	**1**	1
	1	1
Of which unlisted:		
Equity shares	**1**	1
	1	1

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 2015 was € 39 million (2014: € 42 million; 2013: € 467 million; 2012: € 1,025 million; 2011: € 1,410 million; 2010: € 2,538 million; 2009: € 4,104 million; 2008: € 5,674 million).

As at the reclassification date, effective variable interest rates on reclassified trading portfolio financial assets ranged from 4% to 10% with expected gross recoverable cash flows of € 7,105 million. If the reclassification had not been made, the Group's income statement for the year ended 31 December 2015 would have included unrealised fair value gains on reclassified trading portfolio financial assets of € 2 million (2014: gains € 15 million; 2013: gains € 112 million).

After reclassification, the reclassified assets contributed the following amounts to the income statement:

	2015 € m	2014 € m	2013 € m
Interest on financial investments available for sale	**1**	2	11
Provisions for impairment on financial investments available for sale	**–**	(1)	–

Up to the date of reclassification in 2008, € 55 million of unrealised losses on the reclassified trading portfolio financial assets were recognised in the income statement (year ended December 2007: € 111 million).

24 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.

Market risk is the exposure to potential loss through holding interest rate, exchange rate and equity positions in the face of absolute and relative price movements, interest rate volatility, movements in exchange rates and shifts in liquidity. Credit risk is the exposure to loss should the counterparty to a financial instrument fail to perform in accordance with the terms of the contract.

While notional principal amounts are used to express the volume of derivative transactions, the amounts subject to credit risk are much lower because derivative contracts typically involve payments based on the net differences between specified prices or rates.

Credit risk in derivative contracts is the risk that the Group's counterparty in the contract defaults prior to maturity at a time when the Group has a claim on the counterparty under the contract (i.e. contracts with a positive fair value). The Group would then have to replace the contract at the current market rate, which may result in a loss. For risk management purposes, consideration is taken of the fact that not all counterparties to derivative positions are expected to default at the point where the Group is most exposed to them.

The following table presents the total notional principal amount of interest rate, exchange rate, equity and credit derivative contracts for 2015 and 2014 together with the positive and negative fair values attaching to those contracts:

	2015 € m	2014 € m
Interest rate contracts[1]		
Notional principal amount	**70,300**	73,230
Positive fair value	**1,540**	1,852
Negative fair value	**(1,622)**	(2,136)
Exchange rate contracts[1]		
Notional principal amount	**6,805**	4,816
Positive fair value	**67**	48
Negative fair value	**(64)**	(73)
Equity contracts[1]		
Notional principal amount	**2,398**	3,010
Positive fair value	**91**	138
Negative fair value	**(89)**	(117)
Credit derivatives[1]		
Notional principal amount	**340**	340
Positive fair value	**–**	–
Negative fair value	**(6)**	(8)
Total notional principal amount	**79,843**	81,396
Total positive fair value[2]	**1,698**	2,038
Total negative fair value	**(1,781)**	(2,334)

[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] 69% of fair value relates to exposures to banks (2014: 70%).

24 Derivative financial instruments *(continued)*

The Group uses the same credit control and risk management policies in undertaking all off-balance sheet commitments as it does for on balance sheet lending including counterparty credit approval, limit setting and monitoring procedures. In addition, derivative instruments are subject to the market risk policy and control framework as described in the Risk management section.

The following table analyses the total notional principal amount of interest rate, exchange rate, equity and credit derivative contracts by residual maturity together with the positive fair value attaching to these contracts where relevant:

	2015				2014			
	< 1 year € m	**1 < 5 years € m**	**5 years + € m**	**Total € m**	< 1 year € m	1 < 5 years € m	5 years + € m	Total € m
Residual maturity								
Notional principal amount	**23,196**	**34,912**	**21,735**	**79,843**	30,037	33,844	17,515	81,396
Positive fair value	**158**	**659**	**881**	**1,698**	98	820	1,120	2,038

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**	
	2015 € m	2014 € m	**2015 € m**	2014 € m
Republic of Ireland	**77,071**	78,035	**1,273**	1,542
United Kingdom	**2,428**	2,886	**402**	469
United States of America	**344**	475	**23**	27
	79,843	81,396	**1,698**	2,038

24 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. The Group is a party to interest rate swap, forward, future, option, cap and floor contracts. The Group's largest activity is in interest rate swaps. The two parties to an interest rate swap agree to exchange, at agreed intervals, payment streams calculated on a specified notional principal amount.

Risk management activities

In addition to meeting customer needs, the Group's principal objective in holding or transacting derivatives is the management of interest rate and foreign exchange risks which arise within the banking book through the operations of the Group as outlined below.

The operations of the Group are exposed to interest rate risk arising from the fact that assets and liabilities mature or reprice at different times or in differing amounts. Derivatives are used to modify the repricing or maturity characteristics of assets and liabilities in a cost-efficient manner. This flexibility helps the Group to achieve liquidity and risk management objectives. Similarly, foreign exchange derivatives can be used to hedge the Group's exposure to foreign exchange risk.

Derivative prices fluctuate 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 2015 and 2014, are presented within this note.

24 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 2015 and 2014. A description of how the fair values of derivatives are determined is set out in note 52.

	2015			2014		
	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	**15,114**	**661**	**(716)**	17,182	789	(905)
Cross-currency interest rate swaps	**432**	**56**	**(55)**	629	46	(42)
Interest rate options bought and sold	**670**	**2**	**(3)**	677	3	(5)
Total interest rate derivatives – OTC	**16,216**	**719**	**(774)**	18,488	838	(952)
Interest rate derivatives – OTC – central clearing						
Interest rate swaps	**100**	**–**	**–**	–	–	–
Total interest rate derivatives – central clearing	**100**	**–**	**–**	–	–	–
Interest rate derivatives – exchange traded						
Interest rate futures	**2,184**	**–**	**–**	1,706	–	–
Total interest rate derivatives – exchange traded	**2,184**	**–**	**–**	1,706	–	–
Total interest rate derivatives	**18,500**	**719**	**(774)**	20,194	838	(952)
Foreign exchange derivatives – OTC						
Foreign exchange contracts	**6,736**	**66**	**(64)**	4,650	46	(70)
Currency options bought and sold	**69**	**1**	**–**	166	2	(3)
Total foreign exchange derivatives	**6,805**	**67**	**(64)**	4,816	48	(73)
Equity derivatives – OTC						
Equity warrants	**2**	**2**	**–**	23	23	–
Equity index options	**2,396**	**89**	**(89)**	2,987	115	(117)
Total equity derivatives	**2,398**	**91**	**(89)**	3,010	138	(117)
Credit derivatives – OTC						
Credit derivatives	**340**	**–**	**(6)**	340	–	(8)
Total credit derivatives	**340**	**–**	**(6)**	340	–	(8)
Total derivatives held for trading	**28,043**	**877**	**(933)**	28,360	1,024	(1,150)
Derivatives held for hedging						
Derivatives designated as fair value hedges – OTC						
Interest rate swaps	**16,503**	**321**	**(424)**	17,130	500	(587)
Total derivatives designated as fair value hedges	**16,503**	**321**	**(424)**	17,130	500	(587)
Derivatives designated as cash flow hedges – OTC						
Interest rate swaps	**32,872**	**475**	**(319)**	32,792	511	(380)
Cross currency interest rate swaps	**2,371**	**24**	**(105)**	3,114	3	(217)
Total interest rate cash flow hedges – OTC	**35,243**	**499**	**(424)**	35,906	514	(597)
Interest rate cash flow hedges – OTC – central clearing						
Interest rate swaps	**54**	**1**	**–**	–	–	–
Total interest rate cash flow hedges – central clearing	**54**	**1**	**–**	–	–	–
Total derivatives designated as cash flow hedges	**35,297**	**500**	**(424)**	35,906	514	(597)
Total derivatives held for hedging	**51,800**	**821**	**(848)**	53,036	1,014	(1,184)
Total derivative financial instruments	**79,843**	**1,698**	**(1,781)**	81,396	2,038	(2,334)

24 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 € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	2015 Total € m
Forecast receivable cash flows	27	26	155	233	441
Forecast payable cash flows	5	12	44	63	124

	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	2014 Total € m
Forecast receivable cash flows	27	16	83	114	240
Forecast payable cash flows	8	11	52	80	151

The table below sets out the hedged cash flows, including amortisation of terminated cash flow hedges, which are expected to impact the income statement in the following periods:

	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	2015 Total € m
Forecast receivable cash flows	27	26	155	233	441
Forecast payable cash flows	29	31	78	84	222

	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	2014 Total € m
Forecast receivable cash flows	27	16	83	114	240
Forecast payable cash flows	33	32	97	99	261

For AIB Group, the ineffectiveness reflected in the income statement that arose from cash flow hedges is Nil (2014: Nil).

The pay fixed cash flow hedges are used to hedge the cash flows on variable rate liabilities and the receive fixed cash flow hedges are used to hedge the cash flows on variable rate assets.

The total amount recognised in other comprehensive income net of tax in respect of cash flow hedges was a charge of € 29 million (2014: a gain of € 348 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 52. The net mark to market on fair value hedging derivatives, excluding accrual and risk adjustments is negative € 147 million (2014: negative € 161 million) and the net mark to market on the related hedged items is positive € 146 million (2014: positive € 157 million).

Netting financial assets and financial liabilities

Derivative financial instruments are shown on the statement of financial position at their fair value. Those with a positive fair value are reported as assets and those with a negative fair value are reported as liabilities.

Details on offsetting financial assets and financial liabilities are set out in note 47.

25 Loans and receivables to banks	2015 € m	2014 € m
Funds placed with central banks	**779**	664
Funds placed with other banks	**1,560**	1,201
Provision for impairment	**–**	–
	2,339	1,865
Amounts include:		
Reverse repurchase agreements	**648**	–

Loans and receivables to banks by geographical area[1]	2015 € m	2014 € m
Republic of Ireland	**1,030**	402
United Kingdom	**1,305**	1,461
United States of America	**4**	2
	2,339	1,865

[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 € 475 million (2014: € 773 million) placed with derivative counterparties in relation to net derivative positions and placed with repurchase agreement counterparties (notes 24 and 47).

Under reverse repurchase agreements, the Group accepted collateral that it was permitted to sell or repledge in the absence of default by the owner of the collateral. The collateral received consisted exclusively of non-government securities (bank bonds) with a fair value of € 737 million (2014: Nil). The fair value of collateral sold or repledged amounted to € 43 million (2014: € 16 million). These transactions were conducted under terms that are usual and customary to standard reverse repurchase agreements.

26 Loans and receivables to customers	2015 € m	2014 € m
Loans and receivables to customers	**68,578**	74,651
Reverse repurchase agreements	**226**	110
Amounts receivable under finance leases and hire purchase contracts *(see below)*	**1,049**	860
Unquoted debt securities	**219**	147
Provisions for impairment *(note 27)*	**(6,832)**	(12,406)
	63,240	63,362
Of which:		
Repayable on demand or at short notice	**15,270**	25,078
Amounts include:		
Due from associated undertakings	**–**	–

The unwind of the discount on the carrying amount of impaired loans amounted to € 244 million (2014: € 329 million) and is included in the carrying value of loans and receivables to customers. This has been credited to interest income.

Under reverse repurchase agreements, the Group has accepted collateral with a fair value of € 222 million (2014: € 107 million) that it is permitted to sell or repledge in the absence of default by the owner of the collateral. In addition, loans and receivables to customers includes cash collateral amounting to € 73 million (2014: € 72 million) placed with derivative counterparties.

For details of credit quality of loans and receivables to customers, including forbearance, refer to Risk management – 3.1 and 3.2.

26 Loans and receivables to customers *(continued)*

Amounts receivable under finance leases and hire purchase contracts

The following balances principally comprise of leasing arrangements involving vehicles, plant, machinery and equipment:

	2015 € m	2014 € m
Gross receivables		
Not later than 1 year	**164**	347
Later than one year and not later than 5 years	**918**	578
Later than 5 years	**67**	29
	1,149	954
Unearned future finance income	**(104)**	(97)
Deferred costs incurred on origination	**4**	3
Total	**1,049**	860
Present value of minimum payments analysed by residual maturity		
Not later than 1 year	**162**	339
Later than one year and not later than 5 years	**831**	499
Later than 5 years	**56**	22
Present value of minimum payments	**1,049**	860
Provision for uncollectible minimum payments receivable[1]	**58**	80
Net investment in new business	**593**	462

[1]Included in the provisions for impairment on loans and receivables to customers (note 27).

27 Provisions for impairment on loans and receivables

The following table shows provisions for impairment on loans and receivables both to banks and customers. Further information on provisions for impairment is disclosed in 3.1 Risk management.

	2015 € m	2014 € m
At 1 January	**12,406**	17,090
Exchange translation adjustments	**131**	150
Credit to income statement – customers	**(925)**	(178)
Credit to income statement – banks	**–**	(7)
Amounts written off	**(4,593)**	(4,655)
Disposals	**(195)**	–
Recoveries of amounts written off in previous years	**8**	6
At 31 December	**6,832**	12,406
Total provisions are split as follows:		
Specific	**6,158**	11,315
IBNR	**674**	1,091
	6,832	12,406
Amounts include:		
Loans and receivables to customers *(note 26)*	**6,832**	12,406
	6,832	12,406

28 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, subject to a 0% floor. The bonds were issued on 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:

	2015 € m	2014 € m
At 1 January	**9,423**	15,598
Amortisation of discount	**21**	36
Repayments	**(3,834)**	(6,343)
Acceleration/re-estimation of the timing of cash flows	**6**	132
At 31 December	**5,616**	9,423

On initial recognition of the NAMA senior bonds, AIB made certain assumptions as to the timing of expected repayments. The assumptions underpinning the repayments and their timing are subject to continuing review. Accordingly, in 2015, a gain of € 6 million has been recognised following the acceleration of repayments by NAMA (2014: a gain of € 132 million was recognised on re-estimation of expected timing of repayments). These gains were accounted for as adjustments to the carrying value of the bonds and were reflected in 'Other operating income'.

The estimated fair value of the bonds at 31 December 2015 is € 5,626 million (2014: € 9,479 million). The nominal value of the bonds is € 5,643 million (31 December 2014: € 9,477 million). Whilst these bonds do not have an external credit rating, the Group has attributed to them a rating of A– (2014: A–) i.e. the external rating of the Sovereign.

At 31 December 2015, € 1,257 million (2014: € 1,805 million) of NAMA senior bonds have been pledged to central banks and banks (note 35).

29 Financial investments available for sale

The following table sets out at 31 December 2015 and 2014, the carrying value (fair value) of financial investments available for sale by major classifications together with the unrealised gains and losses.

	2015					
	Fair value € m	Unrealised gross gains € m	Unrealised gross losses € m	Net unrealised gains/ (losses) € m	Tax effect € m	Net after tax € m
Debt securities						
Irish Government securities	5,406	587	–	587	(73)	514
Euro government securities	3,033	140	(3)	137	(17)	120
Non Euro government securities	245	7	(1)	6	(1)	5
Supranational banks and government agencies	2,008	78	–	78	(10)	68
Collateralised mortgage obligations	328	–	(3)	(3)	1	(2)
Other asset backed securities	1	–	–	–	–	–
Euro bank securities	4,600	81	(8)	73	(9)	64
Euro corporate securities	30	–	–	–	–	–
Non Euro corporate securities	57	3	(2)	1	–	1
Total debt securities	15,708	896	(17)	879	(109)	770
Equity securities						
Equity securities – NAMA subordinated bonds	432	385	–	385	(48)	337
Equity securities – other	349	311	(2)	309	(98)	211
Total equity securities	781	696	(2)	694	(146)	548
Total financial investments available for sale	16,489	1,592	(19)	1,573	(255)	1,318

	2014					
	Fair value € m	Unrealised gross gains € m	Unrealised gross losses € m	Net unrealised gains/ (losses) € m	Tax effect € m	Net after tax € m
Debt securities						
Irish Government securities	9,107	1,327	–	1,327	(166)	1,161
Euro government securities	3,631	170	–	170	(21)	149
Non Euro government securities	182	9	–	9	(1)	8
Supranational banks and government agencies	2,852	119	–	119	(15)	104
Collateralised mortgage obligations	99	–	(1)	(1)	–	(1)
Other asset backed securities	1	–	–	–	–	–
Euro bank securities	3,897	105	–	105	(13)	92
Non Euro corporate securities	3	–	(1)	(1)	–	(1)
Total debt securities	19,772	1,730	(2)	1,728	(216)	1,512
Equity securities						
Equity securities – NAMA subordinated bonds	374	327	–	327	(41)	286
Equity securities – other	39	11	(3)	8	(2)	6
Total equity securities	413	338	(3)	335	(43)	292
Total financial investments available for sale	20,185	2,068	(5)	2,063	(259)	1,804

29 Financial investments available for sale *(continued)*

Analysis of movements in financial investments available for sale	2015 Debt securities € m	2015 Equity securities € m	2015 Total € m	2014 Debt securities € m	2014 Equity securities € m	2014 Total € m
At 1 January	**19,772**	**413**	**20,185**	20,251	117	20,368
Exchange translation adjustments	**27**	**–**	**27**	14	–	14
Purchases	**4,257**	**13**	**4,270**	7,324	12	7,336
Sales	**(4,296)**	**(8)**	**(4,304)**	(8,022)	(24)	(8,046)
Maturities	**(323)**	**–**	**(323)**	(735)	–	(735)
IAS 39 reclassifications out[1] *(note 30)*	**(3,487)**	**–**	**(3,487)**	–	–	–
Provision for impairment	**–**	**–**	**–**	(1)	–	(1)
Amortisation of discounts net of premiums	**(97)**	**–**	**(97)**	(67)	–	(67)
Movement in unrealised gains	**(145)**	**363**	**218**	1,008	308	1,316
At 31 December	**15,708**	**781**	**16,489**	19,772	413	20,185
Of which:						
Listed	**15,708**	**–**	**15,708**	19,772	–	19,772
Unlisted	**–**	**781**	**781**	–	413	413
	15,708	**781**	**16,489**	19,772	413	20,185

[1]During the year, certain financial investments available for sale amounting to €3,487 million were reclassified to the held to maturity category. The Group has the ability and intention to hold these securities to maturity. At reclassification date, the accumulated fair value gain held in other comprehensive income was € 549 million.

29 Financial investments available for sale *(continued)*

The following table sets out at 31 December 2015 and 2014, 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.

	2015					
	Fair value			Unrealised losses		
	Investments with unrealised losses of less than 12 months € m	Investments with unrealised losses of more than 12 months € m	Total € m	Unrealised losses of less than 12 months € m	Unrealised losses of more than 12 months € m	Total € m
Debt securities						
Euro government securities	471	–	471	(3)	–	(3)
Non Euro government securities	43	–	43	(1)	–	(1)
Collateralised mortgage obligations	241	65	306	(2)	(1)	(3)
Euro bank securities	1,241	–	1,241	(8)	–	(8)
Non Euro corporate securities	–	1	1	–	(2)	(2)
Total debt securities	1,996	66	2,062	(14)	(3)	(17)
Equity securities						
Equity securities – other	5	18	23	–	(2)	(2)
Total	2,001	84	2,085	(14)	(5)	(19)

	2014					
	Fair value			Unrealised losses		
	Investments with unrealised losses of less than 12 months € m	Investments with unrealised losses of more than 12 months € m	Total € m	Unrealised losses of less than 12 months € m	Unrealised losses of more than 12 months € m	Total € m
Debt securities						
Collateralised mortgage obligations	70	–	70	(1)	–	(1)
Non Euro corporate securities	–	3	3	–	(1)	(1)
Total debt securities	70	3	73	(1)	(1)	(2)
Equity securities						
Equity securities – other	11	5	16	(2)	(1)	(3)
Total	81	8	89	(3)	(2)	(5)

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 (2014: € 1 million) and Nil (2014: Nil) on equity securities have been recognised as set out in note 14.

30 Financial investments held to maturity

	2015 € m	2014 € m
Government bonds	3,483	–
Total financial investment held to maturity	3,483	–

Analysis of movements in financial investments held to maturity	2015 € m	2014 € m
At 1 January	–	–
IAS 39 reclassifications in 2015 *(note 29)*	3,487	–
Amortisation of fair value gain	(4)	–
At 31 December	3,483	–

Following a review of the Group's investment strategy, a decision was taken to reclassify a portfolio of Irish Government securities to held to maturity from the available for sale asset portfolio. Government bonds with a fair value of € 3,487 million were reclassified from available for sale to held to maturity in 2015. The reclassification reflects the Group's positive intention and ability to hold these securities to maturity. On the date of reclassification, the accumulated fair value gain held in other comprehensive income was € 549 million. This unrealised gain will be amortised to interest income using the effective income method over the remaining life of the bonds.

Financial investments held to maturity are listed on a recognised stock exchange. Their maturity profile is set out in 'Risk management' 3.3 Liquidity risk.

31 Interests in associated undertakings

Included in the income statement is the contribution net of tax from investments in associated undertakings as follows:

Income statement	2015 € m	2014 € m	2013
Share of results of associated undertakings[1]	25	23	16
Impairment of associated undertakings	–	(2)	(8)
Gain/(loss) on disposal of investment in associated undertakings	–	2[2]	(1)[3]
	25	23	7

Share of net assets including goodwill	2015 € m	2014 € m
At 1 January	69	58
Exchange translation adjustments	–	1
Income for the year – Continuing operations	25	23
Dividends received from associates	(24)	(11)
Impairment on associated undertakings – Continuing operations	–	(2)
At 31 December[4]	70	69
Disclosed in the statement of financial position within:		
Interests in associated undertakings	70	69
Of which listed on a recognised stock exchange	–	–

[1]Includes AIB Merchant Services € 21 million profit (2014: € 21 million profit; 2013: € 10 million), Aviva Health Insurance Ireland Limited € 4 million (2014: € 2 million; 2013: € 6 million) and other associates Nil (2014: Nil; 2013: Nil).

[2]Spire Holdings was disposed of during 2014 with € 2 million gain on disposal.

[3]LaGuardia Hotel was disposed of during 2013 with € 1 million loss on disposal.

[4]Includes the Group's investments in AIB Merchant Services and Aviva Health Insurance Ireland Limited.

31 Interests in associated undertakings *(continued)*

The following are the principal associates of the Group at 31 December 2015 and 2014:

Name of associate	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group at 31 December	
			2015 %	2014 %
(A) Aviva Health Insurance Ireland Limited	Transaction of health insurance business within the Republic of Ireland	1 Park Place Hatch Street, Dublin 2 Ireland	**30**	30
(B) Zoltar Services Limited trading as AIB Merchant Services	Provider of merchant payment solutions	Registered Office: Unit 6, Belfield Business Park Clonskeagh, Dublin 4 Ireland	**49.9**	49.9

All of the associates are accounted for using the equity method in these consolidated financial statements.

In accordance with Sections 316 and 348 of the Companies Act 2014 and the European Communities (Credit Institutions: Financial Statements) Regulations 2015, Allied Irish Banks, p.l.c. will annex a full listing of associated undertakings to its annual return to the Companies Registration Office.

There was no unrecognised share of losses of associates in 2015 or 2014.

Change in the Group's ownership interest in associates

There was no change in the ownership interest in associates.

Significant restrictions

There is no significant restriction on the ability of associates to transfer funds to the Group in the form of cash or dividends, or to repay loans or advances made by the Group.

32 Intangible assets

	2015			2014		
	Software € m	**Other € m**	**Total € m**	Software € m	Other € m	Total € m
Cost						
At 1 January	**768**	**3**	**771**	708	3	711
Additions – internally generated	**119**	**–**	**119**	48	–	48
– externally purchased	**37**	**–**	**37**	12	–	12
Amounts written off[1]	**(33)**	**–**	**(33)**	–	–	–
Exchange translation adjustments	**1**	**–**	**1**	–	–	–
At 31 December	**892**	**3**	**895**	768	3	771
Amortisation/impairment						
At 1 January	**597**	**3**	**600**	532	3	535
Amortisation for the year	**39**	**–**	**39**	48	–	48
Impairment for the year	**–**	**–**	**–**	17	–	17
Amounts written off[1]	**(33)**	**–**	**(33)**	–	–	–
At 31 December	**603**	**3**	**606**	597	3	600
Carrying value at 31 December	**289**	**–**	**289**	171	–	171

[1]Relates to assets which are no longer in use with a Nil carrying value.

Internally generated intangible assets under construction amounted to € 107 million (2014: € 40 million).

The cost of internally generated software amounted to € 479 million (2014: € 442 million).

Future capital expenditure in relation to both intangible assets and property, plant and equipment is set out in note 55.

33 Property, plant and equipment

	Property			Equipment	2015 Total
	Freehold	Long leasehold	Leasehold under 50 years		
	€ m	€ m	€ m	€ m	€ m
Cost					
At 1 January 2015	**175**	**88**	**126**	**473**	**862**
Additions	**47**	**2**	**16**	**24**	**89**
Transfers	**–**	**3**	**(6)**	**3**	**–**
Disposals	**–**	**–**	**–**	**(2)**	**(2)**
Amounts written off[1]	**–**	**–**	**(6)**	**(2)**	**(8)**
Exchange translation adjustments	**1**	**–**	**1**	**2**	**4**
At 31 December 2015	**223**	**93**	**131**	**498**	**945**
Depreciation/impairment					
At 1 January 2015	**68**	**32**	**80**	**392**	**572**
Depreciation charge for the year	**4**	**2**	**7**	**22**	**35**
Disposals	**–**	**–**	**–**	**(2)**	**(2)**
Amounts written off[1]	**–**	**–**	**(6)**	**(2)**	**(8)**
Exchange translation adjustments	**1**	**–**	**1**	**2**	**4**
At 31 December 2015	**73**	**34**	**82**	**412**	**601**
Carrying value at 31 December 2015	**150**	**59**	**49**	**86**	**344**

	Property			Equipment	2014 Total
	Freehold	Long leasehold	Leasehold under 50 years		
	€ m	€ m	€ m	€ m	€ m
Cost					
At 1 January 2014	173	99	142	469	883
Reclassification to disposal groups and non-current assets held for sale	(4)	(10)	–	–	(14)
Additions	9	1	10	27	47
Disposals	(1)	–	–	(4)	(5)
Amounts written off[1]	(4)	(2)	(28)	(22)	(56)
Exchange translation adjustments	2	–	2	3	7
At 31 December 2014	175	88	126	473	862
Depreciation/impairment					
At 1 January 2014	68	32	93	389	582
Reclassification to disposal groups and non-current assets held for sale	(2)	(2)	–	–	(4)
Depreciation charge for the year	4	4	8	20	36
Impairment charge for the year	1	2	5	4	12
Reversal of impairment charge for the year	–	(2)	–	–	(2)
Disposals	–	–	–	(2)	(2)
Amounts written off[1]	(4)	(2)	(28)	(22)	(56)
Exchange translation adjustments	1	–	2	3	6
At 31 December 2014	68	32	80	392	572
Carrying value at 31 December 2014	107	56	46	81	290

[1]Relates to assets which are no longer in use with a Nil carrying value.

The carrying value of property occupied by the Group for its own activities was € 237 million (2014: € 199 million), excluding those held as disposal groups and non-current assets held for sale. Property leased to others by AIB Group had a carrying value of € 3 million (2014: € 2 million). Property and equipment includes €25 million for items in the course of construction (2014: € 8 million). Future capital expenditure in relation to both property plant and equipment and intangible assets is set out in note 55.

34 Deferred taxation

	2015 € m	2014 € m
Deferred tax assets:		
Provision for impairment on loans and receivables	**1**	4
Retirement benefits	**15**	128
Assets leased to customers	**9**	12
Unutilised tax losses	**3,201**	3,670
Amortised income	**–**	1
Other	**50**	46
Total gross deferred tax assets	**3,276**	3,861
Deferred tax liabilities:		
Cash flow hedges	**(54)**	(54)
Amortised income on loans	**(18)**	(22)
Assets used in business	**(14)**	(12)
Available for sale securities	**(280)**	(197)
Other	**(13)**	–
Total gross deferred tax liabilities	**(379)**	(285)
Net deferred tax assets	**2,897**	3,576
Represented on the statement of financial position as follows:		
Deferred tax assets	**2,897**	3,576

For each of the years ended 31 December 2015 and 2014, full provision has been made for capital allowances and other temporary differences.

Analysis of movements in deferred taxation	2015 € m	2014 € m
At 1 January	**3,576**	3,828
Exchange translation and other adjustments	**20**	41
Deferred tax through other comprehensive income	**(186)**	(30)
Income statement – Continuing operations *(note 18)*	**(513)**	(263)
At 31 December	**2,897**	3,576

Comments on the basis of recognition of deferred tax assets on unused tax losses are included in note 2 'Critical accounting judgements and estimates'. Information on the regulatory capital treatment of deferred tax assets is included in 'Principal risks and uncertainties' on page 50.

At 31 December 2015, recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled € 2,897 million (2014: € 3,576 million). The most significant tax losses arise in the Irish tax jurisdiction and their utilisation is dependent on future taxable profits.

Temporary differences recognised in other comprehensive income consist of deferred tax on available for sale securities, cash flow hedges and actuarial gains/losses on retirement benefit schemes. Temporary differences recognised in the income statement consist of provision for impairment on loans and receivables, amortised income, assets leased to customers, and assets used in the course of business.

Net deferred tax assets of € 2,722 million (2014: € 3,463 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 assess 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.

34 Deferred taxation *(continued)*

Following legislation enacted in the UK on 1 April 2015, whereby only fifty per cent of a bank's annual trading profits can be sheltered by unused tax losses arising before that date, the Group's UK deferred tax asset was reduced by € 242 million (£ 178 million).

Under UK legislation enacted in November 2015, the UK corporation tax rate will be reduced to 19% from April 2017 and will be further reduced to 18% from April 2020. In addition, an 8% corporation tax surcharge will apply to banking profits from January 2016, subject to an annual exemption for the first £ 25 million of profits. Taxable profits for the purpose of the surcharge cannot be reduced by pre-2016 tax losses. These changes have been reflected in the carrying value of deferred tax assets and liabilities at 31 December 2015.

The Group has not recognised deferred tax assets in respect of Irish tax on unused tax losses of € 305 million (2014: € 226 million) and overseas tax (UK and USA) on unused tax losses of € 3,475 million (2014: € 2,439 million), and foreign tax credits for Irish tax purposes, of € 3 million (2014: € 5 million). Of these tax losses totalling € 3,780 million for which no deferred tax is recognised, € 34 million expire in 2032, € 40 million in 2033, € 28 million in 2034 and € 6 million in 2035.

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 (2014: Nil).

Deferred tax recognised directly in equity amounted to Nil (2014: Nil).

Analysis of income tax relating to other comprehensive income

				2015
	Gross	**Tax**	**Net of tax**	**Net amount attributable to owners of the parent**
	€ m	**€ m**	**€ m**	**€ m**
Profit for the year	**1,914**	**(534)**	**1,380**	**1,380**
Exchange translation adjustments	**31**	**–**	**31**	**31**
Net change in cash flow hedge reserves	**(29)**	**–**	**(29)**	**(29)**
Net change in fair value of available for sale securities	**186**	**(83)**	**103**	**103**
Net actuarial gains in retirement benefit schemes	**846**	**(103)**	**743**	**743**
Total comprehensive income for the year	**2,948**	**(720)**	**2,228**	**2,228**
Attributable to:				
Owners of the parent	**2,948**	**(720)**	**2,228**	**2,228**

				2014
	Gross	Tax	Net of tax	Net amount attributable to owners of the parent
	€ m	€ m	€ m	€ m
Profit for the year – continuing operations	1,111	(230)	881	881
Profit for the year – discontinued operations	34	–	34	34
Exchange translation adjustments	27	–	27	27
Net change in cash flow hedge reserves	399	(51)	348	348
Net change in fair value of available for sale securities	835	(107)	728	728
Net actuarial losses in retirement benefit schemes	(1,067)	128	(939)	(939)
Net change in property revaluation reserves	(1)	–	(1)	(1)
Total comprehensive income for the year	1,338	(260)	1,078	1,078
Attributable to:				
Owners of the parent	1,338	(260)	1,078	1,078

34 Deferred taxation *(continued)*

Analysis of income tax relating to other comprehensive income

	2013			
	Gross	Tax	Net of tax	Net amount attributable to owners of the parent
	€ m	€ m	€ m	€ m
Loss for the year	(1,687)	90	(1,597)	(1,597)
Exchange translation adjustments	(9)	–	(9)	(9)
Net change in cash flow hedge reserves	(20)	2	(18)	(18)
Net change in fair value of available for sale securities	580	(67)	513	513
Net actuarial gains in retirement benefit schemes	292	(41)	251	251
Net change in property revaluation reserves	(1)	–	(1)	(1)
Total comprehensive income for the year	(845)	(16)	(861)	(861)
Attributable to:				
Owners of the parent	(845)	(16)	(861)	(861)

35 Deposits by central banks and banks

	2015 € m	2014 € m
Central banks		
Eurosystem refinancing operations[1]	2,900	3,400
Other borrowings	50	–
	2,950	3,400
Banks		
Securities sold under agreements to repurchase	10,153	12,653
Other borrowings – secured	350	350
– unsecured	410	365
	10,913	13,368
	13,863	16,768
Amounts include:		
Due to associated undertakings	–	–

[1]Eurosystem refinancing operations are credit facilities from the Eurosystem secured by a fixed charge over securities.

Securities sold under agreements to repurchase (note 50) and Eurosystem refinancing operations, with the exception of € 1.9 billion funded through the ECB two year Targeted Long Term Refinancing Operation ("TLTRO") mature within six months and are secured by Irish Government bonds, NAMA senior bonds, other marketable securities and eligible assets. These agreements are completed under market standard Global Master Repurchase Agreements. Repurchase agreements with the ECB are completed under a Master Repurchase Agreement.

In addition, the Group has granted a floating charge over certain residential mortgage pools, the drawings against which were Nil (2014: Nil).

Deposits by central banks and banks include cash collateral of € 182 million (2014: € 318 million) received from derivative counterparties in relation to net derivative positions (note 47) and also from repurchase agreement counterparties.

Financial assets pledged

(a) Financial assets pledged under existing agreements to repurchase, for secured borrowings, and providing access to future funding facilities with central banks and banks are detailed in the following table:

	2015			2014		
	Central banks € m	Banks € m	Total € m	Central banks € m	Banks € m	Total € m
Total carrying value of financial assets pledged	5,357	10,829	16,186	5,337	13,857	19,194
Of which:						
Government securities[1]	20	8,364	8,384	1,084	9,479	10,563
Other securities	5,337[2]	2,465	7,802	4,253[2]	4,378	8,631

[1]Includes NAMA senior bonds.

[2]The Group has securitised certain of its mortgage and loan portfolios held in AIB Mortgage Bank and EBS and has also issued covered bonds. These securities, other than issued to external investors, have been pledged as collateral in addition to other securities held by the Group.

(b) The Group has securitised credit card receivables with a carrying value of € 292 million (2014: € 297 million) as described in note 50. Funding received from external investors is included above as 'other borrowings -secured' and has been secured on these and future credit card receivables.

36 Customer accounts

	2015 € m	2014 € m
Current accounts	**25,955**	21,665
Demand deposits	**11,698**	10,004
Time deposits	**24,825**	30,196
Securities sold under agreements to repurchase[1]	**905**	2,153
	63,383	64,018
Of which:		
Non-interest bearing current accounts	**21,907**	18,260
Interest bearing deposits, current accounts and short-term borrowings	**41,476**	45,758
	63,383	64,018
Amounts include:		
Due to associated undertakings	**54**	75

[1]The Group pledged government available for sale securities with a fair value of € 627 million (2014: € 2,941 million) and non-government available for sale securities with a fair value of € 302 million (2014: Nil) as collateral for these facilities and providing access to future funding facilities (see note 47 for further information).

At 31 December 2015, the Group's five largest customer deposits amounted to 5% (2014: 9%) of total customer accounts.

37 Trading portfolio financial liabilities

	2015 € m	2014 € m
Debt securities:		
Government securities	**86**	–
	86	–

For contractual residual maturity see 'Risk management' - 3.3 Liquidity risk.

38 Debt securities in issue

	2015 € m	2014 € m
Bonds and medium term notes:		
European medium term note programmes	**1,555**	3,293
Bonds and other medium term notes	**5,346**	4,518
	6,901	7,811
Other debt securities in issue:		
Commercial paper	**100**	50
	7,001	7,861

Debt securities issued during the year amounted to € 3,522 million (2014: € 3,198 million) of which € 1,500 million relates to covered bond issuances (2014: € 500 million), a € 500 million EMTN bond issuance (2014: € 500 million), with the balance relating to issuances under the short-term commercial paper programme. Debt securities matured or repurchased amounted to € 4,397 million (2014: € 4,091 million) of which € 129 million (2014: € 937 million) relates to securities repurchased as part of a debt buyback programme.

39 Other liabilities

	2015 € m	2014 € m
Notes in circulation	**425**	422
Items in transit	**163**	126
Creditors	**10**	12
Fair value of hedged liability positions	**203**	325
Other	**307**	340
	1,108	1,225

40 Provisions for liabilities and commitments

	Liabilities and charges € m	NAMA[1] provisions € m	Onerous[2] contracts € m	Legal claims € m	Other[3] provisions € m	Voluntary severance scheme € m	2015 Total € m
At 1 January	60	33	51	32	81	1	258
Transfer in	–	14	–	–	–	–	14
Exchange translation adjustments	–	–	3	–	4	–	7
Charged to income statement	11[4]	7[1]	–	4	201	4	227
Released to income statement	(22)[4]	(12)[1]	(11)	(3)	(9)	–	(57)
Provisions utilised	–	(3)	(30)	(1)	(28)	(5)	(67)
At 31 December 2015	49	39	13	32	249	–	382[5]

	Liabilities and charges € m	NAMA[1] provisions € m	Onerous[2] contracts € m	Legal claims € m	Other[3] provisions € m	Voluntary severance scheme € m	2014 Total € m
At 1 January	72	35	36	14	139	3	299
Transfers out	–	–	–	–	(5)	–	(5)
Exchange translation adjustments	(1)	–	1	–	5	–	5
Charged to income statement	1[4]	6[1]	29	21	34	1	92
Released to income statement	(5)[4]	(8)[1]	(9)	(2)	(3)	–	(27)
Provisions utilised	(7)	–	(6)	(1)	(89)	(3)	(106)
At 31 December 2014	60	33	51	32	81	1	258[5]

Provisions for customer redress and related matters (included in 'Other provisions')

In December 2015, the Central Bank of Ireland ('CBI'), requested the Irish banking industry, including AIB, to conduct a broad examination of tracker mortgage related issues, comprising of a review of mortgage loan books (including both PDH and Buy-to- Let properties and loans that have been redeemed and/or sold), to assess compliance with both contractual and regulatory requirements. In situations where customer detriment is identified from this examination, AIB is required to provide appropriate redress and compensation in line with the CBI 'Principles for Redress'. The Group has instigated a project which is on-going to identify all mortgage loans where customer detriment may have occurred and to determine appropriate redress and compensation in such cases.

At 31 December 2015, the Group has provided € 105 million where either the interest rates are not in accordance with the relevant contractual documentation or where the Group will offer revised terms on mortgage accounts. This mainly relates to the refund of interest (difference in interest charged to customers compared to the interest that would have been charged when the tracker rate is applied). The provision also includes amounts for compensating customers, such as reimbursement for the time value of money and other compensation amounts.

Furthermore, the Group has recognised a provision of € 85 million for (a) the accounting impact of a constructive obligation under IAS 37 for fair value remeasurement losses that will be recognised in areas where the Group will offer revised terms on mortgage accounts; (b) tax liabilities arising from redress or other compensation which the Group may be required to discharge on behalf of impacted customers; and (c) other costs associated with the examination.

Given that the grounds on which the provisions have been estimated could prejudice the position of the Group, further information as required by IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* is not disclosed.

[1]NAMA income statement charge/(credit) relates to ongoing valuation adjustments in relation to loans previously transferred to NAMA.

[2]Provisions for the unavoidable costs expected to arise from the closure of properties which are surplus to requirements.

[3]Includes € 232 million (2014: € 58 million) provisions for customer restitution. These relate to payment protection insurance in both Ireland and the UK, interest rate hedge products in the UK, credit card insurance, redress provisions under the Central Bank of Ireland "Principles for Redress" (see above) and other miscellaneous provisions.

[4]Included in writeback of provisions for liabilities and commitments in income statement.

[5]The total provisions for liabilities and commitments expected to be settled within one year amount to € 290 million (2014: € 147 million).

41 Subordinated liabilities and other capital instruments

	2015 € m	2014 € 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	**371**	258
	1,524	1,411
Dated loan capital – European Medium Term Note Programme:		
€ 750 million Subordinated Tier 2 Notes due 2025, Callable 2020	**750**	–
€ 500m Callable Step-up Floating Rate Notes due October 2017		
– nominal value € 25.5 million (maturity extended to 2035 as a result of the SLO)	**8**	8
£ 368m 12.5% Subordinated Notes due June 2019		
– nominal value £ 79 million (maturity extended to 2035 as a result of the SLO)	**35**	32
£ 500m Callable Fixed/Floating Rate Notes due March 2025		
– nominal value £ 1 million (maturity extended to 2035 as a result of the SLO)	**1**	–
	794	40
	2,318	1,451

Maturity of dated loan capital	2015 € m	2014 € m
Dated loan capital outstanding is repayable as follows:		
5 years or more	**794**	40

€ 1.6bn Contingent Capital Tier 2 Notes due 2016

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 46). Interest is payable annually in arrears on the nominal value of the notes at a fixed rate of 10% per annum. The interest rate may increase up to 18% at the behest of the Minister but with effect only from the date that the CCNs are sold to a third party external to a State entity. The notes are due to mature on 28 July 2016. The CCNs are unsecured and subordinated obligations of AIB. They rank:

(i) junior to the claims of all holders of unsubordinated obligations of AIB;

(ii) pari passu with the claims of holders of all other subordinated obligations of AIB which qualify as consolidated Tier 2 capital of the Group for regulatory capital purposes or which rank, or are expressed to rank, pari passu with the CCNs; and

(iii) senior to the claims of holders of all other subordinated obligations of AIB which rank junior to the CCNs including any subordinated obligations of AIB which qualify as Tier 1 capital of the Group for regulatory purposes.

While the CCNs are outstanding, if AIB's Common Equity Tier 1 ("CET 1") ratio falls below the trigger ratio of 8.25%, the CCNs will immediately and mandatorily convert to ordinary shares of AIB at a conversion price of € 2.50 per share. The conversion price was adjusted, in accordance with the terms of the notes, for the consolidation of the ordinary shares whereby one new ordinary share of nominal value € 0.625 was issued in exchange for every 250 existing ordinary shares of € 0.0025 each (note 42).

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.

(a) € 750 million Subordinated Tier 2 Notes due 2025, Callable 2020

On 26 November 2015, AIB issued € 750 million Subordinated Tier 2 Notes due 2025, Callable 2020.

These notes mature on 26 November 2025 but can be redeemed in whole, but not in part, at the option of AIB on the optional redemption date on 26 November 2020, subject to the approval of the Financial Regulator, with approval being conditional on meeting the requirements of the EU Capital Requirements Regulation.

The notes will bear interest on the outstanding nominal amount at a fixed rate of 4.125%, payable annually in arrears on 26 November each year. The interest rate will be reset on 26 November 2020 to Eur 5 year Mid Swap rate plus the initial margin of 395 basis points.

41 Subordinated liabilities and other capital instruments *(continued)*

Dated loan capital

(b) Other dated subordinated loan capital

Following the liability management exercises in 2011 and the Subordinated Liabilities Order ("SLO") in April 2011, residual balances remained on the dated loan capital instruments above. The SLO, which was effective from 22 April 2011, changed the terms of all of those outstanding dated loan agreements. The original liabilities were derecognised and new liabilities were recognised, with their initial measurement based on the fair value at the SLO effective date. The contractual maturity date changed to 2035 as a result of the SLO, with coupons to be payable at the option of AIB. These instruments will amortise to their nominal value in the period to their maturity in 2035.

42 Share capital

	2015 Number of shares m	2015 € m	2014 Number of shares m	2014 € m
Authorised				
Ordinary share capital				
Ordinary shares of € 0.625 each (2014: € 0.0025)	**4,000.0**	**2,500**	702,000.0	1,755
Preference share capital				
2009 Non–cumulative preference shares of € 0.01 each	**–**	**–**	3,500.0	35
Issued				
Ordinary share capital				
Ordinary shares of € 0.625 each (2014: € 0.0025)	**2,714.4**	**1,696**	523,474.1	1,309
Preference share capital				
2009 Non–cumulative preference shares of € 0.01 each	**–**	**–**	3,500.0	35

2015

Capital reorganisation

Ordinary shares and 2009 Preference shares

Arising from, inter alia, a requirement to return State aid to the Irish Government in line with AIB's obligations under the EU Restructuring Plan, to create a sound and sustainable capital base on which to grow its business and to meet regulatory requirements under CRD IV and the BRRD, AIB implemented a number of measures in order to reorganise its capital following resolutions passed at the EGM of shareholders held on 16 December 2015 ('the EGM'). These measures impacted ordinary share capital, 2009 Preference Share capital, share premium and revenue reserves and are outlined below under the following key steps:

- 2009 Preference Share conversion;
- 2009 Preference Share redemption;
- Ordinary share consolidation; and
- Changes to authorised share capital.

2009 Preference Shares

On 13 May 2009, AIB issued 3,500 million non-cumulative redeemable preference shares to the Minister for Finance for a subscription price of € 3.5 billion (nominal price of € 0.01 per share). The shares carried a fixed non-cumulative dividend at a rate of 8% per annum, payable annually in arrears at the discretion of AIB. On 13 May 2015, this dividend, amounting to € 280 million was paid in cash.

Under the terms of the agreement with the Minister for Finance, these 2009 Preference Shares were redeemable at the option of AIB from distributable profits and/or the proceeds of an issue of shares constituting core tier 1 capital (now CET 1) which if redeemed more than five years after issue, at a price of € 1.25 per share i.e. a 25 per cent step up on the subscription price.

On 20 November 2015, in connection with the Capital Reorganisation, the 2009 Preference Share Conversion and Redemption Agreement was made between AIB, the Minister for Finance and the NTMA and was approved at the EGM held on 16 December 2015. Under this agreement, AIB agreed to convert 2,140 million of the 2009 Preference Shares into ordinary shares at their subscription price of € 2,140 million plus a 25 per cent step-up (€ 2,675 million in total).

On 17 December 2015, in accordance with the terms of the 2009 Preference Shares in the Constitution of the Company, AIB redeemed the remaining 2009 Preference Shares (1,360 million shares) for cash at their subscription price of € 1,360 million plus the 25 per cent step-up (total € 1,700 million).

42 Share capital *(continued)*

2009 Preference Share conversion

For the purpose of converting € 2,675 million into ordinary shares, AIB and the Minister for Finance agreed a fair value of € 0.01724176 per € 0.0025 ordinary share. This required 155,146,574,363 ordinary shares to satisfy the conversion.

In order to convert the 2009 Preference Shares of € 0.01 per share (paid up to € 1.00, inclusive of premium paid upon issue) into ordinary shares of € 0.0025 each, each converting preference share was sub-divided into four 2009 Preference Shares of € 0.0025 each which resulted in 8,560 million new 'sub-divided Preference shares' in issue.

Each sub-divided Preference Share was re-designated as one ordinary share of € 0.0025 in part satisfaction for the conversion. This re-designation of the 2009 Preference Shares to ordinary shares amounted to € 21.4 million.

In addition, bonus ordinary shares with a nominal value € 0.0025 were issued to the NTMA for the residual number of shares due on conversion. The number of bonus shares was calculated as the total entitlement in respect of converting shares i.e. 155,146,574,363 less the number of shares re-designated from 2009 Preference Shares to ordinary shares i.e. 146,586,574,363 shares.

The bonus shares issue resulted in a transfer of the nominal value of each ordinary share issued from share premium to ordinary share capital which totalled € 366 million.

The effective date for the 2009 Preference Share conversion was 17 December 2015.

2009 Preference Share redemption

Immediately following the conversion on 17 December 2015 of 2,140 million of the 2009 Preference Shares into ordinary shares, AIB redeemed the remaining 1,360 million of the 2009 Preference Shares (nominal value of € 13.6 million) at a price equal to 125 per cent of the subscription price per share on issue. Total cost of redemption was € 1,700 million. This transaction was reflected as a reduction in revenue reserves and, in accordance with the Companies Act 2014, the nominal value of the shares redeemed was transferred from the share capital account to capital redemption reserves.

Dividend paid on conversion/redemption

A dividend for the period from the last dividend payment date of 13 May 2015 up to the date of conversion/redemption of the 2009 Preference Shares, amounting to € 166 million, was paid in cash to the NTMA (for the ISIF) on 17 December 2015.

Ordinary share consolidation

At 17 December 2015, following the issue of ordinary shares to the NTMA (for the ISIF) on conversion of the 2009 Preference Shares as outlined above, the total number of ordinary shares with a nominal value of €0.0025 per share in issue amounted to 678,585,019,800 (after deduction of 35,680,114 treasury shares which were cancelled on 17 December 2015 (note 43)).

A Consolidation Resolution, passed at the EGM, resolved that all ordinary shares with a nominal value of € 0.0025 ('existing ordinary shares') be consolidated so that for every 250 shares held by a shareholder, that shareholder will hold one 'new' ordinary share with a nominal value of € 0.625 after the consolidation. In addition, where residual fractions remained following the division of a shareholder's holding into 'new ordinary shares', the shareholding was rounded up by the allotment of new shares to shareholders by way of bonus issue to ensure that no fractions remained following consolidation.

On 21 December 2015, AIB allotted 10,289,700 ordinary shares with a nominal value of € 0.0025 per share (total € 25,724) as bonus shares on the rounding up of shareholdings resulting in a transfer from share premium account to ordinary share capital.

The total number of new shares of nominal value € 0.625 each arising from consolidation amounted to 2,714,381,238 (€ 1,696 million) which was effective on 21 December 2015.

The rights attaching to the 'new ordinary shares' are identical in all respects to the 'existing ordinary shareholders' including voting and dividend rights and rights on a return of capital.

Changes to authorised share capital

All authorised but unissued 2009 Preference Shares and authorised but unissued sub-divided 2009 Preference Shares were cancelled following the conversion/redemption of the 2009 Preference Shares and the completion of the ordinary share consolidation.

In addition, the authorised share capital of the Company was increased by the creation of such new ordinary shares of € 0.625 each as was necessary to result in the authorised share capital being 4,000 million shares (€ 2,500 million).

42 Share capital *(continued)*

2014

Ordinary shares

On 13 May 2014, arising from AIB's decision not to pay the discretionary dividend on the 2009 Preference Shares amounting to € 280 million, the NPRFC[(1)] became entitled to bonus shares in lieu and the Company issued 2,177,293,934 ordinary shares of € 0.01 each by way of a bonus issue to the NPRFC[(1)]. This number of shares is equal to the aggregate cash amount of the annual dividend of € 280 million on the NPRFC's[(1)] holding of 3.5 billion 2009 Preference Shares, divided by the average ordinary share price per share in the 30 trading days prior to 13 May 2014. In accordance with the Company's Articles of Association, an amount of € 22 million, equal to the nominal value of the shares issued, was transferred from share premium account to ordinary share capital. Following this transaction, the NPRFC[(1)] held 522,558,712,910 ordinary shares in AIB (99.8% of the issued ordinary share capital).

Following shareholder resolutions passed at the EGM held on 19 June 2014:

– the authorised share capital of the Company was reduced from € 11,092,752,297 to € 1,790,000,000;
– the ordinary shares of the Company were renominalised, each ordinary share of € 0.01 was subdivided into one ordinary share of € 0.0025 each (carrying the same rights and obligations as an existing ordinary share) and one deferred share of € 0.0075. The deferred shares created on the renominalisation had no voting or dividend rights and had no economic value; and
– the Company acquired all of the deferred shares for Nil consideration and immediately cancelled them in accordance with its Articles of Association adopted at the EGM, which resulted in € 3,926 million transferring from share capital to a capital redemption reserve fund.

On 15 October 2014, the Irish High Court confirmed an application by AIB for a reduction of the share premium account by € 1,074 million, in addition to a reduction of € 3,926 million of its capital redemption reserves (note 45). This resulted in a transfer from these reserve accounts (€ 5 billion) to revenue reserves.

2009 Preference Shares

On 13 May 2009, in implementing the Government's recapitalisation of AIB, the Company issued € 3.5 billion of core tier 1 securities in the form of non-cumulative redeemable preference shares (the '2009 Preference Shares') for an aggregate subscription price of € 3.5 billion.

The 2009 Preference Shares carried 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 was not paid, AIB was required to issue bonus ordinary shares to the holders of the 2009 Preference Shares by capitalising its reserves. Arising from this provision, AIB issued ordinary shares in lieu of dividend due to the NPRFC[(1)] in 2010, 2011, 2012, 2013 and 2014. In accordance with the Company's Articles of Association, an amount equal to the nominal value of the shares issued, was transferred from the share premium account to the ordinary share capital account. In May 2015, this dividend, amounting to € 280 million, was paid in cash.

These 2009 Preference Shares were converted to ordinary shares/redeemed on 17 December 2015, as set out above under 'Capital reorganisation'.

[(1)]Transferred to the Ireland Strategic Investment Fund ("ISIF") on 22 December 2014. Ownership of ISIF vests with the Minister for Finance and is controlled and managed by the NTMA.

42 Share capital *(continued)*

Movements in share capital

The following tables show the movements in share capital in the statement of financial position during the financial year:

Issued share capital	2015 € m	2014 € m
At 1 January:		
Ordinary shares	**1,309**	5,213
Preference shares	**35**	35
	1,344	5,248
Ordinary shares in lieu of dividend	**–**	22
	1,344	5,270
2009 Preference Shares subdivision into € 0.0025 each nominal for conversion to ordinary shares	**(21)**	–
2009 Preference Shares redemption for cash	**(14)**	–
	(35)	–
Ordinary shares issued on conversion of 2009 Preference Shares	**21**	–
Bonus ordinary shares issued on conversion of 2009 Preference Shares	**366**	–
Issue of bonus shares in lieu of fractions	**–**	–
Consolidation of ordinary shares of nominal value € 0.0025 each into ordinary shares of nominal value € 0.625 each	**1,696**	–
Cancellation of ordinary shares of nominal value € 0.0025 each	**(1,696)**	–
Ordinary shares of € 0.01 each renominalised	**–**	(5,235)
Ordinary shares of € 0.0025 each arising on renominalisation	**–**	1,309
Deferred shares of € 0.0075 each arising on renominalisation	**–**	3,926
Cancellation of deferred shares	**–**	(3,926)
At 31 December	**1,696**	1,344
Of which:		
Ordinary shares	**1,696**	1,309
2009 Preference Shares	**–**	35
	1,696	1,344

Share premium	2015 € m	2014 € m
At 1 January	**1,752**	2,848
Transfer to ordinary share capital in respect of ordinary shares issued in lieu of dividend on 2009 Preference Shares	**–**	(22)
Reduction and transfer to revenue reserves	**–**	(1,074)
Bonus ordinary shares issued on conversion of 2009 Preference Shares	**(366)**	–
At 31 December	**1,386**	1,752

42 Share capital *(continued)*

Structure of the Company's share capital as at 31 December 2015	Authorised share capital %	Issued share capital %
Class of share		
Ordinary share capital	**100**	**100**

The following table shows the Group's capital resources at 31 December 2015 and 2014:

Capital resources	2015 € m	2014 € m
Shareholders' equity	**12,148**	11,572
Contingent capital notes *(note 41)*	**1,524**	1,411
Dated capital notes *(note 41)*	**794**	40
Total capital resources	**14,466**	13,023

43 Own shares

The details of ordinary shares previously purchased under shareholder authority and held as treasury shares are as follows:

	2015		2014	
Treasury shares	Number of shares	€ m	Number of shares	€ m
At 31 December	**–**	**–**	35,680,114	462

Following approval by the Board on 17 December 2015, AIB cancelled all its outstanding treasury shares and in accordance with Section 106 of the Companies Act 2014, the nominal value of the shares cancelled, amounting to € 89,200, was transferred from the ordinary share capital account to the capital redemption reserve account. The balance on the treasury shares account was transferred to revenue reserves account.

The company did not reissue any ordinary shares from its pool of treasury shares since 2008.

Employee share schemes and trusts

In the past, the Group sponsored a number of employee share schemes whereby purchases of shares were made in the open market to satisfy commitments under the various schemes.

At 31 December 2015, 5,820 shares[1] (2014: 5,820 shares) were held by trustees with a book value of € 23 million (2014: € 23 million), and a market value of € 0.039 million (2014: € 0.1 million). The book value is deducted from revenue reserves while the shares continue to be held by the Group.

[1] On 21 December 2015, all outstanding ordinary shares of nominal value € 0.0025 were consolidated so that for every 250 shares held one new ordinary share of nominal value € 0.625 was issued.

44 Other equity interests

	2015 € m	2014 € m
At 1 January	–	–
Additional tier 1 securities issued	500	–
Transaction costs[1]	(6)	–
At 31 December	**494**	–

[1]Taxation Nil.

Additional Tier 1 Perpetual Contingent Temporary Write-down Securities

On 3 December 2015, as part of its capital reorganisation, AIB issued € 500 million nominal value of Additional Tier 1 Perpetual Contingent Temporary Write-down Securities ('AT1s'). The securities, which are accounted for as equity in the statement of financial position, are included in AIB's capital base as fully CRD IV compliant additional tier 1 capital on a fully loaded basis.

Interest on the securities, at a fixed rate of 7.375% per annum, is payable semi-annually in arrears on 3 June and 3 December, commencing on 3 June 2016. On the first reset date on 3 December 2020, in the event that the securities are not redeemed, interest will be reset to the relevant 5 year rate plus a margin of 7.339 %. AIB has sole and absolute discretion at all times to cancel (in whole or in part) any interest payment that would otherwise be payable on any interest payment date. In addition, there are certain limitations on the payment of interest if such payments are prohibited under Irish banking regulations or regulatory capital requirements, if AIB has insufficient reserves available for distribution or if AIB fails to satisfy the solvency condition as defined in the securities' terms. Any interest not paid on an interest payment date by reason of the provisions as to cancellation of interest or by reason of the solvency condition set out in the terms and conditions, will not accumulate or be payable thereafter.

The securities are perpetual securities with no fixed redemption date. AIB may, in its sole and full discretion, redeem all (but not some only) of the securities on the first call date or on any interest payment date thereafter at the prevailing principal amount together with accrued but unpaid interest. However, redemption is subject to the permission of the Single Supervisory Mechanism/Central Bank of Ireland who has set out certain conditions in relation to redemption, purchase, cancellation and modification of these securities. In addition, the securities are redeemable at the option of AIB for certain regulatory or tax reasons.

The securities, which do not carry voting rights, rank pari passu with holders of other tier 1 instruments (excluding the Company's ordinary shares) and with the holders of preference shares, if any, which have a preferential right to a return of assets in a winding-up of AIB. They rank ahead of the holders of ordinary share capital of the Company but junior to the claims of senior creditors.

If the CET1 ratio of Allied Irish Banks p.l.c. or the Group at any time falls below 7% (a Trigger Event) and is not in winding-up, subject to certain conditions AIB may write down the AT1s by the lower of the amount necessary to generate sufficient common equity tier 1 capital to restore the CET1 ratio to 7% or the amount that would reduce the prevailing principal amount to zero. To the extent permitted in order to comply with regulatory capital and other requirements, AIB may at its sole and full discretion reinstate any previously written down amount.

45 Capital reserves and capital redemption reserves

Capital reserves	2015 Capital contribution reserves € m	2015 Other capital reserves € m	2015 Total € m	2014 Capital contribution reserves € m	2014 Other capital reserves € m	2014 Total € m
At 1 January	**1,780**	**178**	**1,958**	2,344	253	2,597
Transfer to revenue reserves:						
Anglo business transfer	**(285)**	**–**	**(285)**	(470)	–	(470)
CCNs issuance *(note 41)*	**(113)**	**–**	**(113)**	(94)	–	(94)
Disposal of Ark Life[1]	**–**	**–**	**–**	–	(75)	(75)
	(398)	**–**	**(398)**	(564)	(75)	(639)
At 31 December	**1,382**	**178**	**1,560**	1,780	178	1,958

[1]Arising from the disposal of Ark Life in May 2014, an amount of € 75 million, previously accounted for as capital reserves, was transferred to revenue reserves.

The capital contribution reserves which arose from the acquisition of Anglo deposit business and EBS and the issue of the CCNs were non-distributable on initial recognition but may become distributable as outlined in accounting policy (ab) in note 1. The transfers to revenue reserves relate to the capital contributions being deemed distributable.

Capital redemption reserves

Capital redemption reserves	2015 € m	2014 € m
At 1 January	**–**	–
Transfer from ordinary share capital *(note 42)*	**–**	3,926
Reduction and transfer to revenue reserves	**–**	(3,926)
Transfer from 2009 Preference Share capital *(note 42)*	**14**	–
Treasury shares cancellation	**–**	–
At 31 December	**14**	–

2015

On 17 December 2015, AIB redeemed 1,360 million of the 2009 Preference Shares (nominal value € 13.6 million) which was reflected as a transfer to the capital redemption reserve account from the 2009 Preference Share capital account in accordance with the Companies Act 2014 (note 42).

On 17 December 2015, AIB cancelled its holding of treasury shares (note 43). This resulted in the transfer of the nominal value of shares cancelled (€ 89,200) from the ordinary share capital account to capital redemption reserves (note 45).

2014

On 20 June 2014, the ordinary shares of Allied Irish Banks, p.l.c. were renominalised which resulted in the creation of ordinary shares of € 0.0025 each, totalling € 1,309 million and deferred shares of € 0.0075 each, totalling € 3,926 million. The deferred shares were acquired by AIB for Nil consideration and immediately cancelled which resulted in € 3,926 million transferring from share capital to capital redemption reserves (note 45).

Following the Irish High Court confirmation on 15 October 2014 of an application by AIB for a reduction of its capital redemption reserve fund, € 3,926 million was transferred to revenue reserves from this account.

46 Capital contributions

On 28 July 2011, the Minister for Finance ('the Minister') and the NPRFC[1] agreed to contribute € 2,283 million and € 3,771 million respectively (total € 6,054 million) as capital contributions to AIB for Nil consideration. These capital contributions constitute CET 1 capital for regulatory purposes and are included within 'Revenue reserves'. Neither the Minister nor the NPRFC[1] has an entitlement to seek repayment of these capital contributions.

[1]Transferred to the Ireland Strategic Investment Fund ("ISIF") on 22 December 2014. Ownership of ISIF vests with the Minister for Finance and is controlled and managed by the NTMA.

47 Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

– are offset in the Group's statement of financial position; or
– are subject to enforceable master netting arrangements or similar agreements that cover similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and receivables and customer accounts are not included in the tables below unless they are offset in the statement of financial position.

The Group has a number of ISDA Master Agreements (netting agreements) in place which allow it to net the termination values of derivative contracts upon the occurrence of an event of default with respect to its counterparties. The enforcement of netting agreements would potentially reduce the statement of financial position carrying amount of derivative assets and liabilities by € 1,052 million (2014: € 1,221 million).

The Group's sale and repurchase and reverse sale and repurchase transactions and securities borrowing and lending are covered by netting agreements with terms similar to those of ISDA Master Agreements. Additionally, the Group has agreements in place which may allow it to net the termination values of cross currency swaps upon the occurrence of an event of default.

The ISDA Master Agreements and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position as they create a right of set-off of recognised amounts that become enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties. In addition, the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The Group provides and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

– derivatives
– sale and repurchase agreements
– reverse sale and repurchase agreements
– securities lending and borrowing

Collateral is subject to the standard industry terms of Credit Support Annexes ('CSAs'), which enable the Group to pledge or sell securities received during the term of the transaction. The collateral must be returned on the maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions where the counterparty fails to post collateral. The Credit Support Annexes ("CSAs") in place provide collateral for derivative contracts. At 31 December 2015, € 514 million (2014: € 843 million) of CSAs are included within financial assets and € 201 million (2014: € 279 million) of CSAs are included within financial liabilities.

47 Offsetting financial assets and financial liabilities *(continued)*

The disclosures set out in the tables below include financial assets and financial liabilities that:

– are offset in AIB Group's statement of financial position; or

– are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The following table shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements at 31 December 2015 and 2014:

					2015		
					Related amounts not offset in the statement of financial position		
Financial assets	Note	Gross amounts of recognised financial assets € m	Gross amounts of recognised financial liabilities offset in the statement of financial position € m	Net amounts of financial assets presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) received € m	Net amount € m
Derivative financial instruments	24	1,245	–	1,245	(1,052)	(201)	(8)
Loans and receivables to banks –							
Reverse repurchase agreements	25	648	–	648	(737)	–	(89)
Loans and receivables to customers –							
Reverse repurchase agreements	26	226	–	226	(222)	–	4
Total		2,119	–	2,119	(2,011)	(201)	(93)

					2015		
					Related amounts not offset in the statement of financial position		
Financial liabilities	Note	Gross amounts of recognised financial liabilities € m	Gross amounts of recognised financial assets offset in the statement of financial position € m	Net amounts of financial liabilities presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) pledged € m	Net amount € m
Deposits by central banks and banks –							
Securities sold under agreements to repurchase	35	10,153	–	10,153	(10,571)	(20)	(438)
Customer accounts –							
Securities sold under agreements to repurchase	36	905	–	905	(928)	(1)	(24)
Derivative financial instruments	24	1,605	–	1,605	(1,052)	(514)	39
Total		12,663	–	12,663	(12,551)	(535)	(423)

47 Offsetting financial assets and financial liabilities *(continued)*

							2014
			Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		
Financial assets	**Note**	Gross amounts of recognised financial assets € m	€ m	€ m	Financial instruments € m	Financial collateral (including cash collateral) received € m	Net amount € m
Derivative financial instruments	24	1,490	–	1,490	(1,221)	(279)	(10)
Loans and receivables to customers –							
Reverse repurchase agreements	26	110	–	110	(107)	–	3
Total		1,600	–	1,600	(1,328)	(279)	(7)

							2014
			Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		
Financial liabilities	**Note**	Gross amounts of recognised financial liabilities € m	€ m	€ m	Financial instruments € m	Financial collateral (including cash collateral) pledged € m	Net amount € m
Deposits by central banks and banks –							
Securities sold under agreements to repurchase	35	12,653	–	12,653	(13,164)	51	(460)
Customer accounts –							
Securities sold under agreements to repurchase	36	2,153	–	2,153	(2,206)	2	(51)
Derivative financial instruments	24	2,140	–	2,140	(1,221)	(843)	76
Total		16,946	–	16,946	(16,591)	(790)	(435)

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured on the following bases:

- derivative assets and liabilities – fair value;
- loans and receivables to banks – amortised cost;
- loans and receivables to customers – amortised cost;
- deposits by central banks and banks – amortised cost; and
- customer accounts – amortised cost.

47 Offsetting financial assets and financial liabilities *(continued)*

The following table reconciles the 'Net amounts of financial assets and financial liabilities presented in the statement of financial position', as set out in the previous pages, to the line items presented in the statement of financial position at 31 December 2015 and 2014:

				2015
Financial assets	**Net amounts of financial assets presented in the statement of financial position € m**	**Line item in statement of financial position**	**Carrying amount in the statement of financial position € m**	**Financial assets not in scope of offsetting disclosures € m**
Derivative financial instruments	**1,245**	Derivative financial instruments	**1,698**	**453**
Loans and receivables to banks –				
Reverse repurchase agreements	**648**	Loans and receivables to banks	**2,339**	**1,691**
Loans and receivables to customers –				
Reverse repurchase agreements	**226**	Loans and receivables to customers	**63,240**	**63,014**

				2015
Financial liabilities	**Net amounts of financial assets presented in the statement of financial position € m**	**Line item in statement of financial position**	**Carrying amount in the statement of financial position € m**	**Financial liabilities not in scope of offsetting disclosures € m**
Deposits by central banks and banks –				
Securities sold under agreements to repurchase	**10,153**	Deposits by central banks and banks	**13,863**	**3,710**
Customer accounts –				
Securities sold under agreements to repurchase	**905**	Customer accounts	**63,383**	**62,478**
Derivative financial instruments	**1,605**	Derivative financial instruments	**1,781**	**176**

				2014
Financial assets	Net amounts of financial assets presented in the statement of financial position € m	Line item in statement of financial position	Carrying amount in the statement of financial position € m	Financial assets not in scope of offsetting disclosures € m
Derivative financial instruments	1,490	Derivative financial instruments	2,038	548
Loans and receivables to customers –				
Reverse repurchase agreements	110	Loans and receivables to customers	63,362	63,252

				2014
Financial liabilities	Net amounts of financial assets presented in the statement of financial position € m	Line item in statement of financial position	Carrying amount in the statement of financial position € m	Financial liabilities not in scope of offsetting disclosures € m
Deposits by central banks and banks –				
Securities sold under agreements to repurchase	12,653	Deposits by central banks and banks	16,768	4,115
Customer accounts –				
Securities sold under agreements to repurchase	2,153	Customer accounts	64,018	61,865
Derivative financial instruments	2,140	Derivative financial instruments	2,334	194

48 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	
	2015 € m	2014 € m
Contingent liabilities[1] – credit related		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	**735**	739
Other contingent liabilities	**640**	507
	1,375	1,246
Commitments[2]		
Documentary credits and short-term trade-related transactions	**39**	14
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year[3]	**7,206**	6,837
1 year and over[4]	**2,502**	2,231
	9,747	9,082
	11,122	10,328

[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	
	2015 € m	2014 € m	**2015 € m**	2014 € m
Concentration of exposure				
Republic of Ireland	**673**	629	**8,030**	7,580
United Kingdom	**544**	480	**1,710**	1,480
United States of America	**158**	137	**7**	22
Total	**1,375**	1,246	**9,747**	9,082

48 Memorandum items: contingent liabilities and commitments, and contingent assets *(continued)*

The credit ratings of contingent liabilities and commitments as at 31 December 2015 and 2014 are set out in the following table. Details of the Group's rating profiles are set out in the 'Risk management' section of this report.

	2015 € m	2014 € m
Good upper	**3,166**	3,544
Good lower	**5,425**	3,527
Watch	**258**	730
Vulnerable	**164**	196
Impaired	**366**	488
Unrated	**1,743**	1,843
Total	**11,122**	10,328

Legal proceedings

AIB Group in the course of its business is frequently involved in litigation cases. However, it is not, nor has been involved in, nor are there, so far as the Company is aware, pending or threatened by or against AIB Group any legal or arbitration proceedings, including governmental proceedings, which may have, or have had during the previous twelve months, a material effect on the financial position, profitability or cash flows of AIB Group.

Contingent liability/contingent asset - NAMA

(a) Transfers of financial assets to NAMA are complete. However, NAMA continues to finalise certain value to transfer adjustments and the final consideration payable on tranches which have already transferred. Accordingly, the Group has maintained a provision for the amount of the expected outflow in respect of various adjustments. If the actual amounts provided prove to be lower or higher than the provision, an inflow or outflow of economic benefit may result to the Group (notes 40 and 50).

(b) The Group has provided NAMA with a series of indemnities relating to transferred assets. Any indemnity payment would result in an outflow of economic benefit for the Group.

(c) On dissolution or restructuring of NAMA, the Minister may require that a report and accounts be prepared. If NAMA shows that an aggregate loss has been incurred since its establishment which is unlikely to be made good, the Minister may impose a surcharge on the participating institution. This will involve apportioning the loss on the participating institution, subject to certain restrictions, on the basis of the book value of the assets acquired from that institution in relation to the total book value of assets acquired from all participating institutions.

Participation in TARGET 2 - Ireland

AIB migrated to the TARGET 2 system during 2008. TARGET 2, being the wholesale payment infrastructure for credit institutions across Europe, is a real time gross settlement system for large volume interbank payments in euro. The following disclosures relate to the charges arising as a result of the migration to TARGET 2:

By Deeds of Charge made on 15 February 2008, AIB created first floating charges in favour of the Central Bank of Ireland ('Central Bank') over all of AIB's right, title, interest and benefit, present and future, in and to:

(i) the balances then or at any time standing to the credit of Payment Module accounts held by AIB with a Eurosystem central bank ('Charge over Payment Module Accounts'); and

(ii) each of the eligible securities included from time to time in the Eligible Securities Schedule furnished by AIB to the Central Bank ('Charge over Eligible Securities').

In each case, a 'Charged Property', for the purpose of securing all present and future liabilities of AIB in respect of AIB's participation in TARGET 2, arising from the Deeds of Charge and the Terms and Conditions for participation in TARGET 2 – Ireland (specified from time to time by the Central Bank), including, without limitation, liabilities to the Central Bank, the European Central Bank, or any national central bank of a Member State that has adopted the euro.

The Deeds of Charge contain a provision whereby during the subsistence of the security, otherwise than with the prior written consent of the Central Bank, AIB shall not:

(a) create or attempt to create or permit to arise or subsist any encumbrance on or over the Charged Property or any part thereof; or

(b) otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the Charged Property or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

48 Memorandum items: contingent liabilities and commitments, and contingent assets *(continued)*

Participation in TARGET 2 - Ireland

The Central Bank amended its collateral management system in May 2014, moving from an earmarking system to a pooling one for certain collateral accepted for Eurosystem credit operations. As part of this transition, AIB and the Central Bank entered into a Framework Agreement in respect of Eurosystem Operations secured over Collateral Pool Assets dated 7 April 2014 ('Framework Agreement'). The Framework Agreement provided for the release of the Charge over Eligible Securities with effect from 26 May 2014.

A deed of charge was made on 7 April 2014 between AIB and the Central Bank in connection with the Framework Agreement ('Framework Agreement Deed of Charge'). The Framework Agreement Deed of Charge created a first fixed charge in favour of the Central Bank over AIB's right, title, interest and benefit, present and future in and to eligible assets (as identified as such by the Central Bank) which comprise present and future rights, title, interest, claims and benefits of AIB at that time in and to, or in connection with, a collateral account (the "Collateral Account") and eligible assets which stand to the credit of the Collateral Account and a first floating charge in favour of the Central Bank over AIB's right, title, interest and benefit, present and future in and to other eligible assets of AIB.

The Charge over Payment Module Accounts remains in place.

49 Subsidiaries and consolidated structured entities

The following are the material companies of AIB Group at 31 December 2015 and 2014:

Name of company	Principal activity	Place of incorporation
Allied Irish Banks, p.l.c.	The parent company of the majority of the subsidiaries within the Group. Its activities include banking and financial services – a licensed bank.	Republic of Ireland
AIB Mortgage Bank	Issue of mortgage covered securities – a licensed bank	Republic of Ireland
EBS Limited	Mortgages and savings – a licensed bank	Republic of Ireland
AIB Group (UK) p.l.c. trading as Allied Irish Bank (GB) in Great Britain and First Trust Bank in Northern Ireland	Banking and financial services – a licensed bank	Northern Ireland

The proportion of ownership interest and voting power held by the Group in the above subsidiaries is 100%.

All subsidiaries of AIB are wholly owned and there are no non-controlling interests in these subsidiaries. Practically all subsidiaries of AIB Group are involved in the provision of financial services or ancillary services.

Significant restrictions

Each of the subsidiaries listed above which is a licensed bank is required by its respective financial regulator to maintain capital ratios above a certain minimum level. These minimum ratios restrict the payment of dividend by the subsidiary where this would breach such ratios and, where the ratios fall below the minimum requirement, will require the parent company to inject capital to make up the shortfall.

Guarantees

Allied Irish Banks, p.l.c. (the parent company) has guaranteed a number of its subsidiary companies. These companies are listed in note m to the parent company's financial statements.

49 Subsidiaries and consolidated structured entities *(continued)*

Consolidated structured entities

The Group has acted as sponsor and invested in a number of special purpose vehicles in order to generate funding for the Group's lending activities (with the exception of AIB PFP Scottish Limited Partnership). The Group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity.

The following special purpose vehicles are consolidated by the Group:

- Emerald Mortgages No. 4 Public Limited Company;
- Emerald Mortgages No. 5 Limited;
- Mespil 1 RMBS Limited;
- Tenterden Funding p.l.c.;
- Goldcrest Funding No. 1 Limited; and
- AIB PFP Scottish Limited Partnership.

Further details on these special purpose vehicles are set out in note 50.

There are no contractual arrangements that could require Allied Irish Banks, p.l.c. or its subsidiaries to provide financial support to the consolidated structured entities listed above. During the year, neither Allied Irish Banks, p.l.c. nor any of its subsidiaries provided financial support to a consolidated structured entity and there is no current intention to provide financial support.

The Group has no interest in unconsolidated structured entities.

Ark Life Assurance Company Limited

Ark Life Assurance Company Limited ('Ark Life') was acquired in 2013, as a wholly owned subsidiary, with a view to its subsequent disposal. It was classified on acquisition date as a discontinued operation in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. This sale was completed in May 2014 (note 19).

Further details on AIB's principal subsidiaries are set out in note m to the parent company's financial statements.

50 Off-balance sheet arrangements and transferred financial assets

Under IFRS, transactions and events are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. As a result, the substance of transactions with a special purpose entity ("SPE") forms the basis for their treatment in the Group's financial statements. An SPE is consolidated in the financial statements when the substance of the relationship between the Group and the SPE indicates that the SPE is controlled by the entity and meets the criteria set out in IFRS 10 *Consolidated Financial Statements.* The primary form of SPE utilised by the Group are securitisations and employee compensation trusts.

Securitisations

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

- as an investor, AIB has primarily been an investor in securitisations issued by other credit institutions as part of the management of its interest rate and liquidity risks through Treasury;
- as an investor, securitisations have been utilised by the Group to invest in transactions that offered an appropriate risk-adjusted return opportunity; and
- as an originator of securitisations to support the funding activities of the Group.

AIB controls certain special purpose entities which were set-up to support the funding activities of the Group. Details of these special purpose entities are set out below under the heading 'Special purpose entities'. AIB controls two special purpose entities set up in relation to the funding of the Group Pension Schemes which are also detailed below.

Stock borrowing and lending

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss included in trading income.

50 Off-balance sheet arrangements and transferred financial assets *(continued)*

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 12 'Share-based compensation schemes'.

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/securities lending

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 with banks and customers. The obligation to pay the repurchase price is recognised within 'Deposits by central banks and banks' (note 35) and 'Customer accounts' (note 36). As the Group sells the contractual rights to the cash flows of the financial assets, it does not have the ability to use or pledge the transferred assets during the term of the sale and repurchase agreement. The Group remains exposed to credit risk and interest rate risk on the financial assets sold. Details of sale and repurchase activity are set out in notes 35 and 36. 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.

The Group enters into securities lending in the form of collateral swap agreements with other parties. The Group continues to recognise the financial assets (Government bonds) in full in the statement of financial position as it retains substantially all the risks and rewards of ownership. As a result of these transactions, the Group is unable to use, sell or pledge the transferred assets for the duration of the transactions. A fee is generated for the Group under these transactions.

Issuance of covered bonds

Covered bonds, which the Group issues, are debt securities backed by cash flows from mortgages for the purpose of financing loans secured on residential property through its wholly owned subsidiaries, AIB Mortgage Bank and EBS Mortgage Finance. The Group retains all the risks and rewards of these mortgage loans, including credit risk and interest rate risk, and therefore, the loans continue to be recognised on the Group's statement of financial position with the related covered bonds included within 'Debt securities in issue' (note 38). As the Group segregates the assets which back these debt securities into "cover asset pools", it does not have the ability to otherwise use such segregated financial assets during the term of these debt securities. However, of the total debt securities of this type issued amounting to € 10 billion, internal Group companies hold € 5 billion which are eliminated on consolidation. These internally issued bonds are used by the Group as part of sale and repurchase agreements with the Central Bank of Ireland as outlined above.

Special purpose entities

Securitisations are transactions in which the Group sells loans and receivables to customers (mainly mortgages and credit card receivables) to special purpose entities ("SPEs"), which, in turn, issue notes or deposits to external investors. The notes or deposits issued by the SPEs are on terms which result in the Group retaining the majority of ownership risks and rewards and therefore, the loans continue to be recognised on the Group's statement of financial position. The Group remains exposed to credit risk, interest rate risk and foreign exchange risk on the loans sold. The liability in respect of the cash received from the external investors is included within 'Debt securities in issue' (note 38) or in 'Deposits by central banks and banks' (note 35). Under the terms of the securitisations, the rights of the investors are limited to the assets in the securitised portfolios and any related income generated by the portfolios, without further recourse to the Group. The Group does not have the ability to otherwise use the assets transferred as part of securitisation transactions during the term of the arrangement.

50 Off-balance sheet arrangements and transferred financial assets *(continued)*

Special purpose entities

In 2012, the Group securitised € 533 million of the AIB Group (UK) p.l.c. residential mortgage portfolio.These mortgages were transferred to a securitisation vehicle, Tenterden Funding p.l.c. ('Tenterden'). In order to fund the acquired mortgages, Tenterden issued class A notes to external investors and class B notes to an AIB subsidiary. The transferred mortgages have not been derecognised as the Group retains substantially all the risks and rewards of ownership and continue to be reported in the Group's statement of financial position. Tenterden is consolidated into the Group's financial statements with the class B notes being eliminated on consolidation. The liability in respect of cash received by Tenterden from the external investors is included within 'Debt securities in issue' (note 38) on the statement of financial position. At 31 December 2015, the carrying amount of the assets which the Group continues to recognise is € 294 million (2014: € 332 million) and the carrying amount of the associated liabilities is € 135 million (2014: € 178 million).

In 2013, the Group securitised part of its credit card receivables portfolio. These credit card receivables were transferred to a securitisation vehicle, Goldcrest Funding No.1 Limited ('Goldcrest'). In order to fund the acquired receivables, Goldcrest received senior loan facility proceeds from external investors secured on these and future credit card receivables and junior loan facility proceeds from Allied Irish Banks p.l.c.. The transferred receivables have not been derecognised as the Group retains substantially all the risks and rewards of ownership and the credit card receivables continue to be reported in the Group's statement of financial position. Goldcrest is consolidated into the Group's financial statements with the junior loan facility being eliminated on consolidation. At 31 December 2015, the carrying amount of the receivables which the Group continues to recognise is € 292 million (31 December 2014: € 297 million). The liability in respect of cash received by Goldcrest from external investors is included within 'Deposits by central banks and banks' (note 35) on the statement of financial position.

Arising from the acquisition of EBS on 1 July 2011, the Group controls three special purpose entities which had previously been set up by EBS: Emerald Mortgages No. 4 Public Limited Company; Emerald Mortgages No. 5 Limited; and Mespil 1 RMBS Limited.

Emerald Mortgages No. 4 Public Limited Company

The total carrying value of the original residential mortgages transferred by EBS Limited to Emerald Mortgages No. 4 Public Limited Company ('Emerald 4') as part of the securitisation amounted to € 1,500 million. The carrying amount of transferred secured loans that the Group has recognised at 31 December 2015 is € 677 million (2014: € 735 million). The carrying amount of the bonds issued by Emerald 4 to third party investors amounts to € 446 million (2014: € 575 million) and is included within 'Debt securities in issue' (note 38).

Emerald Mortgages No. 5 Limited

The total carrying amount of original residential mortgages transferred by EBS Limited to Emerald Mortgages No.5 Limited ('Emerald 5') as part of the securitisation amounted to € 2,500 million. The carrying amount of transferred secured loans that the Group has recognised at 31 December 2015 is € 1,304 million (2014: € 1,420 million). Bonds were issued by Emerald 5 to EBS Limited but these are not shown in the Group's financial statements, as these bonds are eliminated on consolidation.

Mespil 1 RMBS Limited

The total carrying amount of secured loans that the Group has recognised at 31 December 2015 is € 780 million (2014: € 814 million) in relation to the transfers from EBS Limited and Haven Mortgages Limited to Mespil 1 RMBS Limited. The bonds issued by Mespil 1 RMBS Limited to EBS Limited are not shown in the Group's financial statements, as these bonds are eliminated on consolidation.

50 Off-balance sheet arrangements and transferred financial assets *(continued)*

The following table summarises as at 31 December 2015 and 2014, the carrying value and fair value of financial assets which did not qualify for derecognition together with their associated financial liabilities:

	Carrying amount of transferred assets	Carrying amount of associated liabilities held by third parties	Carrying amount of associated liabilities held by Group companies	Fair value of transferred assets	Fair value of associated liabilities held by third parties	Fair value of associated liabilities held by Group companies	Net fair value position
2015	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Sale and repurchase agreements/ similar products	**12,398**[1][2]	**11,208**[1]	**–**	**12,398**	**11,208**	**–**	**1,190**
Covered bond programmes							
Residential mortgage backed	**9,219**[3]	**4,765**	**–**	**8,169**	**4,990**	**–**	**3,179**
Securitisations	**1,263**	**781**	**558**	**1,210**	**752**	**533**	**(75)**

	Carrying amount of transferred assets	Carrying amount of associated liabilities held by third parties	Carrying amount of associated liabilities held by Group companies	Fair value of transferred assets	Fair value of associated liabilities held by third parties	Fair value of associated liabilities held by Group companies	Net fair value position
2014	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Sale and repurchase agreements	16,798[1]	14,806[1]	–	16,798	14,806	–	1,992
Covered bond programmes							
Residential mortgage backed	7,379[3]	3,765	–	6,387	4,103	–	2,284
Securitisations	1,365	953	498	1,286	902	478	(94)

[1] See notes 35 and 36.

[2] Includes € 640 million of assets pledged in relation to securities lending arrangements at 31 December 2015 (2014: Nil).

[3] The asset pools € 18 billion (2014: € 20 billion) in the covered bond programme have been apportioned on a pro-rata basis in relation to the value of bonds held by external investors and those held by AIB Group companies. The € 9,219 million (2014: € 7,379 million) above refers to those assets apportioned to external investors.

AIB Group (UK) p.l.c. Pension Scheme interest in the AIB PFP Scottish Limited Partnership

In December 2013, the Group agreed with the Trustee of the AIB UK Defined Benefit Pension Scheme ("the UK scheme") a restructure of the funding of the deficit in the UK scheme. The future funding period was extended from 8 to 16 years, commencing in 2016 with the implementation of an asset backed funding arrangement.

The Group established a pension funding partnership, AIB PFP Scottish Limited Partnership ("SLP") under which a portfolio of loans were transferred to the SLP from another Group entity, AIB UK Loan Management Limited ("UKLM") for the purpose of ring-fencing the repayments on these loans to fund future deficit payments of the UK scheme.

Assets ring fenced for this purpose entitled the UK scheme to expected annual payments in the range of £ 15 million to £ 35 million from 2016 until 2033, with a potential termination payment in 2032 of up to £ 60 million. Following the approval of the recent triennial valuation in December 2015, the current annual payments will be £ 19 million commencing 1 April 2016 but are subject to review following each tri-annual valuation.

The general partner in the partnership, AIB PFP (General Partner) Limited, which is an indirect subsidiary of Allied Irish Banks p.l.c. has controlling power over the partnership. In addition, the majority of the risks and rewards will be borne by AIB Group as the pension scheme has a priority right to the cash flows from the partnership, such that the variability in recoveries is expected to be borne by AIB Group through UKLM's junior partnership interest. As UKLM continues to bear substantially all the risks and rewards of the loans, the loans are not derecognised from UKLM's balance sheet and accordingly, the Group has determined that the SLP should be consolidated into AIB Group.

50 Off-balance sheet arrangements and transferred financial assets *(continued)*

(ii) Transferred financial assets derecognised in their entirety but the Group retains some continuing involvement

AIB has a continuing involvement in transferred financial assets where it retains any of the risks and rewards of ownership of the transferred financial assets. Set out below are transactions in which AIB has a continuing involvement in assets transferred.

Pension scheme

On 31 July 2012, AIB entered into a Contribution Deed with the Trustee of the AIB Group Irish Pension Scheme ('the Irish Scheme'), whereby it agreed to make contributions to the scheme to enable the Trustee ensure that the regulatory Minimum Funding Standard position of non-pensioner members of the pension scheme was not affected by the agreed early retirement scheme. These contributions amounting to € 594 million were settled through the transfer to the Irish Scheme of interests in an SPE owning loans and receivables previously transferred at fair value from the Group. The loans and receivables were derecognised in the Group's financial statements as all of the risks and rewards of ownership had transferred.

A subsidiary company of the Group was appointed as a service provider for the loans and receivables transferred. Under the servicing agreement, the Group subsidiary company collects the cash flows on the transferred loans and receivables on behalf of the pension scheme in return for a fee. The fee is based on an annual rate of 0.125% of the principal balance outstanding of all transferred loans and receivables on the last day of each calendar month. The Group has not recognised a servicing asset/liability in relation to this servicing arrangement, as the fee is considered to be a market rate. Under the servicing agreement, the Irish Scheme has the right to replace the Group subsidiary company as the service provider with an external third party. In 2015, the Group recognised € 1.1 million (cumulative € 4.3 million) (2014: € 1.2 million (cumulative € 3.2 million)) in the income statement for the servicing of the loans and receivables transferred.

NAMA

During 2010 and 2011, AIB transferred financial assets with a net carrying value of € 15,428 million to NAMA. All assets transferred were derecognised in their entirety.

As part of this transaction, the Group has provided NAMA with a series of indemnities relating to the transferred assets. Also, on the dissolution or restructuring of NAMA, the Irish Minister for Finance ('the Minister') may require a report and accounts to be prepared. If NAMA reports an aggregate loss since its establishment and this is unlikely to be made good, the Minister may impose a surcharge on the participating institution. This will involve apportioning the loss on the participating institution, subject to certain restrictions, on the basis of the book value of the assets transferred by the institution in relation to the total book value of assets transferred by all participating institutions. At this stage, it is not possible to quantify the maximum exposure to loss which may arise on the dissolution or restructuring of NAMA.

In addition, the Group was 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 2015, the Group recognised € 13 million (cumulative € 82 million) (2014: € 16 million (cumulative € 69 million)) in the income statement for the servicing of financial assets transferred to NAMA.

51 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 ((m) in note 1) and financial liabilities ((n) in note 1), 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 financial liabilities by category as defined in IAS 39 *Financial Instruments: Recognition and Measurement* and by statement of financial position heading at 31 December 2015 and 2014:

							2015
	At fair value through profit and loss		At fair value through equity		At amortised cost		Total
	Held for trading	Fair value hedge derivatives	Cash flow hedge derivatives	Available for sale securities	Loans and receivables	Held to maturity	Other
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets								
Cash and balances at central banks	–	–	–	–	4,415	–	535[1]	4,950
Items in the course of collection	–	–	–	–	153	–	–	153
Trading portfolio financial assets	1	–	–	–	–	–	–	1
Derivative financial instruments	877	321	500	–	–	–	–	1,698
Loans and receivables to banks	–	–	–	–	2,339	–	–	2,339
Loans and receivables to customers	–	–	–	–	63,240	–	–	63,240
NAMA senior bonds	–	–	–	–	5,616	–	–	5,616
Financial investments available for sale	–	–	–	16,489	–	–	–	16,489
Financial investments held to maturity	–	–	–	–	–	3,483	–	3,483
Other financial assets	–	–	–	–	–	–	938	938
	878	321	500	16,489	75,763	3,483	1,473	98,907
Financial liabilities								
Deposits by central banks and banks	–	–	–	–	–	–	13,863	13,863
Customer accounts	–	–	–	–	–	–	63,383	63,383
Trading portfolio financial liabilities	86	–	–	–	–	–	–	86
Derivative financial instruments	933	424	424	–	–	–	–	1,781
Debt securities in issue	–	–	–	–	–	–	7,001	7,001
Subordinated liabilities and other capital instruments	–	–	–	–	–	–	2,318	2,318
Other financial liabilities	–	–	–	–	–	–	456	456
	1,019	424	424	–	–	–	87,021	88,888

[1]Comprises cash on hand.

51 Classification and measurement of financial assets and financial liabilities *(continued)*

2014

	At fair value through profit and loss		At fair value through equity		At amortised cost		Total
	Held for trading	Fair value hedge derivatives	Cash flow 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	–	–	–	–	4,879	514[1]	5,393
Items in the course of collection	–	–	–	–	146	–	146
Trading portfolio financial assets	1	–	–	–	–	–	1
Derivative financial instruments	1,024	500	514	–	–	–	2,038
Loans and receivables to banks	–	–	–	–	1,865	–	1,865
Loans and receivables to customers	–	–	–	–	63,362	–	63,362
NAMA senior bonds	–	–	–	–	9,423	–	9,423
Financial investments available for sale	–	–	–	20,185	–	–	20,185
Other financial assets	–	–	–	–	–	499	499
	1,025	500	514	20,185	79,675	1,013	102,912
Financial liabilities							
Deposits by central banks and banks	–	–	–	–	–	16,768	16,768
Customer accounts	–	–	–	–	–	64,018	64,018
Derivative financial instruments	1,150	587	597	–	–	–	2,334
Debt securities in issue	–	–	–	–	–	7,861	7,861
Subordinated liabilities and other capital instruments	–	–	–	–	–	1,451	1,451
Other financial liabilities	–	–	–	–	–	446	446
	1,150	587	597	–	–	90,544	92,878

[1]Comprises cash on hand.

52 Fair value of financial instruments

The term 'financial instruments' includes both financial assets and financial liabilities. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The Group's accounting policy for the determination of fair value of financial instruments is set out in accounting policy (p) in note 1.

Readers of these financial statements are advised to use caution when using the data in the following tables to evaluate the Group's financial position or to make comparisons with other institutions. Fair value information is not provided for items that do not meet the definition of a financial instrument. These items include intangible assets such as the value of the branch network and the long-term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the Group as a going concern at 31 December 2015.

The valuation of financial instruments, including loans and receivables, involves the application of judgement and estimation. Market and credit risks are key assumptions in the estimation of the fair value of loans and receivables. AIB has estimated the fair value of its loans to customers taking into account market risk and the changes in credit quality of its borrowers.

Fair values are based on observable market prices where available, and on valuation models or techniques where the lack of market liquidity means that observable prices are unavailable. The fair values of financial instruments are measured according to the following fair value hierarchy that reflects the observability of significant market inputs:

Level 1 – financial assets and liabilities measured using quoted market prices from an active market (unadjusted).

Level 2 – financial assets and liabilities measured using valuation techniques which use quoted market prices from an active market or measured using quoted market prices unadjusted from an inactive market.

Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable market data.

All financial instruments are initially recognised at fair value. Financial instruments held for trading and financial instruments in fair value hedge relationships are subsequently measured at fair value through profit or loss. Available for sale securities and cash flow hedge derivatives are subsequently measured at fair value through other comprehensive income.

All valuations are carried out within the Finance function of the Group and valuation methodologies are validated by the independent Risk function within the Group.

The methods used for calculation of fair value in 2015 are as follows:

Financial instruments measured at fair value in the financial statements

Trading portfolio financial instruments

The fair value of trading debt securities, together with quoted equity shares is based on quoted prices or bid/offer quotations sourced from external securities dealers, where these are available on an active market. Where securities and equities are traded on an exchange, the fair value is based on prices from the exchange.

Derivative financial instruments

Where derivatives are traded on an exchange, the fair value is based on prices from the exchange. The fair value of over-the-counter derivative financial instruments is estimated based on standard market discounting and valuation methodologies which use reliable observable inputs including yield curves and market rates. These methodologies are implemented by the Finance function and validated by the Risk function. Where there is uncertainty around the inputs to a derivatives' valuation model, the fair value is estimated using inputs which provide the Group's view of the most likely outcome in a disposal transaction between willing counterparties in a functioning market. Where an unobservable input is material to the outcome of the valuation, a range of potential outcomes from favourable to unfavourable is estimated.

Counterparty Valuation Adjustment ("CVA") and Funding Valuation Adjustment ("FVA") are applied to all uncollateralised over-the-counter derivatives. CVA is calculated as: (Option replacement cost x probability of default ("PD") x loss given default ("LGD")). PDs are derived from market based Credit Default Swap ("CDS") information. As most counterparties do not have a quoted CDS, PDs are derived by mapping each counterparty to an index CDS credit grade. LGDs are based on the specific circumstances of the counterparty and take into account valuation of offsetting security, where applicable. For unsecured counterparties, an LGD of 60% is applied.

52 Fair value of financial instruments *(continued)*

Funding valuation adjustment

In line with market practice which continues to evolve, AIB applies a FVA for calculating the fair value of uncollateralised derivative contracts. The application of the FVA in the valuation of uncollateralised derivative contracts, introduces the use of a funding curve for discounting of cash flows where market participants consider that this cost is included in market pricing. The funding curve used is the average funding curve implied by the Credit Default Swaps ("CDS") of the Group's most active external derivative counterparties. The logic in applying this curve is to best estimate the FVA which a counterparty would apply in a transaction to close out the Group's existing positions. The application of FVA, while an overall negative adjustment, contains within it the benefit of own credit.

Within the range of estimates and fair value sensitivity measurements, a favourable and an adverse scenario have been selected for PDs and LGDs for CVA. The favourable/adverse scenario for customer PDs are (i) a single rating upgrade and (ii) a single rating downgrade respectively. Customer LGDs are shifted according to estimates of improvement in value of security compared with potential derivatives market values. Within the combination of LGD and PD, both are shifted together yielding positive and negative valuations which are disclosed as potential alternative valuations on page 322. For FVA, a favourable scenario is the use of the bond yields of the Group's most active derivative counterparties while an adverse scenario is the use of the Group's own estimated senior unsecured bond yields.

The combination of CVA and FVA is referred to as XVA.

Financial investments available for sale

The fair value of available for sale debt securities and equities has been estimated based on expected sale proceeds. The expected sale proceeds are based on screen bid prices which have been analysed and compared across multiple sources for reliability. Where screen prices are unavailable, fair values are estimated by valuation techniques using observable market data for similar instruments. Where there is no market data for a directly comparable instrument, management judgement on an appropriate credit spread to similar or related instruments with market data available is used within the valuation technique. This is supported by cross referencing other similar or related instruments.

Financial instruments not measured at fair value but with fair value information presented separately in the notes to the financial statements

Loans and receivables to banks

The fair value of loans and receivables to banks is estimated using discounted cash flows applying either market rates, where practicable, or rates currently offered by other financial institutions for placings with similar characteristics.

Loans and receivables to customers

The Group provides lending facilities of varying rates and maturities to corporate and personal customers. Valuation techniques are used in estimating the fair value of loans, primarily using discounted cash flows and applying market rates where practicable.

In addition to the assumptions set out above under valuation techniques regarding cash flows and discount rates, a key assumption for loans and receivables is that the carrying amount of variable rate loans (excluding mortgage products) approximates to market value where there is no significant credit risk of the borrower. 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. An adjustment is made for credit risk which at 31 December 2015 took account of the Group's expectations on credit losses over the life of the loans.

The fair value of mortgage products, including tracker mortgages, is calculated by discounting expected cash flows using discount rates that reflect the interest rate/credit risk in the portfolio.

NAMA senior bonds

The Group's holding of NAMA Senior Bonds is classified as loans and receivables measured at amortised cost. For disclosure purposes, the fair value of the NAMA senior bonds has been estimated using a valuation technique since there in no active market for these bonds. The valuation technique requires an increased use of management judgement which includes, but is not limited to, evaluating available market information, determining the amount and timing of cash flows generated by the instruments, identifying a risk free discount rate and applying an appropriate credit spread.

Financial investments held to maturity

The Group's holding of financial investments held to maturity consists of Irish Government Securities. These have been fair valued based on quoted market prices.

52 Fair value of financial instruments *(continued)*

Deposits by central banks and banks and customer accounts

The fair value of current accounts and deposit liabilities which are repayable on demand, or which re-price frequently, approximates to their book value. The fair value of all other deposits and other borrowings is estimated using discounted cash flows applying either market rates, where applicable, or interest rates currently offered by the Group.

Debt securities in issue

The estimated fair value of subordinated liabilities and other capital instruments, and debt securities in issue, is based on quoted prices where available, or where these are unavailable, are estimated using valuation techniques using observable market data for similar instruments. Where there is no market data for a directly comparable instrument, management judgement, on an appropriate credit spread to similar or related instruments with market data available, is used within the valuation technique. This is supported by cross referencing other similar or related instruments.

Other financial assets and other financial liabilities

This caption includes accrued interest receivable and payable and other receivables and payables. The carrying amount is considered representative of fair value.

Commitments pertaining to credit-related instruments

Details of the various credit-related commitments and other off-balance sheet financial guarantees entered into by the Group are included in note 48. Fees for these instruments may be billed in advance or in arrears on an annual, quarterly or monthly basis. In addition, the fees charged vary on the basis of instrument type and associated credit risk. As a result, it is not considered practicable to estimate the fair value of these instruments because each customer relationship would have to be separately evaluated.

The tables on the following pages set out the carrying amount and fair value of financial instruments across the three levels of the fair value hierarchy at 31 December 2015 and 2014:

52 Fair value of financial instruments *(continued)*

					2015
	Carrying amount	Fair value			
		Fair value hierarchy			
	€ m	Level 1 € m	Level 2 € m	Level 3 € m	Total € m
Financial assets measured at fair value					
Trading portfolio financial assets					
Equity securities	1	–	1	–	1
Derivative financial instruments					
Interest rate derivatives	1,540	–	1,069	471	1,540
Exchange rate derivatives	67	–	67	–	67
Equity derivatives	91	–	50	41	91
Financial investments available for sale					
Government securities	8,684	8,533	151	–	8,684
Supranational banks and government agencies	2,008	2,008	–	–	2,008
Asset backed securities	329	328	1	–	329
Bank securities	4,600	4,600	–	–	4,600
Corporate securities	87	76	–	11	87
Equity securities	781	–	1	780	781
	18,188	15,545	1,340	1,303	18,188
Financial assets not measured at fair value					
Cash and balances at central banks	4,950	535[1]	4,415	–	4,950
Items in the course of collection	153	–	–	153	153
Loans and receivables to banks	2,339	–	779	1,560	2,339
Loans and receivables to customers					
Mortgages[2]	34,667	–	–	32,181	32,181
Non-mortgages	28,573	–	–	28,192	28,192
Total loans and receivables to customers	63,240	–	–	60,373	60,373
NAMA senior bonds	5,616	–	–	5,626	5,626
Financial investments held to maturity	3,483	3,479	–	–	3,479
Other financial assets	938	–	–	938	938
	80,719	4,014	5,194	68,650	77,858
Financial liabilities measured at fair value					
Trading portfolio financial liabilities					
Debt securities	86	86	–	–	86
Derivative financial instruments					
Interest rate derivatives	1,622	–	1,369	253	1,622
Exchange rate derivatives	64	–	64	–	64
Equity derivatives	89	–	51	38	89
Credit derivatives	6	–	6	–	6
	1,867	86	1,490	291	1,867
Financial liabilities not measured at fair value					
Deposits by central banks and banks					
Other borrowings	810	–	–	810	810
Secured borrowings	13,053	–	2,903	10,153	13,056
Customer accounts					
Current accounts	25,955	–	–	25,955	25,955
Demand deposits	11,698	–	–	11,698	11,698
Time deposits	24,825	–	–	25,067	25,067
Securities sold under agreements to repurchase	905	–	–	905	905
Debt securities in issue					
Bonds and medium term notes	6,901	6,479	670	–	7,149
Other debt securities in issue	100	–	100	–	100
Subordinated liabilities and other capital instruments	2,318	758	1,778	–	2,536
Other financial liabilities	456	–	–	456	456
	87,021	7,237	5,451	75,044	87,732

[1]Comprises cash on hand. [2]Includes residential and commercial mortgages.

52 Fair value of financial instruments *(continued)*

	Carrying amount	Fair value			
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
	€m	€m	€m	€m	€m
2014					
Financial assets measured at fair value					
Trading portfolio financial assets					
Equity securities	1	–	1	–	1
Derivative financial instruments					
Interest rate derivatives	1,852	–	1,295	557	1,852
Exchange rate derivatives	48	–	48	–	48
Equity derivatives	138	–	53	85	138
Financial investments available for sale					
Government securities	12,920	12,538	382	–	12,920
Supranational banks and government agencies	2,852	2,852	–	–	2,852
Asset backed securities	100	99	1	–	100
Bank securities	3,897	3,897	–	–	3,897
Corporate securities	3	–	–	3	3
Equity securities	413	–	2	411	413
	22,224	19,386	1,782	1,056	22,224
Financial assets not measured at fair value					
Cash and balances at central banks	5,393	514[1]	4,879	–	5,393
Items in the course of collection	146	–	–	146	146
Loans and receivables to banks	1,865	–	664	1,201	1,865
Loans and receivables to customers					
Mortgages[2]	35,973	–	–	31,845	31,845
Non-mortgages	27,389	–	–	27,319	27,319
Total loans and receivables to customers	63,362	–	–	59,164	59,164
NAMA senior bonds	9,423	–	–	9,479	9,479
Other financial assets	499	–	–	499	499
	80,688	514	5,543	70,489	76,546
Financial liabilities measured at fair value					
Derivative financial instruments					
Interest rate derivatives	2,136	–	1,897	239	2,136
Exchange rate derivatives	73	–	73	–	73
Equity derivatives	117	–	56	61	117
Credit derivatives	8	–	8	–	8
	2,334	–	2,034	300	2,334
Financial liabilities not measured at fair value					
Deposits by central banks and banks					
Other borrowings	715	–	–	715	715
Secured borrowings	16,053	–	3,400	12,653	16,053
Customer accounts					
Current accounts	21,665	–	–	21,665	21,665
Demand deposits	10,004	–	–	10,004	10,004
Time deposits	30,196	–	–	30,613	30,613
Securities sold under agreementsto repurchase	2,153	–	–	2,153	2,153
Debt securities in issue					
Bonds and medium term notes	7,811	7,214	965	–	8,179
Other debt securities in issue	50	–	50	–	50
Subordinated liabilities and other capital instruments	1,451	–	1,831	–	1,831
Other financial liabilities	446	–	–	446	446
	90,544	7,214	6,246	78,249	91,709

[1]Comprises cash on hand.

[2]Includes residential and commercial mortgages.

52 Fair value of financial instruments *(continued)*

Significant transfers between Level 1 and Level 2 of the fair value hierarchy

The following table shows transfers between Level 1 and Level 2 of the fair value hierarchy for the financial years ended 31 December 2015 and 2014:

	2015			2014		
	Financial assets			Financial assets		
Group	Trading portfolio € m	Debt securities € m	Total € m	Trading portfolio € m	Debt securities € m	Total € m
Transfer into Level 2 from Level 1	–	–	–	–	1	1[1]

[1]Transfers into Level 2 from Level 1 occurred due to reduced availability of reliable quoted market prices.

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table shows a reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy for 2015 and 2014:

	2015					
	Financial assets				Financial liabilities	
	Derivatives	Available for sale		Total	Derivatives	Total
Group	€ m	Debt securities € m	Equity securities € m	€ m	€ m	€ m
At 1 January 2015	642	3	411	1,056	300	300
Transfers out of Level 3[1]	(8)	–	–	(8)	–	–
Total gains or (losses) in:						
Other comprehensive income						
– Net change in fair value of financial investments available for sale	–	(2)	363	361	–	–
– Net change in fair value of cash flow hedges	–	–	–	–	20	20
	–	(2)	363	361	20	20
Purchases	–	10	13	23	–	–
Sales	–	–	(7)	(7)	–	–
Settlements[2]	(122)	–	–	(122)	(29)	(29)
At 31 December 2015	512	11	780	1,303	291	291

[1]Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

[2]Includes gains and losses recognised in 'Net trading income/(loss)' (note 8). In addition, for unrealised gains or losses at 31 December 2015, see table on the following page.

Transfers out of level 3 arose as a result of the ability to measure financial instruments using observable data for their fair value measurement either directly or indirectly.

52 Fair value of financial instruments *(continued)*

Reconciliation of balances in Level 3 of the fair value hierarchy

2014

	Financial assets				Financial liabilities	
	Derivatives	Available for sale		Total	Derivatives	Total
Group	€ m	Debt securities € m	Equity securities € m	€ m	€ m	€ m
At 1 January 2014	419	12	104	535	125	125
Transfers into Level 3[1]	114	3	–	117	119	119
Total gains or (losses) in:						
Other comprehensive income						
– Net change in fair value of financial investments available for sale	–	–	307	307	–	–
– Net change in fair value of cash flow hedges	2	–	–	2	30	30
	2	–	307	309	30	30
Purchases	–	–	12	12	–	–
Sales	–	(12)	(12)	(24)	–	–
Settlements[2]	107	–	–	107	26	26
At 31 December 2014	642	3	411	1,056	300	300

[1]Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

[2]Includes gains and losses recognised in 'Net trading income/(loss)' (note 8). In addition, for unrealised gains or losses at 31 December 2014, see table below.

Transfers into Level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these instruments.

The table below sets out the total gains or losses included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at 31 December 2015 and 2014:

	2015 € m	2014 € m
Net trading income	**61**	193
Total	**61**	193

52 Fair value of financial instruments *(continued)*

Significant unobservable inputs

The table below sets out information about significant unobservable inputs used for the financial years ended 31 December 2015 and 2014 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

		Fair Value				Range of estimates	
Financial instrument		**2015 € m**	**2014 € m**	**Valuation technique**	**Significant unobservable inputs**	**2015**	**2014**
Uncollateralised customer derivatives	Asset	**512**	642	CVA	LGD	**47% – 79% (Base 55%)**	46% – 82% (Base 55%)
	Liability	**291**	300		PD	**0.9% – 1.5% (Base 1.2% 1 year PD)**	0.9% – 1.4% (Base 1.1% 1 year PD)
					Combination LGD and PD[1]	As above with greater unfavourable impact due to combination of PD and LGD changes	As above with greater unfavourable impact due to combination of PD and LGD changes
				FVA	Funding spreads	**(0.4%) – 0.5%**	(0.3%) – 0.8%

[1]The fair value measurement sensitivity to unobservable inputs ranges at 31 December 2015 from negative € 57 million to positive € 26 million (31 December 2014: negative € 53 million to positive € 25 million).

A number of other derivatives are subject to valuation methodologies which use unobservable inputs. As the variability of the valuation is not greater that € 1 million in any individual case or collectively, the detail is not disclosed here.

NAMA subordinated bonds	Asset	**432**	374	Discounted cash flows	NAMA profitability i.e. ability to generate cash flow for repayment	Discount rate of 9% applicable to base asset price. The estimates range from (a) NAMA making full 5.26% coupon payments; to (b) an early full repayment of coupons plus capital (March 2019).	Discount rate of 12% applicable to base asset price. The estimates range from: (a) NAMA making 50% of full 5.26% coupon payments; to (b) an early full repayment of coupons plus capital (March 2018) at a reduced discount rate.

Visa Europe: In relation to the proposed sale of 100% shares of Visa Europe to Visa Inc., and based on information received from Visa Europe, the Group, as holder of shares in Visa Europe, will receive consideration with an estimated fair value of €294 million, comprising cash (59%) and preferred stock in Visa Inc (41%), which has resulted in a fair value gain of €294 million. The amount of consideration is not yet final and can be amended as a consequence of transaction costs, contractual clauses and successful members' appeals. The preferred stock will be convertible into Class A Common Stock of Visa Inc at some point in the future. The conversion is subject to certain Visa Europe litigation risks that may affect the ultimate conversion rate.

The transaction is expected to be finalised by June 2016, at which stage the fair value gains will be taken to the income statement.

Financial instrument		**2015 € m**	**2014 € m**	**Valuation technique**	**Significant unobservable inputs**	**Range of estimates 2015**	
Visa Europe	Asset	**294**	–	Estimated proceeds after applying a discount for the illiquidity and the conversion rate variability of the preferred stock of Visa Inc.	Fair value of preferred stock of Visa Inc.	Estimated proceeds with no discount for the illiquidity and the conversion rate variability of the preferred stock of Visa Inc.	Estimated proceeds after applying a 50% discount for the illiquidity and the conversion rate variability of the preferred stock of Visa Inc.

52 Fair value of financial instruments *(continued)*

Sensitivity of Level 3 measurements

The implementation of valuation techniques involves a considerable degree of judgement. While the Group believes its estimates of fair value are appropriate, the use of different measurements or assumptions could lead to different fair values. The following table sets out the impact of using reasonably possible alternative assumptions in the valuation methodology:

	2015			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Derivative financial instruments	87	(71)	–	–
Financial investments available for sale – equity securities	–	–	26	(105)
Total	87	(71)	26	(105)
Classes of financial liabilities				
Derivative financial instruments	14	(63)	–	–
Total	14	(63)	–	–

	2014			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Derivative financial instruments	61	(77)	–	–
Financial investments available for sale – equity securities	–	–	59	(56)
Total	61	(77)	59	(56)
Classes of financial liabilities				
Derivative financial instruments	10	(37)	–	–
Total	10	(37)	–	–

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.

53 Statement of cash flows

Non-cash and other items included in profit before taxation

Non-cash items	2015 € m	2014 € m	2013 € m
Profit on disposal of businesses	–	–	(1)
Profit on disposal of property, plant and equipment	(3)	(6)	(2)
Loss/(profit) on disposal/transfer of loans and receivables	22	(52)	226
Dividends received from equity securities	(26)	(25)	–
Dividends received from associated undertakings	(24)	(11)	(3)
Associated undertakings net income	(25)	(23)	(7)
(Writeback)/provisions for impairment on loans and receivables	(925)	(185)	1,916
(Writeback)/provisions for liabilities and commitments	(11)	(5)	17
Provisions/(writeback) for impairment on financial investments available for sale	–	1	(9)
Change in other provisions	177	70	84
Retirement benefits – defined benefit expense	21	(3)	(131)
Termination benefits	4	(2)	(3)
Depreciation, amortisation and impairment	74	111	124
Interest on subordinated liabilities and other capital instruments	278	256	241
Net losses/(gains) on buy back of debt securities in issue	(8)	1	–
Profit on disposal of financial investments available for sale	(166)	(389)	(41)
Loss on termination of hedging swaps	81	208	10
Remeasurement of NAMA senior bonds	(6)	(132)	(62)
Amortisation of premiums and discounts	79	31	(57)
Fair value gain on realisation/re-estimation of cash flows on loans and receivables previously restructured	(3)	–	–
Income from settlement of claim	(38)	–	–
Change in prepayments and accrued income	25	87	(51)
Change in accruals and deferred income	(84)	(220)	(316)
Effect of exchange translation and other adjustments[1]	(259)	(223)	78
Total non-cash items	(817)	(511)	2,013
Contributions to defined benefit pension schemes	(84)	(87)	(234)
Dividends received from equity securities	26	25	–
Total other items	(58)	(62)	(234)
Non-cash and other items for the year ended 31 December	(875)	(573)	1,779

[1]The impact of foreign exchange translation for each line of the statement of financial position is removed in order to show the underlying cash impact.

53 Statement of cash flows (continued)

Change in operating assets[1]	2015 € m	2014 € m	2013 € m
Change in loans and receivables to customers	**1,546**	3,736	5,078[2]
Change in NAMA senior bonds	**3,834**	6,343	1,916
Change in loans and receivables to banks	**(709)**	(420)	567
Change in trading portfolio financial assets	**–**	1	21
Change in derivative financial instruments	**(328)**	(271)	249
Change in items in course of collection	**(2)**	24	26
Change in other assets	**(111)**	36	(5)
	4,230	9,449	7,852

Change in operating liabilities[1]	2015 € m	2014 € m	2013 € m
Change in deposits by central banks and banks	**(2,927)**	(6,395)	(5,309)
Change in customer accounts[3]	**(1,539)**	(3,586)	3,397
Change in trading portfolio financial liabilities	**86**	–	–
Change in debt securities in issue	**(867)**	(886)	(1,875)
Change in notes in circulation	**3**	5	(50)
Change in other liabilities	**(109)**	(299)	(264)
	(5,353)	(11,161)	(4,101)

[1]The impact of foreign exchange translation for each line of the statement of financial position is removed in order to show the underlying cash impact.

[2]Also includes loans and receivables to customers within disposal groups and non-current assets held for sale.

[3]Includes deposits placed by NTMA of € 399 million (2014: € 3,305 million; 2013: € 6,703 million).

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:

	2015 € m	2014 € m	2013 € m
Cash and balances at central banks	**4,950**	5,393	4,132
Loans and receivables to banks	**722**	991	1,598
	5,672	6,384	5,730

The Group is required to maintain balances with the Central Bank of Ireland which at 31 December 2015 amounted to € 121 million (2014: € 120 million; 2013: € 115 million).

The Group is required by law to maintain reserve balances with the Bank of England. At 31 December 2015, these amounted to € 658 million (2014: € 544 million; 2013: € 542 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.

54 Related party transactions

Related parties of the Group and Allied Irish Banks, p.l.c. ("AIB") include subsidiary undertakings, associate undertakings and joint arrangements, post-employment benefits, Key Management Personnel and connected parties. The Irish Government is also considered a related party by virtue of its effective control of AIB.

(a) Transactions with subsidiary undertakings

AIB is the ultimate parent company of the Group. Banking transactions are entered into by AIB with its subsidiaries in the normal course of business. These include loans, deposits, provision of derivative contracts, foreign currency transactions and the provision of guarantees on an 'arm's length' basis. Balances between AIB and its subsidiaries are detailed in notes g, h,k, m, q and r to the parent company financial statements. In accordance with IFRS10 *Consolidated Financial Statements*, transactions with subsidiaries have been eliminated on consolidation.

(b) Associated undertakings and joint arrangements

From time to time, the Group provides certain banking and financial services for associated undertakings. These transactions are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than the normal risk of collectability or present other unfavourable features. Details of loans to associates are set out in note h to the parent company financial statements, while deposits from associates are set out in note q.

(c) Provision of banking and related services and funding to Group Pension schemes

The Group provides certain banking and financial services including money transmission services for the AIB Group Pension schemes. Such services are provided in the ordinary course of business, on substantially the same terms, including interest rates, as those prevailing at the time for comparable transactions with other persons.

During 2013, the Group established a pension funding partnership, AIB PFP Scottish Limited Partnership ("SLP") in the UK. Following this, a subsidiary of AIB transferred loans to the SLP for the purpose of ring-fencing the repayments of these loans to fund future deficit payments of the AIB UK Defined Benefit Pension Scheme (note 50).

During 2012, AIB agreed to make certain contributions to the pension scheme which were settled through the transfer to the AIB Group Irish Pension Scheme of interests in a special purpose entity 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 50).

(d) Compensation of Key Management Personnel

The following disclosures are made in accordance with the provisions of IAS 24 *Related Party Disclosures*, in respect of the compensation of Key Management Personnel. Under IAS 24, Key Management Personnel are defined as comprising Executive and Non-Executive Directors together with Senior Executive Officers, namely, the members of the Leadership Team (see pages 166 to 171). The figures shown below include the figures separately reported in respect of Directors' remuneration in the Directors' Remuneration report on pages 192 to 195.

	Group		Allied Irish Banks, p.l.c.	
	2015 € m	2014 € m	**2015 € m**	2014 € m
Short-term compensation[1]	**6.7**	6.6	**6.2**	6.0
Post-employment benefits[2]	**0.8**	0.7	**0.8**	0.7
Termination benefits[3]	**0.2**	–	**0.2**	–
Total	**7.7**	7.3	**7.2**	6.7

[1]Comprises (a) in the case of Executive Directors and Senior Executive Officers: salary and a non-pensionable cash allowance in lieu of company car, medical insurance and other contractual benefits including, where relevant, payment in lieu of notice, and (b) in the case of Non-Executive Directors: Directors' fees and travel and subsistence expenses incurred in the performance of the duties of their office, which are paid by the Company.

[2]Comprises payments to defined contribution pension schemes for Executive Directors and Senior Executive Officers. The defined benefit schemes closed for future accrual with effect from 31 December 2013. The fees of the Non-Executive Directors are non-pensionable.

[3]Comprises severance payment made to a Senior Executive Officer who left during 2015 under the voluntary severance programme.

54 Related party transactions *(continued)*

(e) Transactions with Key Management Personnel

As at 31 December 2015, deposit and other credit balances held by Key Management Personnel, namely Executive and Non-Executive Directors and Senior Executive Officers, who were in office during the year amounted to € 5.77 million (2014: € 4.56 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. The aggregate balance of loans and guarantees held by Key Management Personnel, at the beginning and end of the financial year, represented 0.0003% of the net assets of the Company.

Details of transactions with Key Management Personnel, and connected parties where indicated, for the years ended 31 December 2015 and 2014 are as follows:

(i) Current Directors

	Balance at 31 December 2014 € 000	Amounts advanced during 2015	Amounts repaid during 2015	Balance at 31 December 2015 € 000
Mark Bourke:				
Loans	611	–	48	563
Overdraft/credit card*	–	n/a	n/a	–
Total	611	n/a	n/a	563
Interest charged during the year				7
Maximum debit balance during the year**				611
Tom Foley:				
Loans	–	–	–	–
Overdraft/credit card*	–	n/a	n/a	–
Total	–	n/a	n/a	–
Interest charged during the year				–
Maximum debit balance during the year**				1
Jim O'Hara:				
Loans	–	–	–	–
Overdraft/credit card*	–	n/a	n/a	–
Total	–	n/a	n/a	–
Interest charged during the year				–
Maximum debit balance during the year**				11
Dr Michael Somers:				
Loans	–	–	–	–
Overdraft/credit card*	3	n/a	n/a	3
Total	3	n/a	n/a	3
Interest charged during the year				–
Maximum debit balance during the year**				6

No impairment charges or provisions have been recognised during the year in respect of any of the above loans or facilities detailed in (i) to (v) and all interest that has fallen due on all of these loans or facilities has been paid.

*Amounts advanced and repaid are not shown for overdraft/credit card facilities as these are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).

**The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

54 Related party transactions *(continued)*

(e) Transactions with Key Management Personnel

(i) Current Directors *(continued)*

	Balance at 31 December 2014 € 000	Amounts advanced during 2015 € 000	Amounts repaid during 2015 € 000	Balance at 31 December 2015 € 000
Catherine Woods:				
Loans	**79**	**–**	**10**	**69**
Overdraft/credit card*	**–**	**n/a**	**n/a**	**–**
Total	**79**	**n/a**	**n/a**	**69**
Interest charged during the year				**1**
Maximum debit balance during the year**				**79**

As at 31 December 2015, guarantees entered into by Catherine Woods in favour of the Group amounted to € 0.05 million. No amounts were paid or liability incurred in fulfilling the guarantee.

Mr Richard Pym has a credit card facility which had an opening, closing and maximum debit balance during 2015 of less than €500 and no interest was incurred during the year.

Simon Ball, Bernard Byrne, Peter Hagan and Helen Normoyle had no facilities with the Group during 2015

(ii) Former Directors who were in office during the year

	Balance at 31 December 2014 € 000	Amounts advanced during 2015 € 000	Amounts repaid during 2015 € 000	Balance at 31 December 2015 € 000
David Duffy:				
Loans	**1,171**	**–**	**92**	**1,079**
Overdraft/credit card*	**4**	**n/a**	**n/a**	**9**
Total	**1,175**	**n/a**	**n/a**	**1,088**
Interest charged during the year				**8**
Maximum debit balance during the year**				**1,214**

(iii) Senior Executive Officers in office during the year

(Aggregate of 9 persons (2014: 7))**:**

	Balance at 31 December 2015 € 000	Balance at 31 December 2014 € 000
Loans	**2,218**	1,607
Overdraft/credit card	**10**	50
Total	**2,228**	1,657
Interest charged during the year	**37**	
Maximum debit balance during the year**	**2,456**	

No impairment charges or provisions have been recognised during the year in respect of any of the above loans or facilities detailed in (i) to (v) and all interest that has fallen due on all of these loans or facilities has been paid.

*Amounts advanced and repaid are not shown for overdraft/credit card facilities as these are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).

**The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

54 Related party transactions *(continued)*

(e) Transactions with Key Management Personnel

(iv) Aggregate amounts outstanding at year end

	Loans, overdrafts/credit cards	
	31 December 2015 € 000	31 December 2014 € 000
Directors (2015:6 persons; 2014: 7 persons)	**1,723**	1,868
Senior Executive Officers (2015:9 persons; 2014: 7 persons)	**2,228**	1,657
	3,951	3,525

As at 31 December 2015, guarantees entered into by 1 Director in favour of the Group amounted to € 0.05 million in aggregate (2014: € 0.1 million by 1 Director). No amounts were paid or liability incurred in fulfilling the guarantee. As at 31 December 2015, no Senior Executive Officer held guarantees in favour of the Group.

(v) Connected persons

The aggregate of loans to connected persons of Directors in office as at 31 December 2015, as defined in Section 220 of the Companies Act 2014, are as follows (aggregate of 20 persons; 2014: 19 persons):

	Balance at 31 December 2015 € 000	Balance at 31 December 2014 € 000
Loans	**914**	1,322
Overdraft/credit card	**89**	58
Total	**1,003**	1,380
Interest charged during the year	**20**	
Maximum debit balance during the year**	**1,591**	

As at 31 December 2014, deposit and other credit balances held by Key Management Personnel, namely Executive and Non-Executive Directors and Senior Executive Officers, who were in office during the year amounted to € 4.56 million (2013: € 5.04 million). The aggregate balance of loans and guarantees held by Key Management Personnel, at the beginning and end of the financial year, were 0.0004% and 0.0003% respectively of the net assets of the Company.

(i) Directors in office during 2014

	Balance at 31 December 2013 € 000	Amounts advanced during 2014 € 000	Amounts repaid during 2014 € 000	Balance at 31 December 2014 € 000
Mark Bourke:				
Loans	622	–	11	611
Overdraft/Credit card*	–	n/a	n/a	–
Total	622	n/a	n/a	611
Interest charged during 2014				8
Maximum debit balance during 2014**				622
David Duffy:				
Loans	1,261	–	90	1,171
Overdraft/Credit card*	12	n/a	n/a	4
Total	1,273	n/a	n/a	1,175
Interest charged during 2014				10
Maximum debit balance during 2014**				1,301

No impairment charges or provisions have been recognised during the year in respect of any of the above loans or facilities detailed in (i) to (v) and all interest that has fallen due on all of these loans or facilities has been paid.

*Amounts advanced and repaid are not shown for overdraft/credit card facilities as these are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).

**The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

54 Related party transactions *(continued)*

(e) Transactions with Key Management Personnel

(i) Directors in office during 2014 *(continued)*

	Balance at 31 December 2013 € 000	Amounts advanced during 2014 € 000	Amounts repaid during 2014 € 000	Balance at 31 December 2014 € 000
Tom Foley:				
Loans	–	–	–	–
Overdraft/Credit card*	–	n/a	n/a	–
Total	–	n/a	n/a	–
Interest charged during 2014				–
Maximum debit balance during 2014**				1
Jim O'Hara:				
Loans	–	–	–	–
Overdraft/Credit card*	–	n/a	n/a	–
Total	–	n/a	n/a	–
Interest charged during 2014				–
Maximum debit balance during 2014**				13
Dr Michael Somers:				
Loans	–			–
Overdraft/Credit card*	–	n/a	n/a	3
Total	–	n/a	n/a	3
Interest charged during 2014				–
Maximum debit balance during 2014**				6
Catherine Woods:				
Loans	88	–	9	79
Overdraft/Credit card*	–	n/a	n/a	–
Total	88	n/a	n/a	79
Interest charged during 2014				1
Maximum debit balance during 2014**				88

As at 31 December 2014, guarantees entered into by Catherine Woods in favour of the Group amounted to € 0.1 million. No amounts were paid or liability incurred in fulfilling the guarantee.

Simon Ball, Bernard Byrne and Peter Hagan had no facilities with the Group during 2014.

No impairment charges or provisions have been recognised during the year in respect of any of the above loans or facilities detailed in (i) to (v) and all interest that has fallen due on all of these loans or facilities has been paid.

*Amounts advanced and repaid are not shown for overdraft/credit card facilities as these are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).

**The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year,

54 Related party transactions *(continued)*

(e) Transactions with Key Management Personnel

(ii) Former Directors who were in office during 2014

	Balance at 31 December 2013 € 000	Amounts advanced during 2014 € 000	Amounts repaid during 2014 € 000	Balance at 31 December 2014 € 000
Dick Spring:				
Loans	–	–	–	–
Overdraft/Credit card*	4	n/a	n/a	5
Total	4	n/a	n/a	5
Interest charged during 2014				–
Maximum debit balance during 2014**				12

David Hodgkinson and Tom Wacker had no facilities with the Group during 2014.

(iii) Senior Executive Officers in office during 2014

(Aggregate of 7 persons (2013: 7)):

	Balance at 31 December 2014 € 000	Balance at 31 December 2013 € 000
Loans	1,343	1,399
Overdraft/Credit card	5	13
Total	1,348	1,412
Interest charged during 2014	42	
Maximum debit balance during 2014**	1,431	

(iv) Aggregate amounts outstanding at year end

	Loans, overdrafts/credit cards	
	31 December 2014 € 000	31 December 2013 € 000
Directors (2014:7 persons; 2013: 6 persons)	1,873	1,987
Senior Executive Officers (2014:7 persons; 2013: 7 persons)	1,348	1,412
	3,221	3,399

As at 31 December 2014, guarantees entered into by 1 Director in favour of the Group amounted to € 0.1 million in aggregate (2013: € 0.72 million by 1 Director and 1 Senior Executive Officer). As at 31 December 2014, no Senior Executive Officer held guarantees in favour of the Group. No amounts were paid or liability incurred in fulfilling the guarantee.

(v) Connected persons

The aggregate of loans to connected persons of Directors in office as at 31 December 2014, as defined in Section 220 of the Companies Act 2014, are as follows (aggregate of 19 persons; 2013: 18 persons):

	Balance at 31 December 2014 € 000	Balance at 31 December 2013 € 000
Loans	1,608	1,957
Overdraft/Credit card*	52	86
Total	1,660	2,043
Interest charged during 2014	40	
Maximum debit balance during 2014**	2,265	

No impairment charges or provisions have been recognised during the year in respect of any of the above loans or facilities detailed in (i) to (v) and all interest that has fallen due on all of these loans or facilities has been paid.

*Amounts advanced and repaid are not shown for overdraft/credit card facilities as these are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).

**The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

54 Related party transactions *(continued)*

(f) Summary of relationship with the Irish Government

The Irish Government, as a result of both its investment in AIB's 2009 Preference shares and AIB's participation in Government guarantee schemes, became a related party of AIB in 2009. Following the various share issues to NPRFC[1] during 2010 and 2011, AIB is under the control of the Irish Government.

AIB enters into normal banking transactions with the Irish Government and many of its controlled bodies on an arm's length basis. In addition, other transactions include the payment of taxes, pay related social insurance, local authority rates, and the payment of regulatory fees, as appropriate.

Following the crisis in the Irish banking sector and the stabilisation measures adopted since 2008, the involvement of the Irish Government in AIB and in other Irish banks has been and continues to be considerable. This involvement is outlined below.

[1]Transferred to the Ireland Strategic Investment Fund ("ISIF") on 22 December 2014. Ownership of ISIF vests with the Minister for Finance and is controlled and managed by the NTMA.

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 management section of this report.

The relationship of the Irish Government with AIB is outlined under the following headings:

- Capital investments;
- Capital reorganisation;
- Guarantee schemes;
- NAMA;
- Funding support;
- PCAR/PLAR;
- Credit Institutions (Stabilisation) Act 2010:
  - (i) Direction Order;
  - (ii) Transfer Order;
  - (iii) Subordinated Liabilities Order;
- Central Bank and Credit Institutions (Resolution) Act 2011; and
- Relationship framework which was signed in March 2012.

In addition, the European Commission, in approving AIB's restructuring plan on 7 May 2014, found that restructuring aid granted by Ireland to AIB is in line with EU state aid rules.

54 Related party transactions *(continued)*

(f) Summary of relationship with the Irish Government

– ***Capital investments***

National Treasury Management Agency ("NTMA")

The Ireland Strategic Investment Fund (the "ISIF") was established on 22 December 2014 by the National Treasury Management (Amendment) Act 2014. The ISIF is controlled and managed by the NTMA. Pursuant to this Act, all property held by the National Pensions Reserve Fund Commission (the "NPRFC"), including its holding of ordinary shares and the 2009 Preference Shares in AIB transferred to the NTMA on 22 December 2014. All the 2009 Preference Shares were either converted to ordinary shares or redeemed on 17 December 2015 (see below).

Ordinary shares

At 31 December 2015, the Irish Government through the NTMA, held 2.7 billion ordinary shares in AIB representing 99.9% of the issued ordinary share capital (2014: 99.8%). The number of shares held was impacted by the capital reorganisation outlined below and in note 42.

2009 Preference Shares

On 17 December 2015, the 2009 Preference Shares held by the Irish Government through the NTMA, were either converted to ordinary shares or redeemed for cash. This transaction is outlined below under 'Capital reorganisation' and in note 42.

A cash dividend amounting to € 280 million was paid on 13 May 2015, and a dividend from 13 May 2015 to the conversion/ redemption date amounting to € 166 million was paid in cash on 17 December 2015.

At 31 December 2014, the Irish Government through the NTMA, held € 3.5 billion capital in the form of non-cumulative preference shares ('2009 Preference Shares').

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 41.

Capital contributions

On 28 July 2011, capital contributions totalling € 6.054 billion were made by the Irish State to AIB for Nil consideration. For further details, see note 46.

– ***Capital reorganisation***

AIB implemented a number of measures in order to reorganise its capital following resolutions passed at an EGM of shareholders held on 16 December 2015. These measures were designed to enable AIB: return State aid to the Irish Government in line with its obligations under its EU restructuring plan; create a sound and sustainable capital base on which to grow its business; meet regulatory capital requirements under CRD IV; allow the future payment of dividends on ordinary shares; and position itself for a return to private ownership over time.

The measures outlined below impacted on the Irish Government as a related party to AIB:

(a) 2009 Preference Shares (aggregate subscription price of € 3.5 billion):

(i) Conversion of € 2,140 million 2009 Preference Shares into ordinary shares.

(ii) Redemption of € 1,360 million of the 2009 Preference Shares.

On 17 December 2015, AIB converted 2,140 million of the 2009 Preference Shares into ordinary shares. In accordance with the Constitution of the Company, each share was redeemed at a price equal to 125 per cent of the original subscription price of € 1.00 per share. The total number of ordinary shares of € 0.0025 issued on conversion amounted to 155,146,574,363 shares.

Immediately following the conversion on 17 December 2015 of € 2,140 million of the 2009 Preference Shares into ordinary shares, AIB redeemed the remaining 1,360 million of the 2009 Preference Shares (nominal value of € 13.60 million) at a price equal to 125 per cent of the subscription price per share on issue. Total cost of redemption was € 1,700 million.

A dividend for the period from the last dividend payment date of 13 May 2015 up to the date of conversion/redemption of the 2009 Preference Shares, amounting to € 166 million, was paid in cash to the NTMA (for the ISIF) on 17 December 2015.

For further details of the 2009 Preference Shares conversion/redemption, see note 42.

54 Related party transactions *(continued)*

(f) Summary of relationship with the Irish Government

(b) Consolidation of ordinary shares

The Irish Government, through the ISIF, held a total of 677,705,287,273 ordinary shares in AIB with a nominal value of € 0.0025 per share as a result of the conversion of € 2,140 million of the 2009 Preference Shares into ordinary shares outlined above.

On 21 December 2015, all ordinary shares with a nominal value of € 0.0025 were consolidated into one ordinary share with a nominal value of € 0.625 for every 250 shares held following a Consolidation Resolution passed at the EGM on 16 December 2015. For details of this consolidation, see note 42.

The Irish Government, through the ISIF, held 2,710,821,147 ordinary shares with a nominal value of € 0.625 per share at 31 December 2015 (99.9 % of total issued ordinary share capital).

(c) Issue of warrants to the Minister for Finance (or another State Entity nominated by the Minister for Finance)

In recognition of the significant financial support provided to AIB by the Irish Government since 2008 and as consideration for its supporting and participating in the Capital Reorganisation, AIB received shareholder approval, at the EGM held on 16 December 2015, to enter into a Warrant Agreement with the Minister for Finance (or another State Entity nominated by the Minister for Finance). Under the terms of this Warrant Agreement, as part of a Regulated Market Event, the Minister for Finance will be entitled to issue a Warrant Notice to AIB, subject to certain conditions, requiring AIB to issue warrants for nil consideration to the Minister for Finance (or another State Entity nominated by the Minister for Finance). On the occurrence of a Regulated Market Event, the warrants would entitle the the Minister for Finance (or another State Entity nominated by the Minister for Finance) to subscribe for AIB ordinary shares with a nominal value of € 0.625 per share, subject to a maximum of 9.99 per cent of the issued ordinary share capital. The warrant exercise price will be not less than 200 per cent of the Initial Regulated Market price and the warrants will be exercisable for a period of ten years after the date of the Regulated Market Event.

Since the Regulated Market Event had not occurred at 31 December 2015, no notice has issued to AIB for the issue of warrants, accordingly, these warrants have not been accounted for in the financial statements.

(d) Redemption of Promissory Note

On 20 November 2015, the EBS Promissory Note Termination Agreement was entered into between the Minister for Finance, the NTMA, EBS and AIB which provided for the redemption and subsequent cancellation of the EBS Promissory Note in conjunction with the 2009 Preference Shares redemption. This promissory note was issued by the Minister for Finance to EBS in 2010. The promissory note which was held as an available for sale security was redeemed at its carrying value on 17 December 2015. Fair value movements amounting to € 33 million held in the 'Available for sale securities reserves' account in equity were reclassified to the Income statement on its redemption and reported within 'Other operating income'.

– ***Guarantee schemes***

The European Communities (Deposit Guarantee Schemes) Regulations 1995 have been in operation since 1995. These regulations guarantee certain retail deposits up to a maximum of € 100,000. In addition, since September 2008, the Irish Government has guaranteed relevant deposits and debt securities of AIB through the Credit Institutions (Financial Support) Scheme 2008 ("the CIFS scheme") which expired in September 2010 and the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 ("ELG Scheme") which expired on 28 March 2013 for all new liabilities.

In January 2010, AIB and certain of its subsidiaries, became participating institutions for the purposes of the ELG Scheme. The total liabilities guaranteed under the ELG Scheme at 31 December 2015 amounted to € 1.8 billion (2014: € 4.6 billion). Participating institutions must pay a fee to the Minister in respect of each liability guaranteed under the ELG Scheme. Details of the total charge for 2015 and 2014, are set out in note 5. Participating institutions are also required to indemnify the Minister for any costs and expenses of the Minister and for any payments made by the Minister under the ELG Scheme which relate to the participating institution's guarantee under the ELG Scheme.

– ***NAMA***

AIB was designated a participating institution under the NAMA Act in February 2010. Under this Act, AIB transferred financial assets to NAMA for which it received consideration from NAMA in the form of NAMA senior bonds and NAMA subordinated bonds which are detailed in notes 9, 28 and 29. In addition, AIB acquired NAMA senior bonds in 2011 as part of the Anglo transaction (€ 11,854 million fair value at acquisition date) and the EBS transaction (€ 301 million carrying value at acquisition date). AIB also acquired € 6 million in subordinated NAMA bonds, as part of the EBS transaction. The NAMA senior bonds are guaranteed by the Irish Government.

54 Related party transactions *(continued)*

(f) Summary of relationship with 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 48.

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 2015: € 10 million; 2014 of € 10 million), with the remainder invested on behalf of clients.

- ***Funding support***

Throughout the financial crisis, the Irish Government provided guarantees under the CIFS (expired September 2010) and ELG schemes as outlined above. In addition, through the Central Bank, the Irish Government provides direct funding as follows:

- AIB has borrowings from the Central Bank as part of Eurosystem. These borrowings are under ECB Monetary Policy Operations and at 31 December 2015 amount to € 2.9 billion (2014: € 3.4 billion) of which € 1.9 billion was in the Targeted Long Term Refinancing Operation ("TLTRO").

The interest rate on the facilities above is set by the Central Bank and advised to AIB on each rollover date and at 31 December 2015 was 0.05 %, being the current ECB refinancing rate. The facilities mature within 1 week, apart from the TLTRO which will mature between September 2016 and September 2018 depending on eligible lending activities in excess of specific benchmarks. At 31 December 2015, the amounts outstanding, totalling € 2.9 billion (2014: € 3.4 billion) are included within 'Deposits by central banks and banks' in the table below. See note 35 for details of collateral.

These facilities, together with other assets and liabilities with Irish Government entity counterparties, are set out below.

- ***PCAR/PLAR***

On 31 March 2011, the Central Bank published the 'Financial Measures Programme Report' which detailed the outcome of its review of the capital (PCAR) and funding requirements (PLAR) of the domestic Irish banks. The PCAR/PLAR assessments followed the announcement of the EU-IMF Programme for Ireland in November 2010, in which the provision of an overall amount of € 85 billion in financial support for the sovereign was agreed in principle. Up to € 35 billion of this support was earmarked for the banking system, € 10 billion of which was for immediate recapitalisation of the banks with the remaining € 25 billion to be provided on a contingency basis. Arising from the 2011 PCAR and PLAR assessments, AIB, including EBS, was required to raise € 14.8 billion in total capital (including €1.6 billion in contingent capital), all of which was subsequently raised.

- ***Credit Institutions (Stabilisation) Act 2010***

The Credit Institutions (Stabilisation) Act 2010, which was enacted in December 2010, ceased to have effect on 31 December 2014. During the period when the Act was effective, the Minister invoked certain of his powers under the Act in relation to AIB as follows:

- a Direction Order in December 2010;
- a Transfer Order in February 2011;
- a Subordinated Liabilities Order in April 2011; and
- Acquisition of EBS Limited ("EBS").

On 31 March 2011, the Minister proposed the combination of AIB and EBS (formerly EBS Building Society) to form one of the two Pillar banks. On 26 May 2011, AIB entered into an agreement with EBS, the Minister and the NTMA to acquire EBS for a consideration of € 1 (one euro). The acquisition was effective from 1 July 2011.

54 Related party transactions *(continued)*

(f) Summary of relationship with the Irish Government

– ***Central Bank and Credit Institutions (Resolution) Act 2011***

The Central Bank and Credit Institutions (Resolution) Act 2011 became effective on 28 October 2011. This legislation provides the Central Bank with additional powers to achieve an effective and efficient resolution regime for credit institutions that are failing or likely to fail and that is effective in protecting the Exchequer and the stability of the financial system and the economy.

The Act gives the Central Bank power to take control of banks, appoint managers to run them and remove directors, staff and consultants, and to move their deposits and loans to other banks. On 30 September 2014, the Minister for Finance made Regulations – the Credit Institutions Resolution Fund Levy Regulations, 2014 ("2014 Regulations") – which amend and update the 2012 Regulations and provide for contributions by authorised credit institutions to the Credit Institutions' Resolution Fund ("Resolution Fund") pursuant to Section 15 of the Central Bank and Credit Institutions (Resolution) Act 2011. The 2012 Regulations (as updated by the 2014 Regulations) require every person who, on 1 October 2014, is an authorised credit institution described in the Schedule to the 2012 Regulations to pay a levy in respect of the levy period to the Central Bank of Ireland ("Central Bank") for the account of the Resolution Fund. This includes all banks, building societies and credit unions licensed in Ireland with the exception of institutions covered by the Credit Institutions (Stabilisation) Act, 2010. This Resolution Fund has been designed to provide a source of funding for the resolution of financial instability in, or of, an imminent serious threat to the financial stability of an authorised credit institution.

The Act provides for the establishment of "Bridge-Banks" for the purpose of holding assets or liabilities which have been transferred under a transfer order. Bridge-Banks are only intended to hold such assets or liabilities on a temporary basis pending onward transfer as soon as possible.

The Central Bank is empowered to make special management orders in relation to an authorised credit institution, or in relation to a subsidiary or holding company of the authorised credit institution in certain circumstances. The Act also provides powers to the Central Bank regarding the liquidation of authorised credit institutions. Authorised credit institutions may also be directed to prepare a recovery plan setting out actions that could be taken to facilitate the continuation or secure the business or part of the business of that institution.

– ***Relationship Framework***

In order to comply with contractual commitments imposed on AIB in connection with its recapitalisation by the Irish State and with the requirements of EU state aid applicable in respect of that recapitalisation, a Relationship Framework was entered into between the Minister and AIB in March 2012. This provides the framework under which the relationship between the Minister and AIB is governed. Under the Relationship Framework, the authority and responsibility for strategy and commercial policies (including business plans and budgets) and conducting AIB's day-to-day operations rest with the Board of AIB and its management team. However, the Board is required to obtain the prior written consent of the Minister, or to consult with the Minister, in respect of certain material matters, such as material disposals.

– ***Approval of AIB Restructuring Plan***

On 7 May 2014, the European Commission approved, under state aid rules, AIB's Restructuring Plan. In arriving at its final decision, the European Commission acknowledged the significant number of restructuring measures already implemented by AIB, comprising business divestments, asset deleveraging, liability management exercises and significant cost reduction actions. The Commission concluded that the Restructuring Plan sets out the path to restoring long term viability. The plan covers the period from 2014 to 2017.

– ***Restructuring Plan commitments***

AIB has committed to a range of measures relating to customers in difficulty: cost caps and reductions; acquisitions and exposures; coupon payments; promoting competition; and the repayment of aid to the State. All of the commitments are aligned to AIB's operational plans and are supportive of AIB's return to viability.

54 Related party transactions *(continued)*

(f) Summary of relationship with the Irish Government

Balances held with the Irish Government and related entities

The following table outlines the balances held with Irish Government entities[1] at 31 December 2015 and 2014 together with the highest balances held at any point during the year:

	Reference	2015 Balance € m	2015 Highest[2] balance held € m	2014 Balance € m	2014 Highest[2] balance held € m
Assets					
Cash and balances at central banks	a	**41**	**2,830**	560	2,496
Trading portfolio financial assets		**–**	**391**	–	–
Derivative financial instruments		**3**	**4**	3	10
Loans and receivables to banks	b	**121**	**121**	120	122
Loans and receivables to customers		**81**	**168**	73	86
NAMA senior bonds	c	**5,616**	**9,427**	9,423	15,605
Financial investments available for sale	d	**5,839**	**10,019**	9,481	10,715
Financial investments held to maturity	e	**3,483**	**3,487**	–	–
Total assets		**15,184**		19,660	

		2015 Balance € m	2015 Highest[2] balance held € m	2014 Balance € m	2014 Highest[2] balance held € m
Liabilities					
Deposits by central banks and banks	f	**2,950**	**5,300**	3,400	13,480
Customer accounts	g, h	**688**	**3,856**	3,349	8,993
Trading portfolio financial liabilities		**86**	**551**	–	–
Derivative financial instruments		**69**	**142**	93	93
Subordinated liabilities and other capital instruments	i	**1,523**	**1,523**	1,411	1,411
Total liabilities		**5,316**		8,253	

[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 also included.

[2] The highest balance during the year, together with the outstanding balance at the year end, 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 2015 was € 513 million (2014: € 511 million).

b The balances on loans and receivables to banks include statutory balances with the Central Bank as well as overnight funds placed.

c NAMA senior bonds were received as consideration for loans transferred to NAMA and as part of the Anglo and EBS transactions.

d Financial investments available for sale comprise € 5,406 million (2014: € 9,107 million) in Irish Government securities held in the normal course of business and NAMA subordinated bonds which have a fair value at 31 December 2015 of € 432 million (2014: € 374 million) detailed above under 'NAMA'.

e On 21 December 2015, AIB transferred € 3,487 million from financial investments available for sale to financial investments held to maturity. These comprise Irish Government securities.

f This relates to funding received from the Central Bank which is detailed under 'Funding Support' above.

g Includes Nil (2014: € 1,575 million) received from an Irish Government body under a repurchase agreement (note 36). The Group has pledged Irish Government securities with a fair value of Nil (2014: € 1,619 million) for this borrowing.

h Includes € 160 million borrowed from the Strategic Banking Corporation of Ireland ("SBCI"), the ordinary share capital of which is owned by the Minister for Finance. The SBCI was set up in 2014 with the core purpose of enhancing the supply of credit to SMEs. It will achieve this by using its capital to lend to SMEs via other financial institutions called 'on-lenders'. Benefits arising from reduced rates on funding sourced from the SBCI are passed on in their entirety to the SMEs in accordance with the terms of the borrowing agreements.

i 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 41).

All other balances, both assets and liabilities are carried out in the ordinary course of banking business on normal terms and conditions.

54 Related party transactions *(continued)*

(f) Summary of relationship with the Irish Government

Local government[1]

During 2015 and 2014, 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 2015 and 2014, AIB entered into banking transactions in the normal course of business with semi-state bodies. These transactions principally include the granting of loans and the acceptance of deposits as well as derivative transactions and clearing transactions.

[1]This category includes local authorities, borough corporations, county borough councils, county councils, boards of town commissioners, urban district councils, non-commercial public sector entities, public voluntary hospitals and schools.

[2]Semi-state bodies is the name given to organisations within the public sector operating with some autonomy. They include commercial organisations or companies in which the State is the sole or main shareholder.

Financial institutions under Irish Government control/significant influence

Certain financial institutions are related parties to AIB by virtue of the Government either controlling or having a significant influence over these institutions. The following institution is controlled by the Irish Government:

– Permanent tsb plc

The Government controlled entity, Irish Bank Resolution Corporation Limited (In Special Liquidation) which went into special liquidation during 2013, remains a related party for the purpose of this disclosure.

In addition, the Irish Government is deemed to have significant influence over Bank of Ireland.

Transactions with these institutions are normal banking transactions entered into in the ordinary course of cash management business under normal business terms. The transactions constitute the short-term placing and acceptance of deposits, derivative transactions, investment in available for sale debt securities and repurchase agreements.

At 31 December 2015 and 2014, the following balances were outstanding in total to these financial institutions:

	2015 Balance € m	2014 Balance € m
Assets		
Derivative financial instruments	**10**	20
Loans and receivables to banks[1]	**494**	4
Financial investments available for sale	**483**	267
Liabilities		
Deposits by central banks and banks[2]	**29**	9
Derivative financial instruments	**7**	17
Customer deposits[3]	**17**	19

[1]The highest balance in loans and receivables to banks amounted to € 616 million in respect of funds placed during the year (2014: € 108 million).

[2]The highest balance in deposits by central banks and banks amounted to € 395 million in respect of funds received during the year (2014: € 509 million).

[3]The highest balance in customer deposits amounted to € 22 million in respect of funds received during the year (2014: € 48 million).

In connection with the acquisition by AIB Group of certain assets and liabilities of the former Anglo Irish Bank Corporation Limited (now Irish Bank Resolution Corporation Limited (in Special Liquidation)) "IBRC", IBRC had indemnified AIB Group for certain liabilities pursuant to a Transfer Support Agreement dated 23 February 2011. AIB Group had made a number of claims on IBRC pursuant to the indemnity prior to IBRC's Special Liquidation on 7 February 2013.

AIB Group has since served notice of claim and set-off on the Joint Special Liquidators of IBRC in relation to the amounts claimed pursuant to the indemnity and certain other amounts that were owing to AIB by IBRC as at the date of the Special Liquidation (c. € 81.3 million in aggregate). Given AIB's aggregate liability to IBRC at the date of Special Liquidation exceeded these claims, no financial loss is expected to occur.

54 Related party transactions *(continued)*

(f) Summary of relationship with the Irish Government

Irish bank levy

In 2014, following the enactment in December 2013 of the Finance Bill (no.2) 2013, a bank levy was introduced on certain financial institutions, including the Group. This levy is recognised in the income statement on the date on which all the criteria set out in the legislation are met. The levy equals 35% of each financial institution's Deposit Interest Retention Tax payment for 2011 and is chargeable on this basis for 2014-2016 inclusive. The annual levy paid by the Group and reflected in the income statement amounted to € 60 million (2014: € 60 million).

In the October 2015 budget, the Minister for Finance announced that this levy will be extended to 2021, with the total amount to be collected from all financial institutions remaining at its current level of € 150 million per annum, however, the basis for calculating an individual financial institution's share of the levy is subject to review. Legislation bringing this budget measure into effect was enacted on 23 December 2015.

(g) Indemnities

Allied Irish Banks, p.l.c. has indemnified the Directors of Allied Irish Banks Pensions Limited and AIB DC Pensions (Ireland) Limited, the trustees of the Group's Republic of Ireland defined benefit pension scheme and defined contribution pension scheme, respectively, against any actions, claims or demands arising out of their actions as Directors of the trustee companies, other than by reason of wilful default.

55 Commitments

	2015 € m	2014 € m
Estimated outstanding commitments for capital expenditure not provided for in the financial statements	7	17
Capital expenditure authorised but not yet contracted for	38	35

Operating lease rentals

The total of future minimum lease payments under non-cancellable operating leases are set out in the following table:

	2015 € m	2014 € m
One year	59	57
One to two years	54	61
Two to three years	51	58
Three to four years	49	56
Four to five years	48	55
Over five years	342	394
Total	603	681

The Group holds a number of significant operating lease arrangements in respect of branches and the headquarter locations. AIB Group leases the Bankcentre campus in Ballsbridge, Dublin 4 under two separate lease arrangements.

The minimum lease terms remaining on the most significant leases vary from 1 year to 15 years. The average lease length outstanding until a break clause in the lease arrangements is approximately 8 years with the final contractual remaining terms ranging from 1 year to 23 years.

There are no contingent rents payable and all lease payments are at market rates.

The total of future minimum sublease payments expected to be received under non-cancellable subleases at the reporting date were € 3 million (2014: € 2 million).

Operating lease payments recognised as an expense for the year were € 58 million (2014: € 67 million). Sublease income amounted to Nil (2014: € 4 million).

56 Employees

The following table shows the geographical analysis of average employees for 2015 and 2014 as follows:

Average number of staff (Full time equivalents)	2015	2014
Republic of Ireland	**9,145**	9,689
United Kingdom	**1,463**	1,641
United States of America	**55**	54
Total	**10,663**	11,384

The following table shows the segmental analysis of average employees for 2015 and 2014 as follows:

	2015
AIB Ireland	**5,754**
AIB UK	**1,138**
Group & International[2]	**3,771**
Total	**10,663**

	2014[1]
DCB	5,339
AIB UK	1,266
FSG	1,534
Group	3,245
	11,384

[1]As reported in 2014.

[2]Group & International includes the businesses outside Ireland and the UK. It also includes wholesale treasury activities, central control and support functions (business and customer services, risk, audit, finance, general counsel, human resources and corporate affairs).

The average number of employees by segment for 2015 and 2014 is set out above (excluding employees on career breaks and other unpaid long term leaves).

The 12 month average of 10,663 employees is lower than the average figure for 2014 of 11,384 due to the impact of voluntary severance. Actual full time equivalent numbers fell to the 31 December 2015 level of 10,204 from 11,047 at 31 December 2014, reflecting the impact of voluntary severance and selective outsourcing of some back-office and support functions during the financial year.

57 Regulatory compliance

During the years ended 31 December 2015 and 2014, AIB Group, and Allied Irish Banks, p.l.c. and its regulated subsidiaries complied with their externally imposed capital ratios.

58 Financial and other information	2015 %	2014 %	2013 %
Operating ratios			
Operating expenses/operating income	**63.9**	64.7	86.7
Operating expenses/operating income before exceptional items	**49.4**	55.5	76.4
Other income/operating income	**26.7**	33.4	21.2
Other income/operating income before exceptional items	**26.5**	33.3	30.1
Net interest margin[1]	**1.94**	1.63	1.21
Performance measures			
Return on average total assets	**1.3**	0.8	(1.3)
Return on average ordinary shareholders' equity[2]	**12.4**	8.0	(21.8)

[1]Represents net interest income as a percentage of average interest earning assets.

[2]Profit attributable to ordinary shareholders after deduction of the annual dividend on the 2009 Preference Shares as a percentage of average ordinary shareholders' equity (i.e. excludes the € 3.5 billion in 2009 Preference Shares which were redeemed/converted in December 2015).

Rates of exchange	2015	2014	2013
€/$*			
Closing	**1.0887**	1.2141	1.3791
Average	**1.1097**	1.3286	1.3282
€/£*			
Closing	**0.7340**	0.7789	0.8337
Average	**0.7260**	0.8062	0.8494

*Throughout this report, Pound sterling is denoted by £ and US dollar by $.

	Assets		Liabilities and equity	
Currency information	2015 € m	2014 € m	2015 € m	2014 € m
Euro	**82,053**	86,771	**85,268**	88,395
Other	**21,069**	20,684	**17,854**	19,060
	103,122	107,455	**103,122**	107,455

59 Average balance sheets and interest rates[1]

The following table shows interest rates prevailing at 31 December 2015 and 2014 together with average prevailing interest rates, gross yields, spreads and margins for the years ended 31 December 2015, 2014 and 2013:

	31 December		Average interest rates for years ended 31 December		
Interest rates	**2015 %**	2014 %	**2015 %**	2014 %	2013 %
Ireland					
AIB Group's prime lending rate	**0.25**	0.50	**0.43**	0.64	0.63
European inter-bank offered rate					
One month euro	**(0.20)**	0.02	**(0.07)**	0.13	0.13
Three month euro	**(0.13)**	0.08	**(0.02)**	0.21	0.22
United Kingdom					
AIB Group's base lending rate	**0.50**	0.50	**0.50**	0.50	0.50
London inter-bank offered rate					
One month sterling	**0.50**	0.50	**0.51**	0.49	0.49
Three month sterling	**0.59**	0.56	**0.57**	0.54	0.51
ECB refinancing rate	**0.05**	0.05	**0.05**	0.16	0.55
Gross yields, spreads and margins[2]					
Gross yields[3]			**2.81**	2.81	2.82
Interest rate spread[4]			**1.43**	1.13	0.75
Net interest margin[5]			**1.94**	1.63	1.21

[1]The average balance sheet and gross yields, spreads and margins are presented on a continuing operations basis.

[2]The gross yields, spreads and margins presented in this table are extracted from the average balance sheets and interest rates on the following page.

[3]Gross yield represents the average interest rate earned on interest earning assets.

[4]Interest rate spread represents the difference between the average interest rate earned on interest earning assets and the average interest rate paid on interest bearing liabilities.

[5]Net interest margin represents net interest income as a percentage of average interest earning assets.

59 Average balance sheets and interest rates[1] *(continued)*

The following table shows the average balances and interest rates of interest earning assets and interest bearing liabilities for the years ended 31 December 2015, 2014 and 2013. The calculation of average balances include daily and monthly averages for reporting units. The average balances used are considered to be representative of the operations of the Group.

	Year ended 31 December 2015			Year ended 31 December 2014			Year ended 31 December 2013		
Assets	**Average balance € m**	**Interest € m**	**Average rate %**	Average balance € m	Interest € m	Average rate %	Average € m	Interest € m	Average rate %
Trading portfolio financial assets less liabilities	**38**	**1**	**2.6**	–	–	1.4	14	–	2.9
Loans and receivables to banks	**7,143**	**24**	**0.3**	5,966	22	0.4	5,724	19	0.3
Loans and receivables to customers	**64,868**	**2,214**	**3.4**	65,391	2,237	3.4	70,018	2,329	3.3
NAMA senior bonds	**7,614**	**31**	**0.4**	12,569	80	0.6	16,743	130	0.8
Financial investments available for sale	**19,503**	**514**	**2.6**	19,444	567	2.9	18,621	652	3.5
Financial investments held to maturity	**106**	**4**	**3.8**	–	–	–	–	–	–
Average interest earning assets	**99,272**	**2,788**	**2.8**	103,370	2,906	2.8	111,120	3,130	2.8
Net interest on swaps		**81**			91			36	
Total average interest earning assets	**99,272**	**2,869**	**2.9**	103,370	2,997	2.9	111,120	3,166	2.9
Non-interest earning assets	**7,557**			8,237			9,635		
Total average assets	**106,829**	**2,869**	**2.7**	111,607	2,997	2.7	120,755	3,166	2.6
Liabilities and shareholders' equity									
Due to central banks and banks	**15,734**	**4**	**0.03**	18,515	46	0.3	26,242	123	0.5
Due to customers	**43,777**	**453**	**1.0**	48,944	673	1.4	51,728	1,110	2.1
Other debt issued	**7,475**	**207**	**2.8**	8,921	335	3.8	8,623	344	4.0
Subordinated liabilities	**1,625**	**278**	**17.1**	1,401	256	18.3	1,311	241	18.4
Average interest earning liabilities	**68,611**	**942**	**1.4**	77,781	1,310	1.7	87,904	1,818	2.1
Non-interest earning liabilities	**25,985**			22,426			22,031		
Total average liabilities	**94,596**	**942**	**1.0**	100,207	1,310	1.3	109,935	1,818	1.7
Shareholders' equity	**12,233**			11,400			10,820		
Total average liabilities and shareholders' equity	**106,829**	**942**	**0.9**	111,607	1,310	1.2	120,755	1,818	1.5

[1]The average balance sheets and interest rates are presented on a continuing operations basis.

For 2015 and 2014, negative interest income and expense are negligible. The amounts are offset against interest income and interest expense respectively.

60 Non-adjusting events after the reporting period

No significant non-adjusting events have taken place since 31 December 2015.

61 Dividends

No final dividend on ordinary shares will be paid in respect of the financial year ended 31 December 2015.

62 Approval of financial statements

The financial statements were approved by the Board of Directors on 2 March 2016.

Allied Irish Banks, p.l.c.
Parent company financial statements and notes

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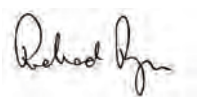
Parent company statement of financial position

as at 31 December 2015

	Notes	2015 € m	2014 € m
Assets			
Cash and balances at central banks	ag	**1,333**	1,396
Items in course of collection		**67**	66
Disposal groups and non-current assets held for sale	d	**2**	13
Trading portfolio financial assets	e	**1**	1
Derivative financial instruments	f	**1,718**	2,062
Loans and receivables to banks	g	**21,311**	23,111
Loans and receivables to customers	h	**29,500**	29,658
NAMA senior bonds	j	**5,616**	9,423
Financial investments available for sale	k	**17,510**	20,980
Financial investments held to maturity	l	**3,483**	–
Interests in associated undertakings		**3**	3
Investments in Group undertakings	m	**5,226**	5,106
Intangible assets	n	**278**	158
Property, plant and equipment	o	**299**	248
Other assets		**249**	152
Current taxation		**1**	2
Deferred taxation	p	**2,421**	2,756
Prepayments and accrued income		**435**	450
Total assets		**89,453**	95,585
Liabilities			
Deposits by central banks and banks	q	**19,651**	23,137
Customer accounts	r	**49,129**	50,169
Trading portfolio financial liabilities	s	**86**	–
Derivative financial instruments	f	**2,032**	2,686
Debt securities in issue	t	**1,600**	2,622
Current taxation		**16**	17
Other liabilities	u	**265**	317
Accruals and deferred income		**407**	468
Retirement benefit liabilities	c	**310**	1,143
Provisions for liabilities and commitments	v	**205**	222
Subordinated liabilities and other capital instruments	w	**2,318**	1,451
Total liabilities		**76,019**	82,232
Shareholders' equity			
Share capital	x	**1,696**	1,344
Share premium	x	**1,386**	1,752
Other equity interests	y	**494**	–
Reserves		**9,858**	10,257
Total shareholders' equity		**13,434**	13,353
Total liabilities and shareholders' equity		**89,453**	95,585



Richard Pym	**Bernard Byrne**	**Mark Bourke**	**David O'Callaghan**
Chairman	Chief Executive Officer	Chief Financial Officer	Company Secretary

2 March 2016

Parent company statement of cash flows

for the financial year ended 31 December 2015

	Notes	2015 € m	2014 € m
Cash flows from operating activities			
Profit before taxation for the year from continuing operations		**1,096**	745
Adjustments for:			
– Non-cash and other items	ag	**(741)**	(565)
– Change in operating assets	ag	**6,540**	10,153
– Change in operating liabilities	ag	**(6,184)**	(10,540)
– Taxation refund		**3**	–
Net cash inflow/(outflow) from operating activities		**714**	(207)
Cash flows from investing activities			
Purchase of financial investments available for sale	k	**(4,257)**	(8,474)
Proceeds from sales and maturity of financial investments available for sale[1]		**4,386**	8,771
Additions to property, plant and equipment	o	**(82)**	(45)
Disposal of property, plant and equipment	d	**14**	1
Additions to intangible assets	n	**(155)**	(58)
Proceeds of disposal of investment in associated undertakings		**–**	–
Proceeds of disposal of investment in businesses and subsidiaries		**–**	336[2]
Dividends received from associated undertakings		**13**	5
Dividends received from subsidiary companies		**–**	1
Net cash (outflow)/inflow from investing activities		**(81)**	537
Cash flows from financing activities			
Net proceeds on issue of Additional Tier 1 Securities	y	**494**	–
Net proceeds on issue of € 750 million Tier 2 Notes due 2025	w	**750**	–
Redemption of 2009 Preference Shares	x	**(1,700)**	–
Repayment of preference shares		**–**	(45)
Interest paid on subordinated liabilities and other capital instruments		**(160)**	(160)
Dividend paid on 2009 Preference Shares		**(446)**	–
Net cash outflow from financing activities		**(1,062)**	(205)
Change in cash and cash equivalents		**(429)**	125
Opening cash and cash equivalents		**2,242**	2,066
Effect of exchange translation adjustments		**59**	51
Closing cash and cash equivalents	ag	**1,872**	2,242

[1]Transfer from financial investments available for sale to financial investments held to maturity of € 3,487 million not reflected in cash flows (note l).

[2]Disposal of Ark Life Assurance Company Limited.

Parent company statement of changes in equity

for the financial year ended 31 December 2015

	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 2015	**1,344**	**1,752**	**–**	**981**	**–**	**11**	**1,379**	**327**	**8,171**	**(81)**	**(549)**	**18**	**13,353**
Total comprehensive income for the year													
Profit for the year	–	–	–	–	–	–	–	–	946	–	–	–	946
Other comprehensive income	–	–	–	–	–	–	114	(8)	679	2	–	–	787
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**114**	**(8)**	**1,625**	**2**	**–**	**–**	**1,733**
Transactions with owners, recorded directly in equity													
Contributions by and distributions to owners													
Capital contributions *(note z)*	–	–	–	(398)	–	–	–	–	398	–	–	–	–
Dividend on 2009 Preference Shares	–	–	–	–	–	–	–	–	(280)	–	–	–	(280)
Share based payments	–	–	–	–	–	–	–	–	18	–	–	(18)	–
Cancellation of treasury shares	–	–	–	–	–	–	–	–	(549)	–	549	–	–
Issue of Additional Tier 1 Securities	–	–	494	–	–	–	–	–	–	–	–	–	494
Other movemnets	–	–	–	–	–	(1)	–	–	1	–	–	–	–
Capital reorganisation (note x)													
2009 Preference Shares – conversion	(21)	–	–	–	–	–	–	–	–	–	–	–	(21)
2009 Preference Shares – redemption	(14)	–	–	–	14	–	–	–	(1,700)	–	–	–	(1,700)
	(35)	–	–	–	14	–	–	–	(1,700)	–	–	–	(1,721)
Ordinary shares issued on conversion of 2009 Preference Shares	21	–	–	–	–	–	–	–	–	–	–	–	21
Bonus ordinary shares issued on conversion of 2009 Preference Shares	366	(366)	–	–	–	–	–	–	–	–	–	–	–
Dividend paid on 2009 Preference Shares to date of conversion/redemption	–	–	–	–	–	–	–	–	(166)	–	–	–	(166)
Total contributions by and distributions to owners	**352**	**(366)**	**494**	**(398)**	**14**	**(1)**	**–**	**–**	**(2,278)**	**–**	**549**	**(18)**	**(1,652)**
At 31 December 2015	**1,696**	**1,386**	**494**	**583**	**14**	**10**	**1,493**	**319**	**7,518**	**(79)**	**–**	**–**	**13,434**

Parent company statement of changes in equity

for the financial year ended 31 December 2014

	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 2014	5,248	2,848	1,545	–	12	754	(31)	2,843	(73)	(549)	26	12,623
Total comprehensive income for the year												
Profit for the year	–	–	–	–	–	–	–	698	–	–	–	698
Other comprehensive income	–	–	–	–	(1)	625	358	(942)	(8)	–	–	32
Total comprehensive income for the year	–	–	–	–	(1)	625	358	(244)	(8)	–	–	730
Transactions with owners, recorded directly in equity												
Contributions by and distributions to owners												
Capital contributions *(note z)*	–	–	(564)	–	–	–	–	564	–	–	–	–
Ordinary shares issued in lieu of dividend *(note x)*	22	(22)	–	–	–	–	–	–	–	–	–	–
Cancellation of deferred shares *(note x)*	(3,926)	–	–	3,926	–	–	–	–	–	–	–	–
Reduction of capital *(note x)*	–	(1,074)	–	(3,926)	–	–	–	5,000	–	–	–	–
Share based payments	–	–	–	–	–	–	–	8	–	–	(8)	–
Total contributions by and distributions to owners	(3,904)	(1,096)	(564)	–	–	–	–	5,572	–	–	(8)	–
At 31 December 2014	1,344	1,752	981	–	11	1,379	327	8,171	(81)	(549)	18	13,353

Notes to the parent company financial statements

a Accounting policies

Where applicable, the accounting policies adopted by Allied Irish Banks, p.l.c. (the parent company) are the same as those of AIB Group as set out in note 1 to the consolidated financial statements on pages 215 to 243.

The parent company financial statements and related notes set out on pages 345 to 402 have been prepared in accordance with International Financial Reporting Standards (collectively "IFRSs") as issued by the IASB and IFRSs as adopted by the EU and applicable for the financial year ended 31 December 2015. They also comply with those parts of the Companies Act 2014 applicable to companies reporting under IFRS and with the European Union (Credit Institutions: Financial Statements) Regulations 2015.

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.

A description of the critical accounting judgements and estimates is set out in note 2 to the consolidated financial statements on pages 244 to 248.

Parent Company Income statement

In accordance with Section 304(2) of the Companies Act 2014, the parent company is availing of the exemption to omit the income statement, statement of comprehensive income and related notes from its financial statements; from presenting them to the Annual General Meeting; and from filing them with the Registrar of Companies. The parent company's profit after tax for the financial year ended 31 December 2015 is € 946 million.

b Administrative expenses

	2015 € m	2014 € m
Personnel expenses:		
Wages and salaries	**475**	515
Termination benefits[1]	**24**	19
Retirement benefits[2]	**97**	85
Social security costs	**53**	56
Other personnel expenses[3]	**(81)**	(80)
Total personnel expenses	**568**	595
General and administrative expenses:		
Irish banking levy	**45**	45
Bank Recovery and Resolution Directive levy	**6**	–
Other general and administrative expenses	**394**	443
Total general and administrative expenses	**445**	488
	1,013	1,083

[1]At 31 December 2015, a charge of € 24 million (2014: a charge of € 19 million) was made to the income statement in respect of termination benefits arising from the voluntary severance programme.

[2]Comprises a charge of € 25 million relating to defined benefit expense (2014: a charge of € 6 million), a defined contribution expense of € 66 million (2014: € 71 million) and a long term disability payments expense of € 6 million (2014: € 8 million) (see note c).

[3]Other personnel expenses include other compensation costs of Nil (2014: Nil).

Personnel expenses of € 33 million (2014: € 10 million) were capitalised as part of the cost of intangible assets.

c Retirement benefits

Allied Irish Banks, p.l.c. operates a number of defined contribution and defined benefit schemes for employees. All defined benefit schemes are closed to future accrual.

Defined contribution schemes

Allied Irish Banks, p.l.c. operates a defined contribution ("DC") scheme, further details of which are provided in the Group's retirement benefits note (note 13). The total cost in respect of the DC scheme for 2015 was € 66 million (2014: € 71 million) and is included in administrative expenses (note b).

Defined benefit schemes

The most significant defined benefit scheme operated by Allied Irish Banks, p.l.c. is the AIB Group Irish Pension Scheme ('the Irish scheme'), further details of which are provided in the Group's retirement benefits note (note 13).

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 13 for further details.

Sensitivity analysis for principal assumptions used to measure scheme liabilities

There are inherent uncertainties surrounding the financial assumptions adopted in calculating the actuarial valuation of the Allied Irish Banks, p.l.c. pension schemes. A sensitivity analysis of the key assumptions for the Irish scheme is set out in the Group's retirement benefits note (note 13).

Movement in defined benefit obligation and scheme assets

The following table sets out the movement in the defined benefit obligation and scheme assets during 2015 and 2014:

	2015			2014		
	Defined benefit obligation € m	**Fair value of scheme assets € m**	**Net defined benefit (liability) asset € m**	Defined benefit obligation € m	Fair value of scheme assets € m	Net defined benefit (liability) asset € m
At 1 January	**(5,473)**	**4,330**	**(1,143)**	(4,071)	3,930	(141)
Included in profit or loss						
Past service cost	**(1)**	**–**	**(1)**	(3)	–	(3)
Interest (cost) income	**(119)**	**96**	**(23)**	(156)	153	(3)
Administration costs	**–**	**(1)**	**(1)**	–	–	–
	(120)	**95**	**(25)**	(159)	153	(6)
Included in other comprehensive income						
Remeasurements (loss) gain:						
– Actuarial (loss) gain arising from:						
– Experience adjustments	**(72)**	**–**	**(72)**	21	–	21
– Changes in demographic assumptions	**(47)**	**–**	**(47)**	–	–	–
– Changes in financial assumptions	**769**	**–**	**769**	(1,392)	–	(1,392)
– Return on scheme assets excluding interest income[1]	**–**	**127**	**127**	–	293	293
Translation adjustment on non-euro schemes	**(4)**	**2**	**(2)**	(4)	2	(2)
	646	**129**	**775**	(1,375)	295	(1,080)
Other						
Contributions by employer	**–**	**82**	**82**	–	84	84
Benefits paid	**134**	**(133)**	**1**	132	(132)	–
	134	**(51)**	**83**	132	(48)	84
At 31 December	**(4,813)**	**4,503**	**(310)**	(5,473)	4,330	(1,143)

[1]Includes payment of pension levy.

c Retirement benefits *(continued)*

Scheme assets

The following table sets out an analysis of the schemes assets at 31 December 2015 and 2014:

	2015 € m	2014 € m
Cash and cash equivalents	135	175
Equity instruments		
Quoted equity instruments:		
Basic materials	62	70
Consumer goods	206	180
Consumer services	166	148
Energy	91	106
Financials	330	312
Healthcare	172	147
Industrials	178	169
Technology	169	150
Telecoms	53	49
Utilities	47	48
Total quoted equity instruments	1,474	1,379
Unquoted equity instruments	10	10
Total equity instruments	1,484	1,389
Debt instruments		
Quoted debt instruments:		
Corporate bonds	294	169
Government bonds	1,031	869
Total quoted debt instruments	1,325	1,038
Unquoted debt instruments:		
Corporate bonds	53	49
Government bonds	–	28
Total unquoted debt instruments	53	77
Total debt instruments	1,378	1,115
Real estate[1][2]	255	230
Derivatives[2]	23	5
Investment funds		
Quoted investment funds:		
Bonds	421	420
Equity	7	44
Fixed interest	12	10
Forestry	36	34
Multi asset	318	422
Total quoted investment funds	794	930
Total investment funds	794	930
Mortgage backed securities[2]	434	486
Fair value of schemes assets at 31 December	4,503	4,330

[1]Located in Europe.

[2]A quoted market price in an active market is not available.

c Retirement benefits *(continued)*

Long-term disability payments

Allied Irish Banks, p.l.c. provides an additional benefit to employees who suffer prolonged periods of sickness, subject to qualifying terms of the insurer. It provides for the partial replacement of income in the event of illness or injury resulting in the employee's long term absence from work. In 2015, Allied Irish Banks, p.l.c. contributed € 6 million (2014: € 8 million) towards insuring this benefit. This amount is included in administrative expenses (note b).

d Disposal groups and non-current assets held for sale

	2015 € m	2014 € m
Total disposal groups and non-current assets held for sale	**2**	13

Disposal groups and non-current assets held for sale comprise property surplus to requirements.

e Trading portfolio financial assets

	2015 € m	2014 € m
Equity shares	**1**	1
	1	1
Of which unlisted:		
Equity securities	**1**	1
	1	1

f Derivative financial instruments

Details of derivative transactions entered into and their purpose are described in note 24 to the consolidated financial statements.

The following table presents the total notional principal amount of interest rate, exchange rate, equity and credit derivative contracts for 2015 and 2014 together with the positive and negative fair values attaching to those contracts:

	2015 € m	2014 € m
Interest rate contracts[1]		
Notional principal amount	**103,431**	104,693
Positive fair value	**1,561**	1,876
Negative fair value	**(1,873)**	(2,487)
Exchange rate contracts[1]		
Notional principal amount	**6,825**	4,834
Positive fair value	**68**	48
Negative fair value	**(64)**	(74)
Equity contracts[1]		
Notional principal amount	**2,396**	3,010
Positive fair value	**89**	138
Negative fair value	**(89)**	(117)
Credit derivatives[1]		
Notional principal amount	**340**	340
Positive fair value	**–**	–
Negative fair value	**(6)**	(8)
Total notional principal amount	**112,992**	112,877
Positive fair value	**1,718**	2,062
Negative fair value	**(2,032)**	(2,686)

[1]Interest rate, exchange rate and credit derivative contracts are entered into for both hedging and trading purposes. Equity contracts are entered into for trading purposes only.

The following table analyses the notional principal amount and positive fair value of interest rate, exchange rate, equity and credit derivative contracts by residual maturity together with the positive fair value attaching to these contracts where relevant:

	2015				2014			
	< 1 year € m	1 < 5 years € m	5 years + € m	Total € m	< 1 year € m	1 < 5 years € m	5 years + € m	Total € m
Residual maturity								
Notional principal amount	**27,892**	**61,950**	**23,150**	**112,992**	35,196	38,737	38,944	112,877
Positive fair value	**168**	**673**	**877**	**1,718**	125	837	1,100	2,062

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	
	2015 € m	2014 € m	2015 € m	2014 € m
Republic of Ireland	**111,211**	110,487	**1,411**	1,714
United Kingdom	**1,437**	1,915	**284**	321
United States of America	**344**	475	**23**	27
	112,992	112,877	**1,718**	2,062

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 2015 and 2014. A description of how the fair values of derivatives are determined is set out in note 52 to the consolidated financial statements.

	2015			2014		
	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	**44,236**	**912**	**(944)**	46,657	1,134	(1,225)
Cross-currency interest rate swaps	**432**	**56**	**(55)**	629	46	(42)
Interest rate options bought and sold	**689**	**2**	**(3)**	692	3	(4)
Total interest rate derivatives – OTC	**45,357**	**970**	**(1,002)**	47,978	1,183	(1,271)
Interest rate derivatives – OTC – central clearing						
Interest rate swaps	**100**	**–**	**–**	–	–	–
Total interest rate derivatives – central clearing	**100**	**–**	**–**	–	–	–
Interest rate derivatives – exchange traded						
Interest rate futures bought and sold	**2,184**	**–**	**–**	1,706	–	–
Total interest rate derivatives – exchange traded	**2,184**	**–**	**–**	1,706	–	–
Total interest rate derivatives	**47,641**	**970**	**(1,002)**	49,684	1,183	(1,271)
Foreign exchange derivatives – OTC						
Foreign exchange contracts	**6,756**	**67**	**(64)**	4,668	46	(71)
Currency options bought and sold	**69**	**1**	**–**	166	2	(3)
Total foreign exchange derivatives	**6,825**	**68**	**(64)**	4,834	48	(74)
Equity derivatives – OTC						
Equity warrants	**–**	**–**	**–**	23	23	–
Equity index options bought and sold	**2,396**	**89**	**(89)**	2,987	115	(117)
Total equity derivatives	**2,396**	**89**	**(89)**	3,010	138	(117)
Credit derivatives – OTC						
Credit derivatives	**340**	**–**	**(6)**	340	–	(8)
Total credit derivatives	**340**	**–**	**(6)**	340	–	(8)
Total derivatives held for trading	**57,202**	**1,127**	**(1,161)**	57,868	1,369	(1,470)
Derivatives held for hedging						
Derivatives designated as fair value hedges – OTC						
Interest rate swaps	**11,738**	**64**	**(418)**	12,724	151	(587)
Total derivatives designated as fair value hedges	**11,738**	**64**	**(418)**	12,724	151	(587)
Derivatives designated as cash flow hedges – OTC						
Interest rate swaps	**41,627**	**502**	**(348)**	39,171	539	(412)
Cross currency interest rate swaps	**2,371**	**24**	**(105)**	3,114	3	(217)
Total interest rate cash flow hedges – OTC	**43,998**	**526**	**(453)**	42,285	542	(629)
Interest rate cash flow hedges – OTC – central clearing						
Interest rate swaps	**54**	**1**	**–**	–	–	–
Total interest rate cash flow hedges – central clearing	**54**	**1**	**–**	–	–	–
Total derivatives designated as cash flow hedges	**44,052**	**527**	**(453)**	42,285	542	(629)
Total derivatives held for hedging	**55,790**	**591**	**(871)**	55,009	693	(1,216)
Total derivative financial instruments	**112,992**	**1,718**[1]	**(2,032)**[2]	112,877	2,062[1]	(2,686)[2]

[1]Includes exposure to subsidiary undertakings of € 172 million (2014: € 202 million).

[2]Includes amounts due to subsidiary undertakings of € 289 million (2014: € 388 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:

	2015				
	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	**29**	**27**	**160**	**234**	**450**
Forecast payable cash flows	**22**	**29**	**90**	**101**	**242**

	2014				
	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	27	17	85	117	246
Forecast payable cash flows	9	11	53	80	153

The table below sets out the hedged cash flows, including amortisation of terminated cas hflow hedges, which are expected to impact the income statement in the following periods:

	2015				
	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	**29**	**27**	**160**	**234**	**450**
Forecast payable cash flows	**47**	**49**	**126**	**123**	**345**

	2014				
	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	27	17	85	117	246
Forecast payable cash flows	34	32	98	99	263

g Loans and receivables to banks

	2015 € m	2014 € m
Funds placed with central banks	102	101
Funds placed with other banks	21,209	23,010
	21,311	23,111
Of which:		
Due from third parties	1,293	950
Due from subsidiary undertakings[1]	20,018	22,161
	21,311	23,111
Amounts include:		
Reverse repurchase agreements	4,896	3,376

Loans and receivables to banks by geographical area[2]	2015 € m	2014 € m
Republic of Ireland	20,748	22,238
United Kingdom	560	871
United States of America	3	2
	21,311	23,111

[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 € 848 million (2014: € 1,206 million) placed with derivative counterparties in relation to net derivative positions (note ab).

Under reverse repurchase agreements with external and subsidiary counterparties, AIB has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. The collateral received consisted exclusively of non-government securities (bank bonds) with a fair value of € 5,728 million (2014: € 3,494 million). The fair value of collateral sold or repledged amounted to € 4,532 million (2014: € 3,192 million). These transactions were conducted under terms that are usual and customary to standard reverse repurchase agreements.

h Loans and receivables to customers

	2015 € m	2014 € m
Loans and receivables to customers	32,129	36,558
Reverse repurchase agreements	226	110
Amounts receivable under finance leases and hire purchase contracts	488	423
Unquoted debt securities	219	131
Provisions for impairment *(note i)*	(3,562)	(7,564)
	29,500	29,658
Of which:		
Due from third parties	19,630	19,880
Due from subsidiary undertakings[1]	9,870	9,778
	29,500	29,658
Of which repayable on demand or at short notice	17,169	23,273
Amounts include:		
Due from associated undertakings	–	–

[1]Amounts due from subsidiary undertakings may include repurchase agreements.

Under reverse repurchase agreements, AIB has accepted collateral with a fair value of € 222 million (2014: € 107 million) that it is permitted to sell or repledge in the absence of default by the owner of the collateral.

For details of credit quality, refer to note aj 'Credit risk information'.

h Loans and receivables to customers *(continued)*

Amounts receivable under finance leases and hire purchase contracts

The following balances principally comprise of leasing arrangements involving vehicles, plant, machinery and equipment.

	2015 € m	2014 € m
Gross receivables		
Not later than 1 year	**69**	120
Later than one year and not later than 5 years	**439**	334
Later than 5 years	**31**	12
	539	466
Unearned future finance income	**(55)**	(46)
Deferred costs incurred on origination	**4**	3
Total	**488**	423
Present value of minimum payments analysed by residual maturity		
Not later than 1 year	**67**	118
Later than one year and not later than 5 years	**395**	295
Later than 5 years	**26**	10
Present value of minimum payments	**488**	423
Provision for uncollectible minimum payments receivable[1]	**30**	45
Net investment in new business	**274**	219

[1]Included in the provisions for impairment on loans and receivables to customers (note i).

i Provisions for impairment on loans and receivables

The following table shows provisions for impairment on loans and receivables (both to banks and customers). The classification below aligns to the asset classes disclosed in the 'Risk management' section.

	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	2015 Total € m
At 1 January 2015	198	713	4,458	2,195	7,564
Exchange translation adjustments	1	1	15	10	27
Credit to income statement – customers	(41)	(14)	(196)	(250)	(501)
Amounts written off	(22)	(220)	(2,425)	(866)	(3,533)
Recoveries of amounts written off in previous years	–	–	3	2	5
At 31 December 2015	136	480	1,855	1,091	3,562
Total provisions are split as follows:					
Specific	125	436	1,707	955	3,223
IBNR	11	44	148	136	339
	136	480	1,855	1,091	3,562
Amounts include:					
Loans and receivables to customers *(note h)*					3,562

	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	2014 Total € m
At 1 January 2014	221	1,089	6,943	3,018	11,271
Exchange translation adjustments	–	1	25	10	36
Charge against/(credit to) income statement – customers	3	7	(257)	105	(142)
Credit to income statement – banks	–	–	–	(7)	(7)
Amounts written off	(26)	(384)	(2,253)	(933)	(3,596)
Recoveries of amounts written off in previous years	–	–	–	2	2
At 31 December 2014	198	713	4,458	2,195	7,564
Total provisions are split as follows:					
Specific	173	663	4,331	1,899	7,066
IBNR	25	50	127	296	498
	198	713	4,458	2,195	7,564
Amounts include:					
Loans and receivables to customers *(note h)*					7,564

j NAMA senior bonds

During 2010 and 2011, AIB received NAMA senior bonds and NAMA subordinated bonds as consideration for loans and receivables transferred to NAMA.

The following table provides a movement analysis of the NAMA senior bonds:

	2015 € m	2014 € m
At 1 January	9,423	15,598
Amortisation of discount	21	36
Repayments	(3,834)	(6,343)
Acceleration/re-estimation of the timing of cash flows	6	132
At 31 December	5,616	9,423

On initial recognition of the NAMA senior bonds, AIB made certain assumptions as to the timing of expected repayments. These assumptions underpinning the repayments and their timing are subject to continuing review. Accordingly, in 2015, a gain of € 6 million has been recognised following the acceleration of repayments by NAMA (2014: a gain of € 132 million was recognised on re-estimation of expected timing of repayments). These gains were accounted for as adjustments to the carrying value of the bonds and were reflected in 'Other operating income'.

The estimated fair value of the bonds at 31 December 2015 is € 5,626 million (2014: € 9,479 million). The nominal value of the bonds is € 5,643 million (31 December 2014: € 9,477 million). Whilst these bonds do not have an external credit rating, the Group has attributed to them a rating of A– (2014: A–) i.e. the external rating of the Sovereign.

At 31 December 2015, € 1,257 million (2014: € 1,805 million) of NAMA senior bonds have been pledged to central banks and banks (note q).

k Financial investments available for sale

The following table sets out at 31 December 2015 and 2014, the carrying value (fair value) of financial investments available for sale by major classifications together with the unrealised gains and losses:

						2015
	Fair value € m	Unrealised gross gains € m	Unrealised gross losses € m	Net unrealised gains/(losses) € m	Tax effect € m	Net after tax € m
Debt securities						
Irish Government securities	5,406	587	–	587	(73)	514
Euro government securities	3,033	140	(3)	137	(17)	120
Non Euro government securities	245	7	(1)	6	(1)	5
Supranational banks and government agencies	2,008	78	–	78	(10)	68
Collateralised mortgage obligations	328	–	(3)	(3)	1	(2)
Other asset backed securities	1	–	–	–	–	–
Euro bank securities	5,720[1]	81	(38)	43	(5)	38
Euro corporate securities	30	–	–	–	–	–
Non Euro corporate securities	57	3	(2)	1	–	1
Total debt securities	16,828	896	(47)	849	(105)	744
Equity securities						
Equity securities – NAMA subordinated bonds	414	369	–	369	(46)	323
Equity securities – other	268	267	–	267	(88)	179
Total equity securities	682	636	–	636	(134)	502
Total financial investments available for sale	17,510	1,532	(47)	1,485	(239)	1,246

[1]Includes € 1,120 million in respect of subsidiary undertakings.

k Financial investments available for sale *(continued)*

	Fair value € m	Unrealised gross gains € m	Unrealised gross losses € m	Net unrealised gains/(losses) € m	Tax effect € m	2014 Net after tax € m
Debt securities						
Irish Government securities	8,870	1,291	–	1,291	(161)	1,130
Euro government securities	3,631	170	–	170	(21)	149
Non Euro government securities	182	9	–	9	(1)	8
Supranational banks and government agencies	2,852	119	–	119	(15)	104
Collateralised mortgage obligations	99	–	(1)	(1)	–	(1)
Other asset backed securities	1	–	–	–	–	–
Euro bank securities	4,982[1]	105	(66)	39	(5)	34
Non Euro corporate securities	3	–	(1)	(1)	–	(1)
Total debt securities	20,620	1,694	(68)	1,626	(203)	1,423
Equity securities						
Equity securities – NAMA subordinated bonds	358	313	–	313	(39)	274
Equity securities – other	2	1	–	1	–	1
Total equity securities	360	314	–	314	(39)	275
Total financial investments available for sale	20,980	2,008	(68)	1,940	(242)	1,698

[1]Includes € 1,085 million in respect of subsidiary undertakings.

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 (2014: € 1 million) and Nil (2014: € 7 million) on equity securities have been recognised.

Analysis of movements in financial investments available for sale

	2015 Debt securities € m	2015 Equity securities € m	2015 Total € m	2014 Debt securities € m	2014 Equity securities € m	2014 Total € m
At 1 January	**20,620**	**360**	**20,980**	20,049	80	20,129
Exchange translation adjustments	**27**	**–**	**27**	14	–	14
Purchases	**4,257**	**–**	**4,257**	8,474	–	8,474
Sales	**(4,077)**	**–**	**(4,077)**	(8,035)	(15)	(8,050)
Maturities	**(309)**	**–**	**(309)**	(721)	–	(721)
IAS 39 Reclassification out[1]	**(3,487)**	**–**	**(3,487)**	–	–	–
Provisions for impairment	**–**	**–**	**–**	(1)	(7)	(8)
Amortisation of discounts net of premiums	**(98)**	**–**	**(98)**	(74)	–	(74)
Movement in unrealised gains	**(105)**	**322**	**217**	914	302	1,216
At 31 December	**16,828**	**682**	**17,510**	20,620	360	20,980
Of which:						
Listed	**16,828**	**–**	**16,828**	20,620	–	20,620
Unlisted	**–**	**682**	**682**	–	360	360
	16,828	**682**	**17,510**	20,620	360	20,980

[1]Irish Government Securities with a carrying value of € 3,487 million were reclassified from financial investments available for sale to financial investments held to maturity.

Notes to the parent company financial statements

l Financial investments held to maturity

	2015 € m	2014 € m
Government bonds	3,483	–
Total financial investment held to maturity	3,483	–

	Debt securities	
Analysis of movements in financial investments held to maturity	2015 € m	2014 € m
At 1 January	–	–
IAS 39 reclassifications in 2015 *(note k)*	3,487	–
Amortisation of fair value gain	(4)	–
At 31 December	3,483	–

Following a review of the Group's investment strategy, a decision was taken to reclassify a portfolio of Irish Government securities to held to maturity from the available for sale asset portfolio. Government bonds with a fair value of € 3,487 million were reclassified from available for sale to held to maturity in 2015. The reclassification reflects the Group's positive intention and ability to hold these securities to maturity. On the date of reclassification, the accumulated fair value gain held in other comprehensive income was € 549 million. This unrealised gain will be amortised to interest income using the effective income method over the remaining life of the bonds.

Financial investments held to maturity are listed on a recognised stock exchange. Their maturity profile is set out in note ak.

m Investments in Group undertakings

	2015 € m	2014 € m
Equity		
At 1 January	**4,806**	4,559
Liquidations	**–**	(45)[1]
Reversal of impairment	**120**	292
At 31 December	**4,926**	4,806
Subordinated debt		
At 1 January and 31 December	**300**	300
Total	**5,226**	5,106
Of which:		
Credit institutions	**4,397**	4,397
Other	**829**	709
Total – all unquoted	**5,226**	5,106

[1]AIB International Finance preference shares € 45 million were fully repaid during 2014.

The investments in Group undertakings are included in the financial statements on an historical cost basis.

Principal subsidiary undertakings incorporated in the Republic of Ireland

	Nature of business
AIB Mortgage Bank*	Issue of Mortgage Covered Securities
EBS Limited*	Mortgages and savings

*Group interest is held directly by Allied Irish Banks, p.l.c.

The above subsidiary undertakings are incorporated in the Republic of Ireland and are wholly-owned unless otherwise stated. The issued share capital of each undertaking is denominated in ordinary shares.

All regulated banking entities are subject to regulations which require them to maintain capital ratios at agreed levels and so govern the availability of funds available for distribution.

AIB Mortgage Bank

AIB Mortgage Bank is a wholly owned subsidiary of Allied Irish Banks, p.l.c. regulated by the Central Bank of Ireland/Single Supervisory Mechanism. AIB Mortgage Bank is a designated mortgage credit institution for the purposes of the Asset Covered Securities Acts 2001 and 2007 (as amended) and holds a banking authorisation. Its principal purpose is to issue mortgage covered securities for the purpose of financing loans secured on residential property in accordance with the Asset Covered Securities Acts 2001 and 2007.

On 13 February 2006, Allied Irish Banks, p.l.c. transferred to AIB Mortgage Bank its Irish branch originated residential mortgage business, amounting to € 13.6 billion in mortgage loans. In March 2006, AIB Mortgage Bank launched a € 15 billion Mortgage Covered Securities Programme. The Programme was subsequently increased to € 20 billion in 2009.

On 25 February 2011, Allied Irish Banks, p.l.c. transferred substantially all of its mortgage intermediary originated Irish residential loans, related security and related business of approximately € 4.2 billion to AIB Mortgage Bank. The transfer was effected pursuant to the statutory transfer mechanism provided for in the Asset Covered Securities Acts.

Under an Outsourcing and Agency Agreement dated 8 February 2006, Allied Irish Banks, p.l.c., as Service Agent for AIB Mortgage Bank, originates residential mortgage loans through its retail branch network and intermediary channels in the Republic of Ireland, services the mortgage loans and provides treasury services in connection with financing, as well as a range of other support services.

As at 31 December 2015, the total amount of principal outstanding in respect of mortgage covered securities issued by AIB Mortgage Bank was € 7.2 billion (2014: € 7.7 billion) of which € 4.8 billion was held by external debt investors (2014: € 3.8 billion), € 1.1 billion by Allied Irish Banks, p.l.c. (2014: 1.1 billion) and € 1.3 billion was self-issued to AIB Mortgage Bank (2014: € 2.8 billion). The mortgage covered securities issued to Allied Irish Banks, p.l.c. and to AIB Mortgage Bank were held in an Allied Irish Banks, p.l.c. account subject to a fixed charge in favour of the Central Bank of Ireland in support of Eurosystem refinancing operations. As at 31 December 2015, the total amount of principal outstanding of mortgage loans (mortgage credit assets) and cash comprised in AIB Mortgage Bank's cover assets pool was € 13.9 billion (2014: € 15.1 billion).

m Investments in Group undertakings *(continued)*

Principal subsidiary undertakings incorporated in the Republic of Ireland *(continued)*

EBS Limited ("EBS")

EBS (previously EBS Building Society), which is regulated by the Central Bank of Ireland/Single Supervisory Mechanism, became a wholly owned subsidiary of Allied Irish Banks, p.l.c. on 1 July 2011. AIB operates EBS as a standalone, separately branded subsidiary with its own branch network which continues to offer mortgage and savings products.

EBS Group had consolidated total assets of € 13.1 billion as at 31 December 2015. EBS operates in the Republic of Ireland and has a countrywide network of 71 offices and a direct telephone based distribution division, EBS Direct. EBS offers residential mortgages and savings products, together with life and property insurance on an agency basis. EBS also distributes mortgages through Haven Mortgages Limited ('Haven'), a wholly owned subsidiary, to independent mortgage intermediaries.

In December 2007, EBS established Haven, a wholly owned subsidiary focused on mortgage distribution through the intermediary market which, prior to 2005, had not been part of its target market. Haven is authorised by the Central Bank of Ireland/Single Supervisory Mechanism as a retail credit firm under Part V of the Central Bank Act 1997 (as amended). Haven has its own board of directors and the autonomy to grow and establish its business around the needs of its customer (the intermediary). Haven offers a full range of prime mortgages.

In December 2008, EBS established EBS Mortgage Finance, a wholly owned subsidiary which is regulated by the Central Bank of Ireland/Single Supervisory Mechanism. EBS Mortgage Finance is a designated mortgage credit institution for the purposes of the Asset Covered Securities Acts 2001 and 2007 (as amended) and also holds a banking authorisation. Its purpose is to issue Mortgage Covered Securities for the financing of loans secured on residential property in accordance with the Asset Covered Securities legislation. Such loans may be made directly by EBS Mortgage Finance or may be purchased from EBS and other members of the EBS Group or third parties. Between December 2008 and 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 € 8.44 billion. As at 31 December 2015, the total amount of principal outstanding of mortgage loans (mortgage credit assets) and cash comprised in EBS Mortgage Finance's cover assets pool was € 4.2 billion (2014: € 4.7 billion).

In December 2008, EBS Mortgage Finance launched a € 6 billion Mortgage Covered Securities Programme. As at 31 December 2015, the total amount of principal outstanding in respect of mortgage covered securities issued by EBS Mortgage Finance was € 2.4 billion (2014: € 1.85 billion) of which Nil (2014: Nil) was held by external debt investors. EBS held € 2.4 billion (2014: € 1.85 billion).

Prior to its acquisition by AIB, EBS had set up a number of special purpose entities ("SPEs"), namely, Emerald Mortgages No. 4 Public Limited Company; Emerald Mortgages No. 5 Limited; and Mespil 1 RMBS Limited. Loans and receivables which were transferred to these securitisation entities are included in the Group's consolidated loans and receivables and amount to € 2,961 million (2014: € 3,120 million). For further details on these SPEs, see note 50 to the consolidated financial statements.

Principal subsidiary undertaking incorporated outside the Republic of Ireland

	Nature of business
AIB Group (UK) p.l.c. trading as First Trust Bank in Northern Ireland trading as Allied Irish Bank (GB) in Great Britain *Registered office:* 92 Ann Street, Belfast BT1 3AY	Banking and financial services

The above subsidiary undertaking is a wholly-owned subsidiary of Allied Irish Banks, p.l.c.. The registered office is located in the principal country of operation. The issued share capital is denominated in ordinary shares.

AIB Group (UK) p.l.c., a bank registered in the UK and regulated by the Financial Conduct Authority and the Prudential Regulation Authority had consolidated total assets of £ 13 billion at 31 December 2015. It operates in two distinct markets, Great Britain (GB) and Northern Ireland (NI), each with different economies and operating environments. It is the primary legal entity within the segment AIB UK.

m Investments in Group undertakings *(continued)*

Principal subsidiary undertaking incorporated outside the Republic of Ireland

Great Britain (GB)

In this market, the segment operates as Allied Irish Bank (GB) ("AIB GB") out of 16 locations in key cities across Great Britain. AIB GB's strategy is to be a leading provider of full banking services to owner-managed businesses and small corporates who value a high-service relationship in local geographies and in selected sectors. In addition, AIB GB has a committed and unique focus on British Irish trade.

Northern Ireland (NI)

In this market, the segment operates as First Trust Bank ("FTB") which operates out of 30 branches and outlets throughout Northern Ireland. FTB offers a full banking service, including online, mobile and telephone banking to business and personal customers across the range of customer segments, including professionals, high net worth individuals, SMEs, as well as public and corporate sectors.

Guarantees given to subsidiaries by Allied Irish Banks, p.l.c.

Each of the companies listed below, and consolidated into AIB Group's financial statements, have availed of the exemption from filing its individual accounts as set out in Section 357 of the Companies Act 2014. In accordance with the Act, Allied Irish Banks, p.l.c. has irrevocably guaranteed the liabilities of these subsidiaries.

AIB Capital Markets Limited
AIB Corporate Banking Limited
AIB Corporate Finance Limited
AIB Holdings (Ireland) Limited
AIB Finance Limited
AIB International Leasing Limited
AIB Leasing Limited
AIB Services Limited
Allied Irish Banks (Holdings & Investments) Limited
Allied Irish Finance Limited
Allied Irish Nominees Limited
Eyke Limited
Hengram Limited
The Hire Purchase Company of Ireland Limited
Blogram Limited
Sanditon Limited
S. & M. (Limerick) Limited
AIB International Finance
General Estates and Trust Company Limited
AIB Limited
Commdec Limited
Dohcar Limited
Dohhen Limited
Kavwall Limited
Jonent Downs Limited
Skonac
Skobar
Skovale
Skopek
Wallkav Limited
Marro Properties Limited
Ammonite Limited
AIB Capital Exchange Offering 2009 Limited
AIB European Investments Limited
P B Nominees Limited
Alibank Nominees Limited
AIB Combined Leasing Limited
Radstock Limited
Rushwood Holdings Limited
The Royal Bank of Ireland Limited
The Munster and Leinster Bank Limited
Mezzanine Management Limited
Fullplex Management Company Limited
AIB Investment Services Limited
AIB Financial Services Limited
AIB Insurance Services Limited
AIB 24 Hour Services Limited
AIB Commercial Finance Limited
AIB Debt Management Limited

In presenting details of the principal subsidiary undertakings, the exemption permitted by sections 316 and 348 of the Companies Act 2014 and by the European Union (Credit Institutions: Financial Statements) Regulations 2015, has been availed of and Allied Irish Banks, p.l.c. will annex all relevant information, including a full listing of subsidiary undertakings, to its annual return to the Companies Registration Office in accordance with these regulations and the Companies Act 2014.

m Investments in Group undertakings *(continued)*

Letters of financial support given to subsidiaries by Allied Irish Banks, p.l.c.

Allied Irish Banks, p.l.c. has provided letters of financial support to the Board of Directors of the following subsidiaries:

AIB Mortgage Bank
AIB Group (UK) p.l.c.
AIB UK Loan Management Limited
AIB Corporate Leasing Limited
AIB Capital Markets Holdings (UK) Limited
EBS Limited
EBS Mortgage Finance
AIB Holdings (NI) Limited
AIB Film Distribution

Impairment losses reversed in Group undertakings

Allied Irish Banks, p.l.c.'s ('the parent company') investments in Group undertakings are reviewed for impairment at the end of each reporting period if there are indications that impairment may have occurred. In addition, an assessment is carried out where there are indications that impairment losses recognised in prior periods may no longer exist or may have decreased.

The impairment testing for possible impairment involves comparing the recoverable amount of the individual investments with their carrying amount. Where the recoverable amount is less than the carrying amount, the difference is recognised as an impairment charge in the parent company's financial statements.

For previously impaired investments, where the assessment indicates an increase in the recoverable amount, the impairment loss recognised in earlier periods is reversed. However, the carrying amount will only be increased up to the amount that it would have been had the original impairment not been recognised.

At 31 December 2015, the carrying value of investments in the following subsidiary undertakings of the parent company were reviewed for the reversal of impairment:

– AIB Holdings (N.I.) Limited; and
– AIB UK Loan Management Limited.

AIB Holdings (N.I.) Limited

The investment by Allied Irish Banks, p.l.c. in AIB Holdings (N.I.) Limited amounting to € 767 million was written down to Nil in 2011, driven by the negative shareholder reserves in this subsidiary. In 2013, AIB provided a further capital injection of € 243 million (£205 million) to AIB Holdings (N.I.) Limited and at 31 December 2013 this was fully impaired following an impairment assessment as there remained negative shareholder reserves in this company. Following a review in 2015, it was considered that there were not sufficient grounds for reversing previous impairment amounts due to continued negative shareholder reserves.

AIB UK Loan Management Limited

The carrying value of the investment in AIB UK Loan Management Limited, € 965 million (£805 million), was written down to Nil in 2011 as it was expected that all assets would be disposed of at a loss and the business would cease, with no residual value. However, the full planned deleveraging did not transpire and the remaining assets continue to run down in line with their repayment profile with some selective disposals. Against this backdrop, a review at 31 December 2015 was carried out. As a result of positive shareholder reserves in the subsidiary and future expectations, it was considered that there were sufficient indicators to suggest that the reversal of a portion of the previous impairment loss was appropriate. Accordingly, € 120 million (£100 million) of the previous impairment provision was reversed.

2014

EBS Limited ("EBS")

AIB carried out an impairment reversal assessment of its investment in EBS at 31 December 2014. A review of the actual performance and the planning outturn of EBS confirmed that there were strong indications that previous impairments should be reversed in full. The recoverable amount of the investment was determined using cash flow projections based on financial plans approved by the Board and covering the period 2015 to 2017 and a growth rate of 2% from 2018 into perpetuity. The forecast cash flows were discounted at a rate of 10%. Based on these assumptions, the net present value of the investment was determined to be in excess of the carrying value of € 1,480 million. Accordingly, it was considered that a reversal of the impairment provision was appropriate.

This assessment led to the write back of the remaining impairment provision of € 292 million.

n Intangible assets

	2015			2014		
	Software € m	Other € m	Total € m	Software € m	Other € m	Total € m
Cost						
At 1 January	**714**	**3**	**717**	656	3	659
Additions – internally generated	**118**	**–**	**118**	46	–	46
– externally purchased	**37**	**–**	**37**	12	–	12
Amounts written off[1]	**(25)**	**–**	**(25)**	–	–	–
At 31 December	**844**	**3**	**847**	714	3	717
Amortisation/impairment						
At 1 January	**556**	**3**	**559**	497	3	500
Amortisation for the year	**35**	**–**	**35**	43	–	43
Impairment for the year	**–**	**–**	**–**	16	–	16
Amounts written off[1]	**(25)**	**–**	**(25)**	–	–	–
At 31 December	**566**	**3**	**569**	556	3	559
Carrying value at 31 December	**278**	**–**	**278**	158	–	158

[1]Relates to assets which are no longer in use with a Nil carrying value.

Internally generated intangible assets under construction amounted to: € 106 million (31 December 2014: € 40 million).

The cost of internally generated software amounted to: € 438 million (31 December 2014: € 396 million).

o Property, plant and equipment

	Property			Equipment	2015 Total
	Freehold	Long leasehold	Leasehold under 50 years		
	€ m	€ m	€ m	€ m	€ m
Cost					
At 1 January 2015	121	73	92	434	720
Additions	47	1	14	20	82
Transfers	–	2	(5)	3	–
Disposals	–	–	–	(2)	(2)
At 31 December 2015	168	76	101	455	800
Depreciation/impairment					
At 1 January 2015	40	24	50	358	472
Depreciation charge for the year	3	1	6	21	31
Disposals	–	–	–	(2)	(2)
At 31 December 2015	43	25	56	377	501
Carrying value at 31 December 2015	125	51	45	78	299

	Property			Equipment	2014 Total
	Freehold	Long leasehold	Leasehold under 50 years		
	€ m	€ m	€ m	€ m	€ m
Cost					
At 1 January 2014	114	81	93	421	709
Reclassification to disposal groups and non-current assets held for sale	(2)	(8)	–	–	(10)
Additions	9	1	8	27	45
Disposals	–	–	–	(3)	(3)
Amounts written off	–	(1)	(9)	(11)	(21)
At 31 December 2014	121	73	92	434	720
Depreciation/impairment					
At 1 January 2014	36	23	50	348	457
Depreciation charge for the year	3	3	6	20	32
Impairment charge for the year	1	1	3	3	8
Reversal of impairment	–	(2)	–	–	(2)
Disposals	–	–	–	(2)	(2)
Amounts written off	–	(1)	(9)	(11)	(21)
At 31 December 2014	40	24	50	358	472
Net book value at 31 December 2014	81	49	42	76	248

The carrying value of property occupied by Allied Irish Banks, p.l.c. for its own activities was €201 million (2014: € 162 million).

Property and equipment includes € 22 million for items in the course of construction (2014: € 7 million).

p Deferred taxation

	2015 € m	2014 € m
Deferred tax assets:		
Provision for impairment on loans and receivables	–	–
Retirement benefits	45	149
Assets leased to customers	–	–
Unutilised tax losses	2,684	2,807
Amortised income	–	–
Other	46	54
Total gross deferred tax assets	**2,775**	3,010
Deferred tax liabilities:		
Cash flow hedges	(49)	(44)
Amortised income on loans	–	–
Assets used in business	(15)	(13)
Available for sale securities	(277)	(197)
Other	(13)	–
Total gross deferred tax liabilities	**(354)**	(254)
Net deferred tax assets	**2,421**	2,756
Represented on the balance sheet as follows:		
Deferred tax assets	**2,421**	2,756

For each of the years ended 31 December 2015 and 2014, full provision has been made for capital allowances and other temporary differences.

Analysis of movements in deferred taxation	2015 € m	2014 € m
At 1 January	2,756	2,839
Exchange translation and other adjustments	(2)	1
Deferred tax through other comprehensive income	(183)	(4)
Income statement	(150)	(80)
At 31 December	**2,421**	2,756

Comments on the basis of recognition of deferred tax assets on unused tax losses are included in note 2 'Critical accounting judgements and estimates' on pages 244 to 248. Information on the regulatory capital treatment of deferred tax assets is included in 'Principal risks and uncertainties' on page 58.

At 31 December 2015, recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled € 2,421 million (2014: € 2,756 million). The most significant tax losses arise in the Irish tax jurisdiction and their utilisation is dependent on future taxable profits.

Temporary differences recognised in other comprehensive income consist of deferred tax on available for sale securities, cash flow hedges and actuarial gains/losses on retirement benefit schemes. Temporary differences recognised in the income statement consist of provision for impairment on loans and receivables, amortised income, assets leased to customers, and assets used in the course of business.

Notes to the parent company financial statements

q Deposits by central banks and banks

	2015 € m	2014 € m
Central banks		
Eurosystem refinancing operations[1]	2,900	3,400
Other borrowings	50	–
	2,950	3,400
Banks		
Securities sold under agreements to repurchase	10,153	12,733
Other borrowings	6,548	7,004
	16,701	19,737
	19,651	23,137
Of which:		
Due to third parties	13,637	16,560
Due to subsidiary undertakings[2]	6,014	6,577
	19,651	23,137
Amounts include:		
Due to related party	–	–

[1]Euorsystem refinancing operations are credit facilities from the Eurosystem secured by a fixed charge over securities.

[2]Amounts due to subsidiary undertakings may include repurchase agreements.

Details of AIB's sale and repurchase activity are set out in note 50 to the consolidated financial statements.

Allied Irish Banks, p.l.c. has granted a floating charge over certain residential mortgage pools, the drawings against which were Nil at 31 December 2015 (2014: Nil).

Financial assets pledged

(a) Financial assets pledged under existing agreements to repurchase, for secured borrowings, and providing access to future funding facilities with central banks and banks are detailed in the following table:

	2015			2014		
	Central banks € m	Banks € m	Total € m	Central banks € m	Banks € m	Total € m
Total carrying value of financial assets pledged	5,357	10,829	16,186	5,257	13,937	19,194
Of which:						
Government securities[1]	20	8,364	8,384	1,004	9,559	10,563
Other securities	5,337	2,465	7,802	4,253	4,378	8,631

[1]Includes NAMA senior bonds.

(b) The Group has securitised credit card receivables with a carrying value of € 292 million (2014: € 297 million) as described in note ad. Funding of € 200 million was received from external investors and is included above as 'other borrowings' and has been secured on these and future credit card receivables.

r Customer accounts

	2015 € m	2014 € m
Current accounts	19,390	16,191
Demand deposits	8,123	6,589
Time deposits	20,532	25,198
Securities sold under agreements to repurchase[1]	1,084	2,191
	49,129	50,169
Of which:		
Non-interest bearing current accounts	19,082	15,847
Interest bearing deposits, current accounts and short-term borrowings	30,047	34,322
	49,129	50,169
Of which:		
Due to third parties	45,045	45,562
Due to subsidiary undertakings[2]	4,084	4,607
	49,129	50,169
Amounts include:		
Due to associated undertakings	52	75

[1]AIB pledged government available for sale securities with a fair value of € 663 million (2014: € 2,941 million) and non-government available for sale securities with a fair value of € 545 million (2014: € 53 million) as collateral for these facilities and providing access to future funding facilities.

[2]Amounts due to subsidiary undertakings may include repurchase agreements.

s Trading portfolio financial liabilities

	2015 € m	2014 € m
Debt securities:		
Government securities	86	–
	86	–

For contractual residual maturity – see note ak 'Liquidity risk information'.

t Debt securities in issue

	2015 € m	2014 € m
Bonds and medium term notes		
European medium term note programme	1,500	2,572
Other debt securities in issue		
Commercial paper	100	50
	1,600	2,622

Debt securities issued during the year amounted to € 2,022 million (31 December 2014: € 2,697 million) of which € 500 million relates to an EMTN issuance (31 December 2014: € 500 million) with the balance relating to issuances under the short-term commercial paper programme. Debt securities matured or repurchased amounted to € 3,045 million (31 December 2014: € 3,348 million) of which Nil (31 December 2014: € 370 million) relates to securities repurchased as part of a debt buyback programme.

Notes to the parent company financial statements

u Other liabilities

	2015 € m	2014 € m
Items in transit	**16**	9
Creditors	**8**	7
Fair value of hedged liability positions	**21**	55
Other	**220**	246
	265	317

v Provisions for liabilities and commitments

	Liabilities and charges € m	NAMA[1] provisions € m	Onerous[2] contracts € m	Legal claims € m	Other[3] provisions € m	Voluntary severance scheme € m	2015 Total € m
At 1 January	**60**	**33**	**16**	**23**	**90**	**–**	**222**
Transfers in	**–**	**14**	**–**	**–**	**–**	**–**	**14**
Exchange translation adjustments	**–**	**–**	**–**	**–**	**5**	**–**	**5**
Charged to income statement	**11**[4]	**7**[1]	**–**	**3**	**5**	**–**	**26**
Released to income statement	**(22)**[4]	**(12)**[1]	**(5)**	**(2)**	**–**	**–**	**(41)**
Provisions utilised	**–**	**(3)**	**(9)**	**(1)**	**(8)**	**–**	**(21)**
At 31 December	**49**	**39**	**2**	**23**	**92**[5]	**–**	**205**

	Liabilities and charges € m	NAMA[1] provisions € m	Onerous[2] contracts € m	Legal claims € m	Other[3] provisions € m	Voluntary severance scheme € m	2014 Total € m
At 1 January	72	35	22	5	78	3	215
Exchange translation adjustments	(1)	–	–	–	5	–	4
Charged to income statement	1[4]	6[1]	3	20	12	–	42
Released to income statement	(5)[4]	(8)[1]	(4)	(1)	(2)	–	(20)
Provisions utilised	(7)	–	(5)	(1)	(3)	(3)	(19)
At 31 December	60	33	16	23	90[5]	–	222

[1]NAMA income statement charge/(credit) relates to on-going valuation adjustments in relation to loans previously transferred to NAMA.

[2]Provisions for the unavoidable costs expected to arise from the closure of properties surplus to requirements.

[3]Includes provisions for refunds to customers in respect of payment protection insurance, restructuring and reorganisation costs.

[4]Included in charge/(writeback) of provisions for liabilities and commitments in income statement.

[5]Includes € 82 million (2014: € 76 million) due to a subsidiary undertaking.

The total provisions for liabilities and commitments expected to be settled within one year amount to € 55 million (31 December 2014: € 72 million).

w 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 41 to the consolidated financial statements.

x Share capital

The share capital and share premium of Allied Irish Banks, p.l.c. are detailed in note 42 to the consolidated financial statements, all of which relates to Allied Irish Banks, p.l.c..

y Other equity interests

Other equity interests comprise Additional Tier 1 Securities which were issued by Allied Irish Banks, p.l.c. on 3 December 2015. These are detailed in note 44 to the consolidated financial statements.

z Capital reserves and capital redemption reserves

	2015			2014		
Capital reserves	**Capital contribution reserves € m**	**Other capital reserves € m**	**Total € m**	Capital contribution reserves € m	Other capital reserves € m	Total € m
At 1 January	**825**	**156**	**981**	1,389	156	1,545
Transfer to revenue reserves:						
Anglo business transfer	**(285)**	**–**	**(285)**	(470)	–	(470)
CCNs issuance *(note w)*	**(113)**	**–**	**(113)**	(94)	–	(94)
	(398)	**–**	**(398)**	(564)	–	(564)
At 31 December	**427**	**156**	**583**	825	156	981

The capital contribution reserves which arose from the acquisition of Anglo deposit business and EBS and the issue of CCNs are non-distributable on initial recognition but may become distributable as outlined in accounting policy (ab) in note 1 to the consolidated financial statements. The transfers to revenue reserves relate to the capital contributions being deemed distributable.

Capital redemption reserves

All capital redemption reserves are held in Allied Irish Banks p.l.c. and are detailed in note 45 to the consolidated financial statements.

aa Capital contributions

Capital contributions from the Minister for Finance and the NPRFC[1] to Allied Irish Banks p.l.c. are detailed in note 46 to the consolidated financial statements.

[1]Transferred to the Ireland Strategic Investment Fund ("ISIF") on 22 December 2014. Ownership of ISIF vests with the Minister for Finance and is controlled and managed by the NTMA.

ab Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

– are offset in Allied Irish Banks, p.l.c.'s statement of financial position; or

– are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Details of these transactions are set out in note 47 to the consolidated financial statements and apply equally to Allied Irish Banks, p.l.c..

The following table shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements at 31 December 2015 and 2014:

							2015
					Related amounts not offset in the statement of financial position		
Financial assets	Note	Gross amounts of recognised financial assets € m	Gross amounts of recognised financial liabilities offset in the statement of financial position € m	Net amounts of financial assets presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) received € m	Net amount € m
Derivative financial instruments	f	1,399	–	1,399	(1,079)	(341)	(21)
Loans and receivables to banks –							
Reverse repurchase agreements	g	4,896	–	4,896	(5,728)	–	(832)
Loans and receivables to customers –							
Reverse repurchase agreements	h	226	–	226	(222)	–	4
Total		6,521	–	6,521	(7,029)	(341)	(849)

							2015
					Related amounts not offset in the statement of financial position		
Financial liabilities	Note	Gross amounts of recognised financial liabilities € m	Gross amounts of recognised financial assets offset in the statement of financial position € m	Net amounts of financial liabilities presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) pledged € m	Net amount € m
Deposits by central banks and banks –							
Securities sold under agreements to repurchase	q	10,153	–	10,153	(10,571)	(20)	(438)
Customer accounts –							
Securities sold under agreements to repurchase	r	1,084	–	1,084	(1,208)	(1)	(125)
Derivative financial instruments	f	1,894	–	1,894	(1,079)	(888)	(73)
Total		13,131	–	13,131	(12,858)	(909)	(636)

ab Offsetting financial assets and financial liabilities *(continued)*

							2014
			Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		
Financial assets	Note	Gross amounts of recognised financial assets € m	€ m	€ m	Financial instruments € m	Financial collateral (including cash collateral) received € m	Net amount € m
Derivative financial instruments	f	1,665	–	1,665	(1,221)	(450)	(6)
Loans and receivables to banks –							
Reverse repurchase agreements	g	3,376	–	3,376	(3,494)	–	(118)
Loans and receivables to customers –							
Reverse repurchase agreements	h	110	–	110	(107)	–	3
Total		5,151	–	5,151	(4,822)	(450)	(121)

							2014
			Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		
Financial liabilities	Note	Gross amounts of recognised financial liabilities € m	€ m	€ m	Financial instruments € m	Financial collateral (including cash collateral) pledged € m	Net amount € m
Deposits by central banks and banks –							
Securities sold under agreements to repurchase	q	12,733	–	12,733	(13,243)	51	(459)
Customer accounts –							
Securities sold under agreements to repurchase	r	2,191	–	2,191	(2,259)	2	(66)
Derivative financial instruments	f	2,475	–	2,475	(1,221)	(1,276)	(22)
Total		17,399	–	17,399	(16,723)	(1,223)	(547)

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured on the following bases:

- derivative assets and liabilities – fair value;
- loans and receivables to banks – amortised cost;
- loans and receivables to customers – amortised cost;
- deposits by central banks and banks – amortised cost; and
- customer accounts – amortised cost.

ab Offsetting financial assets and financial liabilities *(continued)*

The following table reconciles the 'Net amounts of financial assets and financial liabilities presented in the statement of financial position', as set out in the previous pages, to the line items presented in the statement of financial position at 31 December 2015 and 2014:

				2015
Financial assets	**Net amounts of financial assets presented in the statement of financial position € m**	**Line item in statement of financial position**	**Carrying amount in the statement of financial position € m**	**Financial assets not in scope of offsetting disclosures € m**
Derivative financial instruments	**1,399**	Derivative financial instruments	**1,718**	**319**
Loans and receivables to banks –				
Reverse repurchase agreements	**4,896**	Loans and receivables to banks	**21,311**	**16,415**
Loans and receivables to customers –				
Reverse repurchase agreements	**226**	Loans and receivables to customers	**29,500**	**29,274**

				2015
Financial liabilities	**Net amounts of financial assets presented in the statement of financial position € m**	**Line item in statement of financial position**	**Carrying amount in the statement of financial position € m**	**Financial liabilities not in scope off offsetting disclosures € m**
Deposits by central banks and banks –				
Securities sold under agreements to repurchase	**10,153**	Deposits by central banks and banks	**19,651**	**9,498**
Customer accounts –				
Securities sold under agreements to repurchase	**1,084**	Customer accounts	**49,129**	**48,045**
Derivative financial instruments	**1,894**	Derivative financial instruments	**2,032**	**138**

				2014
Financial assets	Net amounts of financial assets presented in the statement of financial position € m	Line item in statement of financial position	Carrying amount in the statement of financial position € m	Financial assets not in scope of offsetting disclosures € m
Derivative financial instruments	1,665	Derivative financial instruments	2,062	397
Loans and receivables to banks –				
Reverse repurchase agreements	3,376	Loans and receivables to banks	23,111	19,735
Loans and receivables to customers –				
Reverse repurchase agreements	110	Loans and receivables to customers	29,658	29,548

				2014
Financial liabilities	Net amounts of financial assets presented in the statement of financial position € m	Line item in statement of financial position	Carrying amount in the statement of financial position € m	Financial liabilities not in scope of offsetting disclosures € m
Deposits by central banks and banks –				
Securities sold under agreements to repurchase	12,733	Deposits by central banks and banks	23,137	10,404
Customer accounts –				
Securities sold under agreements to repurchase	2,191	Customer accounts	50,169	47,978
Derivative financial instruments	2,475	Derivative financial instruments	2,686	211

ac 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 48 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 48 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	
	2015 € m	2014 € m
Contingent liabilities[1] - credit related		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	**497**	475
Other contingent liabilities	**334**	292
	831	767
Commitments[2]		
Documentary credits and short-term trade-related transactions	**37**	11
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year[3]	**5,992**	6,023
1 year and over[4]	**1,590**	1,210
	7,619	7,244
	8,450[5]	8,011[5]

[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.

[5]Included in exposures are amounts relating to Group subsidiaries of € 239 million (2014: € 265 million).

	Contingent liabilities		Commitments	
	2015 € m	2014 € m	**2015 € m**	2014 € m
Concentration of exposure				
Republic of Ireland	**673**	629	**7,597**	7,160
United Kingdom	**1**	1	**15**	62
United States of America	**157**	137	**7**	22
Total	**831**	767	**7,619**	7,244

Credit ratings

The credit ratings of contingent liabilities and commitments as at 31 December 2015 and 2014 are set out in the following table:

	2015 € m	2014 € m
Good upper	**2,838**	3,150
Good lower	**4,348**	3,635
Watch	**199**	134
Vulnerable	**141**	161
Impaired	**311**	422
Unrated	**613**	509
Total	**8,450**	8,011

ad Transferred financial assets

Allied Irish Banks, p.l.c. enters into transactions in the normal course of business in which it transfers previously recognised financial assets. Transferred financial assets may, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement:*

(i) continue to be recognised in their entirety; or

(ii) be derecognised in their entirety but Allied Irish Banks, p.l.c. retains some continuing involvement.

The most common transactions where the transferred assets are not derecognised in their entirety are sale and repurchase agreements and securitisations. Details of these transactions are set out in note 50 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:

							2015
	Carrying amount of transferred assets	Carrying amount of associated liabilities held by third parties	Carrying amount of associated liabilities held by Group companies	Fair value of transferred assets	Fair value of associated liabilities held by third parties	Fair value of associated liabilities held by Group companies	Net fair value position
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Sale and repurchase agreements	12,677	11,387[1]	–	12,677	11,387	–	1,290
Securitisations:							
Credit card receivables	292	200	92	292	200	92	–

							2014
	Carrying amount of transferred assets	Carrying amount of associated liabilities held by third parties	Carrying amount of associated liabilities held by Group companies	Fair value of transferred assets	Fair value of associated liabilities held by third parties	Fair value of associated liabilities held by Group companies	Net fair value position
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Sale and repurchase agreements	16,931	14,924[1]	–	16,931	14,924	–	2,007
Securitisations:							
Credit card receivables	297	200	97	297	200	97	–

[1] See notes q and r.

(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 50 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 2015, Allied Irish Banks, p.l.c. recognised € 13 million (cumulative € 82 million) (2014: € 16 million (cumulative € 69 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 2015, Allied Irish Banks, p.l.c. recognised € 60 million (cumulative € 456 million) (2014: € 58 million (cumulative € 396 million)) in the income statement for the provision of services under this agreement.

ae 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 ((m) in note 1 to the consolidated financial statements) and financial liabilities ((n) in note 1 to the consolidated financial statements), 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 financial liabilities by category as defined in IAS 39 *Financial Instruments: Recognition and Measurement* and by statement of financial position heading.

								2015
	At fair value through profit and loss		At fair value through equity		At amortised cost			Total
	Held for trading	Fair value hedge derivatives	Cash flow hedge derivatives	Available for sale securities	Loans and receivables	Held to maturity	Other	
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets								
Cash and balances at central banks	–	–	–	–	840	–	493[1]	1,333
Items in the course of collection	–	–	–	–	67	–	–	67
Trading portfolio financial assets	1	–	–	–	–	–	–	1
Derivative financial instruments[2]	1,127	64	527	–	–	–	–	1,718
Loans and receivables to banks[3]	–	–	–	–	21,311	–	–	21,311
Loans and receivables to customers[4]	–	–	–	–	29,500	–	–	29,500
NAMA senior bonds	–	–	–	–	5,616	–	–	5,616
Financial investments available for sale[5]	–	–	–	17,510	–	–	–	17,510
Financial investments held to maturity	–	–	–	–	–	3,483	–	3,483
Other financial assets	–	–	–	–	–	–	452	452
	1,128	64	527	17,510	57,334	3,483	945	80,991
Financial liabilities								
Deposits by central banks and banks[6]	–	–	–	–	–	–	19,651	19,651
Customer accounts[7]	–	–	–	–	–	–	49,129	49,129
Trading portfolio financial liabilities	86	–	–	–	–	–	–	86
Derivative financial instruments[8]	1,161	418	453	–	–	–	–	2,032
Debt securities in issue[9]	–	–	–	–	–	–	1,600	1,600
Subordinated liabilities and other capital instruments	–	–	–	–	–	–	2,318	2,318
Other financial liabilities	–	–	–	–	–	–	229	229
	1,247	418	453	–	–	–	72,927	75,045

[1]Comprises cash on hand.

[2]Includes exposure to subsidiary undertakings of € 172 million.

[3]Includes exposure to subsidiary undertakings of € 20,018 million.

[4]Includes exposure to subsidiary undertakings of € 9,870 million.

[5]Includes exposure to subsidiary undertakings of € 1,120 million.

[6]Includes amounts due to subsidiary undertakings of € 6,014 million.

[7]Includes amounts due to subsidiary undertakings of € 4,084 million.

[8]Includes amounts due to subsidiary undertakings of € 289 million.

[9]Includes amounts due to subsidiary undertakings of Nil.

ae Classification and measurement of financial assets and financial liabilities *(continued)*

							2014
	At fair value through profit and loss		At fair value through equity		At amortised cost		Total
	Held for trading	Fair value hedge derivatives	Cash flow 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	–	–	–	–	928	468[1]	1,396
Items in the course of collection	–	–	–	–	66	–	66
Trading portfolio financial assets	1	–	–	–	–	–	1
Derivative financial instruments[2]	1,369	151	542	–	–	–	2,062
Loans and receivables to banks[3]	–	–	–	–	23,111	–	23,111
Loans and receivables to customers[4]	–	–	–	–	29,658	–	29,658
NAMA senior bonds	–	–	–	–	9,423	–	9,423
Financial investments available for sale[5]	–	–	–	20,980	–	–	20,980
Other financial assets	–	–	–	–	–	412	412
	1,370	151	542	20,980	63,186	880	87,109
Financial liabilities							
Deposits by central banks and banks[6]	–	–	–	–	–	23,137	23,137
Customer accounts[7]	–	–	–	–	–	50,169	50,169
Derivative financial instruments[8]	1,470	587	629	–	–	–	2,686
Debt securities in issue[9]	–	–	–	–	–	2,622	2,622
Subordinated liabilities and other capital instruments	–	–	–	–	–	1,451	1,451
Other financial liabilities	–	–	–	–	–	244	244
	1,470	587	629	–	–	77,623	80,309

[1]Comprises cash on hand.

[2]Includes exposure to subsidiary undertakings of € 202 million.

[3]Includes exposure to subsidiary undertakings of € 22,161 million.

[4]Includes exposure to subsidiary undertakings of € 9,778 million.

[5]Includes exposure to subsidiary undertakings of € 1,085 million.

[6]Includes amounts due to subsidiary undertakings of € 6,577 million.

[7]Includes amounts due to subsidiary undertakings of € 4,607 million.

[8]Includes amounts due to subsidiary undertakings of € 388 million.

[9]Includes amounts due to subsidiary undertakings of Nil.

af Fair value of financial instruments

The tables on the following pages set out the carrying amount in the statement of financial position of financial assets and financial liabilities distinguishing between those measured at fair value and those measured at amortised cost. In addition, the fair value of all financial assets and financial liabilities is shown setting out the fair value hierarchy as described below into which the fair value measurement is categorised:

Level 1 – financial assets and liabilities measured using quoted market prices from an active market (unadjusted).

Level 2 – financial assets and liabilities measured using valuation techniques which use quoted market prices from an active market or measured using quoted market prices unadjusted from an inactive market.

Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable market data.

Readers of these financial statements are advised to use caution when using the data in the following tables to evaluate the financial position of Allied Irish Banks, p.l.c. or to make comparisons with other institutions. Fair value information is not provided for items that do not meet the definition of a financial instrument. These items include intangible assets such as the value of the branch network and the long-term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the Company as a going concern at 31 December 2015.

af Fair value of financial instruments *(continued)*

2015

	Carrying amount	Fair value			
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
	€ m	€ m	€ m	€ m	€ m
Financial assets measured at fair value					
Trading portfolio financial assets					
Equity securities	1	–	1	–	1
Derivative financial instruments					
Interest rate derivatives	1,561	–	1,237	324	1,561
Exchange rate derivatives	68	–	68	–	68
Equity derivatives	89	–	50	39	89
Financial investments available for sale					
Government securities	8,684	8,533	151	–	8,684
Supranational banks and government agencies	2,008	2,008	–	–	2,008
Asset backed securities	329	328	1	–	329
Bank securities	5,720	4,600	1,120	–	5,720
Corporate securities	87	76	–	11	87
Equity securities	682	–	–	682	682
	19,229	15,545	2,628	1,056	19,229
Financial assets not measured at fair value					
Cash and balances at central banks	1,333	493[1]	840	–	1,333
Items in the course of collection	67	–	–	67	67
Loans and receivables to banks	21,311	–	102	21,209	21,311
Loans and receivables to customers	29,500	–	–	29,283	29,283
NAMA senior bonds	5,616	–	–	5,626	5,626
Financial investments held to maturity	3,483	3,479	–	–	3,479
Other financial assets	452	–	–	452	452
	61,762	3,972	942	56,637	61,551
Financial liabilities measured at fair value					
Trading portfolio financial liabilities					
Debt securities	86	86	–	–	86
Derivative financial instruments					
Interest rate derivatives	1,873	–	1,655	218	1,873
Exchange rate derivatives	64	–	64	–	64
Equity derivatives	89	–	51	38	89
Credit derivatives	6	–	6	–	6
	2,118	86	1,776	256	2,118
Financial liabilities not measured at fair value					
Deposits by central banks and banks					
Other borrowings	6,598	–	–	6,598	6,598
Secured borrowings	13,053	–	2,903	10,153	13,056
Customer accounts					
Current accounts	19,390	–	–	19,390	19,390
Demand deposits	8,123	–	–	8,123	8,123
Time deposits	20,532	–	–	20,623	20,623
Securities sold under agreements to repurchase	1,084	–	–	1,084	1,084
Debt securities in issue					
Bonds and medium term notes	1,500	1,542	–	–	1,542
Other debt securities in issue	100	–	100	–	100
Subordinated liabilities and other capital instruments	2,318	758	1,778	–	2,536
Other financial liabilities	229	–	–	229	229
	72,927	2,300	4,781	66,200	73,281

[1]Comprises cash on hand.

af Fair value of financial instruments *(continued)*

	Carrying amount	Fair value			
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
	€ m	€ m	€ m	€ m	€ m
Financial assets measured at fair value					
Trading portfolio financial assets					
Equity securities	1	–	1	–	1
Derivative financial instruments					
Interest rate derivatives	1,876	–	1,501	375	1,876
Exchange rate derivatives	48	–	48	–	48
Equity derivatives	138	–	53	85	138
Financial investments available for sale					
Government securities	12,683	12,537	146	–	12,683
Supranational banks and government agencies	2,852	2,852	–	–	2,852
Asset backed securities	100	99	1	–	100
Bank securities	4,982	3,898	1,084	–	4,982
Corporate securities	3	–	–	3	3
Equity securities	360	–	1	359	360
	23,043	19,386	2,835	822	23,043
Financial assets not measured at fair value					
Cash and balances at central banks	1,396	468[1]	928	–	1,396
Items in the course of collection	66	–	–	66	66
Loans and receivables to banks	23,111	–	101	23,010	23,111
Loans and receivables to customers	29,658	–	–	29,586	29,586
NAMA senior bonds	9,423	–	–	9,479	9,479
Other financial assets	412	–	–	412	412
	64,066	468	1,029	62,553	64,050
Financial liabilities measured at fair value					
Derivative financial instruments					
Interest rate derivatives	2,487	–	2,277	210	2,487
Exchange rate derivatives	74	–	74	–	74
Equity derivatives	117	–	56	61	117
Credit derivatives	8	–	8	–	8
	2,686	–	2,415	271	2,686
Financial liabilities not measured at fair value					
Deposits by central banks and banks					
Other borrowings	7,004	–	–	7,004	7,004
Secured borrowings	16,133	–	3,400	12,733	16,133
Customer accounts					
Current accounts	16,191	–	–	16,191	16,191
Demand deposits	6,589	–	–	6,589	6,589
Time deposits	25,198	–	–	25,412	25,412
Securities sold under agreements to repurchase	2,191	–	–	2,191	2,191
Debt securities in issue					
Bonds and medium term notes	2,572	2,600	24	–	2,624
Other debt securities in issue	50	–	50	–	50
Subordinated liabilities and other capital instruments	1,451	–	1,831	–	1,831
Other financial liabilities	244	–	–	244	244
	77,623	2,600	5,305	70,364	78,269

[1]Comprises cash on hand.

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af Fair value of financial instruments *(continued)*

Significant transfers between Level 1 and Level 2 of the fair value hierarchy

The following table shows transfers between Level 1 and Level 2 of the fair value hierarchy for the years ended 31 December 2015 and 2014:

	2015			2014		
Financial assets	**Trading portfolio € m**	**Debt securities € m**	**Total € m**	Trading portfolio € m	Debt securities € m	Total € m
Transfer into Level 2 from Level 1	**–**	**–**	**–**	–	1	1[(1)]

[(1)]Transfers into Level 2 from Level 1 occurred due to reduced availability of reliable quoted market prices.

af Fair value of financial instruments *(continued)*

Reconciliation of balances in Level 3 of the fair value hierarchy

The following tables show a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy for 2015 and 2014:

	2015					
	Financial assets				Financial liabilities	
	Derivatives	Available for sale		Total	Derivatives	Total
		Debt securities	Equity securities			
	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2015	**460**	**3**	**359**	**822**	**271**	**271**
Total gains or (losses) in:						
Other comprehensive income						
– Net change in fair value of financial investments available for sale	**–**	**(2)**	**323**	**321**	**–**	**–**
– Net change in fair value of cash flow hedges	**–**	**–**	**–**	**–**	**19**	**19**
Purchases	**–**	**10**	**–**	**10**	**–**	**–**
Settlements[2]	**(97)**	**–**	**–**	**(97)**	**(34)**	**(34)**
At 31 December 2015	**363**	**11**	**682**	**1,056**	**256**	**256**

	2014					
	Financial assets				Financial liabilities	
	Derivatives	Available for sale		Total	Derivatives	Total
		Debt securities	Equity securities			
	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2014	279	12	70	361	84	84
Transfers into Level 3[1]	104	3	–	107	119	119
Total gains or (losses) in:						
Other comprehensive income						
– Net change in fair value of financial investments available for sale	–	–	294	294	–	–
– Net change in fair value of cash flow hedges	2	–	–	2	30	30
Sales	–	(12)	(5)	(17)	–	–
Settlements[2]	75	–	–	75	38	38
At 31 December 2014	460	3	359	822	271	271

[1]Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

[2]Includes gains and losses recognised in 'Net trading income/(loss)'. In addition, for unrealised gains or losses at 31 December 2015, see table below.

Transfers into Level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these instruments.

The following table shows total gains or losses included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at 31 December 2015 and 2014:

	2015 € m	2014 € m
Net trading income	**54**	124
Total	**54**	124

af Fair value of financial instruments *(continued)*

Significant unobservable inputs

The table below sets out information about significant unobservable inputs used at the years ended 31 December 2015 and 2014 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

		Fair Value				Range of estimates	
Financial instrument		**2015 € m**	2014 € m	**Valuation technique**	**Significant unobservable inputs**	**2015**	2014
Uncollaterised customer derivatives	Asset	**363**	460	CVA	LGD	**47% – 73% (Base 55%)**	46% – 73% (Base 55%)
	Liability	**256**	271		PD	**1.0% – 1.6% (Base 1.3% 1 year PD)**	0.9% – 1.4% (Base 1.1% 1 year PD)
					Combination LGD and PD[1]	As above with greater unfavourable impact due to combination of PD and LGD changes	As above with greater unfavourable impact due to combination of PD and LGD changes
				FVA	Funding spreads	**(0.4%) – 0.5%**	(0.3%) – 0.8%

[1]The fair value measurement sensitivity to unobservable inputs ranges from negative € 44 million to positive € 23 million (2014: negative € 37 million to positive € 21 million).

A number of other derivatives are subject to valuation methodologies which use unobservable inputs. As the variability of the valuation is not greater that € 1 million in any individual case or collectively, the detail is not disclosed here.

NAMA subordinated bonds	Asset	**414**	358	Discounted cash flows	NAMA profitability i.e. ability to generate cash flow for repayment	Discount rate of 9% applicable to base asset price. The estimates range from: (a) NAMA making full 5.26% coupon payments; to (b) an early full repayment of coupons plus capital (March 2019).	Discount rate of 12% applicable to base asset price. The estimates range from: (a) NAMA making 50% of total 5.26% coupon payments; to (b) an early full repayment of coupons plus capital (March 2018) at a reduced discount rate.

Visa Europe: In relation to the proposed sale of 100% shares of Visa Europe to Visa Inc., and based on information received from Visa Europe, Allied Irish Banks, p.l.c., as holder of shares in Visa Europe, will receive consideration with an estimated fair value of €266 million, comprising cash (59%) and preferred stock in Visa Inc (41%), which has resulted in a fair value gain of €266 million. The amount of consideration is not yet final and can be amended as a consequence of transaction costs, contractual clauses and successful members' appeals. The preferred stock will be convertible into Class A Common Stock of Visa Inc at some point in the future. The conversion is subject to certain Visa Europe litigation risks that may affect the ultimate conversion rate.

The transaction is expected to be finalised by June 2016, at which stage the fair value gains will be taken to the income statement.

Financial instrument		**2015 € m**	**2014 € m**	**Valuation technique**	**Significant unobservable inputs**	**Range of estimates 2015**	
Visa Europe	Asset	**266**	–	Estimated proceeds after applying a discount for the illiquidity and the conversion rate variability of the preferred stock of Visa Inc.	Fair value of preferred stock of Visa Inc.	Estimated proceeds with no discount for the illiquidity and the conversion rate variability of the preferred stock of Visa Inc.	Estimated proceeds after applying a 50% discount for the illiquidity and the conversion rate variability of the preferred stock of Visa Inc.

af Fair value of financial instruments *(continued)*

Sensitivity of Level 3 measurements

The implementation of valuation techniques involves a considerable degree of judgement. While the Company believes its estimates of fair value are appropriate, the use of different measurements or assumptions could lead to different fair values. The following table sets out the impact of using reasonably possible alternative assumptions in the valuation methodology at 31 December 2015 and 2014:

	2015			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Derivative financial instruments	29	(43)	–	–
Financial investments available for sale – equity securities	–	–	25	(98)
Total	29	(43)	25	(98)
Classes of financial liabilities				
Derivative financial instruments	2	(9)	–	–
Total	2	(9)	–	–

	2014			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Derivative financial instruments	25	(46)	–	–
Financial investments available for sale – equity securities	–	–	57	(53)
Total	25	(46)	57	(53)
Classes of financial liabilities				
Derivative financial instruments	2	(7)	–	–
Total	2	(7)	–	–

Day 1 gain or loss:

No difference existed between the fair value of financial instruments at initial recognition and the amount that was determined at that date using a valuation technique incorporating significant unobservable data.

ag Statement of cash flows

Non-cash and other items included in profit before taxation

Non-cash items	2015 € m	2014 € m
Profit on disposal of property, plant and equipment	**(3)**	(3)
Profit on disposal/transfer of loans and receivables	**(18)**	(52)
Dividends received from equity securities	**(24)**	(24)
Dividends received from subsidiary companies	**–**	(1)
Dividends received from associated undertakings	**(13)**	(5)
Writeback for impairment of subsidiary undertakings	**(120)**	(292)
Writeback of provisions for impairment on loans and receivables	**(501)**	(149)
Writeback of provisions for liabilities and commitments	**(11)**	(4)
Provisions/(writeback) for impairment on financial investments available for sale	**–**	8
Change in other provisions	**10**	28
Retirement benefits – defined benefit expense	**25**	6
Termination benefits	**–**	(3)
Depreciation, amortisation and impairment	**66**	97
Interest on subordinated liabilities and other capital instruments	**278**	256
Net loss on buy back of debt securities in issue	**–**	9
Profit on disposal of financial investments available for sale	**(126)**	(352)
Loss on termination of hedging swaps	**81**	208
Remeasurement of NAMA senior bonds	**(6)**	(132)
Amortisation of premiums and discounts	**81**	38
Fair value gain on realisation/re-estimation of cash flows on loans and receivables previously restructured	**(1)**	–
Income from settlement of claim	**(38)**	–
Change in prepayments and accrued income	**16**	85
Change in accruals and deferred income	**(67)**	(170)
Effect of exchange translation and other adjustments[1]	**(311)**	(53)
Total non-cash items	**(682)**	(505)
Contributions to defined benefit pension schemes	**(83)**	(84)
Dividends received from equity securities	**24**	24
Total other items	**(59)**	(60)
Non-cash and other items for the year	**(741)**	(565)

[1]The impact of foreign exchange translation for each line of the statement of financial position is removed in order to show the underlying cash impact.

ag Statement of cash flows *(continued)*

Change in operating assets[1]	2015 € m	2014 € m
Change in loans and receivables to customers	**1,369**	3,038
Change in NAMA senior bonds	**3,834**	6,343
Change in loans and receivables to banks	**1,721**	1,069
Change in trading portfolio financial assets	**–**	1
Change in derivative financial instruments	**(330)**	(305)
Change in items in course of collection	**(1)**	13
Change in other assets	**(53)**	(6)
	6,540	10,153

Change in operating liabilities[1]	2015 € m	2014 € m
Change in deposits by central banks and banks	**(3,759)**	(6,388)
Change in customer accounts[2]	**(1,443)**	(3,420)
Change in trading portfolio financial liabilities	**86**	–
Change in debt securities in issue	**(1,022)**	(649)
Change in other liabilities	**(46)**	(83)
	(6,184)	(10,540)

[1]The impact of foreign exchange translation for each line of the statement of financial position is removed in order to show the underlying cash impact.

[2]Includes deposits placed by NTMA of € 399 million (2014: € 3,324 million).

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:

	2015 € m	2014 € m
Cash and balances at central banks	**1,333**	1,396
Loans and receivables to banks	**539**	846
	1,872	2,242

Notes to the parent company financial statements

ah 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 54 to the consolidated financial statements.

ai Commitments

Capital expenditure	2015 € m	2014 € m
Estimated outstanding commitments for capital expenditure not provided for in the financial statements	7	16
Capital expenditure authorised but not yet contracted for	34	33

Operating lease rentals

The total of future minimum lease payments under non-cancellable operating leases are set out in the following table.

	2015 € m	2014 € m
One year	45	49
One to two years	32	45
Two to three years	16	31
Three to four years	16	17
Four to five years	15	16
Over five years	113	130
Total	237	288

Operating lease payments recognised as an expense for the year were € 51 million (2014: € 46 million). Sublease income amounted to Nil (2014: Nil). Included in the lease payments to other Group subsidiaries is € 37 million (2014: € 35 million). Future minimum lease payments due to subsidiaries of Allied Irish Banks, p.l.c. amount to € 41 million excluding VAT (2014: € 77 million excluding VAT) and are included in the total of € 237 million in 2015 (2014: € 288 million).

aj Credit risk information

The following table sets out the maximum exposure to credit risk that arises within Allied Irish Banks, p.l.c. and distinguishes between those assets that are carried in the statement of financial position at amortised cost and those carried at fair value at 31 December 2015 and 2014:

	2015			2014		
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]	**840**	**–**	**840**	928	–	928
Items in course of collection	**67**	**–**	**67**	66	–	66
Derivative financial instruments[4]	**–**	**1,718**	**1,718**	–	2,062	2,062
Loans and receivables to banks[5]	**21,311**	**–**	**21,311**	23,111	–	23,111
Loans and receivables to customers[6]	**29,500**	**–**	**29,500**	29,658	–	29,658
NAMA senior bonds	**5,616**	**–**	**5,616**	9,423	–	9,423
Financial investments available for sale[7]	**–**	**16,828**	**16,828**	–	20,620	20,620
Financial investments held to maturity	**3,483**	**–**	**3,483**	–	–	–
Other assets:						
Trade receivables	**100**	**–**	**100**	46	–	46
Accrued interest[8]	**352**	**–**	**352**	366	–	366
	61,269	**18,546**	**79,815**	63,598	22,682	86,280
Financial guarantees	**831**	**–**	**831**	767	–	767
Loan commitments and other credit related commitments	**7,619**	**–**	**7,619**	7,244	–	7,244
	8,450	**–**	**8,450[9]**	8,011	–	8,011[9]
Total	**69,719**	**18,546**	**88,265**	71,609	22,682	94,291

[1]All amortised cost items are 'loans and receivables' per IAS 39 *Financial Instruments: Recognition and Measurement* 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 € 1,333 million (2014: € 1,396 million).

[4]Exposures to subsidiary undertakings of € 172 million (2014: € 202 million) have been included.

[5]Exposures to subsidiary undertakings of € 20,018 million (2014: € 22,161 million) have been included.

[6]Exposures to subsidiary undertakings of € 9,870 million (2014: € 9,778 million) have been included.

[7]Excluding equity shares of € 682 million (2014: € 360 million).

[8]Exposures to subsidiary undertakings of € 12 million (2014: € 8 million) have been included.

[9]Exposures to subsidiary undertakings of € 239 million (2014: € 265 million) have been included.

aj Credit risk information *(continued)*

Collateral

Allied Irish Banks, p.l.c. takes collateral as a secondary source of repayment in the event of a borrower's default. The nature of collateral taken is set out on page 69. The information contained in this note relates only to third party exposures arising within Allied Irish Banks, p.l.c..

Collateral for the non-mortgage portfolio*

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

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

Collateral for the residential mortgage portfolio

For residential mortgages, Allied Irish Banks, p.l.c. 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. Allied Irish Banks, p.l.c. adjusts open market property values to take account of the costs of realisation and any discount associated with the realisation of collateral. The fair value at 31 December 2015 is based on property values at origination or date of latest valuation and applying the CSO (Ireland) index to these values to take account of price movements in the interim.

Summary of risk mitigants by selected portfolios

Set out below are details of risk mitigants used by Allied Irish Banks, p.l.c. in relation to financial assets detailed in the maximum exposure to credit risk table on page 391.

Loans and receivables to customers - residential mortgages

The following table shows the fair value of collateral held for the residential mortgages portfolio at 31 December 2015 and 2014:

	2015				2014			
	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%	**193**	**6**	**15**	**214**	167	7	11	185
50% - 70%	**192**	**6**	**25**	**223**	165	5	18	188
71% - 80%	**126**	**3**	**22**	**151**	92	3	21	116
81% - 90%	**139**	**2**	**33**	**174**	121	3	29	153
91% - 100%	**150**	**8**	**58**	**216**	138	11	88	237
	800	**25**	**153**	**978**	683	29	167	879
Partially collateralised								
Collateral value relating to loans over 100% loan-to-value	**410**	**12**	**121**	**543**	540	16	172	728
Total collateral value	**1,210**	**37**	**274**	**1,521**	1,223	45	339	1,607
Gross residential mortgages	**1,282**	**39**	**298**	**1,619**	1,357	47	397	1,801
Statement of financial position specific provisions			**(125)**	**(125)**			(173)	(173)
Statement of financial position IBNR provisions				**(11)**				(25)
Net residential mortgages			**173**	**1,483**			224	1,603

[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.

aj Credit risk information *(continued)*

Loans and receivables to customers - other

In addition to the credit risk mitigants outlined above, Allied Irish Banks, p.l.c. holds reverse repurchase agreements amounting to € 226 million (2014: € 110 million) in its loans and receivables portfolio for which it had accepted collateral of € 222 miilion (2014: € 107 million).

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 2015, repurchase agreements amounted to € 649 million (2014: Nil) for which Allied Irish Banks, p.l.c. had accepted collateral of € 737 million (2014: Nil).

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 2015 have a carrying value of € 5,616 million (2014: € 9,423 million).

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 2015 amounted to € 1,718 million (2014: € 2,062 million) and those with negative fair value are reported as liabilities which at 31 December 2015 amounted to € 2,032 million (2014: € 2,686 million).

The enforcement of netting agreements would potentially reduce the statement of financial position carrying amount of derivative assets and liabilities by € 1,079 million at 31 December 2015 (2014: € 1,221 million). Allied Irish Banks, p.l.c. also has Credit Support Annexes ("CSAs") in place which provide collateral for derivative contracts. As at 31 December 2015, € 888 million (2014: € 1,276 million) of CSAs are included within financial assets as collateral for derivative liabilities and € 341 million (2014: € 450 million) of CSAs are included within financial liabilities as collateral for derivative assets (note ab). Additionally, Allied Irish Banks, p.l.c. has agreements in place which may allow it to net the termination values of cross currency swaps upon occurrence of an event of default.

Financial investments available for sale

At 31 December 2015, government guaranteed senior bank debt amounting to € 174 million (2014: € 120 million) was held within the available for sale portfolio.

aj Credit risk information *(continued)*

The information contained in this note relates only to third party exposures arising within Allied Irish Banks, p.l.c..

The following table shows loans and receivables to customers by industry sector and geography at 31 December 2015 and 2014:

			2015		
	Total		Analysed geographically[1]		
Loans and receivables to customers	€ m	%	Republic of Ireland € m	United Kingdom € m	Rest of the World € m
Agriculture	1,644	7.1	1,644	–	–
Energy	214	0.9	198	15	1
Manufacturing	876	3.8	792	9	75
Property and construction	7,818	33.6	7,818	–	–
Distribution	4,087	17.5	4,064	23	–
Transport	588	2.5	575	13	–
Financial	778	3.3	695	79	4
Other services	2,511	10.8	2,422	48	41
Personal:					
Residential mortgages	1,619	7.0	1,619	–	–
Other	3,142	13.5	3,142	–	–
Gross loans and receivables	23,277	100.0	22,969	187	121
Analysed as to:					
Neither past due nor impaired	16,609				
Past due but not impaired	832				
Impaired – provisions held	5,836				
	23,277				
Unearned income	(89)				
Deferred costs	4				
Provisions for impairment	(3,562)				
Total	19,630[2]				

[1]Based on booking office.

[2]Excludes intercompany balances of € 9,870 million.

aj Credit risk information *(continued)*

	2014				
	Total		Analysed geographically[1]		
			Republic of Ireland	United Kingdom	Rest of the World
Loans and receivables to customers	€ m	%	€ m	€ m	€ m
Agriculture	1,700	6.2	1,700	–	–
Energy	221	0.8	203	17	1
Manufacturing	759	2.8	740	19	–
Property and construction	11,167	40.6	10,943	224	–
Distribution	4,824	17.5	4,708	116	–
Transport	574	2.1	538	36	–
Financial	608	2.2	514	91	3
Other services	2,452	8.9	2,343	66	43
Personal:					
Residential mortgages	1,801	6.5	1,801	–	–
Other	3,423	12.4	3,423	–	–
Gross loans and receivables	27,529	100.0	26,913	569	47
Analysed as to:					
Neither past due nor impaired	14,967				
Past due but not impaired	1,073				
Impaired – provisions held	11,489				
	27,529				
Unearned income	(88)				
Deferred costs	3				
Provisions for impairment	(7,564)				
Total	19,880[2]				

[1]Based on booking office.

[2]Excludes intercompany balances of € 9,778 million.

aj Credit risk information *(continued)*

Impaired loans by geographic location and industry sector

The following table presents an analysis of impaired loans and receivables to customers for Allied Irish Banks, p.l.c. at 31 December 2015 and 2014:

	2015			
	Total	Analysed geographically[1]		
		Republic of Ireland	United Kingdom	Rest of the World
	€ m	€ m	€ m	€ m
Agriculture	164	164	–	–
Energy	36	36	–	–
Manufacturing	117	117	–	–
Property and construction	3,160	3,160	–	–
Distribution	868	868	–	–
Transport	54	36	18	–
Financial	135	135	–	–
Other services	373	373	–	–
Personal:				
Residential mortgages	298	298	–	–
Other	631	631	–	–
Total	5,836	5,818	18	–

	2014			
	Total	Analysed geographically[1]		
		Republic of Ireland	United Kingdom	Rest of the World
	€ m	€ m	€ m	€ m
Agriculture	291	291	–	–
Energy	80	80	–	–
Manufacturing	176	176	–	–
Property and construction	6,936	6,795	141	–
Distribution	1,816	1,816	–	–
Transport	90	66	24	–
Financial	168	168	–	–
Other services	562	562	–	–
Personal:				
Residential mortgages	397	397	–	–
Other	973	973	–	–
Total	11,489	11,324	165	–

[1]Based on booking office.

aj Credit risk information *(continued)*

Aged analysis of contractually past due but not impaired gross loans

The following table presents by industry sector an aged analysis of contractually past due but not impaired loans and receivables to customers for Allied Irish Banks, p.l.c. at 31 December 2015 and 2014:

	1 – 30 days € m	31 – 60 days € m	61 – 90 days € m	91 – 180 days € m	181 – 365 days € m	> 365 days € m	2015 Total € m
Agriculture	51	21	2	8	5	39	126
Energy	1	–	–	–	–	2	3
Manufacturing	5	2	–	1	–	2	10
Property and construction	88	34	11	35	42	103	313
Distribution	50	14	8	12	6	31	121
Transport	4	–	–	–	–	2	6
Financial	1	–	–	–	1	–	2
Other services	24	16	6	8	7	13	74
Personal:							
Residential mortgages	12	5	2	6	5	9	39
Credit cards	30	5	3	2	1	–	41
Other	34	17	5	11	6	24	97
Total	300	114	37	83	73	225	832
As a percentage of total loans[1]	1.3%	0.5%	0.1%	0.4%	0.3%	1.0%	3.6%

	1 – 30 days € m	31 – 60 days € m	61 – 90 days € m	91 – 180 days € m	181 – 365 days € m	> 365 days € m	2014 Total € m
Agriculture	48	8	3	9	15	40	123
Energy	–	–	–	–	–	3	3
Manufacturing	19	4	–	1	1	8	33
Property and construction	84	22	19	43	52	147	367
Distribution	55	16	7	27	31	30	166
Transport	5	1	–	–	–	3	9
Financial	2	–	–	–	–	–	2
Other services	58	24	3	10	11	24	130
Personal:							
Residential mortgages	11	6	8	7	9	6	47
Credit cards	29	7	4	3	1	–	44
Other	44	14	12	17	14	48	149
Total	355	102	56	117	134	309	1,073
As a percentage of total loans[1]	1.3%	0.4%	0.2%	0.4%	0.5%	1.1%	3.9%

[1]Total loans (excluding intercompany) are gross of impairment provisions and unearned income.

aj Credit risk information *(continued)*

Provisions for impairment by geographic location and industry sector

The following table presents by industry sector an analysis of provisions for impairment on loans and receivables to customers for Allied Irish Banks, p.l.c. at 31 December 2015 and 2014:

	2015			
	Total	Analysed geographically[1]		
		Republic of Ireland	United Kingdom	Rest of the World
	€ m	€ m	€ m	€ m
Agriculture	71	71	–	–
Energy	14	14	–	–
Manufacturing	72	72	–	–
Property and construction	1,707	1,707	–	–
Distribution	451	451	–	–
Transport	51	33	18	–
Financial	55	55	–	–
Other services	241	241	–	–
Personal:				
Residential mortgages	125	125	–	–
Other	436	436	–	–
Specific	3,223	3,205	18	–
IBNR	339	339	–	–
Total	3,562	3,544	18	–

	2014			
	Total	Analysed geographically[1]		
		Republic of Ireland	United Kingdom	Rest of the World
	€ m	€ m	€ m	€ m
Agriculture	176	176	–	–
Energy	37	37	–	–
Manufacturing	108	108	–	–
Property and construction	4,331	4,243	88	–
Distribution	1,058	1,058	–	–
Transport	62	39	23	–
Financial	90	90	–	–
Other services	368	368	–	–
Personal:				
Residential mortgages	173	173	–	–
Other	663	663	–	–
Specific	7,066	6,955	111	–
IBNR	498	498	–	–
Total	7,564	7,453	111	–

[1]Based on booking office.

aj Credit risk information *(continued)*

Internal credit ratings

Internal credit ratings of loans and receivables to customers

The internal credit ratings profile of loans and receivables to customers by asset class at 31 December 2015 and 2014 is as follows:

	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	2015 Total € m
Neither past due nor impaired					
Good upper	585	203	92	1,030	1,910
Good lower	471	1,792	2,274	5,985	10,522
Watch	105	109	395	493	1,102
Vulnerable	123	267	1,584	1,101	3,075
Total	1,284	2,371	4,345	8,609	16,609
Past due but not impaired					
Good upper	–	2	–	1	3
Good lower	4	39	33	91	167
Watch	6	28	38	43	115
Vulnerable	29	69	242	207	547
Total	39	138	313	342	832
Total impaired	298	631	3,160	1,747	5,836
Total gross loans and receivables	1,621	3,140	7,818	10,698	23,277
Unearned income					(89)
Deferred costs					4
Impairment provisions					(3,562)
Total					19,630[1]

	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	2014 Total € m
Neither past due nor impaired					
Good upper	569	181	79	686	1,515
Good lower	537	1,733	2,141	5,301	9,712
Watch	127	148	460	707	1,442
Vulnerable	124	195	1,184	795	2,298
Total	1,357	2,257	3,864	7,489	14,967
Past due but not impaired					
Good upper	–	1	–	10	11
Good lower	3	51	43	120	217
Watch	6	29	37	66	138
Vulnerable	38	112	287	270	707
Total	47	193	367	466	1,073
Total impaired	397	973	6,936	3,183	11,489
Total gross loans and receivables	1,801	3,423	11,167	11,138	27,529
Unearned income					(88)
Deferred costs					3
Impairment provisions					(7,564)
Total					19,880[1]

[1]Excludes intercompany loans.

Details of the rating profiles and lending classifications are set out on page 122.

aj Credit risk information *(continued)*

External credit ratings of financial assets

The external credit ratings profile of loans and receivables to banks, NAMA senior bonds, trading portfolio financial assets (excluding equity securities), financial investments available for sale (excluding equity shares) and financial investments held to maturity for Allied Irish Banks, p.l.c. at 31 December 2015 and 2014 is as follows:

					2015
	Bank[1] € m	Corporate € m	Sovereign € m	Other € m	Total € m
AAA/AA	4,215	–	2,758	328	7,301
A/A-	988	–	14,716[2]	–	15,704
BBB+/BBB/BBB-	160	–	2,317	1	2,478
Sub investment	527	86	–	–	613
Unrated	3	1	–	–	4
Total	5,893	87	19,791[3]	329	26,100

					2014
	Bank[1] € m	Corporate € m	Sovereign € m	Other € m	Total € m
AAA/AA	3,632	–	4,114	99	7,845
A/A-	1,059	–	18,382[2]	–	19,441
BBB+/BBB/BBB-	7	–	2,462	–	2,469
Sub investment	149	–	–	1	150
Unrated	–	3	–	–	3
Total	4,847	3	24,958[3]	100	29,908

[1]Excludes balances with subsidiaries of € 21,103 million (2014: € 23,246 million).

[2]Includes NAMA senior bonds which do not have an external credit rating and to which the Group has attributed a rating of A- (2014: A-) i.e. the external rating of the Sovereign.

[3]Includes supranational banks and government agencies.

ak Liquidity risk information

Financial assets and financial liabilities by contractual residual maturity

	31 December 2015					
	Repayable on demand € m	3 months or less but not repayable on demand € m	1 year or less but over 3 months € m	5 years or less but over 1 year € m	Over 5 years € m	Total € m
Financial assets						
Derivative financial instruments[1]	–	71	97	673	877	1,718
Loans and receivables to banks[2]	20,653	658	–	–	–	21,311
Loans and receivables to customers[2]	17,169	920	2,161	7,248	5,649	33,147
NAMA senior bonds[3]	–	5,616	–	–	–	5,616
Financial investments available for sale[4]	1	–	816	10,396	5,615	16,828
Financial investments held to maturity	–	–	–	2,204	1,279	3,483
Other financial assets	–	452	–	–	–	452
	37,823	7,717	3,074	20,521	13,420	82,555
Financial liabilities						
Deposits by central banks and banks	6,278	11,471	1,902	–	–	19,651
Customer accounts	31,537	11,965	4,267	1,307	53	49,129
Derivative financial instruments[1]	–	87	86	965	894	2,032
Debt securities in issue	–	100	500	1,000	–	1,600
Subordinated liabilities and other capital instruments	–	–	1,524	–	794	2,318
Trading debt securities	–	86	–	–	–	86
Other financial liabilities	229	–	–	–	–	229
	38,044	23,709	8,279	3,272	1,741	75,045

	31 December 2014					
	Repayable on demand € m	3 months or less but not repayable on demand € m	1 year or less but over 3 months € m	5 years or less but over 1 year € m	Over 5 years € m	Total € m
Financial assets						
Derivative financial instruments[1]	–	50	75	837	1,100	2,062
Loans and receivables to banks[2]	23,100	11	–	–	–	23,111
Loans and receivables to customers[2]	23,273	552	2,585	5,462	5,435	37,307
NAMA senior bonds[3]	–	9,423	–	–	–	9,423
Financial investments available for sale[4]	3	226	278	12,150	7,963	20,620
Other financial assets	–	412	–	–	–	412
	46,376	10,674	2,938	18,449	14,498	92,935
Financial liabilities						
Deposits by central banks and banks	6,931	14,155	–	2,051	–	23,137
Customer accounts	27,331	13,885	6,927	2,025	1	50,169
Derivative financial instruments[1]	–	153	159	1,121	1,253	2,686
Debt securities in issue	–	1,599	24	999	–	2,622
Subordinated liabilities and other capital instruments	–	–	–	1,411	40	1,451
Other financial liabilities	244	–	–	–	–	244
	34,506	29,792	7,110	7,607	1,294	80,309

[1]Shown by maturity date of contract.
[2]Shown gross of provisions for impairment, unearned income and deferred costs.
[3]New notes will be issued at each maturity date, with the next maturity date being 1 March 2016. Upon maturity, the issuer has the option to settle in cash or issue new notes and to date has issued new notes.
[4]Excluding equity shares.

The balances shown above include exposures to/by subsidiary undertakings.

ak Liquidity risk information *(continued)*

Financial liabilities by undiscounted contractual maturity

The undiscounted cash flows potentially payable under guarantees and similar contracts, included below within contingent liabilities, are classified on the basis of the earliest date they can be called. The Company is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The Company expects that most guarantees it provides will expire unused.

The Company has given commitments to provide funds to customers under undrawn facilities. The undiscounted cash flows have been classified on the basis of the earliest date that the facility can be drawn. The Company does not expect all facilities to be drawn, and some may lapse before drawdown.

	Payable on demand € m	3 months or less but not repayable on demand € m	1 year or less but over 3 months € m	5 years or less but over 1 year € m	Over 5 years € m	2015 Total € m
Contingent liabilities	**831**	**–**	**–**	**–**	**–**	**831**
Commitments	**7,619**	**–**	**–**	**–**	**–**	**7,619**
	8,450[1]	**–**	**–**	**–**	**–**	**8,450**

	Payable on demand € m	3 months or less but not repayable on demand € m	1 year or less but over 3 months € m	5 years or less but over 1 year € m	Over 5 years € m	2014 Total € m
Contingent liabilities[1]	767	–	–	–	–	767
Commitments	7,244	–	–	–	–	7,244
	8,011[1]	–	–	–	–	8,011

[1]Includes € 239 million (2014: € 265 million) relating to Group subsidiaries.

al Market risk information

Market risk profile

The following table sets out the VaR for Allied Irish Banks, p.l.c. at 31 December 2015 and 2014:

	VaR (trading book)		VaR (banking book)		Total VaR	
	2015 € m	2014 € m	**2015 € m**	2014 € m	**2015 € m**	2014 € m
Interest rate risk						
1 day holding period:						
Average	**0.3**	0.1	**2.7**	3.5	**2.7**	3.5
High	**1.1**	0.5	**3.6**	5.6	**5.2**	5.6
Low	**–**	–	**1.3**	1.2	**1.3**	1.2
31 December	**1.1**	0.1	**3.0**	1.5	**2.9**	1.5

The following table sets out the VaR for foreign exchange rate and equity risk for the years ended 31 December 2015 and 2014:

	Foreign exchange rate risk		Equity risk	
	VaR (trading book)		VaR (trading book)	
	2015 € m	2014 € m	**2015 € m**	2014 € m
1 day holding period:				
Average	**0.06**	0.04	**0.04**	0.36
High	**0.15**	0.09	**0.09**	0.72
Low	**0.01**	0.02	**0.01**	0.02
31 December	**0.05**	0.02	**0.02**	0.02

General information

Shareholder information

Internet-based Shareholder Services

Ordinary Shareholders with access to the internet may:

- register for electronic communications on the following link, www.computershare.com/register/ie;
- view any outstanding payments, change their address and view their shareholding by signing into Investor Centre on http://www.computershare.com/ie/InvestorCentre They will need their unique user ID and password which they created during registration. Or register at http://www.computershare.com/ie/investor/register to become an Investor Centre member. To register they will be required to enter the name of the company in which they hold shares, their Shareholder Reference Number ("SRN"), their family or company name and security code (provided on screen); 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 and personalised circulars) should be entered. These services may also be accessed via the Registrar's website at www.computershare.com.

Shareholders may also use AIB's website to access the Company's Annual Financial Report.

Stock Exchange Listings

Allied Irish Banks, p.l.c. is an Irish-registered company. Its ordinary shares are traded on the Enterprise Securities Market ("ESM") of the Irish Stock Exchange.

AIB had previously listed its ordinary shares, in the form of American Depository Shares ("ADS"), evidenced by an American Depository Receipt ("ADR") on the New York Stock Exchange ("NYSE"). Following the decision in 2011 to delist, ADSs were no longer traded on the NYSE. The ADR Depository, The Bank of New York Mellon, advised that the sale of ordinary shares underlying the ADSs, commenced in 2012, was completed in 2014 and they had initiated the process of remitting the cash from the proceeds to the ADS holders. AIB filed a Form 15F with the United States Securities and Exchange Commission ("SEC") on 9 December 2014 to terminate the registration of AIB's Securities and to cease its reporting requirements.

Registrar

The Company's Registrar is:

Computershare Investor Services (Ireland) Ltd.,
Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.
Telephone: +353-1-247 5411. Facsimile: +353-1-216 3151.
Website: **www.computershare.com** or **www.investorcentre.com/ie/contactus**

Shareholding analysis

The Ireland Strategic Investment Fund holds 2,710,821,147 ordinary shares of € 0.625 each in the share capital of Allied Irish Banks,p.l.c..

Financial calendar

Annual General Meeting: 24 May 2016, at the RDS Concert Hall, Merrion Road, Ballsbridge, Dublin 4.

Interim results

The unaudited Half-Yearly Financial Report 2016 will be announced towards the end of July/early August 2016 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

Additional Tier 1 Capital	In the context of CRD IV, additional Tier 1 Capital ("AT1") is a measure of a bank's financial strength as defined by the Capital Requirements Regulation.
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.
Asset backed securities	Asset backed securities ("ABS") are securities that represent an interest in an underlying pool of referenced assets. They are typically structured in tranches of differing credit qualities. Some common types of asset backed securities are those backed by credit card receivables, home equity loans and car loans. Within this report, ABS which are backed by an underlying pool of residential mortgage loans are referred to as "RMBS" – see below.
Available for sale	Available for sale ("AFS") financial assets are non-derivative financial investments that are designated as available for sale and are not or are not classified as a) loans and receivables b) held-to-maturity investments or c) financial assets at fair value through profit or loss.
Bank Recovery and Resolution Directive	The Bank Recovery and Resolution directive ("BRRD") is a European legislative package issued by the European Commission and adopted by EU Member States. The directive was finalised in July 2014 with the majority of provisions coming into effect 1 January 2015. The BRRD introduces a common EU framework for how authorities should intervene to address banks which are failing or are likely to fail. The framework includes early intervention and measures designed to prevent failure and in the event of bank failure for authorities to ensure an orderly resolution.
Banking book	A regulatory classification to support the regulatory capital treatment that applies to all exposures which are not in the trading book. Banking book positions tend to be structural in nature and, typically, arise as a consequence of the size and composition of a bank's balance sheet. Examples include the need to manage the interest rate risk on fixed rate mortgages or rate insensitive current account balances. The banking book portfolio will also include all transactions/positions which are accounted for on an interest accruals basis or, in the case of financial instruments, on an available for sale or hold to maturity basis (e.g. AFS Securities portfolios).
Basis point	One hundredth of a per cent (0.01%), so 100 basis points is 1%. Used in quoting movements in interest rates or yields on securities.
Basis risk	A type of market risk that refers to the possibility that the change in the price of an instrument (e.g. asset, liability, derivative, etc) may not match the change in price of the associated hedge, resulting in losses arising in the Group's portfolio of financial instruments.
Buy-to-let mortgage	A residential mortgage loan approved for the purpose of purchasing a residential investment property to rent out.
Capital Requirements Directive	Capital Requirements Directive ("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 and give effect in the EU to the Basel II proposals which came into force on 20 July 2006.
Capital Requirements Directive IV	Capital Requirements Directive IV ("CRD IV"), which came into force on 1 January 2014, comprises a recast Capital Requirements Directive and a new Capital Requirements Regulation which implements the Basel III capital proposals together with transitional arrangements for some of its requirements. The Regulation contains the detailed prudential requirements for credit institutions and investment firms. Requirements Regulation (No. 575/2013) ("CRR") and the Capital Requirements Directive (2013/36/EU).
Collateralised bond obligation/ collateralised debt obligation	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).
Collectively assessed impairment	Impairment assessment on a collective basis for portfolios of impaired loans that are not considered individually significant for specific provisioning. In addition, portfolios of performing loans are assessed on a collective basis to estimate the amount of losses incurred, but which have yet to be individually identified (IBNR provisions).
Commercial paper	Commercial paper is similar to a deposit and is a relatively low-risk, short-term, unsecured promissory note traded on money markets issued by companies or other entities to finance their short-term expenses. In the USA, commercial paper matures within 270 days maximum, while in Europe, it may have a maturity period of up to 365 days; although maturity is commonly 30 days in the USA and 90 days in Europe.

Commercial property	Commercial property lending focuses primarily on the following property segments: a) Apartment complexes; b) Develop to sell; c) Office projects; d) Retail projects; e) Hotels; and f) Selective mixed-use projects and special purpose properties.
Common equity tier 1 ratio	Common equity tier 1 ratio ("CET 1") – A measurement of a bank's core equity capital compared with its total risk-weighted assets.
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.
Credit default swaps	An agreement between two parties whereby one party pays the other a fixed coupon over a specified term. The other party makes no payment unless a specified credit event, such as a default, occurs, at which time a payment is made and the swap terminates. Credit default swaps are typically used by the purchaser to provide credit protection in the event of default by a counterparty.
Credit derivatives	Financial instruments where credit risk connected with loans, bonds or other risk-weighted assets or market risk positions is transferred to counterparties providing credit protection. The credit risk might be the exposure inherent in a financial asset such as a loan or might be generic credit risk such as the bankruptcy risk of an entity.
Credit risk	The risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.
Credit risk mitigation	Techniques by lenders used to reduce the credit risk associated with an exposure by the application of credit risk mitigants. Examples include: collateral; guarantee; and credit protection.
Credit 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.
Credit support annex	Credit support annex ("CSA") provides credit protection by setting out the rules governing the mutual posting of collateral. CSAs are used in documenting collateral arrangements between two parties that trade over-the-counter derivative securities. The trade is documented under a standard contract called a master agreement, developed by the International Swaps and Derivatives Association ("ISDA"). The two parties must sign the ISDA master agreement and execute a credit support annex before they trade derivatives with each other.
Credit valuation adjustment	Credit valuation adjustment ("CVA ") is an adjustment to the valuation of OTC derivative contracts to reflect the creditworthiness of derivative counterparties.
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.

Glossary of terms

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.
Derecognition	The removal of a previously recognised financial asset or financial liability from the Group's statement of financial position.
ECB refinancing rate	The main refinancing rate or minimum bid rate is the interest rate which banks have to pay when they borrow money from the ECB under its main refinancing operations. Banks borrow from the ECB through its refinancing operations for liquidity management purposes.
Economic capital	The amount of capital which the Group needs to protect against extreme losses from a material risk it is running (e.g. credit risk, market risk). It is based on internally developed calculation methodologies and estimates, as opposed to regulatory capital, which uses a methodology determined by the Basel Accord and imposed by the Regulator.
Eurozone	The eurozone consists of the following nineteen European Union countries that have adopted the euro as their common currency: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia and Spain.
Exposure at default	Exposure at default ("EAD") is the expected or actual amount of exposure to the borrower at the time of default.
First/second lien	Where a property or other security is taken as collateral for a loan, first lien holders are paid before all other claims on the property. Second lien holders are subordinate to the rights of first lien holders to a property security.
Forbearance	Forbearance is the term that is used when repayment terms of a loan contract have been renegotiated in order to make repayment terms more manageable for borrowers. Forbearance techniques have the common characteristic of rescheduling principal or interest repayments, rather than reducing them. Standard forbearance techniques employed by the Group include: - interest only; a reduction in the payment amount; a temporary deferral of payment (a moratorium); extending the term of the mortgage; and capitalising arrears amounts and related interest.
Funded/ unfunded exposures	Funded: Loans, advances and debt securities where funds have been given to a debtor with an obligation to repay at some future date and on specific terms. Unfunded: Unfunded exposures are those where funds have not yet been advanced to a debtor, but where a commitment exists to do so at a future date or event.
Funding value adjustment	Funding value adjustment ("FVA") is an adjustment to the valuation of OTC derivative contracts due to a bank's funding rate exceeding the risk-free rate.
Held to maturity	Held to maturity ("HTM") investments as those which are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity other than: (a) Those that the entity upon initial recognition designates as at fair value through profit or loss; (b) Those that the entity designates as available for sale; and (c) Those that meet the definition of loans and receivables.
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.
Internal liquidity adequacy assessment process	The internal liquidity adequacy assessment processes ("ILAAP") is a key element of the risk management framework for credit institutions. ILAAP is defined in the EBA's SREP Guidelines as "the processes for the identification, measurement, management and monitoring of liquidity implemented by the institution pursuant to Article 86 of Directive 2013/36/EU". It thus contains all the qualitative and quantitative information necessary to underpin the risk appetite, including the description of the systems, processes and methodology to measure and manage liquidity and funding risks.
Internal Capital Adequacy Assessment Process	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.
Internal Ratings Based Approach	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.
Liquidity Coverage Ratio	Liquidity Coverage Ratio ("LCR"): The ratio of the stock of high quality liquid assets to expected net cash outflows over the next 30 days under a stress scenario. CRD IV requires that this ratio exceed 60% on 1 January 2015 and 100% on 1 January 2018.
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.
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.
Loss Given Default	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.
Loan to deposit ratio	This is the ratio of loans and receivables compared to customer accounts as presented in the statement of financial position.
Loan workout	Loan workout is the process whereby once a loan is deemed to be criticised (i.e. 'Watch', 'Vulnerable' or 'Impaired'), the Group monitors and reviews it regularly with the objective of working with the customer to resolve their financial difficulties, which may include restructuring, in order to optimise the level of recovery by the Group.
Loan to Value	Loan to value ("LTV") is an arithmetic calculation that expresses the amount of the loan as a percentage of the value of security/collateral. A high LTV indicates that there is less of a cushion to protect the lender against collateral price decreases or increases in the loan carrying amount if repayments are not made and interest is capitalised onto the outstanding loan balance.
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.
Medium term notes	Medium term notes ("MTNs") are notes issued by the Group across a range of maturities under the European Medium Term Note Programme.
National Asset Management Agency	National Asset Management Agency ("NAMA") was established in 2009 as one of a number of initiatives taken by the Irish Government to address the serious problems which arose in Ireland's banking sector as the result of excessive property lending.
Net interest income	The amount of interest received or receivable on assets net of interest paid or payable on liabilities.
Net interest margin	Net interest margin ("NIM") is a measure of the difference between the interest income generated on average interest earning financial assets (lendings) and the amount of interest paid on average interest bearing financial liabilities (borrowings) relative to the amount of interest-earning assets.

Glossary of terms

Net Stable Funding Ratio	Net Stable Funding Ratio ("NSFR"): The ratio of available stable funding to required stable funding over a 1 year time horizon.
Off balance sheet items	Off balance sheet items include undrawn commitments to lend, guarantees, letters of credit, acceptances and other items as listed in Annex I of the CRR.
Offsetting	Offsetting, or 'netting', is the presentation of the net amounts of financial assets and financial liabilities in the statement of financial position as a result of Group's rights of set-off.
Optionality risk	A type of market risk associated with option features that are embedded within assets and liabilities on the Group's balance sheet. The embedded option features can significantly change the cash flows (and/or redemption) of the contract and can, therefore, effect its duration, yield and pricing. Examples include bonds with early call provisions or prepayment risk on a mortgage portfolio. Where these risks are left unhedged, it can result in losses arising in the Group's portfolio.
Principal components analysis	Principal components analysis ("PCA") is a tool used to analyse the behaviour of correlated random variables. It is especially useful in explaining the behaviour of yield curves. Principal components are linear combinations of the original random variables, chosen so that they explain the behaviour of the original random variables, and so that they are independent of each other. Principal components can, therefore, be thought of as just unobservable random variables. For yield curve analysis, it is usual to perform PCA on arithmetic or logarithmic changes in interest rates. Often the data is "de-meaned"; adjusted by subtracting the mean to produce a series of zero mean random variables. When PCA is applied to yield curves, it is usually the case that the majority (> 95%) of yield curve movements can be explained using just three principal components (i.e. a parallel change, a rotation and a change of the curvature). PCA is a very useful tool in reducing the dimensionality of a yield curve analysis problem and, in particular, in projecting stressed rate scenarios.
Private equity investments	Equity securities in operating companies not quoted on a public exchange, often involving the investment of capital in private companies.
Prime loan	A loan in which both the criteria used to grant the loan (loan-to-value, debt-to-income, etc.) and to assess the borrower's history (no past due reimbursements of loans, no bankruptcy, etc.) are sufficiently conservative to rank the loan as high quality and low-risk.
Probability of Default	Probability of Default ("PD") is the likelihood that a borrower will default on an obligation to repay.
Regulatory capital	Regulatory capital which AIB holds, determined in accordance with rules established by the SSM/ECB for the consolidated Group and by local regulators for individual Group companies.
Re-pricing risk	Re-pricing risk is a form of interest rate risk (i.e. a type of market risk) that occurs when asset and liability positions are mismatched in terms of re-pricing (as opposed to final contractual) maturity. Where these interest rate gaps are left unhedged, it can result in losses arising in the Group's portfolio of financial instruments.
Repurchase Agreement	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.
Risk weighted assets	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.
Residential mortgage-backed Securities	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.
Single Supervisory Mechanism	The Single Supervisory Mechanism ("SSM") is a system of financial supervision comprising the European Central Bank ("ECB") and the national competent authorities of participating EU countries which in Ireland is the Central Bank of Ireland ("CBI"). The main aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe.

Special purpose entity	Special purpose entity ("SPE") is a legal entity which can be a limited company or a limited partnership created to fulfil narrow or specific objectives. A company will transfer assets to the SPE for management or use by the SPE to finance a large project thereby achieving a narrow set of goals without putting the entire firm at risk. This term is used interchangeably with SPV (special purpose vehicle).
Stress testing	Stress testing is a technique used to evaluate the potential effects on an institution's financial condition of an exceptional but plausible event and/or movement in a set of financial variables.
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.
Subordinated Liabilities Order	On 14 April 2011, following an application by the Irish Minister for Finance under section 29 of the Credit Institutions (Stabilisation) Act 2010, the Irish High Court issued a Subordinated Liabilities Order (the "SLO") in relation to all outstanding subordinated liabilities and other capital instruments, with the consent of AIB. The Irish High Court declared the SLO effective as of 22 April 2011. The effect of the SLO was to amend the terms of certain subordinated liabilities and other capital instruments.
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.
Value at Risk	The Group's core risk measurement methodology is based on an historical simulation application of the industry standard Value at Risk ("VaR") technique. The methodology incorporates the portfolio diversification effect within each standard risk factor (interest rate, credit spread, foreign exchange, equity, as applicable). The resulting VaR figures, calculated at the close of business each day, are an estimate of the probable maximum loss in fair value over a one day holding period that would arise from an adverse movement in market rates. This VaR metric is derived from an observation of historical prices over a period of one year and assessed at a 95% statistical confidence level (i.e. the VaR metric may be exceeded at least 5% of the time).
Vulnerable loans	Loans where repayment is in jeopardy from normal cash flow and may be dependent on other sources for repayment.
Watch loan	Loans exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cash flow.
Yield curve risk	A type of market risk that refers to the possibility that an interest rate yield curve changes its shape unexpectedly (e.g. flattening, steepening, non-parallel shift), resulting in losses arising in the Group's portfolio of interest rate instruments.

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All numbers are listed with international codes. To dial a location from within the same jurisdiction, drop the country code after the + sign and place a 0 before the area code. This does not apply to calls to First Trust Bank from the Republic of Ireland.

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