BACKING OUR CUSTOMERS

Annual Financial Report
for the financial year ended
31 December 2019

AIB Group plc

Gruig, Co Antrim, one of two wind farms acquired by Foresight Group LLP in 2019 with finance provided by AIB.

OUR PURPOSE IS TO BACK OUR CUSTOMERS TO ACHIEVE THEIR DREAMS AND AMBITIONS

AIB is a financial services group operating predominantly in Ireland and the United Kingdom. We provide a range of services to retail, business and corporate customers, with market-leading positions in key segments. AIB is our principal brand across all geographies. In Ireland, EBS is our challenger brand and Haven is our mortgage broker channel.

With over 2.8 million customers, we are committed to backing sustainable communities. We pledge to do more to support the transition to a low-carbon economy.

AIB EBS haven

ANNUAL FINANCIAL REPORT 2019

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ON OUR COVER
Oweninny Wind Farm in Co Mayo, an AIB customer.

Read more in our Detailed Sustainability Report 2019:
aib.ie/sustainability

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This Annual Financial Report contains forward looking statements with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. See page 376.

FINANCIAL HIGHLIGHTS

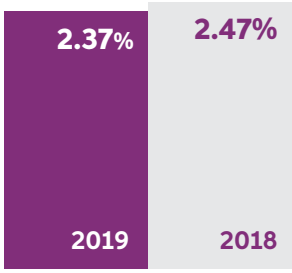
OUR FINANCIAL PERFORMANCE IN 2019

NET INTEREST MARGIN

2.37%

STABLE CUSTOMER LOAN YIELDS

Stable customer loan yields. Impact of excess liquidity and higher cost of MREL issuances driving lower net interest margin (NIM) of 2.37%. Interest income in line with 2018.

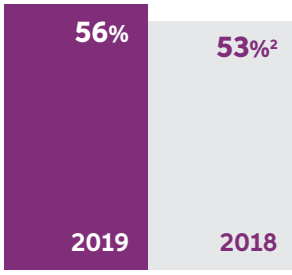


COST INCOME RATIO[1]

56%

RENEWED FOCUS ON COST DISCIPLINE

Higher costs and lower income driving increase in cost income ratio (CIR). Renewed focus on cost discipline.

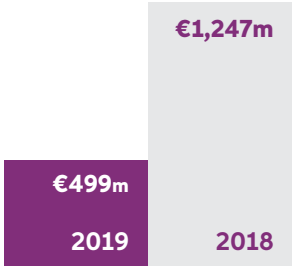


PROFIT BEFORE TAX

€499m

PROFIT BEFORE TAX IMPACTED BY EXCEPTIONAL ITEMS OF €592M

2019 impacted by exceptional items, including provision for tracker mortgage examination, while 2018 benefited from impairment writebacks and gain on disposal of loan portfolios. Profit before exceptional items in 2019 is €1,091m (2018: €1,414m).



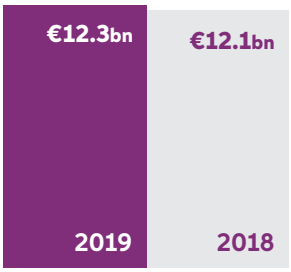
1. Before bank levies, regulatory fees and exceptional items, cost income ratio (CIR) including these items is 82% in 2019 (2018: 63%). For exceptional items see pages 56 and 65.
2. Other regulatory levies and charges are now presented as bank levies and regulatory fees (€17m in 2018 previously included in operating expenses has been re-presented as bank levies and regulatory fees).

NEW LENDING

€12.3bn

MODERATE GROWTH IN NEW LENDING

New lending up 2% with growth of 8% in mortgages in Ireland and strong lending to the energy sector offset by lower syndicated lending.

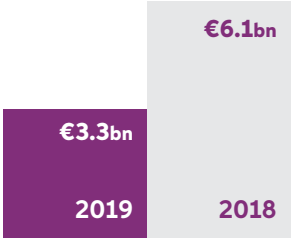


NON-PERFORMING EXPOSURES[3]

€3.3bn

SIGNIFICANT REDUCTION, 5.4% OF GROSS LOANS

Significant progress in reducing non-performing exposures (NPEs) with a 45% reduction from €6.1bn (9.6% of gross loans) to €3.3bn to reach our milestone of c. 5% by end of 2019.

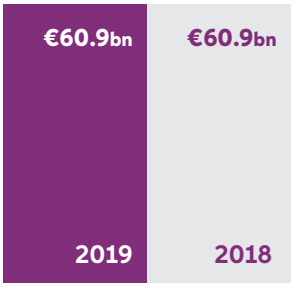


NET LOANS

€60.9bn

STABLE NET LOANS AS GROSS PERFORMING LOANS GROW 3%

Excluding disposal of loan portfolios and FX impact, growth in net loan book is €0.7bn. Gross performing loans of €58.8bn increased by 3% (up 2% excluding FX impact).

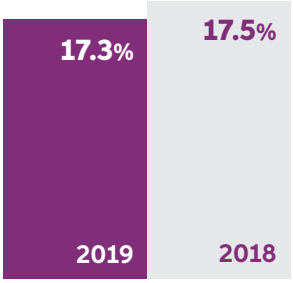


CET1 FULLY LOADED

17.3%

STRONG CAPITAL BASE

Strong capital base with solid underlying capital generation. Proposed ordinary dividend of €217m (8c per share).
Pro forma CET1 including TRIM[4] indicative impact of 90bps is 16.4%.



3. Non-performing exposures (NPEs) refers to non-performing loans (NPLs) and excludes €162m of off-balance sheet commitments. For further information see pages 105 and 106.
4. For further information on TRIM see page 68.

AIB AT A GLANCE

HOW WE BACK OUR CUSTOMERS

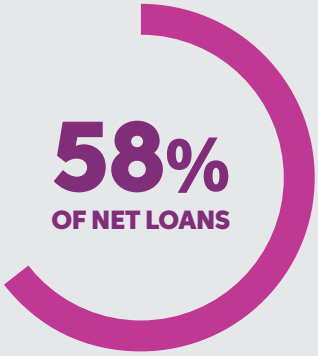
OUR BUSINESS STRUCTURE

We back our customers through two core segments – Retail Banking and Corporate, Institutional & Business Banking – together with our AIB UK business and Group control and support functions.

Business structure in operation from 11 November 2019.

RETAIL BANKING

Retail Banking's core business lines include: mortgages, consumer lending, SME lending, asset-backed lending, wealth management, daily banking and general insurance, as well as our Financial Solutions Group.



2.5m CUSTOMERS

Leading retail banking franchise in Ireland with over 2.5 million personal and SME customers.

296 LOCATIONS

Largest physical distribution network in Ireland, with 296 AIB and EBS locations and a further c. 950 locations through the An Post network.

1.5m DIGITAL CUSTOMERS

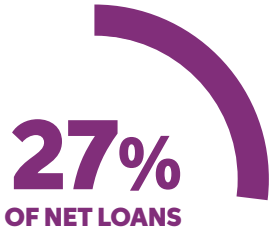
No. 1 digital bank in Ireland, with over 1.5 million active digital customers and 1.3 million active mobile customers.

€4.9bn
NEW LENDING

€35.5bn
NET LOANS

€707m
OPERATING CONTRIBUTION[1]

CORPORATE, INSTITUTIONAL & BUSINESS BANKING (CIB)



Established, diversified business with market-leading positions in core domestic markets and extensive experience in US and European syndicated loan markets.

RELATIONSHIP DRIVEN MODEL

Trusted strategic long-term partner for Irish businesses, with primary focus on senior debt lending.

CUSTOMER-FOCUSED SOLUTIONS

Complementing traditional debt offering through specialised finance, commercial finance, syndicated finance and corporate finance advisory services, as well as Private Banking services and advice.

SECTOR SPECIALIST TEAMS

Centre of Excellence approach to management of key sectors to bring sector-specific insights and expertise to our customers.

€5.0bn
NEW LENDING

€16.2bn
NET LOANS

€443m
OPERATING CONTRIBUTION[1]

1. Operating contribution before impairments and exceptional items.

AIB UK

AIB UK operates in two distinct markets: providing corporate and commercial banking services in Great Britain, trading as Allied Irish Bank (GB); and retail and business banking services in Northern Ireland, trading as AIB (NI).

15%
OF NET LOANS

294k CUSTOMERS

294k retail, corporate and business customers across the United Kingdom.

29 LOCATIONS

14 business centres in Great Britain along with 15 branches in Northern Ireland, including six business centres co-located in branches and one centre for small and micro business.

126k DIGITAL CUSTOMERS

126k customers actively engaging across our digital channels.

£2.1bn
NEW LENDING

£7.7bn
NET LOANS

£140m
OPERATING CONTRIBUTION[1]

GROUP

Group comprises wholesale treasury activities and Group control and support functions.

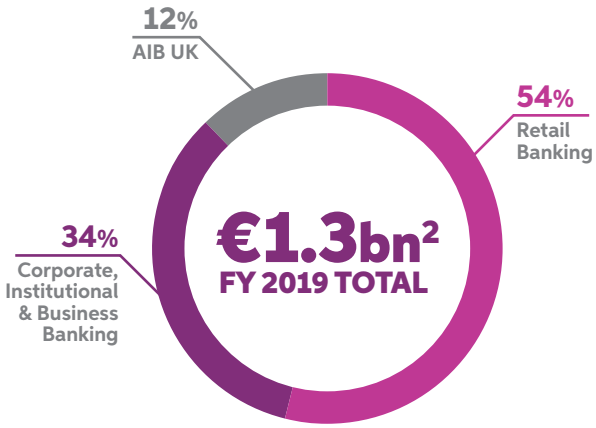
TREASURY

Part of our Finance function, Treasury manages the Group's liquidity and funding position while providing customer treasury services and economic research.

CONTROL AND SUPPORT

Group control and support functions are: Business & Customer Services; Finance; Risk; Legal & Corporate Governance; Human Resources; Corporate Affairs & Strategy; and Group Internal Audit.

OPERATING CONTRIBUTION[1] BY SEGMENT



For a detailed report on our performance, read the 'Operating and financial review' section on pages 52 to 66.

1. Operating contribution before impairments and exceptional items
2. Excludes Group segment operating loss €0.2bn.

Since 2001, AIB has sponsored Dublin Chamber's Annual Dinner, which brings over 1,600 business leaders together

CHAIRMAN'S STATEMENT

A GREAT INSTITUTION WITH A STRONG CUSTOMER FRANCHISE

At the end of his term, the Chairman reflects on significant NPE reduction, culture development and continued customer success in 2019.

Richard Pym, AIB's Chairman

This annual report details the results for 2019 and the progress being made in the bank. Allied Irish Banks is a great institution with a strong and profitable customer franchise and against that background it is particularly regrettable that the Board is recommending a reduction in the ordinary dividend.

In February 2020 we made a market announcement concerning a preliminary decision of the Financial Services and Pensions Ombudsman (FSPO) regarding compensation due to a customer who was in a previously identified group within the tracker mortgage review, but where the Group had concluded no financial detriment had been incurred. The Group is continuing to engage and consider its position. However it is unpredictable how these matters turn out, so we have made additional provisions for €300m to reflect the combined impact of application of the compensation in that individual preliminary decision to a wider group of around 5,900 customers in similar circumstances, together with related potential additional charges. This is a hit to 2019 profits and reduced earnings per share (EPS) to 12.1c and as a result we are recommending an ordinary dividend of 8c per share, down from 17c last year. However the Group concluded the year in a strong capital position with fully-loaded CET1 ratio of 16.4%.

In 2019 banks have been experiencing a challenging economic environment of negative interest rates in the Eurozone which we expect to continue and, because we have sheltered the vast majority of our customers from negative deposit rates, this has reduced the net interest margin.

There were many achievements in the year, top of which is reducing non-performing exposures (NPEs) down to the c. 5% level we targeted for the end of 2019. When I joined the bank in 2014, we had seen NPEs peak at over €30bn, they are now down to €3.3bn. The efforts and professionalism of over 1,000 staff who achieved this fantastic result is appreciated by the Board. Additionally, the well documented tracker mortgage remediation has, other than the new group referred to above, been operationally completed, with customers repaid and put into the position they should always have been in.

In April we announced the establishment of a joint venture to acquire Payzone, a leading branded provider of specialised payment services in Ireland facilitating

WHEN I JOINED THE BANK IN 2014, WE HAD NPEs PEAK AT OVER €30BN, THEY ARE NOW DOWN TO €3.3BN

THERE IS NOTHING MORE FULFILLING IN THE LIFE OF A BANKER THAN TO SEE YOUR CUSTOMERS SUCCEED

Rosy Temple of Magee, an AIB customer, which has been in operation for 150 years in Co Donegal

consumer payments by cash, card and card-not-present for everyday consumer needs. This acquisition, which closed in October 2019, will enhance AIB's fintech capability and strengthen our position as Ireland's leading digitally-enabled bank.

This annual report describes the strategic refresh and the associated targets which the Board has agreed, reflecting the economic and competitive environment. There are two updated core strategic targets on capital levels and return on equity, which provide the corporate financial framework within which the bank will operate. In parallel, there is a specific absolute cost target which is there to provide focus for the operational management of the bank. In a challenging economic environment getting value from every cent we spend is essential.

Although much progress has been made in advancing the culture of the bank over the decade since the financial crisis, the Board recognises that the evolution of culture is a continuous journey. AIB is committed to playing a leading role in advancing this agenda across the industry and we welcome the establishment of the Irish Banking Culture Board (IBCB) and are committed to ensuring its success. We are similarly committed to expanding our sustainability agenda where we are the leading bank in Ireland and more details follow in this report.

There has been major Board rotation during the year with four Non-Executive Directors leaving and five arriving, and the departure early in the year of the CEO and CFO which was announced in 2018. I would like to record my thanks to Catherine Woods, Peter Hagan, Jim O'Hara and Simon Ball for their great contributions. They joined the bank when things were extremely difficult and served with distinction. I extend a welcome to Sandy Kinney Pritchard, Ann O'Brien, Raj Singh, Elaine MacLean and Basil Geoghegan who are already contributing at a high level. The non-executive group on the Board is now 50% female and Colin's Executive Committee composition will shortly be the same.

My term as Chairman has now come to an end and my thanks go to all my Board colleagues who have contributed hugely to AIB and put massive amounts of time, energy and thoughtful considerations into our work. I thank all colleagues across the bank for their contributions during the year and record particular appreciation to the Executive Directors who have been my partners and friends over the past five

years: the brilliant Colin, Tomás, Bernard and Mark; and to the other members of the leadership group who have displayed commitment and professionalism in difficult circumstances and transformed the capabilities and performance of the bank. They are a talented team and I hope the bank can retain their services for many years to come.

In the course of my work at AIB I have had many enjoyable and memorable meetings with the leaders of Irish business who are a hugely ambitious and innovative group and serve the country with distinction, creating employment, opportunity and prosperity. I have observed many examples of where AIB has backed small ideas and seen them grow into major businesses, and there is nothing more fulfilling in the life of a banker than to see your customers succeed. I extend thanks to all our customers for their support to us.

It has been a privilege to serve as your Chairman since 2014 and my last act is to sign this report but I know that much remains to be done. I am confident that with the current strategy, the oversight of our refreshed Board and the leadership of Colin and the rest of the executive team, AIB, its customers and committed employees will enjoy ever greater success.

Go n-éirí an t-ádh libh go léir.

RICHARD PYM CBE
Chairman
5 March 2020

The two co-chairs of AIB's Women Matters Employee Resource Group: Annette O'Brien and Mary Kennedy

RESTORING TRUST IN THE ORGANISATION IS A WORK-IN-PROGRESS AND EVERY DAY I AM REMINDED OF THE IMPORTANCE OF THE TASK

COLIN HUNT
AIB's Chief Executive Officer

CHIEF EXECUTIVE'S REVIEW

AT THE HEART OF IRELAND'S ECONOMY

In 2019, AIB further enhanced services for our customers, increased new lending, reduced NPEs and consolidated operations.

In my first review, as Chief Executive Officer, of AIB's annual financial performance, I am glad to report that the fundamentals of the Group remain strong with sustainable underlying profits and a robust capital base. We are proud to be Ireland's leading digital bank and continue to hold a No. 1 position across a number of markets including mortgages and personal loans. Further enhancing service to our c. 2.8 million customers, increasing our new lending volumes to €12.3bn to support economic growth, reducing non-performing exposures (NPEs) significantly, addressing the challenges in the cost base and proposing a dividend of 8c per share to shareholders were all achieved as we consolidated our operations to confront the principal risks and uncertainties ahead.

Our profit performance should be understood in the context of the current low-interest environment that is prevailing globally, together with the impact of ongoing potential regulatory obligations arising from legacy issues. We are dealing with the latter in a transparent and speedy manner and we will continue to work closely with the Central Bank of Ireland until these issues are concluded comprehensively.

As we face into considerable headwinds including a cooling global economy, a still-uncertain outcome to the Brexit trade talks, the reality of climate change, tariff discussions in global trade and more recently the potential impact of the Coronavirus on markets, it is imperative that Ireland has a robust, well-functioning banking industry. As a financial institution at the heart of Ireland's economy, AIB must be put on the strongest possible footing with a solid balance sheet, a robust capital structure and a controlled cost base.

We worked assiduously through 2019 to ensure that sustainability became more deeply ingrained in all our business decisions. We are prepared, at every level, to drive efficiencies throughout our operations, pursue simplification of products, build for a digital future and provide trusted service to our customers. Ultimately, when market conditions allow, AIB wants to be in a position that enables our major shareholder, the Government, to recover maximum return for the taxpayer's investment.

One of my early priorities as Chief Executive Officer has been to work with our Board on the development of a multi-year culture enhancement programme. Restoring trust in the organisation is a work in progress and every day I am reminded of the importance of the task. However, my management team, the Board and everyone across the Group are aware of the urgency of rebuilding a positive reputation. This can only be done by implementing a strict customer-first ethos in all aspects of our business, by putting ourselves in our customers' shoes.

Financial performance

In 2019, our core business segments have contributed positively to our financial performance and we have delivered an operating profit of €1,091m excluding exceptionals. Profit before tax of €499m was impacted by exceptional items. This includes €300m additional provisions taken to cover a range of possible

outcomes and related potential additional charges following a preliminary decision by the Financial Services and Pensions Ombudsman relating to a previously identified group of customers who had an option of a prevailing tracker rate.

While net interest income of €2,076m was stable and loan yields remained strong, the Group's net interest margin (NIM) reduced to 2.37%. This reduction was due to a combination of factors such as the cost of MREL-eligible issuances, lower yields on our investment securities and the weight of excess liquidity.

98%

IN 2019, MORE THAN 98% OF OUR NEW LENDING WAS OF STRONG OR SATISFACTORY CREDIT QUALITY

Total operating expenses for 2019 were €1,504m[1]. Exceptional items of €592m included restitution costs and the provision to which I referred earlier. Our cost income ratio was 56%[1]. A renewed focus on cost discipline is a key management priority and will continue to feature through 2020 and beyond.

It was a busy and successful year in debt capital markets with four transactions totalling €2.6bn of MREL-eligible issuances (HoldCo Senior $1bn, HoldCo Senior €750m, AT1 €500m and Tier 2 €500m). Every transaction was oversubscribed by a multiple and order books were characterised by geographically diverse quality institutions. This now brings our MREL eligible issuances to €4.3bn which represents 86% of our total MREL requirements. In September, we launched our green bond framework showing our intent to our investors to lead the way in funding sustainable businesses. In 2019, we had two upgrades from credit rating agencies Moody's and Fitch bringing the AIB Group plc ratings to Baa2 and BBB respectively. The key drivers of the upgrades were the consistent delivery of NPE reduction and the successful MREL issuances. We are well positioned to complete our MREL issuance requirement and improve the efficiency of our capital structure.

We have a strong capital base with a robust pro forma fully-loaded CET1 ratio (reflecting indicative 90bps TRIM impact) of 16.4% at 31 December 2019, well in excess of regulatory requirements.

Non-performing exposures

AIB cannot countenance facing another economic downturn carrying high levels of NPEs that relate to the last crisis. Addressing NPEs in a sustainable way continued to be a top priority for the Group and we made enormous headway in this regard throughout the year. Two loan portfolios with a combined NPE value of c. €1.8bn, characterised by deep arrears, were sold in 2019. Our core preference has always been to offer a range of sustainable solutions to our customers. In 2019, case-by-case resolution resulted in a reduction in NPEs of €1.0bn through cash payments. Perhaps inevitably, the pace of reduction of these NPEs has begun to moderate as we deal with more difficult cases.

Overall our NPEs fell by 45% since year-end 2018 to €3.3bn such that NPEs as a percentage of gross loans amounted to 5.4% at year end 2019, thereby meeting our IPO target of c. 5% by end 2019. Having reached this significant milestone, we are committed to further reducing NPEs given the impact on cost, capital requirements and balance sheet resilience.

Lending

In 2019, more than 98% of our new lending was of strong or satisfactory credit quality. This has contributed to 89% of AIB's loan book being of strong / satisfactory quality at December 2019 (up from 83% at 2018 year-end).

New lending of €12.3bn in 2019 was up from €12.1bn in 2018. Across our core segments, new mortgage lending increased 8% to €3.0bn and personal lending increased by 15% to €1.0bn. With the Irish economy continuing to perform well, corporate credit demand remained solid. We saw increased lending to the renewable energy sector, offset by lower syndicated and international lending. Notwithstanding the fact that Brexit

1. Before bank levies, regulatory fees and exceptional items. CIR including these items was 82% in 2019 (2018: 63%). For exceptional items see pages 56 and 65.

uncertainty remained an ongoing theme in the SME sector, new lending to the sector increased by 7%. In the UK, new lending of £2.1bn, an increase of 7% on the previous year, was focused on our chosen defensive sectors such as renewable energy and healthcare.

Structure

In order to further simplify AIB's operations, we have reorganised our structure around two core segments: Retail Banking and Corporate, Institutional & Business Banking. I have also made a number of changes to our Executive Committee in recent months, including the announcement of Jim O'Keeffe as the new Managing Director of Retail Banking. Cathy Bryce returned to the Group in August 2019 to lead the Corporate, Institutional & Business Banking segment. In the UK Brendan O'Connor, Managing Director of AIB UK will leave the Group later in 2020 and I thank him sincerely for his dedicated work in AIB over 35 years. Robert Mulhall has been announced as Managing Director Designate for AIB's UK business. Mary Whitelaw has been appointed Director of Corporate Affairs and Strategy. Geraldine Casey was appointed AIB's Chief People Officer in January 2020. I believe that the executive team has the right blend of skills and experience to deliver our strategy and back our customers over the coming years. The latest appointment to our Executive Committee in January 2020 means that our Executive Committee will be gender balanced in 2020. In addition, AIB was recognised in the second 'Balance for Better Business' report for having one of the most gender-balanced boardrooms in Ireland, with five women on its 10-strong non-executive board.

Culture and our people

With nothing short of transformation required in banking's reputation, the AIB Board has set a cultural ambition for the organisation. This consists of adopting evolved values and articulated behaviours that involve the delivery of high quality service and fair outcomes to our customers.

Our people are the heartbeat of this business, and their support and engagement is critical for our success. A three year Wellbeing Programme was developed by our employees for our employees. The Wellbeing Programme has trained 100 Wellbeing Advocates across the business to locally lead and promote programme initiatives and activities.

In terms of our employee engagement, our iConnect results showed an 88% participation rate, which is a 1% reduction from 2018, and our employee engagement levels moved from the 72nd to the 64th percentile of companies in the Gallup global database. We have been reflecting on the messages conveyed by the survey and are committed to continuing to focus on making AIB an even better place to work over the years ahead.

AIB Executive Committee

OUR NEW THREE-YEAR STRATEGY TO 2022 SEES THE INTRODUCTION OF AN ADDITIONAL STRATEGIC PILLAR – SUSTAINABLE COMMUNITIES

AIB customer, Oweninney Wind Farm in Co Mayo.

Digital

As Ireland's leading digital bank, we provide the broadest, and most used array of digital customer offerings to help make our customers' lives easier while also providing leading security features to ensure their peace of mind. Our levels of active users and their levels of usage of our platforms demonstrate how popular and effective our digital channels truly are.

We listen to our customer feedback and always monitor industry developments to ensure we are up to date and are also constantly adding to and enhancing our digital offering. We will continue to invest in our digital technology to allow us to drive further efficiencies and deliver an exceptional customer experience.

Sustainability strategy

We continue to describe our strategy through the pillars – Customer First, Simple & Efficient, Risk & Capital and Talent & Culture. Our refreshed three-year strategy to 2022 sees the introduction of an additional strategic pillar – Sustainable Communities – which sets out a clear direction for this important agenda. In essence, sustainable finance and climate action now have an elevated position as core strategic priorities and this is reflected right across our agenda for business and investment.

Further details on the progress made in 2019 against our strategic pillars are contained in a later section of this report. We have now published our fourth Sustainability Report which outlines the progress AIB is making in response to the key social, environmental and economic issues.

In 2019, we made a meaningful contribution to the communities in which we operate by providing better banking experiences for our customers through focusing on continuous improvement. For example, we completed the roll-out of the Express Mortgage Journey. As regards investing to support economic progress and social issues, we funded multiple projects which will deliver new housing units as well as sponsoring community investment through our AIB Together Programme.

We recognise that supports are needed to help change all our behaviours, individually and societally, as we transition to a lower-carbon economy. Reinforcing our support for Ireland's programme to address climate change, we sponsored Climate Finance Week Ireland in November 2019. We also launched a new 5-year fixed green mortgage. Our green mortgage complements our existing customer proposition of choice and value, offering low variable rates as well as highly competitive fixed rates, providing longer term value and certainty. We launched a green bond framework, became a Founding Signatory of the United Nations Environment Programme - Finance Initiative (UNEP FI). We also became a Supporter of the Task Force on Climate-related Financial Disclosures (TCFD). I look forward to further aligning our activities to the UN Sustainable Development Goals and the Paris Agreement.

Outlook

The Irish economy enjoyed another strong year in 2019, despite the challenges posed by a slowdown in the global economy and persistent uncertainty around Brexit that weighed on business investment. We remain alert to the threat of Brexit and its possible negative outcomes. Agri-business, farms and companies that rely on the UK export market are of course unsettled and, as their bank, AIB will continue to support these customers.

Against this backdrop, our strategy to 2022 seeks to find the appropriate balance between investing to sustain

WE REMAIN ALERT TO THE THREAT OF BREXIT AND ITS POSSIBLE NEGATIVE OUTCOMES

competitiveness while delivering attractive returns.

In effect, our strategy over the next three years will allow us to further underpin a robust balance sheet, grow our lending and defend our mortgage business where we already hold a 31.4% market share, reduce our organisational complexity, and cost control our organisation. We will continue to be the go-to bank for digital offerings.

The Group's performance in the strategic and tactical management of cost will be a critical determinant of AIB's ability to generate equity returns. Further details on our refreshed strategy and targets are outlined on pages 25 to 31. Following a large amount of change across the Group, I am satisfied that AIB is now well-organised to deliver our strategy and meet our new three-year targets.

As Chief Executive Officer, another key priority is to see the full recovery of the investment made by the State as the bank returns, over time, to full private ownership. We will ensure AIB remains positioned to allow the Government recoup its investment when markets are more buoyant and at a time of their choosing.

Meanwhile I would like to thank my fellow Board and Executive Committee members, and all my colleagues across the Group for the support I have received since taking over as Chief Executive Officer a year ago. I very much look forward to working with them to deliver our refreshed three-year strategy and financial targets for AIB.

I want to give special thanks to our Chairman Richard Pym who is stepping down as Non-Executive Chairman of AIB Group plc. Richard has served AIB Group with great distinction over the course of the past five years. He has used his vast pool of experience and wisdom to guide the Group's development and has carried out all his duties with energy and professionalism. Under his chairmanship, AIB has gained in strength and stability and is well positioned for the challenges and opportunities that lie ahead. At a personal level, Richard has been a vitally important guide since I re-joined AIB in 2016 and in particular since my appointment as Chief Executive Officer in March of last year. The Group is in the process of identifying the next Chair and an announcement will be made in due course.

I am extremely honoured to be Chief Executive Officer of a bank that is dedicated to playing a practical role in supporting the economy and our citizens to whom we owe so much. Our stakeholder expectations are high and we will strive to ensure we do not disappoint. Thank you.

COLIN HUNT
Chief Executive Officer
5 March 2020

DAILY USER INTERACTIONS

	DAILY USER INTERACTIONS	ATM INTERACTIONS	MOBILE INTERACTIONS	INTERNET BANKING LOGINS	CONTACT CENTRE CALLS	BRANCH TRANSACTIONS	KIOSK /TABLET LOGINS
2019	1.93m	199k	1.54m	90k	17k	91.5k	12k
2013	880k	432k	148k	208k	18k	77k	—

2019 HIGHLIGHTS

AIB IN 2019

PRINCIPLES FOR RESPONSIBLE BANKING

In September AIB became a Founding Signatory of the United Nations Environment Programme – Finance Initiative (UNEP FI), committing to align our business with the Sustainable Development Goals and the Paris Agreement on Climate Change. In that same month, AIB also became a supporter of the Task Force on Climate-Related Financial Disclosures (TCFD).

SUPPORTING HOUSING SUPPLY

In 2019, AIB invested in development projects to deliver an expected 8,200 housing units. Of these, over 900 units will be newly built social housing. One example of the kind of projects we backed is the landmark finance package AIB funded in December for the Circle Voluntary Housing Association, which plans to deliver 250 social and affordable housing units over the next 12 months.

SUSTAINABLE COMMUNITIES

AIB Together is our Group-wide community programme. Each member of staff has two volunteer days a year to support local charities of their choice including FoodCloud and Soar, our official Community Partners. In July, EBS became the main sponsor of the inaugural Volunteer in Sport Awards.

FRAMING THE FUTURE

In September, we launched a Green Bond Framework in line with the globally recognised International Capital Markets Association (ICMA) green bond principles. The bond will support lending to projects in energy-efficient building, renewable energy, CO_2 reduction and other climate-related initiatives.

BACKING CLUB AND COUNTY

In 2019 we entered our 29th year supporting the #Toughest players, clubs and communities across the island of Ireland. AIB's partnership with the GAA incorporates title sponsor of the AIB GAA Club Championships in hurling, football and camogie, across Junior, Intermediate and Senior levels as well as sponsor of the Senior Football Championship.

SUPPORT FOR VULNERABLE CUSTOMERS

Every day we support customers who are impacted by difficult issues including financial abuse, dementia, mental health, accessibility and more. In 2019, we enhanced our Vulnerable Customer Programme, providing more support to our customer -facing colleagues and establishing a Vulnerable Customer Support Team to assist with complex cases and liaise with advocacy groups. We also published a guide for customers dealing with bereavement; 'What to do When Someone Dies' provides clear, step-by-step advice.

SUPPORTING CLIMATE FINANCE WEEK IRELAND 2019

AIB was the main sponsor of Climate Finance Week Ireland (CFWI19), which took place on 4-8 November. The annual AIB Sustainability Conference featured as a key event of the week's schedule, with keynote speakers Jeff Furman (Ben & Jerry's Foundation), Sue Garrard (formerly Unilever) and Sir David King (University of Cambridge) addressing an audience of over 400 business leaders. We also launched our DO MORE campaign during CFWI19.

FINTECH CAPABILITY

AIB and First Data Corporation received regulatory approval to acquire a 95.9% stake in payments firm Payzone in October. AIB holds a 75% stake in the joint acquisition with First Data Corporation taking the remaining 25%. Payzone is the largest consumer payments network in Ireland, with more than 7,000 retail agents and more than 300,000 registered users.

MARKET-LEADING DIGITAL INNOVATION

AIB's Mobile Banking App is the No. 1 Irish mobile banking app. In June 2019 we hit the 1 million active mobile customer milestone in Ireland, which increased to 1.3 million by year-end. With our customers making 2.9 million secure transactions a month on mobile, the introduction of card freeze/unfreeze in 2019 provided even more flexibility.

GREEN LENDING

In June, we committed to making €5bn available to support Ireland's transition to a lower-carbon economy. And in November we offered a competitive five-year fixed rate mortgage to new and existing AIB private dwelling house (PDH) mortgage customers whose property has a building energy rating (BER) between A1 and B3.

SUCCESSFUL YEAR IN DEBT CAPITAL MARKETS

In 2019, AIB successfully issued four bonds in Debt Capital Markets totalling €2.6bn (HoldCo Senior $1bn and €750m, AT1 €500m and Tier 2 €500m). Every transaction was oversubscribed and order books were characterised by geographically diverse quality institutions. The year closed with total MREL eligible issuance of €4.3bn, which represents 86% of our MREL requirements. Along with two credit rating upgrades this year (Fitch, Moody's), this positions AIB well for further bond issuances.

AIB EXPRESS MORTGAGE

Following enhancements to our mortgage offering, six out of every 10 new mortgage applications nationwide were on our Express Mortgage journey by the end of 2019. This new digital journey gives customers an approval in principle within one hour and the ability to progress their application online.

A CONVERSATION ABOUT CULTURE

In September, over 800 members of our staff, representing all business areas and career levels, had their say about the existing culture in AIB. An initiative of the Diagnostic phase of our Group-wide multi-year Culture Evolution Programme, the results of these 'Culture Conversations' provided a foundation for the Board and Executive Committee to formulate a Cultural Ambition for AIB.

OVERVIEW OF THE IRISH ECONOMY

EXPECT CONTINUED GROWTH, DESPITE UNCERTAINTY

Rising employment, spending and exports made for a strong year of growth in 2019.

+18%
HOUSING COMPLETIONS

+2.9%
EMPLOYMENT

+4.3%
CORE RETAIL SALES

The Irish economy performed strongly again in 2019, despite the challenges posed by ongoing uncertainty in relation to Brexit and a marked slowdown in global growth. Latest National Accounts data show that GDP grew by 6% in the first three quarters of the year.

Consumer spending continued to grow at a solid pace in 2019, underpinned by rising employment and wages. Core retail sales (excluding the motor trade) rose by 4.3% in the year. Total car registrations (new and second-hand imports) in 2019 matched the high levels achieved in the previous year.

Business investment was subdued in 2019, held back by the uncertainty around Brexit and slowdown in the global economy. Nevertheless, a good measure of domestic economic activity, modified final domestic demand, grew by 3.5% year-on-year in Q3 2019.

Exports also performed well in 2019. Notably, service exports rose by almost 14% in the first three quarters of the year.

The labour market

Labour market data for 2019 also paint a very encouraging picture of the economy. They show that employment rose by 2.9% for the third consecutive year, with the number at work increasing by 80,000 over the course of 2019.

Meanwhile, the unemployment rate continues to decline, albeit at a somewhat slower pace than in recent years. The jobless rate fell to 4.7% in the final quarter of 2019, down from 5.6% a year earlier. Most encouragingly, the long-term unemployment rate fell to just 1.6% in 2019. The economy, therefore, is getting very close to full employment.

The housing market

Construction output was up by 2.4% in the first three quarters of the year, driven by the continuing pick-up in house-building activity. New house completions rose by 18% to 21,241 in 2019, up from 17,952 in 2018. This is still well short of annual housing demand, which is widely estimated at circa 35,000 units.

House price inflation decelerated sharply last year despite the ongoing shortage of houses, falling to 0.9% year-on-year in December, well below the peak rate seen in 2018 of over 13%. Indeed, house prices fell in Dublin during 2019. Rents, though, continued to rise and were up by 4.3% year-on-year in December.

Lending activity

The ongoing recovery in housing activity was reflected in further growth in mortgage lending. It grew by 9.5% to over €9.5bn in 2019, up from €8.7bn 2018 and €7.3bn in 2017.

New lending in the SME sector was subdued in 2019, held back by the uncertainty around Brexit. Central Bank data show new lending to the SME sector amounted to €2.5bn to end September, virtually unchanged from the same period in 2018.

Total household debt continued to decline in 2019, falling to €135bn by the third quarter, from €137.5bn at end 2018. Household indebtedness has fallen by one-third from its peak of €203bn at end 2008. Not surprisingly then, there has also been a marked decline in the household debt/disposable income ratio in the past decade. It stood at 116% in Q3

THE ONGOING RECOVERY IN HOUSING ACTIVITY WAS REFLECTED IN FURTHER GROWTH IN MORTGAGE LENDING

2019, down from 123% at end 2018 and its peak of 212% seen at the start of the decade. The ratio has now returned to 2003 levels, when the rapid growth in credit in Ireland was just getting underway.

Brexit

The UK left the EU on 31 January 2020 after Parliament approved a revised Withdrawal Agreement. This includes a transition period to end 2020, during which time the existing EU trading rules will remain in place. The UK hopes to conclude a trade deal with the EU before end 2020 that will frame the basis for its future trading relationship with Europe. These trade talks are likely to prove very difficult. Considerable uncertainty will persist about Brexit until the future trading relationship is finalised.

UK economy overview and outlook

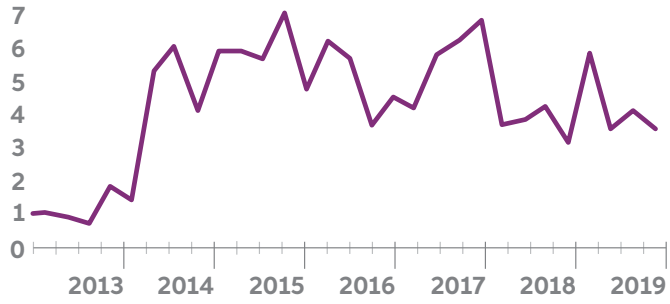
The pace of activity remained subdued in the UK last year, with the uncertainty around Brexit holding back investment in particular. GDP rose by 1.4% in 2019 after growth of 1.3% in 2018, the slowest growth rates seen since the financial crisis a decade ago. Continuing uncertainty about the future trading relationship with the EU could dampen economic activity again in 2020.

Outlook for the Irish economy

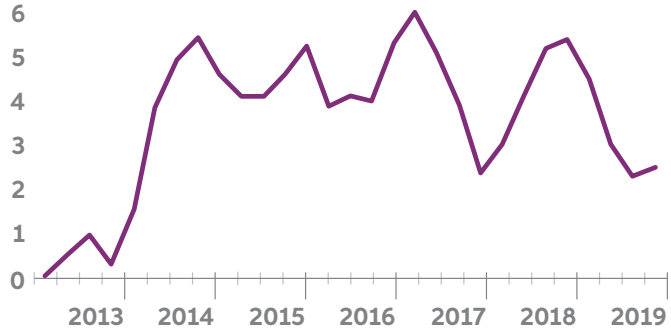
Leading indicators of Irish activity softened in 2019 as the world economy lost momentum. Nonetheless, the prospects remain favourable for the Irish economy in 2020. Growth should be underpinned by continuing low interest rates, rising employment and incomes, the ongoing rebound in housing activity, as well as a mildly expansive stance to fiscal policy. This should result in a solid rise in new lending activity in 2020.

Finally, the coronavirus is a new downside risk for global growth this year. The measures to contain the virus are already disrupting supply chains and having a negative impact on some sectors of the world economy. Ireland as a small open economy will be impacted by these global trends. It is hoped that the measures to contain the virus prove successful, which would allow activity in impacted sectors to rebound as the year progresses.

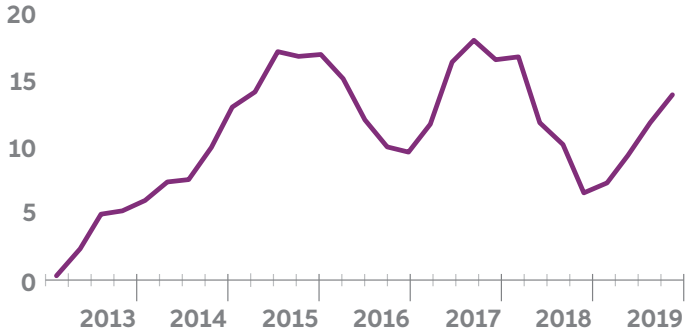
Core Retail Sales (YoY, %)



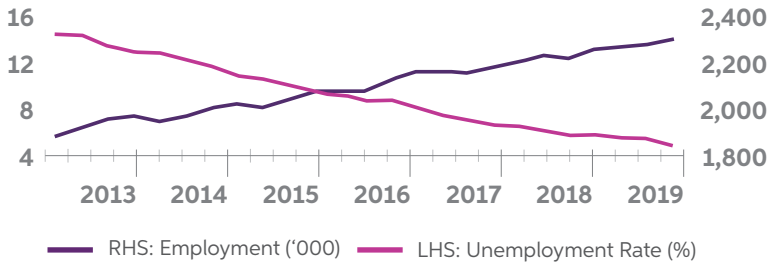
Modified Final Domestic Demand (3 Qrt Mov Avg, YoY, %)



Service Exports (3 Qrt Mov Avg, YoY, %)



Employment ('000) & Unemployment Rate (%)



Household Debt / Disposable Income Ratio %

OUR STRATEGY

2019 OUTCOMES

In 2017, we set a number of targets for both financial and non-financial activities.

CUSTOMER FIRST

MEASURE		OUTCOMES 2019	FINANCIAL & NON-FINANCIAL TARGETS[1]
RELATIONSHIP NET PROMOTER SCORE (NPS)	A measure of our customers' overall AIB relationship experience	34 Personal 20 SME	50+
TRANSACTION NET PROMOTER SCORE (NPS)	Measured after customer transactions for key touch points	53 Homes 60 SME	50+ Homes 60+ SME

SIMPLE & EFFICIENT

CHANNEL TRENDS	% of our active customers transacting via digital and direct channels	59.1%	62%+
COST INCOME RATIO (CIR)[2]	Financial benchmark of efficiency	56%	<50%

RISK & CAPITAL

RETURN ON TANGIBLE EQUITY (ROTE)[2,3]	A measure of how well the bank deploys capital to generate earnings growth	3.6%	10%+
CET1 RATIO (FULLY LOADED)[2,4]	A measure of our ability to withstand financial stress and remain solvent	17.3%	>13%
NON-PERFORMING EXPOSURES	Lower NPEs are a measure of improving asset quality	€3.3bn (5.4%)	c. 5%
NET INTEREST MARGIN (NIM)[2]	A measure of the difference between the interest income generated and the amount of interest paid out relative to interest-earning assets	2.37%	2.40%+

TALENT & CULTURE

DIVERSITY	Women as % of management	41.5%	40%
ENGAGEMENT	Employee engagement relative to worldwide Gallup client population	64th Percentile	Top quartile

1. All targets are long-term, with the exception of medium-term financial targets communicated to the market on 9 March 2017.
2. Medium-term financial targets communicated to the market on 9 March 2017; CIR <50% by end 2019.
3. See the 'Capital' section on page 70 for further information.
4. See the 'Capital' section on page 67 for further information.

OUR STRATEGY

A NEW STRATEGIC CYCLE

2020 marks the beginning of a new strategic cycle for AIB Group, having examined macroeconomic developments, industry trends and our own business priorities.

Our strategic ambition is to be at the heart of our customers' financial lives by responsibly and comprehensively meeting their life-stage needs, aiming to be a sustainable, capital-generative and efficient business. We describe our business and strategy through five strategic pillars. The following pages contain further information on our strategy to 2022.

OUR STRATEGY

STRATEGY 2022

Our business strategy aims to achieve a balance between investing to sustain competitiveness while delivering attractive returns.

A FIVE-PILLAR STRATEGY

In refreshing our strategy to 2022 we set both a strategic and financial ambition for AIB Group, both of which speak to our ambition to provide a broad range of financial services.

In an evolution of our four-pillar 2017-2019 strategy, we have added Sustainable Communities as a fifth pillar, reflecting our ambition to be both a leading financial institution in climate action and a meaningful part of the communities in which we operate. Our primary objectives to 2022 are: to simplify our business in order to increase efficiency; to defend our income in an increasingly competitive environment; to diversify our products and services; and to further control our business costs.

Our purpose remains: to back our customers to achieve their dreams and ambitions.

PURPOSE

To back our customers to achieve their dreams and ambitions.

STRATEGIC AMBITION

We will be at the heart of our customers' financial lives by responsibly and comprehensively meeting their life-stage needs.

STRATEGIC PILLARS

CUSTOMER FIRST

SIMPLE & EFFICIENT

RISK & CAPITAL

TALENT & CULTURE

SUSTAINABLE COMMUNITIES

FINANCIAL AMBITION

A sustainable, capital-generative and efficient business.

FINANCIAL TARGETS

Cost[1]: €1.5bn	CET1: >14%	RoTE[2]: >8%

For more information on the governance of our strategy 2022 development, see page 35.

1. Costs before bank levies and regulatory fees and exceptional items.
2. See the 'Capital' section on page 70 for further information.

STRATEGIC OUTCOMES 2022

In line with our strategic and financial ambitions, we anticipate eight outcomes of our three-year strategy to 2022, as listed below. With a continued focus on significantly enhancing the experience of all our customers, we aim to grow our business organically and diversify our income to reflect the challenging interest rate environment. And as the No. 1 digital bank in Ireland, we can leverage our market-leading platform by enhancing and integrating more key customer journeys.

In all our actions, we will maintain a mindset that takes into account the expectations of all our stakeholders.

A ROBUST BALANCE SHEET

We will maintain a high-quality balance sheet in order to back our customers through potentially more challenging economic times.

MEETING LIFE-STAGE NEEDS

We will develop life-stage appropriate products and services to continually meet our business and personal customers' needs and maintain a competitive advantage.

REDUCED ORGANISATIONAL COMPLEXITY

We will simplify the business and digitise where appropriate for the benefit of our customers.

STRONG MORTGAGE ADVANTAGE

We will invest to maintain our No. 1 position in the Irish mortgage market, with a particular focus on digital.

A COST-CONTROLLED ENVIRONMENT

We will address costs in a structured manner, driving efficiency and innovation in our business.

A SIGNIFICANT SUSTAINABILITY CONTRIBUTION

We will support the transition to a low-carbon economy and make a meaningful contribution to the communities in which we operate.

DIVERSIFIED INCOME GROWTH

We will organically diversify our income to sustain underlying profitability, particularly in the current interest rate environment.

A STAKEHOLDER MINDSET

We will build a world-class culture and consistently meet expectations across our five stakeholder groups: customers, employees, investors, society and regulators.

A CONTINUED FOCUS ON SIGNIFICANTLY ENHANCING THE EXPERIENCE OF OUR CUSTOMERS

OUR STRATEGY

STRATEGIC TARGETS

We have set a number of financial and non-financial targets for both the medium-term and long-term in line with our strategy.

- MEDIUM-TERM (END 2022)
- LONG-TERM

CUSTOMER FIRST

We put our customers at the heart of our organisation, providing the full range of their financial needs conveniently and responsibly. We use technology to personalise our product and service offerings.

MEASURE	LONG-TERM TARGETS
RELATIONSHIP NET PROMOTER SCORE (NPS) A measure of our personal customers' overall AIB relationship experience	50+
TRANSACTION NET PROMOTER SCORE (NPS) Measured after customer transactions for key touch points	60+ HOMES; 70+ SME

SIMPLE & EFFICIENT

Our organisation, technology and partnering strategies drive efficiency in our back-, middle- and front-office operations. We foster a culture of cost-awareness and accountability, simplifying our processes and ways of working.

MEASURE	MEDIUM- AND LONG-TERM TARGETS
ABSOLUTE COST[1] BASE Cost of running the business, excluding exceptional costs	€1.5bn
ACTIVE MOBILE USERS Number of active users on mobile platform	>2 million

1. Costs before bank levies and regulatory fees and exceptional items.

RISK & CAPITAL

We maintain a strong risk management framework, high asset quality and robust capital levels. We deploy our capital efficiently through effective risk model development, evolved risk pricing and our strategic business model choices.

MEASURE	MEDIUM-TERM TARGETS
RETURN ON TANGIBLE EQUITY[1] A measure of how well capital is deployed to generate earnings growth	>8%
CET1 RATIO (FULLY LOADED) A measure of our ability to withstand financial stress and remain solvent	>14%

TALENT & CULTURE

We ensure that we have the right talent, skills and capabilities within the organisation to fulfill our purpose and execute our strategy. We enable talent effectiveness through a diverse and inclusive culture that is built on accountability, collaboration and trust.

MEASURE	LONG-TERM TARGETS
DIVERSITY Women as % of management	GENDER BALANCED
ENGAGEMENT Employee engagement relative to worldwide Gallup client population	TOP QUARTILE

SUSTAINABLE COMMUNITIES

We play a leadership role in creating innovative propositions and partnerships to help our customers in the transition to a low-carbon economy. We make a meaningful contribution to the sustainability of the societies where we operate.

MEASURE	MEDIUM- AND LONG-TERM TARGETS
REDUCTION IN EMISSIONS % proportion of our emissions reduction versus 2014 baseline	50% BY 2030
ESG RATING Composite measure based on selected ESG rating agencies	ABOVE AVERAGE

1. See the 'Capital' section on page 70 for further information.

OUR STRATEGY

FOCUS ON SUSTAINABILITY

We pledge to DO MORE.

Climate change continues to emerge as the greatest challenge of our time. We recognise the important responsibility financial institutions have to support the transition to a low-carbon economy. While this issue requires a long-term outlook, action is necessary now. This is why AIB has placed sustainability at the heart of our strategy.

Our detailed Sustainability Report outlines the progress AIB Group made in 2019, including the launch of products such as our green mortgage and commitments such as becoming a Founding Signatory of the United Nations Environment Programme – Finance Initiative (UNEP FI). You can read this report, as well as related accreditations, codes and policies on **www.aib.ie/sustainability**

We will support the transition to a low-carbon economy and make a meaningful contribution to the communities in which we operate.

CLIMATE ACTION

Leading Ireland's transition to become a low-carbon economy.

BETTER BANKING EXPERIENCE

Building better banking experiences and products with a focus on continuous improvement and learning from our mistakes.

ECONOMIC & SOCIAL INCLUSIVITY

Actively investing to support economic progress and social issues.

RESPONSIBLE & RESILIENT TECHNOLOGY

Protecting the privacy, security and integrity of our data and systems to ensure responsible practices and resilient technology.

CULTURE & ACCOUNTABILITY

Build a world-class culture that is underpinned by our values, behaviours and actions.

SUSTAINABLE DEVELOPMENT GOALS

Read more in our Detailed Sustainability Report 2019: aib.ie/sustainability

In 2019, we launched our DO MORE campaign

Our pledge to Do More.

Over the last number of years at AIB we have been working to build a more sustainable business.

We've invested in wind energy projects, launched a €5 billion Climate Action Fund and created a Green Mortgage.

And yet, it's still not enough.

And we will keep telling ourselves that every day.

AIB alone is not the solution to climate change, but we are doing everything we can to be a part of it.

AIB. We pledge to **DO MORE**.

AIB

AIB Sustainability

Our Green Mortgage is NOT enough.

We pledge to **DO MORE**.

AIB Sustainability

AIB

Our investment in wind farms is NOT enough.

We pledge to **DO MORE**.

AIB Sustainability

AIB

Our €5 billion Climate Action Fund is NOT enough.

We pledge to **DO MORE**.

AIB Sustainability

AIB

GOVERNANCE IN AIB

CORPORATE GOVERNANCE IN ACTION

As new members joined in 2019, AIB's Board oversaw matters such as culture, strategy and Brexit preparedness.

Through a year of substantial change on the Board, the role of corporate governance in ensuring effective Board decision-making has been of paramount importance.

The Board is committed to upholding high standards and seeking continual enhancements. AIB's corporate governance standards are implemented by way of a comprehensive suite of frameworks, policies, procedures and standards. Such standards are overseen by the Nomination & Corporate Governance Committee and are further detailed in the Corporate Governance Report within the 'Governance and oversight' section of this Annual Financial Report on pages 178 to 192.

Below are a number of examples which, at a high level, demonstrate our strong corporate governance standards throughout the year.

Succession planning and induction

Succession planning for both the Board of Directors and Executive Committee (ExCo) was a key focus of the Nomination and Corporate Governance Committee, and the Board as a whole, in 2019. This was coupled with rolling out induction programmes for five new Non-Executive Directors appointed during the year.

In anticipation of Ms Catherine Woods' retirement in October 2019 and Mr Richard Pym indicating his intention to

AIB was recognised in the 2019 Balance for Better Business report as having the joint-most gender balanced boardroom in Ireland

retire in March 2020, a search process was undertaken to identify the next Deputy Chair, Senior Independent Director and Chair Designate. The Group is in the process of identifying the next Chair and an announcement will be made in due course. Following a review of our current Board composition, Mr Brendan McDonagh was appointed as Deputy Chair and Mr Tom Foley as Senior Independent Director.

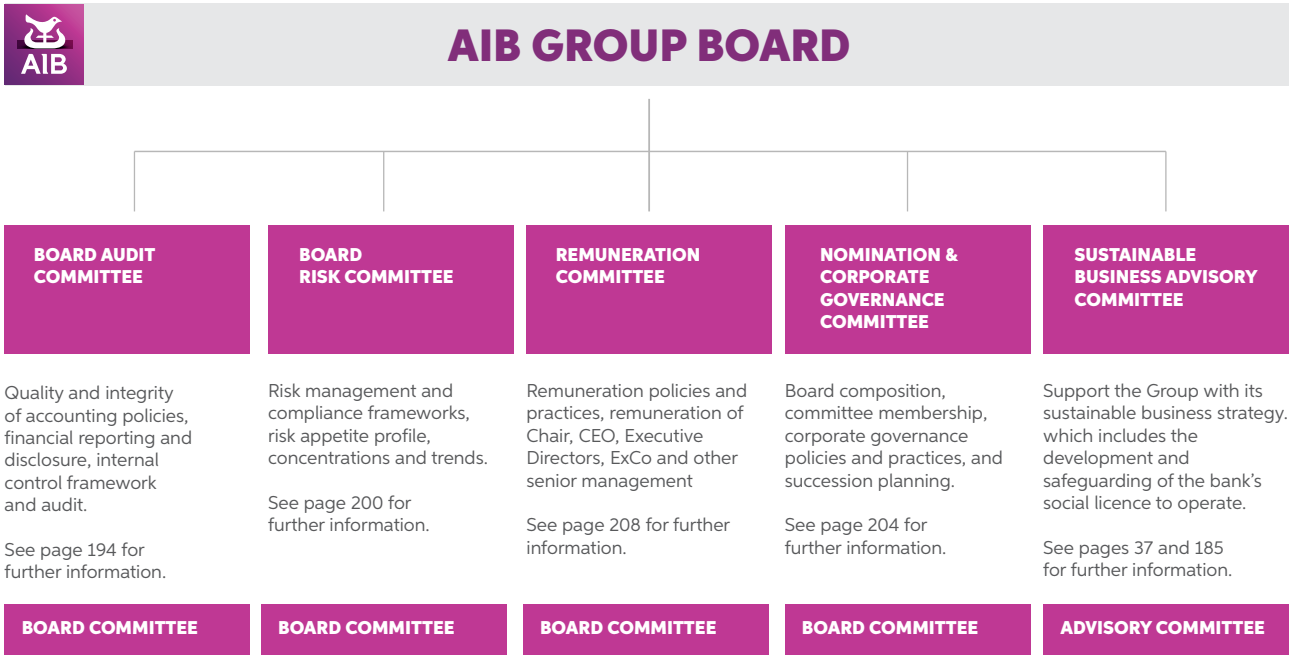
Director searches are underway to ensure the Board skills and experience remain at their current high standard.

Led by the Chief Executive Officer in conjunction with our Human Resources function, succession planning at Executive level was also a key focus in 2019. A number of new appointments were made to our Executive Committee as detailed

DIVERSITY IS AN IMPORTANT FACTOR IN SUCCESSION PLANNING – BOTH AT BOARD AND EXECUTIVE LEVEL

The Nomination & Corporate Governance Committee, on behalf of the Board, has identified a number of key skills required of its directors. In considering its succession planning, the Committee refers to that skills matrix to ensure the Board is comprised of a strong cross-section of experience and knowledge and an appropriate balance of skills. The key skills comprise, but are not limited to, retail and commercial banking, risk management, strategy development, stakeholder management, digital focus, customer focus, culture, leadership and governance. In light of a review of the skills matrix, two additional Non-Executive in the biography section of this Annual Financial Report on pages 46 to 47. Moreover, external mapping of role profiles and identification of potential successors in comparable industry roles was completed for a number of Executive Committee roles. As a result, the succession plan is well positioned to ensure the strength of leadership of the Group going forward.

Diversity is an important factor in succession planning both at Board and Executive level. Positively, it has resulted in both the Board and Executive Committee reaching the highest levels of gender



balance in the Group's history. To ensure consistent oversight, diversity in gender at management level was included as part of the 2019 balanced scorecard delivered to the Board on a quarterly basis.

Culture development

The current culture across the Group and its cultural ambitions were front and centre of the Board's mind in 2019. The Board is committed to creating and nurturing the right culture in AIB in order to fulfill our purpose and achieve our strategic objectives.

The Board were fully engaged in the culture programme in 2019, dedicating significant agenda time for discussion, debate and providing overall direction to the development of the programme. The Board attended a session as part of a deep dive on the topic of culture, where the Board was briefed, inter alia, on the intrinsic links between culture and strategy and the development of cultural ambitions. Following this session, consideration of the topic continued through an open forum discussion between the Board, Executive Committee, and staff representatives from across the Group who shared their direct and personal views of, and experiences in, the Group to date.

It was acknowledged that a long-term programme was needed to enhance the Group's reputation and culture and 'prove by doing' to rebuild trust with our customers and wider society. The Board's ambition, and that of the Executive Committee, is to be the leader on culture across the industry. The Chairman noted that, while enhancing the culture and reputation of the Group was a lengthy and challenging journey, commitment levels are high and the results would be immense.

As such, the Culture Evolution Programme was set up with a view to creating a multi-year programme of activity to enhance the culture in AIB. In September, employees were invited to take part in live 'Culture Conversations', the results of which provided a solid foundation for the Board to formulate AIB's cultural ambition.

Through the work on cultural evolution, the Board aimed to dissect and truly understand the issues emerging from employees, agree tangible actions for execution and assess progress. The

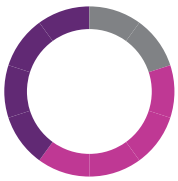
AIB NON-EXECUTIVE DIRECTORS

GENDER DIVERSITY

Female: 5
Male: 5

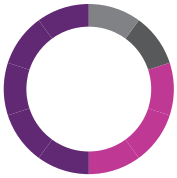
AGE

46-55: 4
56-65: 4
66-75: 2



BOARD TENURE

0-2 years: 5
2-4 years: 3
4-6 years: 1
6-8 years: 1



NATIONALITIES

Irish: 7
British: 2
American: 1

Board took part in a number of 'Out and Abouts' where they met with, and received feedback from employees across the business in both office and branch environments.

2020-2022 strategy development

2019 saw the conclusion of our 2017-19 strategy and the development of the 2020-22 strategic plan which was robustly reviewed and challenged at the Board and Executive Committee offsite in November and formally approved in early 2020. Prior to that, the Board reviewed and challenged the strategic plans at various points throughout the year as detailed below. Further details of the 2020-22 strategic plan are contained in the "Our Strategy" section earlier in this Annual Financial Report.

February 2019
Strategy framework review and approval

March 2019
Ambition framework review and approval

April 2019
External environment review

July 2019
Strategy update (ambition, strategic alignment, plan for November offsite)

November 2019
Strategy offsite to include ambition and strategy, strategic calls, targeted outcomes, financial plan, risk review, strategy into action

December 2019
2020-22 group strategy and financial plan review

January/February 2020
Group strategy and financial plan approval

Brexit

Whilst the likely outcome and impact of Brexit was unknown for much of the year, the Board requested that an update be provided at regular intervals, with as much time being devoted by the Board as necessary.

A Brexit Steering Group was set up and provided regular updates directly to the Board, including: an assessment of the macroeconomic environment; an update on the approval and withdrawal process as relevant; and an assessment of the impact on key UK and Ireland Brexit Economic Indicators. Such indicators included the EUR/GBP exchange rate, the Purchasing Managers Index, retail sales, the unemployment rate and tax receipts.

To further assure themselves of the Group's readiness, the Board requested a deep dive as to principles to be applied and actions which would be taken to manage the business risk in a hard Brexit environment. As a result of same, operating principles were established which included a playbook for a vast array of individual scenarios that could potentially occur in a hard Brexit. The Board also endorsed additional governance steps to bolster management's ability to support at-risk customers and to ensure credit was provided in a timely manner to sustainable customers.

The Board received updates on the internal operational contingency plan and the capability of the Group to serve our customers post any Brexit-associated deadlines. Through such updates from the Brexit Steering Group, the Board was satisfied that all possible contingency actions had been taken to ensure customers faced minimal disruption and the sustainability of the business could be maintained through a wide range of potential outcomes. Further information on Brexit and its presence as a key theme on our risk agenda is detailed on page 77.

GOVERNANCE IN AIB

ENGAGING WITH OUR STAKEHOLDERS

The Board regularly engages with each of AIB's five stakeholder groups in order to understand their views and take them into consideration when making decisions.

The approach of the Board to stakeholder engagement aligns with the UK Corporate Governance Code 2018, which applies to the Group by virtue of its premium listing on the London Stock Exchange. Whilst not directly applicable to the Group due to it being a provision of UK company law, the Board welcomes the fresh stance on stakeholder engagement introduced in 2019 under section 172 of the UK Companies Act 2006. The Board acknowledges the benefits of considering the spirit intended by such provisions as part of its decision making process. Further detail on how the Board engages with its stakeholders is set out below.

	WHO	WHY	HOW
OUR CUSTOMERS	Our purpose is to back our customers to achieve their dreams and ambitions. Our 2.8 million customer relationships are managed by dedicated teams across Retail Banking, CIB and AIB UK.	One size does not fit all, however, we acknowledge that all our customers desire simple and efficient services and interactions across all our channels. To this end, the Board strives to make decisions that foster that simple and efficient approach.	Focus on the Customer First pillar in decision-making. Minimise and effectively limit conduct related issues to quickly resolve customer impact. Regular Board oversight of Net Promoter Scores, complaint metrics, RepTrak metrics and, importantly in 2019, potential Brexit impacts.
OUR EMPLOYEES	As at 31 December 2019, AIB employed 9,520 people across Ireland, the United Kingdom and the United States of America.	The Board is acutely mindful that our people are the key resource and enabler for the Group to deliver its overall ambitions. Ensuring we have an engaged workforce of strong calibre and reputation is critical to delivery for all of our stakeholders, as well as ensuring our employees are satisfied in work.	Internal structures, on which the Board receive updates include: Speak Up, ongoing engagement with Financial Services Union, Workplace Options, Employee Resource Groups, iConnect engagement, Culture Evolution Programme. Meetings of the Board and employees, formally by invitation to Board events and informally in 'Out and Abouts'.
OUR INVESTORS	We have a diversified range of institutional and individual investors. The Irish State is a significant shareholder of the Group.	In order to ensure maximum potential investor return, the Board aims to lead the Group in meeting its financial and non-financial targets, while fostering a culture of cost awareness and accountability to ensure maximum potential investor return.	Ensuring continued compliance with relevant legislation, regulations etc. Meeting our shareholders at our AGM. Information on our website. Regular updates on our investor relations programme including investor engagement and feedback. Board training session on market views of an institutional investor.
SOCIETY	Society as a whole permeates all of our stakeholder considerations and also forms a large part of our sustainability agenda.	In our general business practice, targeted lending activities and societal endeavours, we strive to make a meaningful contribution to the sustainability of the communities in which we operate.	Focus on the Group sustainability agenda includes the work of the Sustainable Business Advisory Committee (SBAC) and the production of the Sustainability Report. Addition of Sustainable Communities as a fifth strategic pillar.
REGULATORS	Including the Central Bank of Ireland (CBI), European Central Bank (ECB), European Commission, Prudential Regulation Authority (PRA), Financial Conduct Authority (FCA), Federal Reserve Bank of New York (New York Fed).	The Board strives to ensure financial stability, consumer protection and market integrity across the banking industries in the regions we operate. Additionally, strong engagement with our regulators ensures the Group is well positioned to comply with regulation.	Ongoing supervisory engagement, including on-site inspections on specific items, thematic reviews and regular engagements with the Board and Senior Executives.

EXAMPLES OF STAKEHOLDER CONSIDERATION

CULTURAL AMBITION

2019 saw the Board develop the cultural ambition for the organisation and it is committed to playing a leading role in enhancing culture across the industry. In addition to the internal steps detailed on page 34, in 2019, the Board supported the set-up of the Irish Banking Culture Board (IBCB). The important work conducted by the IBCB, which the Group supports, should drive better outcomes for our customers, employees and society as a whole, rebuilding trust and strengthening our reputation for high standards of business conduct and a positive culture across the Group. Robert Mulhall, member of the Executive Committee, was designated as Executive Sponsor for Culture across the Group and is a member of the IBCB Board. In addition, the Group seconded a number of individuals to assist the IBCB in its set-up phase.

IMPACTED STAKEHOLDERS:

MODERN SLAVERY ACT

In December 2019 the Board reviewed the Modern Slavery Statement as required under the UK Modern Slavery Act 2015, which applies to the Group as it carries on business in the UK. The Board considered the requirements of the Act to ensure organisations do not put profit above the welfare and wellbeing of its employees and those working on its behalf. The Board considered that the Statement would also provide customers with greater confidence in the services provided by AIB. The Act requires transparency as to how the Group mitigates Modern Slavery risk and aims to protect workers from exploitation.

IMPACTED STAKEHOLDERS:

STRATEGY DEVELOPMENT

Strategy 2020-22 was subject to a comprehensive review of the Group's activities and the material risks facing the Group. The Board considered all elements of the strategy in terms of the level of impact on each stakeholder, whether that impact may be positive or negative and the risk mitigants to each. As part of our strategy consideration, it was agreed that the proposed strategy broadly supported the considerations of our key stakeholders. Further details on the Board's role in strategy development is detailed on page 35.

IMPACTED STAKEHOLDERS:

CORPORATE DEVELOPMENT

The Board considered the acquisition of Payzone by way of a joint venture with First Data Corporation at length and concluded that the proposed acquisition was consistent with the Group's strategy to evolve our customer service and product proposition in our core market and enhance our fintech capability. Considerations of investor return, improved offerings to customers and impact on employees of both AIB Group and Payzone were all included in Board discussions. Additionally, the European Commission, being the regulator for such transactions, was consulted as appropriate.

IMPACTED STAKEHOLDERS:

SUSTAINABLE COMMUNITIES

The Sustainable Business Advisory Committee (SBAC) supports the Board in overseeing the Group's sustainability strategy. Through the year, SBAC received updates and oversaw many sustainable initiatives such as the Green Bond Framework which would allow AIB to issue green bonds and meet the demands of investors who are increasingly seeking to invest in green bonds. Additionally SBAC considered the Group becoming Founding Signatory of the UNEP FI Principles for Responsible Banking at the UN General Assembly and a supporter of the Task Force on Climate-related Financial Disclosures (TCFD) which cumulatively position the Group strongly to deliver on its aims of long-term sustainable growth for the benefit of our stakeholders.

IMPACTED STAKEHOLDERS:

RISK SUMMARY

HOW WE MANAGE RISK

We use effective risk management and control, aligned to our strategy, to guide and protect AIB.

AIB implements a strong risk management approach to protect our business. We identify the principal risks and uncertainties including the key external risk drivers that could adversely impact our customers, our business and the delivery of our strategic objectives. Risk is defined as any event that could damage the core earnings capacity of the Group, increase cash flow volatility, reduce capital, threaten business reputation or viability, result in breach of regulatory or legal obligations or give rise to poor customer outcomes. A cornerstone of the risk management approach is the Three Lines of Defence model. The First Line of Defence owns the risks and is responsible for identifying, reporting and managing them. They are also responsible for ensuring that the right controls are in place to mitigate the risks. The Second Line of Defence sets the frameworks and policies for managing specific risk areas, provides advice and guidance in relation to the risk and provides independent review and challenge and reporting on AIB's risk profile. The Third Line of Defence is the Group Internal Audit function which provides independent and objective assurance of the adequacy of the design and operational effectiveness of the risk and control environment. The design and implementation of the Three Lines of Defence model is underpinned by eight principles that define the key risk accountabilities. This is set out in the chart below.

Risk governance structure

The Board has ultimate responsibility for the governance of risk-taking activity at AIB. This is achieved through a risk governance structure designed to facilitate the reporting, evaluation and escalation of risk concerns from business areas and control functions upwards to the Board. The Board is assisted in its risk governance responsibilities by the delegated sub-committees of the Board and the Executive Committee:

- Board Risk Committee;
- Board Audit Committee;
- Group Risk Committee;
- Asset & Liability Committee.

THREE LINES OF DEFENCE MODEL AND PRINCIPLES

FIRST LINE OF DEFENCE PRINCIPLES	SECOND LINE OF DEFENCE PRINCIPLES	THIRD LINE OF DEFENCE PRINCIPLE
Frontline, operational and support activities	**Risk**	**Group Internal Audit**
Principle 2 Provide risk ownership and oversight responsibilities **Principle 3** Identifies, records, reports and manages the risks **Principle 4** Ensures the right controls and assessments are in place to mitigate the risks	**Principle 1** Sets the frameworks and policies for managing specific risk types **Principle 5** Provides advice and guidance in relation to the risk **Principle 6** Provides independent oversight and reporting on the Group's risk profile **Principle 7** Provides challenge to the effectiveness of the risk management and control processes	**Principle 8** Provides independent and objective assurance of the adequacy of the design and operational effectiveness of the risks and control environment

See the AIB Group business structure on page 6.

Linking risk management to strategy

The Group's approach to risk management directly supports the achievement of the Group's purpose and strategic objectives. In the first instance the strategic objectives are established and approved by the Board. A Material Risk Assessment (MRA) is performed annually to identify the principal risks to which the Group is exposed. The Board then sets out the risk appetite for the Group to ensure that the strategic objectives are executed in line with the Board's risk appetite. The Risk Appetite Statement is then cascaded to business segments (Retail Banking, CIB and AIB UK) and licenced subsidiaries. The Risk Appetite Statement is a key part of embedding risk culture and fostering responsible risk-taking and risk management behaviours throughout the Group. Risk appetite limits are monitored on an ongoing basis and the Group's compliance with limits is reported to the Board on a monthly basis, as well as the subsidiary Boards on a quarterly basis, as part of Chief Risk Officer (CRO) reporting. In each of the Principal Risks, pages 40 to 43, a description is given as to how the Principal Risk is managed, the mitigating actions and the alignment with the Group's strategic pillars.

Top and emerging risk drivers in 2019

The CRO prepares a report for the Group Risk Committee and Board Risk Committee setting out the risk profile of the Group and emerging risk themes. The key themes considered by the risk governance committees during 2019 are outlined below. These interact with the Principal Risks to varying degrees. In the 'Risk Management' section in this Report, 'Individual risk types', pages 79 to 170, sets out the key risk drivers impacting each Principal Risk.

REGULATORY AND LEGAL CHANGE

TREND IN 2019 ↓

- AIB may be adversely affected by unexpected or complex changes in regulation, accounting standards and legislation. AIB may also be affected by changes in tax requirements, including changing interpretation by tax authorities
- A failure to meet regulatory requirements could have a financial and/or reputational impact. Embedding a robust and sustainable risk culture is key to ongoing compliance.

FINANCIAL, MACROECONOMIC AND GEOPOLITICAL VOLATILITY

TREND IN 2019 ↓

- AIB may be adversely affected by changes in the macroeconomic outlook, changes in financial and credit markets, increasing geopolitical tensions and changes in expectations of central banks' monetary policies
- The continued global macroeconomic uncertainty and the lower-for-longer central bank interest rate policies contribute to downward pressure on credit quality and net interest income. See 1.6.1 (page 77) for further details on Brexit.

PACE OF CHANGE IN COMPETITION, LABOUR MARKETS AND CUSTOMER EXPECTATIONS

TREND IN 2019 →

- AIB may be adversely affected by the pace of change of industry best practice, competitive landscape, labour market including availability of skills, demographics and/or societal behaviours and expectations
- The rapidly changing environment requires significant investment in order for AIB to remain competitive, including responding to competition from new entrants (e.g. fintechs).

CYBER

TREND IN 2019 →

- AIB may be adversely affected by cyber attacks. The volume and sophistication of cyber attacks continues to increase, as online transactions become more prevalent
- A successful attack would result in a monetary and/or reputational impact. See section 1.6.3 (page 78) for more detail on Cyber risk.

CLIMATE CHANGE

TREND IN 2019 →

- AIB may be adversely affected through the manifestation of physical risks (such as the impact on property from weather-related events) and transition risks (the financial risks as a result of the transition to a low-carbon economy)
- Failure to manage these risks would result in either financial and/or reputational impact from a lack of adherence to sustainable principles. See section 1.6.2 (page 78) for more details on Climate risk.

CHANGING EXTERNAL PERCEPTIONS OF AIB

TREND IN 2019 ↑

- AIB may be adversely affected by a change in customer and market perceptions of the Group
- Changing perceptions could result in withdrawals of customer deposits, an unwillingness of customers to apply for credit and difficulty in attracting and retaining the right talent, skills and capabilities within the Group.

TREND IN 2019		
Improving	↑	Risk profile improved during 2019
Stable	→	Risk profile remained stable during 2019
Deteriorating	↓	Risk profile deteriorated during 2019

RISK SUMMARY

OUR PRINCIPAL RISKS

We manage the most significant risks which could impact on achieving our strategic objectives.

Listed in alphabetical order

Business Model Risk

The risk of not achieving the Group's strategy or approved business plan, either as a result of an inadequate implementation plan, or failure to execute on the strategy as a result of an inability to secure the required investment, or due to external factors.

Example

More intense price-based competition from incumbent providers and/or new entrants from the fintech sector.

Key mitigating considerations and controls

- Annual Board review of strategy
- The Board receives regular updates on performance against strategic objectives via a quarterly performance scorecard
- Comprehensive reports setting out the current financial performance against budget, multi-year financial projections, capital plans and economic updates
- A CRO report is produced monthly and reviewed by the Board and Group Risk Committees.

Alignment to strategic priorities and pillars

- We achieve sustainable growth by delivering long-term value to customers and stakeholders, by being efficient in our operations and by pricing appropriately. (Simple & Efficient)
- We create long-term shared value in a sustainable way for our customers, stakeholders and the communities in which we live and work. (Customer First)
- We conduct our business by putting the customer first and doing the right thing. (Customer First).

+ Read more: pages 168 to 169

Capital Adequacy Risk

Capital adequacy risk is the risk that the Group does not maintain sufficient capital to achieve our business strategy, support our customers or to meet regulatory capital requirements.

Example

A worsening macroeconomic environment could lead to adverse financial performance, which could deplete capital resources and/or increase capital requirements due to a deterioration in customers' credit worthiness.

Key mitigating considerations and controls

- Board approved and monitored risk appetite limits covering key regulatory and internal capital requirements
- Comprehensive Internal Capital Adequacy Assessment Process (ICAAP) Framework and Capital Adequacy Policy
- Regular forward-looking assessment of capital adequacy via annual ICAAP and quarterly internal stress testing, which considers a number of scenarios including a base case, moderate downside and severe but plausible stress
- Monthly reporting of the Group's capital metrics to ALCo
- Capital contingency and recovery planning activities.

Alignment to strategic priorities and pillars

- We have sufficient quantity and quality of capital to support the Group in both normal and stressed economic conditions and to maintain an appropriate buffer to minimum regulatory ratios and to meet market and rating agency expectations. (Risk & Capital).

+ Read more: page 154

Conduct Risk

The risk that inappropriate actions or inactions by the Group cause poor and unfair customer outcomes.

Example

Customer complaints outstanding without proper investigation would lead to unfair customer outcomes.

Key mitigating considerations and controls

- Board approved and monitored risk appetite limits covering key dimensions of regulatory compliance risk
- The Group has a Conduct Risk Framework, which is embedded in the organisation and provides oversight at Executive and Board level via the Group Conduct Committee and the Group Product and Proposition Committee
- A suite of policy standards that clearly define expected standards of behaviour including how we lend responsibly and how we deal with vulnerable customers
- Mandatory conduct-related training required to be completed by all staff.

Alignment to strategic priorities and pillars

- We conduct our business in a fair and transparent manner in line with our purpose, values and strategic ambition. (Customer First, Talent & Culture)
- We ensure processes are in place to minimise the systemic risk of unfair customer outcomes arising from inadequate product design, sales and lifecycle processes or market abuse. (Risk & Capital).

+ Read more: pages 166 to 167

Credit Risk

The risk that the Group will incur losses as a result of a customer or counterparty being unable or unwilling to repay a credit exposure or commitment that it has entered into.

Example

Changes in the economic environment (for example Brexit uncertainty) could impact profitability due to higher-than -expected credit losses.

Key mitigating considerations and controls

- Board approved and monitored risk appetite limits covering the key dimensions of credit risk
- The Group Credit Risk Framework and Group Credit Risk Policy are overarching Board-approved documents which set out, at a high level, the principles of how the Group identifies, assesses, approves, monitors and reports credit risk to ensure robust credit risk management is in place
- The Group implements and operates policies to govern the identification, assessment, approval, monitoring and reporting of credit risk
- Second line assurance to monitor compliance with policies and limits
- A specialised recovery function focuses on managing the majority of criticised loans and deals with customers in default, collection or insolvency.

Alignment to strategic priorities and pillars

- We build long-term lending relationships with customers that are resilient through the cycle. (Customer First)
- Our core market is in Ireland. (Simple & Efficient)
- We provide credit to high-quality renewable energy and energy-efficiency projects. (Sustainable Communities).

+ Read more: pages 79 to 144

Financial Risk

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.

Example

Earnings are impacted by changes in interest rates and/or market prices.

Key mitigating considerations and controls

- Board approved and monitored risk appetite limits covering key dimensions of financial risk policies, systems, controls and monitoring
- The Group substantially reduces our market risk through hedging in external markets
- Regular oversight and monitoring by the Group's Asset & Liability Management Committee (ALCo) of market risk positions and exposures, including review of hedging strategy.

Alignment to strategic priorities and pillars

- We are exposed to financial risks as a result of discretionary and non-discretionary activities including Credit Spread Risk, IRRBB and Trading Book. These financial risks are managed to limit income volatility and their impact on capital. (Risk & Capital, Simple & Efficient).

+ Read more: pages 155 to 163

Funding and Liquidity Risk

The risk that the Group will not be able to fund our assets and meet our payment obligations as they fall due without incurring unacceptable costs or losses.

Example

A deterioration in either the Group's credit rating or a sudden and significant withdrawal of customer deposits would adversely impact the Group's funding and liquidity position.

Key mitigating considerations and controls

- Board approved and monitored risk appetite limits covering key dimensions of funding and liquidity risk
- Group funding and liquidity strategy, policies, systems, controls and monitoring
- Annual forward-looking Internal Liquidity Adequacy Assessment Process (ILAAP)
- ALCo reviews the Group's funding and liquidity risk position and makes decisions on the management of the Group's assets and liabilities
- Liquidity contingency and recovery planning activities.

Alignment to strategic priorities and pillars

- We ensure that our liquidity and funding profile is managed to deliver a sustainable supply of funding for the Group's activities and that this profile exceeds Board and regulatory requirements. (Risk & Capital).

+ Read more: pages 145 to 153

Model Risk

The Group may incur a loss as a consequence of decisions principally based on the output of models due to errors in the development, implementation or use of such models.

Example

The consequences of inadequate models include: inappropriate levels of capital or impairments; inappropriate credit or pricing decisions; and adverse impacts on funding, liquidity and profits.

Key mitigating considerations and controls

- Board approved and monitored risk appetite limits covering key dimensions of model risk
- A Group Model Risk Framework and supporting policies, including model validation
- Senior Executive committees monitor and maintain oversight of the performance of the Group's models.

Alignment to strategic priorities and pillars

- Models should be logical and efficient with clearly understood and interpreted aims. (Simple & Efficient)
- We only use appropriately designed, deployed and maintained models for decision-making. (Risk & Capital)
- We develop and maintain highly competent and skilled teams, supported by appropriate data governance structures and frameworks. (Talent & Culture).

+ Read more: page 169 to 170

Operational Risk

The risk arising from inadequate or failed internal processes, people and systems, or from external events; including the potential for loss arising from the uncertainty of legal proceedings and potential legal proceedings.

Example

The dynamic threat posed by cyber risk to the confidentiality and integrity of electronic data or the availability of systems. The Group has a low risk appetite for loss of confidentiality, integrity or availability of our information assets as a result of cyber events.

Key mitigating considerations and controls

- Board approved and monitored risk appetite limits covering key dimensions of operational risk
- Operational Risk Framework and suite of policies, setting out principles, roles and responsibilities and governance arrangements for the management of operational risk across the Group
- The Group continues to invest significantly in technology, including cyber deterrents and defences with controls to predict, prevent, detect and respond to cyber risk
- The Group operates a risk and control assessment of our processes and people to deliver objectives and keep customers safe.

Alignment to strategic priorities and pillars

- We design and manage controls, processes and systems according to our risk frameworks and policies. (Risk & Capital)
- We ensure the management of critical IT delivers exemplary levels of customer access to our services as and when they need it. (Customer First)
- We ensure that we have the right talent, skills and capabilities within the organisation to support accountable, collaborative and trusted ways of working. (Talent & Culture)
- We ensure that "Green" products are appropriately designed. (Sustainable Communities).

+ Read more: pages 163 to 164

People and Culture Risk

The risk to achieving the Group's strategic objectives as a result of an inability to recruit, retain or develop people, or as a result of behaviours associated with low levels of employee engagement.

Example
Inability to attract or retain staff with key skills could impact the achievement of business objectives.

Key mitigating considerations and controls.

- Board approved and monitored risk appetite limits covering key dimensions of people and culture risk
- Revised career model to empower our people to drive their career journeys and champion AIB's purpose
- Focused action to attract, retain and develop high-calibre people
- Senior leader development programmes are in place.

Alignment to strategic priorities and pillars

- We retain and recruit talented staff to support our future strategic plans. (Talent & Culture)
- Our values and Code of Conduct contain clear statements of the behaviours we expect from everyone in AIB and we place great emphasis on the integrity of staff and accountability for both in-action and actions taken. (Customer First).

+ Read more: page 167 to 168

Regulatory Compliance Risk

The risk of legal or regulatory sanctions or failure to protect market integrity could result in material financial loss or reputational damage. Failure to comply with laws, regulations, or rules, for example Anti-Money Laundering, Countering Terrorist Financing and modern slavery, as well as self regulatory standards and codes of conduct, could result in regulatory sanction.

Example
Failure to deliver key regulatory changes or to comply with ongoing requirements could result in a regulatory sanction or fine.

Key mitigating considerations and controls

- Board approved and monitored risk appetite limits covering key dimensions of regulatory compliance risk
- Training is provided to staff on the Group's frameworks and policies for regulatory compliance and reporting
- Business policies, procedures, systems and training in place to help ensure compliance with relevant regulatory requirements
- Identification, assessment and monitoring of new or changing laws and regulations, including collaboration with industry bodies.

Alignment to strategic priorities and pillars

- We have no appetite for deliberate or systemic breaches of internal policies, standards and compliance obligations or the untimely reporting and resolution of such incidents. (Customer First, Risk & Capital)
- We do not have relationships with, or knowingly process transactions involving, companies or individuals operating from/residing in an Extreme High Risk Country. (Risk & Capital).

+ Read more: page 165 to 166

OUR BOARD OF DIRECTORS

RICHARD PYM

Non-Executive Chairman
Independent on appointment

BRENDAN MCDONAGH

Independent Non-Executive Director and Deputy Chair

TOM FOLEY

Senior Independent Non-Executive Director

BASIL GEOGHEGAN

Independent
Non-Executive Director

SANDY KINNEY PRITCHARD

Independent
Non-Executive Director

CAROLAN LENNON

Independent
Non-Executive Director

NATIONALITY

Richard Pym	Brendan McDonagh	Tom Foley	Basil Geoghegan	Sandy Kinney Pritchard	Carolan Lennon
British	Irish	Irish	Irish	Irish	Irish

DATE OF APPOINTMENT

Richard Pym	Brendan McDonagh	Tom Foley	Basil Geoghegan	Sandy Kinney Pritchard	Carolan Lennon
13 October 2014: Chairman designate 1 December 2014: Chairman	27 October 2016 24 October 2019: Deputy Chair	13 September 2012 12 October 2019: Senior Independent Director	4 September 2019	22 March 2019	27 October 2016

COMMITTEE MEMBERSHIP (as at 31 December 2019)

Richard Pym	Brendan McDonagh	Tom Foley	Basil Geoghegan	Sandy Kinney Pritchard	Carolan Lennon
• Remuneration • Nomination & Corporate Governance (Chair).	• Board Risk (Chair) • Board Audit • Remuneration • Nomination & Corporate Governance.	• Board Audit • Nomination & Corporate Governance.	• Board Risk • Board Audit.	• Board Audit (Chair) • Board Risk.	• Board Risk • Sustainable Business Advisory.

EXPERTISE

Richard Pym

Richard is a Chartered Accountant with extensive experience in financial services. He is a former Chairman of UK Asset Resolution Limited, Nordax Bank AB (publ), The Co-operative Bank plc, Brighthouse Group plc and Halfords Group plc. He is a former Non-Executive Director of The British Land Company plc, Old Mutual plc and Selfridges plc. Richard was appointed as Chairman in 2014. In 2019, Richard announced his intention to step down as Chairman of AIB Group in March 2020.

Brendan McDonagh

Brendan started his banking career with HSBC in 1979, working across Asia, Europe and North America, where he held various roles such as Group Managing Director for HSBC Holdings Inc, membership of the HSBC Group Management Board and CEO of HSBC North America Holdings Inc. Brendan is a former Director of Ireland's National Treasury Management Agency. He was previously the Executive Chairman of Bank of N.T. Butterfield & Son Limited.

Tom Foley

Tom qualified as a Chartered Accountant with PricewaterhouseCoopers. He is a former Executive Director of KBC Bank Ireland and held a variety of senior management and board positions with KBC. During the financial crisis, Tom was a member of the Nyberg Commission of Investigation into the Banking Sector and the Department of Finance Expert Group on Mortgage Arrears and Personal Debt.

Basil Geoghegan

Basil is a partner in PJT Partners, London. Previously Basil was a Managing Director at Goldman Sachs, Deutsche Bank and Citigroup in London and New York. He has broad M&A, corporate finance and strategic advisory experience in the US, UK, Ireland and internationally. He qualified as a solicitor with Slaughter and May. Basil is Chairman of daa plc and Patron of the Ireland Fund of Great Britain. He holds an LLB from Trinity College, Dublin and an LLM from European University Institute.

Sandy Kinney Pritchard

Sandy is a University College Dublin graduate, with a distinguished career across the financial services industry. She is an accountant who previously was a senior partner at PricewaterhouseCoopers LLP and has held a number of Non-Executive Directorship roles, including at Irish Life & Permanent Plc, Skipton Building Society, the FSCS, TSB Bank Plc and MBNA Ltd.

Carolan Lennon

Prior to her current role of CEO of Eir, Carolan held a variety of executive roles in Eir Limited, including Managing Director of Open Eir, Acting Managing Director Consumer and Chief Commercial Officer. Prior to joining Eir, she held a number of senior roles in Vodafone Ireland, including Consumer Director and Marketing Director. Carolan is a former Non-Executive Director of the Dublin Institute of Technology Foundation and the Irish Management Institute.

KEY EXTERNAL APPOINTMENTS

Richard Pym	Brendan McDonagh	Tom Foley	Basil Geoghegan	Sandy Kinney Pritchard	Carolan Lennon
None	Non-Executive Director and Chair of Audit Committee of UK Asset Resolution Limited Chair of the Trinity Business School Advisory Board Serves on the Board of The Ireland Funds, Ireland Chapter Chairman, PEAL Investment Partners Limited	Non-Executive Director, Intesa Sanpaolo Life d.a.c. Non-Executive Director, GCM Grosvenor Alternative Funds Master ICAV GCM and Grosvenor Alternative Funds ICAV	Chairman, daa plc Partner, PJT Partners Patron of IFGB (Ireland Fund of Great Britain)	Non-Executive Director and Chair of Audit Committee of Credit Suisse (UK) LTD Non-Executive Chair of the Board of London & Country Mortgages Ltd	Chief Executive Officer of Eir Sits on the Council of Patrons for Special Olympics Ireland

	ELAINE MACLEAN	HELEN NORMOYLE	ANN O'BRIEN	RAJ SINGH	COLIN HUNT	TOMÁS O'MIDHEACH
	Independent Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director Nominee of the Minister for Finance under the Relationship Framework in respect of the relationship between the Minister and AIB Group	Independent Non-Executive Director Nominee of the Minister for Finance under the Relationship Framework in respect of the relationship between the Minister and AIB Group	Chief Executive Officer	Chief Operating Officer and Deputy Chief Executive Officer
NATIONALITY	British	Irish	Irish	American	Irish	Irish
DATE OF APPOINTMENT	4 September 2019	17 December 2015	25 April 2019	25 April 2019	8 March 2019	13 March 2019
COMMITTEE MEMBERSHIP (as at 31 December 2019)	• Remuneration (Chair) • Nomination & Corporate Governance.	• Sustainable Business Advisory (Chair).	• Remuneration • Sustainable Business Advisory.	• Board Risk • Sustainable Business Advisory.	None	None
EXPERTISE	Elaine is a highly experienced human resources director whose career began in retail, working in human resources roles at Harrods and Windsmoor before joining the Arcadia Group as Retail Operations Director and HR Director. Since then, Elaine has enjoyed a very successful senior HR leadership career culminating in her appointment as Group Human Resources Director for Legal and General plc in 2006. Elaine holds an MA in English Literature and Psychology from the University of Glasgow.	Helen is currently Marketing Director of Boots UK and Ireland. She is also Chair and Director of the Boots Charitable Trust. Helen started her career working for Infratest+GfK, based in Germany. Helen moved to Motorola, as Director of Marketing and then Director of Global Consumer Insights and Product Marketing and thereafter to Ofcom as Director of Market Research. Helen also held the roles of Chief Marketing Officer at Countrywide, Chief Marketing Officer at DFS and Director of Marketing and Audiences at the BBC.	Ann has over 30 years' experience in the financial services industry. A graduate of both University College Dublin and Trinity College Dublin, for the past 30 years, Ann has led complex management consulting engagements at many of the world's largest global banking and securities organisations. Her most recent role was as a Principal with Deloitte in New York where she was based for 10 years.	Raj has 34 years' business, risk and governance experience gained in large complex financial services organisations. Raj previously served as a non-executive director of a national credit bureau and two publicly traded financial institutions in addition to serving on the Boards of many of the major banking, insurance, reinsurance and asset management subsidiaries of the firms where he has worked. He is currently the Chief Risk Officer and Executive Committee member of EFG International, a Swiss private banking group.	In March 2019, Colin was appointed Chief Executive Officer. He joined AIB in August 2016 as Managing Director, Wholesale, Institutional & Corporate Banking. Prior to joining AIB, he was Managing Director at Macquarie Capital in Ireland. Previously, he was a Policy Adviser at the Departments of Transport and Finance, Research Director at Goodbody Stockbrokers, Head of Trading Research at Bank of Ireland Group Treasury and a country risk analyst at NatWest. He has a Phd in Economics from Trinity College Dublin.	Tomás has 25 years' experience in the financial services industry. He spent 11 years with Citibank in the UK, Spain & Dublin where he held several senior positions in Finance. He joined AIB in June 2006 to lead a finance operating model transformation project and has since held a number of senior executive positions including Head of Direct Channels & Analytics and Chief Digital Officer. In 2019 Tomás was appointed Deputy Chief Executive Officer and Executive Director.
KEY EXTERNAL APPOINTMENTS	None	Marketing Director, Boots UK and Ireland	None	Chief Risk Officer of EFG International	Serves on the Board of The Ireland Funds, Ireland Chapter	None

EXECUTIVE COMMITTEE

CATHY BRYCE

Managing Director of Corporate, Institutional & Business Banking (CIB)

GERALDINE CASEY

Chief People Officer

HELEN DOOLEY

Group General Counsel

DONAL GALVIN

Chief Financial Officer

DEIRDRE HANNIGAN

Chief Risk Officer

ROBERT MULHALL

Managing Director Designate of AIB Group (UK) plc

EXPERTISE

Cathy joined AIB from her most recent role at the National Treasury Management Agency where she held the position of Director, NewERA and NDFA. As well as her time in AIB previously, where she gained over 20 years' experience in a range of capital markets and commercial banking roles, Cathy has worked in investment banking in London with Morgan Stanley and ABN AMRO in Dublin. She is a business graduate of Trinity College Dublin and holds an MBA from INSEAD.

Geraldine joined AIB in January 2020 from her most recent role as director of People, Communications and IT at Tesco Ireland. She was also a member of the Executive Board of Tesco for the past 5 years and has a wealth of experience working closely with internal and external stakeholders. Geraldine has led large teams through Culture, Process and Organisational change. She is an accomplished business leader, having run Tesco's retail operations at national level before taking up her current role. Geraldine is a business graduate from UCC.

Helen has over 25 years' experience in legal financial services, having worked in private practice in the City of London, Hong Kong and Dublin, before taking up an in-house role as Head of Legal in EBS Building Society in 2005. EBS became part of the AIB Group in 2011 and Helen was subsequently appointed as AIB Group General Counsel in 2012. Over the last 15 years, in addition to her legal role, Helen has also held the Company Secretary position and managed the regulatory compliance and HR functions. Helen is currently responsible for the Legal & Corporate Governance function.

Donal joined AIB as Group Treasurer in September 2013 and was appointed Chief Financial Officer in March 2019. Donal has worked in domestic and international financial markets over the last 20 years. He was Managing Director in Mizuho Securities Asia, the investment banking arm of Japanese bank Mizuho, where he was responsible for Asian Global Markets. Before that, he was Managing Director in Dutch Rabobank, managing its London and Asian Global Financial Markets business and Treasurer of Rabobank International.

Deirdre joined AIB from the National Treasury Management Agency where she was Chief Risk Officer and chaired the Executive Risk Committee. She has held a number of senior international risk management roles with GE Capital and progressively senior roles in Bank of Ireland, primarily in Strategy and Risk Management. Previous to that, she worked in Retail and Corporate Banking with AIB and Rabobank. In 2010, she was admitted as a Chartered Director to the Institute of Directors in London.

Robert was announced as Managing Director Designate for AIB Group (UK) subject to regulatory approval in November 2019, prior to which he was the bank's Managing Director of Consumer Banking. Robert's career in AIB has spanned almost 25 years, covering a variety of roles up to senior executive management level. Outside of AIB, he held the position of Managing Director, Distribution & Marketing Consulting, and Financial Services with Accenture in North America from 2013 to 2015.

BRENDAN O'CONNOR

Managing Director of AIB Group (UK) plc

JIM O'KEEFFE

Managing Director of Retail Banking

MARY WHITELAW

Director of Corporate Affairs & Strategy

EXPERTISE

Brendan joined AIB in 1984 and has held a number of senior roles throughout the organisation, both in New York and Dublin, including Head of AIB Global Treasury Services, Head of Corporate Banking International and Head of AIB Business Banking. He joined the Leadership Team as Head of Financial Solutions Group before moving to his current role as Managing Director of AIB Group (UK) plc in November 2015. He will step down from this role in September 2020.

Jim has worked across many aspects of Retail Banking including leadership roles in IT, Direct Channels, Mortgages and BZWBK (now Santander) in Poland. He was appointed Head of Financial Solutions Group in 2015 with responsibility for developing a strategy to support customers in financial difficulty, which resulted in a significant reduction in NPEs. He was Chief Customer & Strategic Affairs Officer from November 2018 to November 2019, when he was appointed Managing Director of Retail Banking.

Mary joined AIB in 2007 and her experience has spanned the retail, corporate and treasury businesses. She has held a number of senior leadership roles across the bank including Chief of Staff, Head of Strategy & Business Performance for Corporate and Institutional Banking and Head of Corporate Treasury Sales. Prior to joining AIB, Mary trained as a Chartered Accountant and Chartered Tax Adviser with PwC. She is a graduate of University College Dublin.

Colin Hunt (CEO) and Tomas O'Midheach (COO) are also on the Executive Committee.
Their biographies can be found on page 45.

OUR NON-FINANCIAL STATEMENT

Our non-financial statement is intended to comply with the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017.

The tables below offer a guide to the relevant information on key non-financial matters, including sections of both this report and our Detailed Sustainability Report 2019. Our Detailed Sustainability Report 2019 is published in accordance with the Global Reporting Initiative (GRI) Standards.

ENVIRONMENTAL MATTERS

POLICIES

- Environmental policy
- Energy policy

INFORMATION ABOUT OUR ACTIVITIES, POLICY OUTCOMES AND APPROACH TO RISK MANAGEMENT

- 2019 Highlights, pages 20 to 21
- Engaging with our Stakeholders, pages 36 to 37
- Focus on Sustainability, page 30
- How we Manage Risk, pages 38 to 43

See also our Detailed Sustainability Report 2019:

- Responding, 'Climate Action'
- Risk.

SOCIAL AND EMPLOYEE MATTERS

POLICIES

- Code of Conduct
- Diversity & Inclusion code, Board Diversity policy, policies on leave and flexible working and volunteering policy[1]
- Selection policy[1]
- Grievance policy[1]
- Speak Up policy
- Disciplinary policy[1]

INFORMATION ABOUT OUR ACTIVITIES, POLICY OUTCOMES AND APPROACH TO RISK MANAGEMENT

- Our Strategy 2019 Outcomes 'Talent & Culture' page 29
- Engaging with our Stakeholders, pages 36 to 37
- Focus on Sustainability, page 30
- Report of the Board Audit Committee, page 194
- How we Manage Risk, pages 38 to 43

See also our Detailed Sustainability Report 2019:

- Responding, 'Culture'
- Risk.

1. These policies are not published externally.

RESPECT FOR HUMAN RIGHTS

POLICIES

Code of Conduct

Data Protection policy[1]

Third Party Management Risk policy[1]

INFORMATION ABOUT OUR ACTIVITIES, POLICY OUTCOMES AND APPROACH TO RISK MANAGEMENT

Focus on Sustainability, page 30

Engaging with our Stakeholders, pages 36 to 37

Data Protection Notice: https://aib.ie/dataprotection

AIB Group plc Modern Slavery Statement 2019: https://group.aib.ie/content/dam/aib/group/Docs/modern-slavery-statement.pdf

How we Manage Risk, pages 38 to 43

See also our Detailed Sustainability Report 2019:

- Responding, 'Culture'
- Risk.

BRIBERY AND CORRUPTION

POLICIES

Code of Conduct

Anti-Bribery & Corruption policy

Conflicts of Interests policy

Anti-Money Laundering & Countering the Financing of Terrorism policy[1]

INFORMATION ABOUT OUR ACTIVITIES, POLICY OUTCOMES AND APPROACH TO RISK MANAGEMENT

Engaging with our Stakeholders, pages 36 to 37

General Statement on Anti-Money Laundering and Counter Terrorism Financing: https://group.aib.ie/legal

How we Manage Risk, pages 38 to 43

See also our Detailed Sustainability Report 2019:

- Responding, 'Culture'
- Risk.

	KEY INFORMATION	
DESCRIPTION OF OUR BUSINESS MODEL	See inside front cover	
PRINCIPAL RISKS RELATING TO:	SEE INDIVIDUAL RISKS:	
Environmental matters	Credit risk, page 79 - 144, Operational risk page 163 - 164	
Social and employee matters	People and culture risk, page 167 - 168	
Respect for human rights	People and culture risk, page 167 - 168, Operational risk page 163 - 164, Regulatory compliance risk, page 165 - 166	
Bribery and corruption	Regulatory compliance risk, page 165 - 166, Conduct risk, page 166 - 167 **See also our Detailed Sustainability Report 2019:** • Risk.	
POLICY DUE DILIGENCE	Risk Management Framework, pages 72 - 78	
NON-FINANCIAL KEY PERFORMANCE INDICATORS	Environmental matters	Strategic Targets 'Reduction in Emissions' measure, page 29
	Social and employee matters	Strategic Targets 'Diversity' and 'Engagement' measures, page 29
	Respect for human rights	Mandatory requirement for annual completion of Code of Conduct training: see our 2019 Detailed Sustainability Report: Responding 'Culture', Code of Conduct
	Bribery and corruption	Mandatory requirement for annual completion of Code of Conduct training: see our Detailed Sustainability Report 2019: Responding, 'Culture', Code of Conduct

For a copy of our Detailed Sustainability Report 2019 and more information, including policies we publish externally, see: aib.ie/sustainability

1. These policies are not published externally.

OUR PURPOSE IS TO BACK OUR CUSTOMERS TO ACHIEVE THEIR DREAMS AND AMBITIONS

2.8m CUSTOMERS

325 LOCATIONS ACROSS IRELAND AND THE UK

9,520 EMPLOYEES

3,800 SUPPLIERS

1.5m ACTIVE DIGITAL CUSTOMERS

1.3m ACTIVE MOBILE CUSTOMERS

1.9m DAILY INTERACTIONS

€12.3bn NEW LENDING

€1.2bn GREEN LENDING

€1.6bn SME LENDING[2]

14,462 MORTGAGE DRAWDOWNS

#1 IN IRELAND FOR

- PERSONAL LOANS[1]
- PERSONAL MAIN CURRENT ACCOUNT
- NEW MORTGAGE LENDING
- PERSONAL CREDIT CARDS

OUR FOOTPRINT

3.6 TONNES OF CO_2 PER EMPLOYEE

ELECTRICITY **14,316** TONNES OF CO_2

WASTE **82** TONNES OF CO_2

20% REDUCTION DELIVERED SINCE 2014

Scope 1 and 2 emissions

Information as at December 2019. Sources: Company information and independent market research.
1. No. 1 among banks, personal lending excl. car finance.
2. SME lending in ROI.

Business review

	Page
1. Operating and financial review	52
2. Capital	67

Business review – 1. Operating and financial review

Basis of presentation

The operating and financial review is prepared using IFRS and non-IFRS measures to analyse the Group's performance, providing comparability year on year. These performance measures are consistent with those presented to the Board and Executive Committee. Non-IFRS measures include management performance measures which are considered Alternative Performance Measures ("APMs"). APMs arise where the basis of calculation is derived from non-IFRS measures. A description of the Group's APMs and their calculation is set out on page 65. These measures should be considered in conjunction with IFRS measures as set out in the consolidated financial statements from page 237. A reconciliation between the IFRS and management performance summary income statements is set out on page 66.

Figures presented in the operating and financial review may be subject to rounding and thereby differ to the risk management section and the consolidated financial statements.

In 2019, the Group implemented the requirements of IFRS 16 *Leases* for the first time. As a result, operating lease rental costs (2018: € 63 million) in General and administrative expenses have been replaced by depreciation charges on right-of-use assets (2019: € 58 million) reported in Depreciation, impairment and amortisation and interest expense on lease liabilities (2019: € 14 million) reported in Net interest income. For further information on basis of presentation see note 1 (n) 'Accounting policies: Leases' and note 3 'Transition to IFRS 16' in the consolidated financial statements.

Basis of calculation

Percentages are calculated on exact numbers and therefore may differ from the percentages based on rounded numbers. The impact of currency movements is calculated by comparing the results for the current reporting period to results for the comparative reporting period retranslated at exchange rates for the current reporting period.

Management performance – summary income statement	2019 € m	2018 € m	% change
Net interest income	2,076	2,100	-1
Business income	491	501	-2
Other items	128	125	2
Other income[1]	619	626	-1
Total operating income[1]	2,695	2,726	-1
Personnel expenses[1]	(774)	(730)	6
General and administrative expenses[1][2]	(501)	(563)	-11
Depreciation, impairment and amortisation[1]	(229)	(138)	65
Total operating expenses[1]	(1,504)	(1,431)	5
Bank levies and regulatory fees[1][2]	(104)	(99)	5
Operating profit before impairment losses and exceptional items[1]	1,087	1,196	-9
Net credit impairment (charge)/ writeback	(16)	204	–
Operating profit before exceptional items[1]	1,071	1,400	-23
Associated undertakings	20	12	67
Profit on disposal of property[1]	–	2	-100
Profit before exceptional items[1]	1,091	1,414	-23
Property strategy	8	(81)	–
Restitution costs	(416)	(120)	–
Provision for regulatory fines	(78)	–	–
Termination benefits	(48)	(21)	–
(Loss)/ gain on disposal of loan portfolios	(40)	147	–
Restructuring costs	(18)	(20)	–
Gain on transfer of financial instruments	–	1	–
IFRS 9 costs	–	(51)	–
Loss on disposal of business activities	–	(22)	–
Total exceptional items[1]	(592)	(167)	–
Profit before taxation	499	1,247	-60
Income tax charge	(135)	(155)	-13
Profit for the year	364	1,092	-67

[1]Performance has been adjusted to exclude items viewed as exceptional by management and which management view as distorting comparability of performance year on year. The adjusted performance measure is considered an APM.

[2]Other regulatory levies and charges are now presented as bank levies and regulatory fees (€ 17 million in 2018 previously included in operating expenses has been re-presented as bank levies and regulatory fees).

Net interest income

Net interest income	Net interest margin
€2,076m	**2.37%**

Net interest income	2019 € m	2018 € m	% change
Interest income[1]	2,334	2,330	–
Interest expense[1]	(258)	(230)	12
Net interest income	2,076	2,100	-1
Average interest earning assets	87,479	84,846	3
	%	%	Change
Net interest margin (NIM)	2.37	2.47	-0.10

Net interest income

€2,076m

Net interest income of € 2,076 million was broadly stable compared to 2018.

Interest income

Interest income of € 2,334 million in 2019 was in line with 2018. An increase in interest income on loans and advances to customers, driven by higher average customer loan volumes and yields reflecting the positive impact of new lending, was offset by lower income on investment securities due to maturities and disposals of higher yielding securities and reinvestment at lower yields.

Interest expense

Interest expense of € 258 million in 2019 increased by € 28 million compared to 2018. The lower cost of customer accounts was offset by an increase in cost of MREL-related issuances and interest expense on lease liabilities under IFRS 16. Interest expense on deposits by banks in 2018 included € 16 million income received on TLTRO funding.

Net interest margin

2.37%

NIM decreased 10 bps to 2.37% in 2019 compared to 2.47% in 2018 due to higher average interest earning assets driven by excess liquidity, and the higher cost of funding including MREL-related costs.

Average interest earning assets of € 87.5 billion in 2019 increased by € 2.6 billion from 2018 primarily due to higher volumes of investment securities and funds placed with banks. This was driven by excess liquidity mainly due to higher customer account balances and proceeds from MREL-related issuances partly offset by a reduction in deposits by banks.

Average balance sheet

	Year ended 31 December 2019			Year ended 31 December 2018		
Assets	**Average balance € m**	**Interest[1] € m**	**Average rate %**	Average balance € m	Interest[1] € m	Average rate %
Loans and advances to customers	61,405	2,117	3.45	60,879	2,082	3.42
Investment securities	16,755	195	1.17	15,313	226	1.47
Loans and advances to banks	9,319	22	0.24	8,654	22	0.26
Average interest earning assets	87,479	2,334	2.67	84,846	2,330	2.75
Non-interest earning assets	8,108			7,176		
Total average assets	95,587	2,334		92,022	2,330	
Liabilities & equity						
Deposits by banks	957	11	1.15	2,771	2	0.06
Customer accounts	38,765	109	0.28	36,670	151	0.41
Other debt issued	6,488	91	1.41	5,220	45	0.87
Subordinated liabilities	856	33	3.82	794	32	3.98
Lease liability	446	14	3.06	–	–	–
Trading portfolio financial liabilities less assets	–	–	–	3	–	–
Average interest earning liabilities	47,512	258	0.54	45,458	230	0.51
Non-interest earning liabilities	33,881			32,986		
Equity	14,194			13,578		
Total average liabilities & equity	95,587	258		92,022	230	
Net interest income		2,076	2.37		2,100	2.47

[1]Negative interest income on assets amounting to € 16 million in 2019 (2018: € 11 million) is offset against interest income. Negative interest expense on liabilities amounting to € 20 million in 2019 (2018: € 25 million) is offset against interest expense.

Business review – 1. Operating and financial review

Other income

Other income[1]

€619m

Other income[1]	2019 Business income € m	2019 Other items € m	2019 Total € m	2018 Business income € m	2018 Other items € m	2018 Total € m	% change Total
Net fee and commission income	472	–	472	457	–	457	3
Dividend income	26	–	26	26	–	26	-1
Net trading (loss)/ income	(8)	(49)	(57)	17	(13)	4	–
Net gain on equity investments (FVTPL)	–	74	74	–	41	41	81
Net gain on loans and advances to customers (FVTPL)	–	62	62	–	84	84	-26
Other operating income	1	41	42	1	13	14	203
Other income	491	128	619	501	125	626	-1

Other income[1]

€619m

Other income of € 619 million was broadly stable compared to 2018 with decreased business income of € 10 million partly offset by increased other items of € 3 million.

Business income

€491m

Business income was € 491 million in 2019 compared to € 501 million in 2018.

Net fee and commission income	2019 € m	2018 € m	% change
Customer accounts	214	211	1
Card income	84	85	-1
Lending related fees	50	45	10
Customer related foreign exchange	71	71	–
Other fees and commissions	53	45	18
Net fee and commission income	472	457	3

Net fee and commission income of € 472 million in 2019 increased by € 15 million compared to 2018, primarily driven by increased lending related fees and other fees and commissions.

Dividend income was € 26 million in 2019 including € 23 million received on NAMA subordinated bonds.

Net trading loss of € 8 million in 2019 compared to net trading income of € 17 million in 2018 mainly due to a reduction in income on non-customer foreign exchange contracts and credit derivative contracts.

Other items

€128m

Other items were € 128 million in 2019 compared to € 125 million in 2018.

A net gain on equity investments (FVTPL) of € 74 million in 2019 (2018: € 41 million), offset by a net loss of € 49 million on a partial hedge of the equity investments (2018: net loss of € 14 million), resulted in net income from equity investments of € 25 million in 2019, compared to € 27 million in 2018.

Net gain on loans and advances to customers (FVTPL) of € 62 million in 2019 (2018: € 84 million) represents income recognised on previously restructured loans carried at fair value through profit and loss.

Other operating income of € 41 million in 2019 (2018: € 13 million) includes a gain on disposal of investment securities of € 45 million (2018: € 15 million).

IFRS basis

On an IFRS basis other income, including a net loss of € 40 million on exceptional items[1], was € 579 million in 2019 compared to € 774 million in 2018.

[1]Other income before exceptional items. A net loss of € 40 million on exceptional items in 2019 (2018: € 148 million gain) comprises: Net trading income of Nil (2018: € 1 million), Net gain on loans and advances to customers (FVTPL) € 4 million (2018: € 21 million) and Other operating income (loss on disposal of loan portfolios) € 44 million (2018: gain on disposal of loan portfolios € 126 million).

Total operating expenses[1]

€1,504m

Cost income ratio[1]

56%

Operating expenses[1][2]	2019 € m	2018 € m	% change
Personnel expenses	774	730	6
General and administrative expenses[3]	501	563	-11
Depreciation, impairment and amortisation	229	138	65
Total operating expenses	1,504	1,431	5
Staff numbers at period end[4]	9,520	9,831	-3
Average staff numbers[4]	9,855	9,801	1

Total operating expenses[1]

€1,504m

Total operating expenses of € 1,504 million increased by € 73 million compared to 2018, driven by increased depreciation, impairment and amortisation of € 91 million and higher personnel expenses of € 44 million partly offset by lower general and administrative expenses of € 62 million.

Personnel expenses

Personnel expenses increased by € 44 million compared to 2018 primarily due to the impact of salary inflation.

General and administrative expenses

General and administrative expenses decreased by € 62 million compared to 2018 as operating lease rental costs (2018: € 63 million) are no longer reported in general and administrative expenses.

Depreciation, impairment and amortisation

Depreciation, impairment and amortisation increased by € 91 million compared to 2018 due to the depreciation of right-of-use assets of € 58 million now reported in depreciation, impairment and amortisation, and an increase in depreciation as assets created under investment programmes were commissioned to operational use.

Cost income ratio[1]

56%

Costs of € 1,504 million and income of € 2,695 million resulted in a cost income ratio of 56% in 2019 compared to 53% in 2018.

Bank levies and regulatory fees

€104m

Bank levies and regulatory fees	2019 € m	2018 € m
Irish bank levy	35	49
Deposit Guarantee Scheme	33	16
Single Resolution Fund/ BRRD[5]	16	18
Other regulatory levies and charges[3]	20	16
Bank levies and regulatory fees	104	99

The Irish bank levy of € 35 million in 2019 decreased by € 14 million compared to 2018 due to a revision of the basis on which the levy is calculated. The Deposit Guarantee Scheme in 2018 included the benefit of writebacks of € 13 million in relation to the legacy scheme.

IFRS basis

On an IFRS basis total costs, including bank levies and regulatory fees of € 104 million and the cost of exceptional items[2] of € 573 million, were € 2,181 million in 2019 compared to € 1,823 million in 2018. This results in a cost income ratio (IFRS basis) of 82% in 2019, compared to 63% in 2018.

[1] Before bank levies and regulatory fees and exceptional items.

[2] The cost of exceptional items of € 573 million in 2019 (2018: € 293 million) comprises: Personnel expenses € 56 million (2018: € 34 million), General and administrative expenses € 500 million (2018: € 235 million) and Depreciation, impairment and amortisation € 17 million (2018: € 24 million).

[3] Other regulatory levies and charges are now presented as bank levies and regulatory fees (€ 17 million in 2018 previously included in operating expenses has been represented as bank levies and regulatory fees).

[4] Staff numbers are on a full time equivalent ("FTE") basis. Staff numbers at 31 December 2019 include 91 FTEs following the recent acquisition of Payzone.

[5] Bank Recovery and Resolution Directive ("BRRD").

Business review – 1. Operating and financial review

Net credit impairment (charge)/ writeback

(€16m)

There was a net credit impairment charge of € 16 million in 2019 comprising of a € 27 million charge on loans and advances to customers (net re-measurement of ECL allowance charge of € 117 million, offset by recoveries of amounts previously written-off of € 90 million) and a € 11 million writeback on off-balance sheet exposures. There was a net credit impairment writeback of € 204 million in 2018. This included recoveries of amounts previously written-off of € 120 million and writeback on loans and advances to customers of € 89 million.

See page 287 of the consolidated financial statements for more information.

Income tax charge

€135m

The income tax charge was € 135 million in 2019 compared to a charge of € 155 million in 2018.

The effective rate was 27.1% in 2019 compared to 12.4% in 2018. The effective tax rate is influenced by the geographic mix of profit streams which may be taxed at different rates. In addition, the 2019 rate reflects a reduction of € 25 million in the deferred tax asset recognised for UK tax losses, tax provided on unrealised gains on certain equity investments and expenses not deductible for tax purposes.

For further information see note 19 'Taxation' of the consolidated financial statements.

Total exceptional items

€592m

Total exceptional items	2019 € m	2018 € m
Property strategy	8	(81)
Restitution costs	(416)	(120)
Provision for regulatory fines	(78)	–
Termination benefits	(48)	(21)
(Loss)/ gain on disposal of loan portfolios	(40)	147
Restructuring costs	(18)	(20)
Gain on transfer of financial instruments	–	1
IFRS 9 costs	–	(51)
Loss on disposal of business activities	–	(22)
Total exceptional items	(592)	(167)

These gains/ costs were viewed as exceptional by management.
Property strategy relates to the continued implementation of the Group property strategy including the acquisition and development of various office locations across Dublin and the exit from Bankcentre. 2019 includes gain on disposal of land at Bankcentre of € 21 million.
Restitution costs include a provision of € 265 million for additional redress that may be due to a group of customers who had an option of a prevailing tracker rate. This follows a recent preliminary decision issued by the Financial Services and Pensions Ombudsman. Total potential impact is € 300 million, including a provision of € 35 million for the impact of monetary penalties from the Central Bank of Ireland included in Provision for regulatory fines. See note 2 'Critical accounting judgements and estimates' in the consolidated financial statements for further information.
Restitution costs also include a further provision for customer redress and compensation in relation to the tracker mortgage examination of € 12 million and other personal/ SME lending customer redress of € 61 million, along with associated costs.
Provision for regulatory fines includes a provision of € 70 million for the potential impact of monetary penalties arising from the Central Bank of Ireland investigation in respect of tracker mortgages.
Termination benefits relate to the cost of the voluntary severance programme.
(Loss)/ gain on disposal of loan portfolios reflects the disposal of loan portfolios, resulting in a net loss of € 40 million in 2019 (includes € 4 million net gain on loans and advances to customers measured at FVTPL).
Restructuring costs include the impairment of assets in the year.
IFRS 9 costs in 2018 represent IFRS 9 implementation costs.
Loss on disposal of business activities in 2018 relates to the recycling of cumulative unrealised foreign currency gains and losses following repatriation of part of the capital of foreign subsidiaries which had ceased trading.

Assets

Net loans to customers

€60.9bn

New lending

€12.3bn

Assets	2019 € bn	2018 € bn	% change
Gross loans to customers	62.1	62.9	-1
ECL allowance	(1.2)	(2.0)	-39
Net loans to customers	60.9	60.9	–
Investment securities	17.3	16.9	3
Loans and advances to banks	13.5	8.0	69
Other assets	6.9	5.7	20
Total assets	98.6	91.5	8

Net loans to customers

€60.9bn

Net loans, excluding the impact of currency movements of € 0.6 billion, decreased by € 0.6 billion compared to 31 December 2018 reflecting the disposal of distressed loan portfolios of net € 1.3 billion. New lending of € 12.3 billion exceeded redemptions of € 11.7 billion (including € 1.0 billion redemptions on non-performing loans).

New lending

€12.3bn

New lending of € 12.3 billion in 2019 was € 0.2 billion higher than in 2018. Personal lending was up 13% and mortgage lending was up 8% driven by a growing Irish mortgage market. Non-property lending fell 4% with strong new lending to the energy sector offset by lower syndicated lending. New lending comprises € 10.8 billion term lending in 2019 (€ 10.7 billion in 2018) and € 1.5 billion transaction lending (€ 1.4 billion in 2018).

Non-performing loans

€3.3bn

Non-performing loans ratio

5.4%

Non-performing loans decreased by 45% to € 3.3 billion at 31 December 2019, primarily reflecting the disposal of distressed loan portfolios of € 1.8 billion and redemptions of € 1.0 billion.

Non-performing loans ratio

Non-performing loans as a percentage of gross loans to customers was 5.4% at 31 December 2019 compared to 9.6% at 31 December 2018.

ECL allowance

€1.2bn

Non-performing loans cover

27%

The ECL allowance of € 1.2 billion at 31 December 2019 decreased from € 2.0 billion at 31 December 2018 primarily reflecting the impact of the disposal of distressed loan portfolios.

Non-performing loans cover

The ECL allowance cover rate on non-performing loans of 27% at 31 December 2019 was in line with 31 December 2018.

Summary of movement in loans to customers

The table below sets out the movement in loans to customers from 1 January 2019 to 31 December 2019.

Loans to customers	Performing loans € bn	Non-performing loans € bn	Loans to customers € bn
Gross loans (opening balance 1 January 2019)	56.8	6.1	62.9
New lending	12.3	–	12.3
Redemptions of existing loans	(10.7)	(1.0)	(11.7)
Portfolio disposals	–	(1.8)	(1.8)
Write-offs and restructures	–	(0.3)	(0.3)
Net movement to non-performing	(0.3)	0.3	–
Foreign exchange movements	0.6	–	0.6
Other movements	0.1	–	0.1
Gross loans (closing balance 31 December 2019)	58.8	3.3	62.1
ECL allowance	(0.3)	(0.9)	(1.2)
Net loans (closing balance 31 December 2019)	58.5	2.4	60.9

Business review – 1. Operating and financial review

Assets *(continued)*

The tables below summarise the credit profile of the loan portfolio by asset class and include a range of credit metrics that the Group uses in managing the portfolio. Further information on the Group's risk profile and non-performing loans is available in the Risk management section on pages 71 to 170.

Loan portfolio profile 31 December 2019	Residential mortgages € bn	Other personal € bn	Property and construction € bn	Non-property business € bn	Total € bn
Gross loans to customers	31.5	3.0	7.3	20.3	62.1
Of which: Stage 3	2.1	0.2	0.4	0.4	3.1
Total ECL allowance	0.6	0.1	0.2	0.3	1.2
Non-performing loans	2.3	0.2	0.4	0.4	3.3
Total ECL allowance non-performing loans	0.5	0.1	0.1	0.2	0.9
ECL allowance cover non-performing loans (%)	22%	60%	35%	32%	27%
31 December 2018	€ bn	€ bn	€ bn	€ bn	€ bn
Gross loans to customers	32.3	3.1	7.9	19.6	62.9
Of which: Stage 3	3.0	0.3	1.2	1.0	5.5
Total ECL allowance	0.7	0.2	0.5	0.6	2.0
Non-performing loans	3.3	0.4	1.4	1.0	6.1
Total ECL allowance non-performing loans	0.6	0.2	0.4	0.4	1.6
ECL allowance cover non-performing loans (%)	20%	50%	29%	36%	27%

Non-performing loans 31 December 2019	Residential mortgages € bn	Other personal € bn	Property and construction € bn	Non-property business € bn	Total € bn
Collateral disposals	0.1	0.0	0.1	0.0	0.2
Unlikely to pay (including > 90 days past due)	1.9	0.2	0.3	0.3	2.7
Non-performing loans probation	0.3	0.0	0.0	0.1	0.4
Total non-performing loans	2.3	0.2	0.4	0.4	3.3
Total non-performing loans/ Total loans (%)	7.4%	6.4%	5.1%	2.2%	5.4%
31 December 2018	€ bn	€ bn	€ bn	€ bn	€ bn
Collateral disposals	0.2	0.1	0.4	0.1	0.8
Unlikely to pay (including > 90 days past due)	2.7	0.3	0.9	0.7	4.6
Non-performing loans probation	0.4	0.0	0.1	0.2	0.7
Total non-performing loans	3.3	0.4	1.4	1.0	6.1
Total non-performing loans/ Total loans (%)	10.1%	11.2%	17.9%	5.2%	9.6%

Investment securities

Investment securities of € 17.3 billion, primarily held for liquidity purposes, have increased by € 0.4 billion from 31 December 2018.

Loans and advances to banks

Loans and advances to banks of € 13.5 billion, including € 12.0 billion of cash and balances at central banks, were € 5.5 billion higher than 31 December 2018. The increased placement with banks was due to excess liquidity driven by increased customer account balances and the proceeds from MREL-related issuances and loan portfolio disposals.

Other assets

Other assets of € 6.9 billion comprised:

- Deferred tax assets of € 2.7 billion[1], in line with 31 December 2018.
- Derivative financial instruments of € 1.3 billion, € 0.4 billion increase from 31 December 2018.
- Remaining assets of € 2.9 billion, € 0.8 billion increase from 31 December 2018 mainly due to recognition of right-of-use assets under IFRS 16 of € 0.4 billion and proceeds awaiting settlement from a loan portfolio disposal of € 0.4 billion.

[1]For further information see note 2 Critical accounting judgements and estimates 'Deferred taxation' in the consolidated financial statements.

Liabilities & equity

Customer accounts

€71.8bn

Equity

€14.2bn

Liabilities & equity	31 Dec 2019 € bn	31 Dec 2018 € bn	% change
Customer accounts	71.8	67.7	6
Deposits by banks	0.8	0.8	-2
Debt securities in issue	6.8	5.7	19
Subordinated liabilities	1.3	0.8	63
Other liabilities	3.7	2.6	42
Total liabilities	84.4	77.6	9
Equity	14.2	13.9	2
Total liabilities & equity	98.6	91.5	8
	%	%	Change
Loan to deposit ratio	85	90	-5

Customer accounts

€71.8bn

Customer accounts, excluding the impact of currency movements of € 0.6 billion, increased by € 3.5 billion compared to 31 December 2018. Current accounts increased by € 3.4 billion reflecting the continued strong Irish macroeconomic backdrop.

Loan to deposit ratio

The loan to deposit ratio decreased to 85% at 31 December 2019 compared to 90% at 31 December 2018 driven by increased levels of customer accounts.

Deposits by banks

Deposits by banks of € 0.8 billion were in line with 31 December 2018.

Debt securities in issue

Debt securities of € 6.8 billion increased by € 1.1 billion from 31 December 2018 following the issuance of US $ 1 billion and € 0.75 billion MREL-related medium term notes. This was partly offset by the maturity of medium term notes of € 0.5 billion.

Subordinated liabilities

Subordinated liabilities of € 1.3 billion increased by € 0.5 billion from 31 December 2018 following the issuance of € 0.5 billion Subordinated Tier 2 Notes in November 2019.

Other liabilities

Other liabilities of € 3.7 billion comprised:

- Derivative financial instruments of € 1.2 billion, € 0.3 billion increase from 31 December 2018.
- Remaining liabilities of € 2.5 billion, € 0.8 billion increase from 31 December 2018 driven by recognition of lease liabilities under IFRS 16 of € 0.4 billion and an increase in provisions for liabilities of € 0.3 billion.

Equity

€14.2bn

Equity increased by € 0.3 billion to € 14.2 billion compared to € 13.9 billion at 31 December 2018, including the issuance of € 0.5 billion Additional Tier 1 securities in October 2019.

The table below sets out the movements in the year.

Equity	€ bn
Opening balance (1 January 2019)	**13.9**
Profit for the year	0.4
Other comprehensive income:	
Cash flow hedging reserves/ other[1]	0.1
Pension reserve	(0.2)
Dividends/ distributions paid	(0.5)
Issue of Additional Tier 1 securities	0.5
Closing balance (31 December 2019)	**14.2**

[1]Of which € 184 million relates to movements in the cash flow hedging reserves in the year due to reductions in market interest rates.

Business review – 1. Operating and financial review

Segment reporting

Segment overview

Following changes to the Group's operating model in 2019 performance is now managed and reported across Retail Banking, Corporate, Institutional & Business Banking ("CIB"), AIB UK and Group segments. The allocation of costs by segment has been amended to reflect the revised operating model. In addition the Group has revised the methodology used to allocate funding and liquidity income/ charges by segment. Figures for the prior year have been restated on a comparative basis. Segment performance excludes exceptional items.

Retail Banking

Retail Banking comprises Homes & Consumer, SME and Financial Solutions Group ("FSG") in a single integrated segment, focused on meeting the current, emerging and future needs of our personal and SME customers.

- Homes & Consumer is responsible for meeting the homes needs of customers in Ireland across the AIB, EBS and Haven brands and delivering innovative and differentiated products, propositions and services to meet our customers' everyday banking needs through an extensive range of physical and digital channels. Our purpose is to achieve a seamless, transparent and simple customer experience in all of our propositions across current accounts, personal lending, payments and credit cards, deposits, insurance and wealth to maintain and grow our market leading position.
- SME is a leading provider of financial services to micro and small SMEs through our sector-led strategy and local expertise with an extensive product and proposition offering across a number of channels. Our purpose is to help our customers create and build sustainable businesses in their communities.
- FSG is a standalone dedicated workout unit to which the Group has migrated the management of the majority of its non-performing exposures ("NPEs"), predominantly consisting of homes, consumer and SME products, with the objective of delivering the Group's NPE strategy to reduce NPEs in line with European norms.

Corporate, Institutional & Business Banking ("CIB")

CIB provides institutional, corporate and business banking services to the Group's larger customers and customers requiring specific sector or product expertise. CIB's relationship driven model serves customers through sector specialist teams including: corporate banking; real estate finance; business banking and energy; climate action and infrastructure. In addition to traditional credit products, CIB offers customers foreign exchange and interest rate risk management products, cash management products, trade finance, mezzanine finance, structured and specialist finance, equity investments and corporate finance advisory services, as well as Private Banking services and advice. CIB also has syndicated and international finance teams based in Dublin and in New York.

AIB UK

AIB UK offers retail and business banking services in two distinct markets, a sector-led corporate and commercial bank supporting businesses in Great Britain ("Allied Irish Bank (GB)"), and a retail and business bank in Northern Ireland ("AIB (NI)").

Group

Group comprises wholesale treasury activities and Group control and support functions. Treasury manages the Group's liquidity and funding positions and provides customer treasury services and economic research. The Group control and support functions include Business & Customer Services, Risk, Group Internal Audit, Finance, Legal & Corporate Governance, Human Resources and Corporate Affairs & Strategy.

Segment allocations

The segments' performance statements include all income and directly related costs, excluding overheads which are managed centrally and the costs of which are included in the Group segment. Funding and liquidity income/ 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.

Retail Banking

Retail Banking contribution statement	2019 € m	2018 € m	% change
Net interest income	1,234	1,335	-8
Other income	398	390	2
Total operating income	1,632	1,725	-5
Total operating expenses[1]	(923)	(875)	5
Bank levies and regulatory fees[1]	(2)	(1)	36
Operating contribution before impairments and exceptional items	707	849	-17
Net credit impairment writeback	17	247	-93
Operating contribution before exceptional items	724	1,096	-34
Associated undertakings	17	10	66
Contribution before exceptional items	741	1,106	-33

Retail Banking balance sheet metrics	31 Dec 2019 € bn	31 Dec 2018 € bn	% change
Mortgages	2.9	2.7	
Personal	1.0	0.9	
Property	0.1	0.1	
Non-property business	0.9	0.8	
New lending	4.9	4.5	10
Mortgages	29.6	30.4	
Personal	2.8	2.8	
Property	0.9	1.8	
Non-property business	3.3	4.1	
Gross loans	36.6	39.1	-6
ECL allowance	(1.1)	(1.8)	-35
Net loans	35.5	37.3	-5
Current accounts	25.5	22.9	11
Deposits	23.1	22.4	3
Customer accounts	48.6	45.3	7

Net interest income

€1,234m Net interest income has decreased by € 101 million compared to 2018 reflecting the impact on income of the continued deleveraging of non-performing loans and the increased cost of MREL-related debt funding. This was partially offset by the positive impact of new lending growth.

Other income

€398m Other income increased by € 8 million compared to 2018, with increased net fee and commission income partly offset by lower income recognised on previously restructured loans. Net fee and commission income includes € 2 million following the completion of the acquisition of Payzone in November 2019.

Total operating expenses

€923m Total operating expenses increased by € 48 million compared to 2018, driven by an increase in depreciation as assets created under investment programmes were commissioned to operational use and higher personnel costs due to the impact of salary inflation and Payzone acquisition.

Net credit impairment writeback

€17m There was a net credit impairment writeback of € 17 million in 2019 comprising of a € 10 million writeback on loans and advances to customers and a € 7 million writeback on off-balance sheet exposures. The € 10 million writeback comprises recoveries of amounts previously written-off of € 87 million, offset by net re-measurement of ECL allowance charge of € 77 million. There was a net credit impairment writeback of € 247 million in 2018.

New lending

€4.9bn New lending of € 4.9 billion was up 10% with increases across all business lines as market share remained stable in a competitive environment.

Net loans

€35.5bn Net loans decreased by € 1.8 billion mainly reflecting the disposal of portfolios of distressed loans of € 1.3 billion and redemptions in the non-performing loan book of € 0.8 billion.

ECL allowance

€1.1bn The ECL allowance of € 1.1 billion at 31 December 2019 decreased by € 0.7 billion from € 1.8 billion at 31 December 2018 primarily reflecting the portfolio disposals of distressed loans.

Customer accounts

€48.6bn Customer accounts increased by € 3.3 billion compared to 31 December 2018 with increased current accounts of € 2.6 billion reflecting the continued strong Irish macroeconomic backdrop.

[1] Other regulatory levies and charges are now presented as bank levies and regulatory fees (€ 1 million in 2018 previously included in operating expenses has been represented as bank levies and regulatory fees).

Business review – 1. Operating and financial review

Corporate, Institutional & Business Banking ("CIB")

CIB contribution statement	2019 € m	2018 € m	% change
Net interest income	471	387	22
Other income	87	115	-25
Total operating income	558	502	11
Total operating expenses	(115)	(108)	6
Operating contribution before impairments and exceptional items	443	394	13
Net credit impairment charge	(18)	(22)	-18
Contribution before exceptional items	425	372	14

CIB balance sheet metrics	31 Dec 2019 € bn	31 Dec 2018 € bn	% change
Mortgages	0.1	0.1	
Personal	0.1	0.0	
Property	1.3	1.4	
Non-property business	3.5	3.9	
New lending	5.0	5.4	-8
Mortgages	0.6	0.6	
Personal	0.1	0.1	
Property	4.3	4.0	
Non-property business	11.2	10.5	
Gross loans	16.2	15.2	7
ECL allowance	0.0	0.0	
Net loans	16.2	15.2	7
Investment securities	0.7	0.4	61
Current accounts	7.4	7.0	6
Deposits	3.9	3.8	3
Customer accounts	11.3	10.8	5

Net interest income

€471m Net interest income increased by € 84 million compared to 2018 reflecting higher average loan volumes.

Other income

€87m Other income decreased by € 28 million compared to 2018 primarily due to a one-off gain in 2018 on loans and advances to customers measured at FVTPL and a reduction in net gain on equity investments measured at FVTPL in 2019.

Total operating expenses

€115m Total operating expenses increased by € 7 million compared to 2018. The increase was primarily driven by increased personnel costs to support business growth.

Net credit impairment charge

€18m There was a net credit impairment charge of € 18 million in 2019 comprising of a € 21 million charge on loans and advances to customers and a € 3 million writeback on off-balance sheet exposures. There was a net credit impairment charge of € 22 million in 2018.

New lending

€5.0bn New lending of € 5.0 billion was € 0.4 billion lower than 2018. The reduction was primarily driven by lower syndicated lending partly offset by an increase in lending to the energy, climate action and infrastructure sectors.

Net loans

€16.2bn Net loans of € 16.2 billion at 31 December 2019 increased by € 1.0 billion compared to € 15.2 billion at 31 December 2018. The growth in net loans was primarily driven by the property and energy, climate action and infrastructure sectors.

Investment securities

€0.7bn Investment securities of € 0.7 billion were € 0.3 billion higher than 31 December 2018.

Customer accounts

€11.3bn Current accounts of € 7.4 billion were € 0.4 billion higher than 31 December 2018. Deposits of € 3.9 billion were broadly in line with 31 December 2018.

AIB UK

AIB UK contribution statement	2019 £ m	2018 £ m	% change
Net interest income	235	226	4
Other income	59	45	32
Total operating income	294	271	9
Total operating expenses	(154)	(135)	15
Bank levies and regulatory fees	–	1	–
Operating contribution before impairments and exceptional items	140	137	2
Net credit impairment charge	(13)	(18)	-29
Operating contribution before exceptional items	127	119	7
Associated undertakings	3	2	64
Profit on disposal of property	–	2	–
Contribution before exceptional items	130	123	6
Contribution before exceptional items € m	148	138	7

AIB UK balance sheet metrics	31 Dec 2019 £ bn	31 Dec 2018 £ bn	% change
AIB GB	1.8	1.6	18
AIB NI	0.3	0.4	-30
New lending	2.1	2.0	7
AIB GB	5.6	5.4	3
AIB NI	2.2	2.2	1
Gross loans	7.8	7.6	3
ECL allowance	(0.1)	(0.2)	-36
Net loans	7.7	7.4	4
Current accounts	5.8	5.8	-1
Deposits	3.0	3.1	-2
Customer accounts	8.8	8.9	-1

Net interest income

£235m Net interest income increased by £ 9 million compared to 2018, with 2019 benefiting from the impact of the base rate rise in August 2018.

Other income

£59m Other income increased by £ 14 million compared to 2018 primarily driven by an increase in net trading income. Loss on disposal of loans was Nil in 2019 compared to £ 4 million in 2018. Net fee and commission income was in line with 2018.

Total operating expenses

£154m Total operating expenses increased by £ 19 million compared to 2018 due to an increase in depreciation as assets created under investment programmes were commissioned to operational use.

Net credit impairment charge

£13m There was a net credit impairment charge of £ 13 million in 2019 primarily driven by a net re-measurement charge on a small number of cases. There was a net credit impairment charge of £ 18 million in 2018.

New lending

£2.1bn New lending of £ 2.1 billion in 2019 increased by £ 0.1 billion compared to 2018.

Net loans

£7.7bn Net loans of £ 7.7 billion increased by £ 0.3 billion compared to 31 December 2018 primarily driven by net lending growth.

Customer accounts

£8.8bn Customer accounts of £ 8.8 billion at 31 December 2019 were broadly in line with 31 December 2018.

Business review – 1. Operating and financial review

Group

Group contribution statement	2019 € m	2018 € m	% change
Net interest income	**103**	123	*-16*
Other income	**66**	70	*-5*
Total operating income	**169**	193	*-12*
Total operating expenses[1]	**(290)**	(296)	*-2*
Bank levies and regulatory fees[1]	**(102)**	(99)	*3*
Contribution before exceptional items	**(223)**	(202)	*10*

Group balance sheet metrics	31 Dec 2019 € bn	31 Dec 2018 € bn	% change
Gross loans	**0.1**	0.1	*22*
Investment securities	**16.6**	16.5	*–*
Customer accounts	**1.5**	1.7	*-16*

Net interest income

€103m Net interest income decreased by € 20 million compared to 2018 primarily driven by interest expense on lease liabilities under IFRS 16 reported in Group.

Other income

€66m Other income decreased by € 4 million compared to 2018 driven by an increase in net trading loss partly offset by an increase in net gain on equity investments measured at FVTPL and an increase in other operating income including gain on disposal of investment securities.

Total operating expenses

€290m Total operating expenses of € 290 million decreased by € 6 million compared to 2018.

Bank levies and regulatory fees

€102m Bank levies and regulatory fees of € 102 million in 2019 include the Irish bank levy of € 35 million, the Deposit Guarantee Scheme of € 33 million, the Single Resolution Fund € 16 million, and other regulatory levies and charges of € 18 million.

Investment securities

€16.6bn Investment securities of € 16.6 billion primarily held for liquidity purposes were broadly in line with 31 December 2018.

Customer accounts

€1.5bn Customer accounts decreased by € 0.2 billion compared to 31 December 2018.

[1]Other regulatory levies and charges are now presented as bank levies and regulatory fees (€ 16 million in 2018 previously included in operating expenses has been represented as bank levies and regulatory fees).

Alternative performance measures

The following is a list, together with a description, of APMs used in analysing the Group's performance, provided in accordance with the European Securities and Markets Authority ("ESMA") guidelines.

Average rate	Interest income/ expense for balance sheet categories divided by corresponding average balance.
Average balance	Average balances for interest-earning assets are based on daily balances for all categories with the exception of loans and advances to banks, which are based on a combination of daily/ monthly balances. Average balances for interest-earning liabilities are based on a combination of daily/ monthly balances, with the exception of customer accounts which are based on daily balances.
Cost income ratio	Total operating expenses excluding exceptional items, bank levies and regulatory fees divided by total operating income excluding exceptional items.
Cost income ratio (IFRS basis)	Total operating expenses divided by total operating income.
Exceptional items	Performance measures have been adjusted to exclude items viewed as exceptional by management and which management view as distorting comparability of performance year on year. The adjusted performance measure is considered an APM. A reconciliation between the IFRS and management performance summary income statements is set out on page 66. Exceptional items include: – *Property strategy* relates to the implementation of the Group property strategy including the exit from Bankcentre and the acquisition and development of various office locations across Dublin. – *Restitution costs* include provision for potential customer redress and compensation in relation to the tracker mortgage examination, and other personal/ SME lending customer redress, along with associated costs. – *Provision for regulatory fines* includes a provision for the potential impact of monetary penalties arising from the Central Bank of Ireland investigation in respect of tracker mortgages. – *Termination benefits* reflect costs associated with the reduction in employees arising from the voluntary severance programme. – *(Loss)/ gain on disposal of loan portfolios* includes net (loss)/ gain on disposals and net gain on loans and advances to customers measured at FVTPL. – *Restructuring costs* include the impairment of assets in the year. – *IFRS 9 costs* in 2018 represent IFRS 9 implementation costs. – *Loss on disposal of business activities* in 2018 relates to the recycling of cumulative unrealised foreign currency gains and losses following repatriation of part of the capital of foreign subsidiaries which have ceased trading.
Loan to deposit ratio	Net loans and advances to customers divided by customer accounts.
Net interest margin	Net interest income divided by average interest-earning assets.
Non-performing exposures	Non-performing exposures as defined by the European Banking Authority, include loans and advances to customers (non-performing loans) and off-balance sheet commitments such as loan commitments and financial guarantee contracts.
Non-performing loans cover	ECL allowance on non-performing loans as a percentage of non-performing loans.
Non-performing loans ratio	Non-performing loans as a percentage of total gross loans.
Return on Tangible Equity (RoTE)	Details of the Group's RoTE is set out in the Capital Section on page 70.
Management performance - summary income statement	The following line items in the management performance summary income statement are considered APMs: • Other income • Total operating income • Personnel expenses • General and administrative expenses • Depreciation, impairment and amortisation • Total operating expenses • Bank levies and regulatory fees • Operating profit before impairment losses and exceptional items • Operating profit before exceptional items • Profit on disposal of property • Profit before exceptional items • Total exceptional items

Business review – 1. Operating and financial review

Reconciliation between IFRS and management performance summary income statements

Performance has been adjusted to exclude items viewed as exceptional by management and which management view as distorting comparability of performance year on year. The adjusted performance measure is considered an APM. A reconciliation of management performance measures to the directly related IFRS measures, providing their impact in respect of specific line items and the overall summary income statement, is set out below.

IFRS – summary income statement	2019 € m	2018 € m
Net interest income	2,076	2,100
Other income	579	774
Total operating income	2,655	2,874
Total operating expenses	(2,181)	(1,823)
Operating profit before impairment losses	474	1,051
Net credit impairment (charge)/ writeback	(16)	204
Operating profit	458	1,255
Associated undertakings	20	12
Profit/ (loss) on disposals	21	(20)
Profit before taxation	499	1,247
Income tax charge	(135)	(155)
Profit for the year	364	1,092

Adjustments – between IFRS and management performance

Other income	**of which: exceptional items**				
	Gain on transfer of financial instruments	–		(1)	
	Loss/ (gain) on disposal of loan portfolios	40	40	(147)	(148)
Total operating expenses	**of which: bank levies and regulatory fees**		104		99
	of which: exceptional items				
	Restitution costs	416		120	
	Provision for regulatory fines	78		–	
	Termination benefits	48		21	
	Restructuring costs	18		20	
	Property strategy	13		81	
	IFRS 9 costs	–	573	51	293
Profit/ (loss) on disposals	**of which: exceptional items**				
	Property strategy	(21)		–	
	Loss on disposal of business activities	–	(21)	22	22

Management performance – summary income statement

Net interest income	2,076	2,100
Other income[1]	619	626
Total operating income[1]	2,695	2,726
Total operating expenses[1]	(1,504)	(1,431)
Bank levies and regulatory fees[1]	(104)	(99)
Operating profit before impairment losses and exceptional items[1]	1,087	1,196
Net credit impairment (charge)/ writeback	(16)	204
Operating profit before exceptional items[1]	1,071	1,400
Associated undertakings	20	12
Profit on disposal of property[1]	–	2
Profit before exceptional items[1]	1,091	1,414
Total exceptional items[1]	(592)	(167)
Profit before taxation	499	1,247
Income tax charge	(135)	(155)
Profit for the year	364	1,092

[1]Performance has been adjusted to exclude items viewed as exceptional by management and which management view as distorting comparability of performance year on year. The adjusted performance measure is considered an APM.

Business review – 2. Capital

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. Detail on the management of capital and capital adequacy risk can be found in 'Risk management 2.3' on page 154.

Regulatory capital and capital ratios

	CRD IV transitional basis		CRD IV fully loaded basis	
	31 December 2019 € m	31 December 2018 € m	31 December 2019 € m	31 December 2018 € m
Equity	**14,230**	13,858	**14,230**	13,858
Less: Additional Tier 1 Securities	**(990)**	(494)	**(990)**	(494)
Proposed ordinary dividend	**(217)**	(461)	**(217)**	(461)
Regulatory adjustments:				
Intangible assets	**(798)**	(682)	**(798)**	(682)
Cash flow hedging reserves	**(469)**	(285)	**(469)**	(285)
IFRS 9 CET1 transitional add-back	**251**	298	**–**	–
Pension	**(31)**	(183)	**(31)**	(183)
Deferred tax	**(1,334)**	(1,079)	**(2,667)**	(2,697)
Expected loss deduction	**(8)**	(21)	**(8)**	(21)
Other	**(45)**	(42)	**(45)**	(42)
	(2,434)	(1,994)	**(4,018)**	(3,910)
Total common equity tier 1 capital	**10,589**	10,909	**9,005**	8,993
Additional tier 1 capital				
Additional Tier 1 issuance	**496**	–	**496**	–
Instruments issued by subsidiaries that are given recognition in additional tier 1 capital	**129**	235	**159**	316
Total additional tier 1 capital	**625**	235	**655**	316
Total tier 1 capital	**11,214**	11,144	**9,660**	9,309
Tier 2 capital				
Subordinated debt	**500**	–	**500**	–
Instruments issued by subsidiaries that are given recognition in tier 2 capital	**426**	415	**507**	531
Total tier 2 capital	**926**	415	**1,007**	531
Total capital	**12,140**	11,559	**10,667**	9,840
Risk-weighted assets				
Credit risk	**46,811**	46,209	**46,689**	46,052
Market risk	**473**	371	**473**	371
Operational risk	**4,700**	4,624	**4,700**	4,624
Credit valuation adjustment	**137**	392	**137**	392
Total risk-weighted assets	**52,121**	51,596	**51,999**	51,439
	%	%	%	%
Common equity tier 1 ratio	**20.3**	21.1	**17.3**	17.5
Tier 1 ratio	**21.5**	21.6	**18.6**	18.1
Total capital ratio	**23.3**	22.4	**20.5**	19.1

*Forms an integral part of the audited financial statements

Business review – 2. Capital

Capital requirements

The table below sets out the capital requirements at 31 December 2019 and the pro forma requirements for 2020 and 2021. The table does not include Pillar 2 Guidance ("P2G") which is not publicly disclosed.

Regulatory Capital Requirements	Actual 31 Dec 2019	Pro Forma 31 Dec 2020	Pro Forma 31 Dec 2021
CET1 Requirements			
Pillar 1	4.50%	4.50%	4.50%
Pillar 2 requirement (P2R)	3.15%	3.00%	3.00%
Combined buffer requirement	3.90%	4.60%	5.10%
Capital Conservation Buffer (CCB)	2.50%	2.50%	2.50%
O-SII buffer	0.50%	1.00%	1.50%
Countercyclical buffer (CCYB) Impact			
Irish exposures	0.70%	0.70%	0.70%
UK exposures	0.20%	0.40%	0.40%
CET1 Requirement	**11.55%**	**12.10%**	**12.60%**
Pillar 1 AT1 / Tier 2	**3.50%**	**3.50%**	**3.50%**
Total Capital Requirement	**15.05%**	**15.60%**	**16.10%**

The Group's minimum CET1 requirement was 11.55% in 2019 and is expected to be 12.1% by the end of 2020.

The Other Systemically Important Institution ("O-SII") buffer of 0.5% will rise to 1.0% on 1 July 2020 and 1.5% on 1 July 2021.

The countercyclical capital buffer (CCyB) for Irish exposures of 1.0% equates to a 0.7% Group capital requirement. The CCyB requirement for UK exposures is currently 1% and equates to a 0.2% Group capital requirement. This will rise to 2% from 16 December 2020 which will equate to a 0.4% Group requirement. Other jurisdictional CCyB in place have a negligible impact on Group capital requirements.

The Minister for Finance has agreed to a Central Bank of Ireland request to transpose the Systemic Risk Buffer ("SyRB") into Irish Law. The timing of introduction, quantum and the inter-relationship of the SyRB with other buffers is not yet known.

The minimum requirement for the total capital ratio was 15.05% at 31 December 2019 and will increase to 15.6% by the end of 2020.

Capital ratios at 31 December 2019

Fully Loaded Ratio

The fully loaded CET1 ratio decreased to 17.3% at 31 December 2019 from 17.5% at 31 December 2018 with profit for the year attributable to equity holders of the parent less proposed ordinary dividend (+0.3%) offset by the increase in RWA following the implementation of IFRS 16 (-0.2%), an increase in intangible assets of (-0.2%) and other capital adjustments (-0.1%).

The fully loaded total capital ratio increased to 20.5% at 31 December 2019 from 19.1% at 31 December 2018. The increase in the ratio was driven by the CET1 movements outlined above and two new capital issuances in late 2019 comprising € 0.5 billion AT1 and € 0.5 billion Tier 2 securities.

Transitional Ratio

The transitional CET1 ratio decreased to 20.3% at 31 December 2019 from 21.1% at 31 December 2018. This decrease was mainly driven by the movements detailed above and an additional year's phasing out of the deferred tax asset deduction.

At 31 December 2019, the transitional total capital ratio increased to 23.3% from 22.4% at 31 December 2018.

Targeted Review of Internal Models (TRIM)

The table below shows the pro forma impact of the draft AIB mortgage TRIM outcome, which is not expected to be materially different from the final decision.

TRIM adjusted capital metrics	Expected Impact	2019 Pro Forma
Fully Loaded	€ m	€ m
CET1 impact	(90)	8,915
RWA impact	2,200	54,199
CET1 ratio	(0.9)%	16.4%

The ECB's TRIM process with respect to AIB's Irish mortgages is nearing completion with the final decision expected to be received in the coming months.

The pro forma capital impact at 31 December 2019 is 90 basis points which would reduce the fully loaded CET1 ratio to 16.4% from the reported 17.3% and the total capital ratio to 19.6% from the reported 20.5%.

Leverage ratio

Based on the full implementation of CRD IV, the fully loaded leverage ratio, under the Delegated Act implemented in January 2015, was 9.7% at 31 December 2019 (10.1% at 31 December 2018).

Total leverage exposures (transitional) basis increased by € 7.0 billion in the year, mainly driven by increases in cash and balances at central banks € 5.4 billion, property plant and equipment € 0.5 billion, investment securities € 0.4 billion and derivative financial instruments € 0.4 billion.

Leverage Ratio Metrics	2019 € m	2018 € m
Total Exposure (Transitional Basis)	**101,126**	94,086
Total Exposure (Fully Loaded)	**99,548**	92,467
Tier 1 Capital (Transitional Basis)	**11,214**	11,144
Tier 1 Capital (Fully Loaded)	**9,660**	9,309
Leverage Ratio (Transitional Basis)	**11.1%**	11.8%
Leverage Ratio (Fully Loaded)	**9.7%**	10.1%

Finalisation of Basel III

The Group continues to closely monitor regulatory developments to ensure that the Group maintains a strong capital position.

One of the key areas of regulatory development is the finalisation of Basel III reforms, exact implementation details will be confirmed once the finalised requirements are transposed into law over the course of the next few years. Initial assessments signal upward pressure on RWAs, mostly in relation to operational risk.

In relation to RWA floors, the Group's high RWA density make it less likely to be severely impacted by their introduction.

Minimum Requirement for Own Funds and Eligible Liabilities ("MREL")

The Group continues to work towards its MREL target to ensure that there is sufficient loss absorption and re-capitalisation capability. The Group has completed issuances of € 4.3 billion of the € 5 billion MREL eligible liabilities needed to meet its MREL issuance target, of which € 2.6 billion was issued in 2019.

The Single Resolution Board ("SRB") has set the Group's MREL target at 16.76% of Total Liabilities and Own Funds ("TLOF") (representing 28.22% of RWA at 31 December 2017) to be met by 1 January 2021.

At 31 December 2019, the Group had an actual MREL ratio of 16.27% of Total Liabilities and Own Funds and 28.50% of RWA.

The Group estimates issuances of approximately € 1 billion per annum to meet and maintain MREL targets.

The Group continues to monitor changes in MREL requirements together with developments in the SRB's MREL Policy which has the potential to impact on the Group's MREL target.

Dividends

The Board proposes to pay an ordinary dividend of € 0.08 cent per share totalling € 217 million from 2019 profits. This is subject to shareholder approval at the Annual General Meeting in April 2020.

Ratings

AIB Group plc and Allied Irish Banks, p.l.c. are rated at investment grade with all three rating agencies, Moody's, Fitch and Standard & Poor's (S&P). Moody's upgraded AIB Group plc Tier 2 to Baa3/Investment Grade.

AIB Group plc

During 2019, Moody's upgraded the credit rating by one notch to Baa2, remaining on positive outlook. This upgrade reflects the significant reduction in non-performing loans, strengthened capital and stable funding profile. Fitch upgraded its credit rating by one notch to BBB, stable outlook. This upgrade reflects the significant improvement in asset quality over the last two years.

		31 December 2019	
Long term Ratings	**Moody's**	**S&P**	**Fitch**
Long term	**Baa2**	**BBB-**	**BBB**
Outlook	**Positive**	**Stable**	**Stable**
Investment grade	✓	✓	✓

		31 December 2018	
Long term Ratings	Moody's	S&P	Fitch
Long term	Baa3	BBB-	BBB-
Outlook	Positive	Stable	Positive
Investment grade	✓	✓	✓

Allied Irish Banks, p.l.c.

Moody's upgraded its rating by one notch to A2, with stable outlook. This upgrade is driven by the significant improvements in asset quality. Fitch upgraded its rating by two notches to BBB+, with stable outlook. These upgrades reflect, inter alia, AIB Group plc MREL issuances which, when downstreamed to Allied Irish Banks, p.l.c., create an additional buffer for senior creditors.

		31 December 2019	
Long term Ratings	**Moody's**	**S&P**	**Fitch**
Long term	**A2**	**BBB+**	**BBB+**
Outlook	**Stable**	**Stable**	**Stable**
Investment grade	✓	✓	✓

		31 December 2018	
Long term Ratings	Moody's	S&P	Fitch
Long term	A3	BBB+	BBB-
Outlook	Positive	Stable	Positive
Investment grade	✓	✓	✓

Business review – 2. Capital

Return on Tangible Equity ("RoTE")*

The table below sets out the calculation of RoTE for 2019 and 2018 under the methodology that was adopted in 2017 when RoTE was set as a medium term financial target (i.e. 10% for the period 2017-2019).

Return on Tangible Equity (RoTE)	2019	2018
Profit after tax	364	1,092
AT1 coupons paid	(37)	(37)
Reduction in carrying value of deferred tax assets in respect of carried forward losses	16	114
Attributable earnings (numerator)	343	1,169
Target CET1 - 13% of risk-weighted assets (average)	6,723	6,712
Deferred tax assets - unutilised tax losses (average)	2,682	2,730
Tangible equity (denominator)	9,405	9,442
Return on Tangible Equity	**3.6%**	12.4%

*RoTE is considered an Alternative Performance Measure.

As part of Strategy 2020-2022, the Group has now set a revised financial target for RoTE of greater than 8% in the medium term (i.e. over the period to 2022). In addition, the Group has also revised its approach to the calculation of RoTE.

This is now calculated as follows: Profit after tax less AT1 coupons paid divided by the CET1 target capital on a fully loaded basis.

This revised RoTE calculation is seen as more appropriate on a go forward basis as it reflects the internal measurement for the deployment of capital and is more in line with the calculation commonly used by investors and analysts in the marketplace.

The Group has revised its CET1 target to greater than 14% in 2020 (previously 13%).

The pro forma RoTE under the revised methodology together with a CET1 of 14% is 4.5% for 2019.

Risk management

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Risk management – 1. Framework

1. Introduction

Risk management is central to how the Group conducts its business and how it helps its customers to achieve their dreams and ambitions while safeguarding the Group. The following sections outline the Risk Management Framework in place throughout 2019.

The risk management structure in the Group includes defined lines of authority and accountability, effective processes to identify, manage, monitor and report the risks to which the Group is or might be exposed to. Clear responsibilities for risk are defined across the Group through a three lines of defence model which ensures effective independent oversight and assurance in respect of key decisions.

The Group's Risk Management Framework sets out how risk is managed and articulates the integrated approach to risk management within the Group including its licenced subsidiaries. The Risk Management Framework supports the Group in achieving its strategic ambitions by providing a clear, concise and comprehensive approach to the governance, implementation and embedding of risk management practices. The Risk Management Framework is reviewed and approved annually by the Board.

1.1 Risk management principles

The twelve principles below governing the design and operation of effective risk management within the Group.

Strategy and appetite	
1.	The Board has ultimate responsibility for the governance of all risk taking activity in the Group
2.	The Group's Risk Appetite Statement defines the amount of risk that the Group is willing to accept or tolerate in order to deliver on its strategic and business objectives
3.	The Group has adopted a three lines of defence model
Identification and assessment	
4.	The Group identifies, assesses and reports all its material risks
5.	Risk management is embedded in the strategic planning, performance management and strategic decision making processes of the Group
6.	The Group develops and uses models across a range of risks and activities to inform key strategic business and financial processes
Monitoring, escalating and reporting	
7.	The Group understands, manages, measures, monitors and reports all risk it takes or originates
8.	The Group aims to provide clarity in all its communications which will help to better inform business decisions
Risk culture	
9.	The Group supports the delivery of a strong risk culture
10.	Risk management capabilities are valued, encouraged and developed
Control environment	
11.	The Group has a system of internal controls designed to mitigate rather than eliminate risk
12.	The Group has implemented and embedded a comprehensive, fit-for-purpose risk management framework and policy architecture

1.2 Three lines of defence model

The Group operates a three lines of defence model where each line plays a distinct role within the Group's wider risk governance, management, oversight and assurance responsibilities. The Board, Board Risk Committee ("BRC") and Board Audit Committee ("BAC") are ultimately responsible for ensuring the effective operation of the three lines of defence model. They are supported by the Executive Committees ("ExCo") and its sub-committees.

The following high level principles have been defined across the three lines of defence for risk management:

Three lines of defence model high level principles	
First line of defence – Frontline, operational and support activities	Provides risk ownership and oversight responsibilities Identifies, records, reports and manages the risks Ensures that the right controls and assessments are in place to mitigate the risks
Second line of defence – Risk	Sets the frameworks and policies for managing specific risk types Provides advice and guidance in relation to the risk Provides independent oversight and reporting on the Group's risk profile Provides challenges to the effectiveness of the risk management and control processes
Third line of defence – Group Internal Audit	Provides independent and objective assurance on the adequacy of the design and operational effectiveness of the risks and control environment

1.2.1 Roles and responsibilities across the three lines of defence

The high level roles each line of defence play in risk management adopted by the Group and its licenced subsidiaries are described below. Although the licenced subsidiaries are separate legal entities, the risk assessment, measurement and control procedures of the Group are also applied to the subsidiaries. The Board and its sub-committees; Board Risk Committee and Board Audit Committee are ultimately responsible for ensuring the effective operation of the lines of defence model.

First line of defence

The first line of defence lies with the business line managers who own the risk and are required to establish effective governance and controls for their business areas to be compliant with Group policy requirements, to maintain appropriate risk management skills, mechanisms and toolkits, and to act within Group risk appetite parameters set and approved by the Board.

Second line of defence

The second line of defence comprises the Risk function and oversees the first line, setting the frameworks, policies and limits, consistent with the risk appetite of the Group. The second line of defence is responsible for providing independent oversight and challenge to business line managers with regard to risk management. In the case of credit risk, independent oversight includes credit risk's role in credit sanctioning. Oversight involves regular monitoring of business unit's risk management activities and reporting. Challenge requires proactive engagement with business line managers to test and confirm the integrity and effectiveness of first line risk management.

Nominated 'second line risk accountable executives' are responsible for ensuring the formulation of risk strategy; that a Risk policy and framework is in place for the risks assigned to them; that the exposure to the risk is correctly identified and assessed according to the Group's materiality criteria; reporting is appropriate; identified risk events are appropriately managed or escalated; and that independent objective analysis of the risk is undertaken.

In setting the Risk policy, the second line of defence consult with the first line of defence as appropriate and provide advice and guidance to ensure the risk is sufficiently understood.

Third line of defence

Group Internal Audit's primary responsibility is to the Board through the Board Audit Committee. Group Internal Audit helps the Board to carry out their corporate governance responsibilities by providing an independent view on the key risks facing the Group, and the adequacy and effectiveness of governance, risk management and the internal control environment in managing these risks. All activities undertaken on behalf of the Group are within the scope of Group Internal Audit.

1.3 Risk governance and oversight

The Group's Governance and Organisation Framework encompasses the leadership, direction and control of the Group, reflecting guidelines, statutory obligations and ensures that control arrangements provide appropriate governance of the Group's strategy, operations and mitigation of related material risks. This is achieved through a risk governance structure designed to facilitate the reporting, evaluation and escalation of risk concerns, from business segments and control functions upwards to the Board and its appointed committees and sub-committees.

1.3.1 Board of Directors

The Board of Directors is ultimately responsible and accountable for the effective management of risks and for the system of internal controls in the Group. The system of internal control is designed to ensure thorough and regular evaluation of the nature and extent of risks, and the ability of the Group to react accordingly. The Board is supported by a Board Risk Committee on risk oversight matters, and by a Board Audit Committee in relation to the effectiveness of internal control systems designed and implemented to manage risk and by the Executive Committee in relation to strategic risk oversight matters.

Board Audit Committee

The Board Audit Committee is composed of Non-Executive Directors and operates under Board approved Terms of Reference. The Chair of the Board and the Chief Executive Officer are not permitted to be members of the Board Audit Committee. The Board Audit Committee is appointed by the Board to assist the Board in fulfilling its oversight responsibilities in relation to:

(i) the quality and integrity of the Group's accounting policies, financial and narrative reports, and disclosure practices;
(ii) the effectiveness of the Group's internal control, risk management, and accounting and financial reporting systems;
(iii) the adequacy of arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters; and
(iv) the independence and performance of the internal and external auditors.

Board Risk Committee

The Board Risk Committee is composed of Independent Non-Executive Directors and operates under Board approved Terms of Reference. The Board Risk Committee is appointed by the Board to assist in fulfilling its oversight responsibilities in relation to:

(i) fostering sound risk governance across all of the Group's entities and operations;
(ii) discharging its responsibilities in ensuring that risks within the Group are appropriately identified, managed and controlled;
(iii) ensuring that the Group's strategy is informed by and aligned with the Group's Risk Appetite Statement taking account of the overall risk appetite, the current financial position of the Group and the capacity of the Group to manage and control risks within the agreed strategy; and

Risk management – 1. Framework

(iv) promoting a risk awareness culture within the Group.
The Board Risk Committee oversees the risk management function which is managed on a day-to-day basis by the Chief Risk Officer, and liaises regularly with the Chief Risk Officer to ensure that the development and on going maintenance of a risk management system within the Group is effective and proportionate to the nature, scale and complexity of the risks inherent in the business.

1.3.2 Executive Committee

The Executive Committee is the most senior management committee of the Group. The Executive Committee has primary authority and responsibility for the day-to-day operations of, and the development of strategy for the Group. The Executive Committee works with and advises the CEO, ensuring a collaborative approach to decision making and collective ownership of strategy development and implementation, including promoting action to address performance issues as required. Certain powers and authorities of the Board have been delegated to a number of subordinate executive committees. While the Executive Committee has delegated certain of its powers and authorities to these committees, it retains ultimate accountability for the functions delegated.

Group Risk Committee

The Group Risk Committee is a sub-committee of the Executive Committee and is chaired by the Chief Risk Officer.

The roles and responsibilities of the Group Risk Committee are:

- Approving risk frameworks, risk appetite statements, risk policies and limits to manage the risk profile of the Group;
- Reviewing the Group's risk profile (enterprise wide);
- Periodically reviewing the effectiveness of the Group's risk management policies for identifying, evaluating, monitoring, managing, and measuring significant risks;
- Providing oversight and challenge of regulatory, operational and conduct risk related matters;
- Providing oversight and challenge of credit risk management related matters and periodically review the credit portfolio exposures and trends;
- Providing oversight and challenge of risk measurement matters;
- Overseeing the development of the Group's risk management culture;
- Monitoring and reviewing the Group's risk profile for equity risk and the business segment limits for equity risk;
- Advising the Executive Committee on the risk impact of strategic initiatives that the Group may be considering and determining whether the initiatives are within risk appetite; and
- Providing advice to the Board Risk Committee on risk governance, current and future risk exposures and risk appetite.

The sub-committees of the Group Risk Committee include the Group Credit Committee, the Regulatory and Conduct Risk Committee, the Risk Measurement Committee and the Operational Risk Committee:

- The Group Credit Committee is responsible for the approval of all large credit transactions in line with credit approval authorities, exercising approval authority for credit policies and recommending estimated credit loss outcomes across the Group for onward review by the Board Audit Committee. It approves credit inputs to credit decisioning models, as well as reviewing and approving other credit related matters as they occur;
- The Regulatory and Conduct Risk Committee is responsible for the governance and oversight of regulatory and conduct risks;
- The Operational Risk Committee is responsible for the governance and oversight of operational risks;
- The Risk Measurement Committee is responsible for the governance, oversight and approval of all aspects of the Group's risk measurement systems, material model methodologies as well as the maintenance of existing material models.

Group Asset and Liability Management Committee ("ALCo")

ALCo is the Group's strategic and business decision making forum for balance sheet management matters. It is responsible for effective balance sheet management and its alignment to Group strategy for funding and liquidity risk, market risk and capital adequacy risk. ALCo monitors the external economic environment, markets and the performance of the Group and makes commercial decisions on pricing, investments and funding in response. The Committee was established by, and is accountable to the Executive Committee.

1.4 Risk strategy

Integration of key risk management processes

The following section sets out at a high level the connection of key risk management activities within the Group. It illustrates the integration of the Group strategy through to recovery and resolution planning.

Group strategy

The Group's strategic ambition is to be at the heart of our customers' financial lives by responsibly and comprehensively meeting their life-stage needs, aiming to be a sustainable, capital-generative and efficient business. The Group's strategy is driven by the five strategic pillars that determine the areas of focus and drive investment. The strategy is defined within the boundaries of the Group's Risk Appetite Statement and approved by the Board. The Group's Risk Appetite Statement, defines the amount and type of risk that is willing to accept in pursuit of its strategic goals.

Risk strategy setting

The risk strategy, articulated through the annual risk plan and the risk objectives, is a key element in informing the Board on how risk is to be managed. The Group has a set of strategic risk objectives which support the delivery of the Group's strategy with a specific focus on the Risk and Capital pillar.

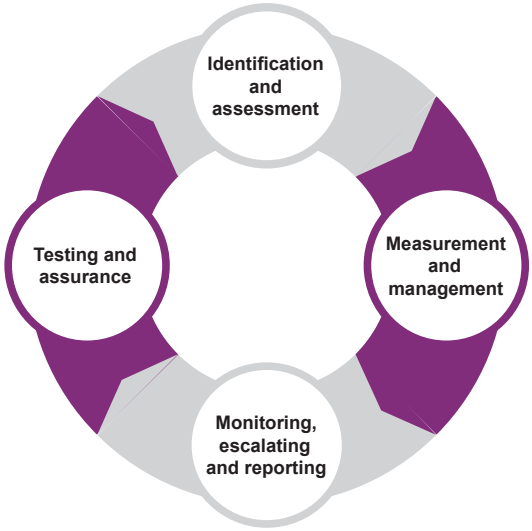
Risk culture

A strong risk culture is vital for the Group to achieve its strategic objectives. The risk culture defines how risk is managed and owned throughout the Group. It is the values, beliefs, knowledge, attitudes and understanding of risk shared by people. It sets the foundation for how the Group manages risk in a consistent and coherent manner. Risk culture is one of the key elements of the Group's Risk Management Framework; it is through the risk framework and policy documents that an awareness of risk and control is set and cascaded throughout the Group.

1.5 Risk management lifecycle

The key processes which support the Group's approach to risk management are set out below:

- Identification and assessment – through various assessments and processes including analysis and testing across material risks;
- Measurement and management – management selects an appropriate risk response: avoiding, accepting, reducing, or sharing risk and develops a set of management actions. These actions are activities initiated to improve management of specific risks or in response to a risk event;
- Monitoring, escalating and reporting – the continuous monitoring of risks to ensure that the key risks remain within risk appetite; and
- Testing and assurance – an objective examination of evidence for the purpose of providing an independent assessment of governance, risk management and control processes for the Group in relation to all risk types.



1.5.1 Identification and assessment

Risk is identified and assessed in the Group through a combination of the following:

- Material risk assessment;
- Risk and control assessment;
- Setting risk appetite;
- Linking to the Annual Financial Plan;
- Stress testing;
- Internal Capital Adequacy Assessment Process ("ICAAP");
- Internal Liquidity Adequacy Assessment Process ("ILAAP");
- Recovery and resolution planning.

Material risk assessment

The material risk assessment is a top down process performed on an annual basis for the Group which identifies the key material risks. This assessment takes into account its strategic objectives and incorporates both internal and external risk information. The Board Risk Committee is responsible for the annual approval of the Group material risk assessment whilst the Group Risk Committee is responsible for the annual review of the Group material risk assessment.

Risk and control assessment

First line of defence is responsible for ensuring that detailed bottom up risk and control assessments are undertaken for all businesses or business processes falling under their responsibility. These assessments are performed regularly and whenever there is a material change in organisation, business processes or business environment.

Setting risk appetite

The Board sets the risk appetite for the Group informed by the material risk assessment. Risk appetite is the nature and extent of risk that the Group is willing to take, accept, or tolerate in pursuit of its business objectives and strategy. It also informs the Group's strategy, and as part of the Risk Management Framework, is a boundary condition to strategy and guides the Group in its risk taking and related business activities. The financial plan is tested to ensure it is within the risk appetite.

The Group Risk Appetite Statement is an articulation of the Group's appetite for, and tolerance of risk expressed through qualitative statements and quantitative limits and thresholds. The Group Risk Appetite Statement seeks to encourage appropriate risk taking to ensure that risks are consistent with the Group strategy and risk appetite. The Group Risk Appetite Statement cascades into key business segments with separate Risk Appetite Statements for each licenced subsidiary reflecting the risk appetite of the subsidiary as a standalone entity.

The Group's risk appetite statement is built on the following overarching qualitative statements:

- We aim to grow our business by identifying, understanding and managing all the risks that impact us, ensuring appropriate returns for risks and by building long term sustainable relationships with our customers which are resilient through the cycle;
- We have a low appetite for income volatility and target steady, sustainable earnings to enable appropriate regular dividend payments;

Risk management – 1. Framework

- We do not have an appetite for large proprietary market risk positions in our trading book;
- We accept the concentration risk arising from our focus on markets in Ireland and the UK. Within these markets we seek to avoid excessive concentrations to sectors or single-names and test repayment capacity in stress conditions;
- We seek to attract and retain skilled staff and place great emphasis on the integrity of staff and accountability for both inaction and actions taken, rewarding behaviours consistent with our brand values and code of conduct;
- We offer our customers transparent, consistent and fair products and services and seek always to deliver fair customer outcomes;
- We seek to maintain the highest level of availability of key services for our customers;
- We seek to comply with all relevant laws and regulations, our business is underpinned by a strong control framework;
- We seek to maintain a strong capital base that generates returns in line with stakeholder and market expectations;
- We consider opportunities for inorganic growth that would support the Group in terms of scale and/or capability, where the Group has proven competence and capacity, and that maintains alignment with our qualitative Risk Appetite Statements; and
- We seek resilient, diversified funding relying significantly on retail deposits.

Linking to the Annual Financial Plan

The financial plan is integral to how the Group manages its business and monitors performance. It informs the delivery of the Group's strategy and is aligned to the Risk Appetite Statement. It enables realistic business objectives to be set for management, identifies accountability in the Group's delivery of planning targets and identifies the risks to the delivery of the Group's strategic goals and the mitigants of those risks. The plan is produced under base and moderate downside scenarios. It is the basis for assessment of business model risk and internal capital adequacy.

Stress testing

The Group's risk identification and assessment processes described above are supported by a framework of stress testing, scenario and sensitivity analysis and reverse stress testing. It seeks to ensure that risk assessment is dynamic and forward looking, and considers not only existing risks but also potential and emerging threats. This enhances the overall risk management of the Group by informing risk appetite, capital and contingency planning and strategy formulation. Interdependencies between the Group's material risks are also considered as part of the stress testing scenario impact analysis.

In addition, ad hoc stress tests are undertaken as required to inform strategic decision making. Reverse stress testing is undertaken as part of the Group's recovery planning i.e. the means by which the Group assesses the key threats to its viability and the available mitigants to address them.

The results of internal stress tests are challenged quarterly by the Risk function and reviewed by ALCo.

Internal Capital Adequacy Assessment Process ("ICAAP")

It is the Group's policy to maintain adequate capital resources at all times, having regard to the nature and scale of its business and the risks arising from its operations. The Internal Capital Adequacy Assessment Process ("ICAAP") is the process by which the Group performs a formal and rigorous assessment of its balance sheet, business plans, risk profile and risk management processes to determine whether it holds adequate capital resources to meet both internal objectives and external regulatory requirements. Multiple scenarios are considered for each ICAAP including both systemic and idiosyncratic stress tests ranging from moderate to extreme and are applied to the Group's material risks as identified through its material risk assessment. The time horizon of three years is aligned with the planning horizon.

Internal Liquidity Adequacy Assessment Process ("ILAAP")

The Internal Liquidity Adequacy Assessment Process ("ILAAP") is the process by which the Group performs a formal and rigorous assessment of its balance sheet, business plans, risk profile and risk management processes to determine whether it holds sufficient financial resources of appropriate quality to meet both internal objectives and external regulatory requirements. Multiple scenarios are considered for each ILAAP including both firm specific and systemic risk events and a combination of both to ensure the continued stability of the Group's liquidity position within the Group's pre-defined liquidity risk tolerance levels. The stress time horizon of three years is aligned with the planning horizon.

Recovery planning

The Group's recovery plan sets out the arrangements and measures that the Group could adopt in the event of severe financial stress to restore the Group to long term viability. The recovery plan contains a suite of recovery triggers which identify the points at which the recovery escalation process would be activated.

Resolution planning

Resolution is the restructuring of a group, that has failed or is likely to fail, by a resolution authority through the use of resolution tools in order to:

- safeguard the public interest;
- ensure the continuity of the group's critical functions;
- ensure financial stability in the economy in which it operates; and
- minimise costs to taxpayers.

The Single Resolution Board is the Group's resolution authority. National resolution authorities in Ireland and the UK input to the annual resolution college (chaired by the Single Resolution Board) to arrive at resolution decisions and a preferred resolution strategy for the Group.

The resolution college has stated that the preferred resolution strategy for the Group is a single point of entry bail-in via AIB Group plc. The resolution college sets the loss absorbing capacity requirements for Minimum Required Eligible Liabilities and the critical functions of the Group as well as work programmes to be implemented to mitigate any perceived impediments to resolvability.

Senior management are responsible for implementing the measures that are needed to make the Group resolvable. A wide-ranging programme is in place to address the requirements of the resolution authorities. As well as numerous subject matter working groups, the Resolution Planning Project Board and Resolution Steering provide key governance around resolution planning.

1.5.2 Measurement and management

Risk measurement

Each of the material risks has a specific approach to how the risk is measured. The Group Risk Appetite Statement and the separate risk appetite statements for the licensed subsidiaries contain metrics which are measured on a monthly basis against the limits set.

Risk management

The material risk types are actively managed and measured against their respective frameworks, policies and processes on an ongoing basis. Risk models are used to measure credit, market, liquidity and funding risk, and where appropriate, capital is allocated (taking account of risk concentrations) to mitigate material risks. The management and measurement of the Group's risk profile also informs the Group's strategic and operational planning processes.

1.5.3 Monitoring, escalating and reporting

The Group has designed risk appetite statement metrics for each of its material risk categories. Material risks are actively monitored under their respective frameworks and policies to ensure material risks are managed effectively in line with the Group's Risk Appetite Statement. The material risk frameworks and policies set out the process for the escalation of the relevant risk appetite statement limit breaches.

Risk reporting

Risk reporting facilitates management decision-making and is a critical component of risk governance and oversight. Risk reporting processes are in place for each of the material risks under the relevant risk frameworks and policies. This enables management, governance committees and other stakeholders to oversee: the effectiveness of the risk management processes, adherence to risk policies, and (where relevant) adherence to regulatory requirements.

Should a breach of a risk appetite statement limit occur, it is reported to the Board and the Group's regulator. On a monthly basis the CRO reports actual performance against risk appetite statements and key risk indicators to the Board Risk Committee.

1.5.4 Testing and assurance

The material risk types are continuously tested and assured in line with the Group assurance methodology, which distinguishes between risk management, risk control and risk assurance.

Testing

As the Group operates the three line of defence model, each line of defence is responsible for preparing an assurance/ business controls testing plan for the year ahead, with consideration of the adequacy of the risk identified and the design and effectiveness of the controls in place.

Integrated assurance

Integrated assurance is the alignment of governance, risk and assurance activities, linked with the Group's strategy to better co-ordinate efforts and risk reporting, with the aim of improving performance and resilience.

1.6 Risk management in operation

During 2019, there was increased focus around three key risk themes, Brexit, climate risk and cyber risk. This section describes the risk management approach adopted by the Group.

1.6.1 The UK exit from the European Union ("Brexit")

This section outlines the steps undertaken by the Group to manage the risks associated with Brexit. Four working groups were established to identify any potential risks with representatives attending from areas across the Group to provide their subject matter expertise.

The Group manages the uncertainty and risk posed by Brexit through a number of Brexit Readiness and Response working groups:

- Risk Top Down Working Group
- Business Response Working Group
- Operational Continuity Working Group
- Product and Customer Readiness Working Group

Oversight of these groups is executed via the Brexit Steering Group which provides a quarterly Brexit update to the Board. The Group's response to the potential impact of Brexit on its material risks is coordinated through the Risk Top Down Working Group, its responsibilities include:

- Reviewing and recommending action plans across both the first and second line as contingency planning for a hard Brexit outcome;
- Reviewing and challenging first line readiness; and
- Reviewing reports on leading Brexit risk indicators and delivering recommendations to the CRO of any change in the risk profile arising from Brexit.

The Board received monthly updates throughout 2019 on the preparedness of the Group. It considered Brexit in the context of the overall Group strategy and financial planning cycle. This incorporates financial and risk scenarios that capture the potential Brexit outcomes.

In a Brexit event, where there was the likelihood of a severe stress scenario or significant customer impact, a forum called 'the Brexit Taskforce', would be mobilised to immediately co-ordinate the Group's operational response.

A 'dry run' of the Brexit Taskforce was conducted during 2019.

Risk management – 1. Framework

1.6.2 Climate risk

The Group has identified climate change as a key risk driver for the business model, credit risk and operational risk.

- In 2019, the Risk function conducted initial research on the subject of climate risk and its impact on overall risk and integration into total risk management. Climate risk and its impacts are being assessed in the Group's 2020 Material Risk Assessment process.
- A credit risk working group was established to perform a high level portfolio review on the impact of climate change on the Group's portfolios.
- The Group's new project finance policy sets out the rules for financing of long term infrastructure, industrial projects and public services. It identifies sectors which the Group is keen to support with project finance (e.g. renewable energy) as well as sectors which are excluded (e.g. oil and gas exploration).
- In addition, a number of other sectors considered to be incongruent with the aims of sustainability were identified for exclusion from future lending. The Group is working to incorporate these exclusions into credit risk policy in 2020.
- AIB UK is required to consider the Prudential Regulatory Authority's policy and supervisory statement on the financial risks of climate change and incorporate these within the context of the overall Group's objective of supporting customers to transition to a low carbon economy. Following the publication of the Prudential Regulatory Authority Policy Statement PS11/19 and Supervisory Statement SS3/19 concerning the management of the financial risks from climate change, AIB UK submitted an action plan setting out how they plan to achieve the overall management of climate change risk.

Areas of development for 2020

In line with the Group's 2022 strategy, risk management will work to further integrate sustainability considerations into the Group's risk management approach as follows:

- Aligned with the Group's focus on climate action, the Group views climate risk as a key area that continues to evolve due to ongoing regulatory changes and increasing understanding of its importance. The Risk functions will continue to integrate climate risk into overall risk management and monitor developments to support the Group's ambition to build a more sustainable business.
- The Risk function will consider the impact of climate risk scenario analysis in consultation with other stakeholders and define the management information required to identify a range of scenarios with a view to developing a climate risk stress-testing capability.
- Credit risk will review the impact of climate risk on credit frameworks and policies and will enhance these where required.
- Compliance will continue to monitor relevant regulatory guidance relating to climate risk and complete impact assessments for all regulations which may impact the Group.
- Operational risk will review new and changed products with due consideration to sustainability elements.
- Ongoing reviews of all other risk frameworks and policies to consider environmental, social and governance principles and in particular the impact of climate risk.

1.6.3 Cyber risk

This section outlines how the Group manages Cyber risk, as a sub-risk within the Operational Risk Framework. Information security risk is concerned with managing the risk of harm being caused to the Group or its customers as a result of a loss of the confidentiality, integrity or information. Cyber risk affects all industry sectors including international banks.

The Group operates its cyber defences in line with international standards combining controls that help predict, prevent, detect and respond to attacks. The Group continues to improve its defences and control environment which have proven robust to date. Nonetheless, the Group's cyber threat profile remains elevated, with the threat landscape becoming more diverse, and attacks increasing in sophistication and volume. Attackers are using a range of advanced tools and techniques in an attempt to disrupt the Group's activities including:

- Hacking – unauthorised individuals attempting to intentionally access information and cause harm;
- Malware – targeted malicious emails purportedly from legitimate sources with the goal of installing malicious software on a staff member's computer;
- Social engineering – employing deception, manipulation and intimidation to exploit staff members in order to obtain information, e.g. phishing; and
- Distributed Denial of Service ("DDoS") – attempting to make an online service unavailable by overwhelming it with requests from multiple sources.

The Group's exposure to cyber risk is monitored by the Board through its regular risk reporting and focused updates on specific cyber-related topics. Key cyber risk indicators were monitored during 2019 which included:

- Investment in cyber security defences; and
- The number of high-impact cyber security incidents.

In light of the threat profile, the Group continues to classify and manage cyber as a high risk, informed by the annual Material Risk Assessment.

1.6.4 Coronavirus outbreak

The recent coronavirus outbreak (COVID-19) is an emerging risk that the Group is monitoring closely. Should the outbreak impact on the economies or markets to which the Group or our customers are exposed, it could potentially impact on the Group's performance. The Group has established a monitoring group to assess the range of possible impacts and will continue to respond to the situation as it evolves. Any impact will depend on future developments, which are highly uncertain.

Risk management – 2. Individual risk types

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Risk management – 2. Individual risk types

2.1 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 their contractual obligations.

Based on the annual risk identification and materiality assessment, credit risk is grouped into the following four sub categories:

i. Counterparty risk: The risk of losses arising as a result of the counterparty not meeting their contractual obligations in full and on time;
ii. Credit default risk: The current or prospective risk to capital arising from the obligors' failure to meet the terms of any contract with the Group;
iii. Concentration risk: The risk of excessive credit concentration including to an individual, counterparty, group of connected counterparties, industry sector, a geographic region, country, a type of collateral or a type of credit facility; and
iv. Country risk: The risk of having exposure to a country, arising from possible changes in the business environment that may adversely affect operating profits or the value of assets related to the country.

Credit risk exposure derives from standard on-balance sheet products such as mortgages, loans, overdrafts and credit cards. However, credit risk also arises from other products and activities including, but not limited to: "off-balance sheet" guarantees and commitments; the trading portfolio (e.g. bonds and derivatives); investment securities; asset backed securities; and partial failure of a trade in a settlement or payment system.

Credit risk management

The activities which govern the management of credit risk within the Group are as follows:

- Formulate and implement a comprehensive credit risk strategy that is viable through various economic cycles, supported by a robust suite of credit policies that support the Group's approved Risk Appetite Statement and generate appropriate returns on capital within acceptable levels of credit quality;
- Establish governance authority fora to provide independent oversight and assurance to the Board with regards to credit risk management activities and the quality of the credit portfolio;
- Develop and continuously reinforce a strong, risk focused culture across the credit risk management functions through the credit cycle, which supports the Group's goals and enables business growth, provides constructive challenge and avoids risks that cannot be adequately measured;
- Ensure all management and staff involved in core credit risk activities across the three lines of defence are fully capable of conducting their duties to the highest standard in compliance with the Group's policies and procedures;
- Operate within a sound and well defined credit granting process where risks for new and existing lending exposures are identified, assessed, measured, managed and reported in line with risk appetite and the credit risk policy;
- Establish and enforce an efficient internal review and reporting system to manage effectively the Group's credit risk across various portfolios including, establishing and enforcing internal controls and assurance practices to ensure that exceptions to policies, deviations to credit standards, procedures and limits are monitored and reported in a timely manner for review and action;
- Ensure a sound methodology exists to proactively assess risk and to identify deteriorating credit quality to minimise losses and maximise recoveries in work out scenarios;
- Utilise management information and risk data of appropriate quality, to ensure an effective credit risk measurement process when reporting on the holistic risk profile of the Group including any changes in risk profile and emerging or horizon risks; and
- Mitigate potential credit risk arising from new or amended products or activities.

The Group's credit risk framework as outlined on pages 72 to 78 supports these credit activities and encompasses a suite of credit policies and standards which support the credit risk sanctioning policies and policy guidance and provide a common and consistent approach to the management of credit risk.

2.1 Credit risk

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, independent oversight of and challenge to credit risk-taking.

Group Risk Appetite Statement

The Group's Risk Appetite Statement ("RAS") process sets the amount and nature of risks that the Group is willing to accept within its risk capacity in pursuit of its financial objectives and informs both Group strategy and policies. As part of the overall framework for risk governance, it forms a boundary condition to strategy and guides the Group in its risk-taking and related business activities. Credit risk appetite is set at Board level and is described, reported and monitored through a suite of qualitative and quantitative metrics. Risk appetite is stress tested to ensure limits are within the risk-taking capacity of the Group. The Group's risk appetite for credit risk is reviewed and approved at least annually.

Credit risk principles and policy*

The Group implements and operates policies to govern the identification, assessment, approval, monitoring and reporting of credit risk. The Group Credit Risk Framework and Group Credit Risk Policy are overarching Board approved documents which set out, the principles of how the Group identifies, assesses, approves, monitors and reports credit risk to ensure that robust credit risk management is in place. These documents contain the minimum standards and principles that are applied across the Group to provide a common, robust and consistent approach to the management of credit risk.

The Group Credit Risk Policy is supported by a suite of credit policies, standards and guidelines which define in greater detail the minimum standards and credit risk metrics to be applied for specific products, business lines, and market segments.

Credit Risk, as an independent risk management function, monitors key credit risk metrics and trends, including policy exceptions and breaches, reviews the overall quality of the loan book, challenges variances to planned outcomes and tracks portfolio performance against agreed credit risk indicators. This allows the Group, if required, to take early and proactive mitigating actions for any potential areas of concern.

Credit approval overview

The Group operates credit approval criteria which:

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

Credit risk approval is undertaken by 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 Board is the ultimate credit approval authority in the Group. The Board has delegated credit authority to various credit committees and to the Chief Credit Officer (CCO). The CCO is permitted to further delegate this credit authority to individuals within the Group on a risk appropriate basis. Credit limits are approved in accordance with the Group's written risk 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.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk

Internal credit ratings*

As part of the credit approval process and the ongoing review of this process, 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 risk rating models is fundamental in assessing the credit quality of loan exposures, with variants of these used for the calculation of regulatory capital. All relevant exposures are assigned to a rating system and within that to an internal risk grade. A grade is assigned on the basis of rating criteria within each rating model from which estimates of probability of default (PD through the cycle) are derived.

Internal 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. In line with the Group's credit management lifecycle, heightened credit management and special attention is paid to lower quality performing loans or 'criticised' loans and non-performing/defaulted loans which are defined below.

Using internal models, the Group has designed and implemented a credit grading masterscale that gives it the ability to categorise credit risk across different rating models and portfolios in a consistent manner. The masterscale consolidates complex credit information into a single attribute, aligning the output from the risk models with the Group's Definition of Default policy. Credit grades are driven by model appropriated PDs in order to provide the Group with a mechanism for ranking and comparing credit risk associated with a range of customers. The masterscale categorises loans into a broad range of grades which can be summarised into the following categories: strong/satisfactory grades; criticised grades; and non-performing/default loans. Page 101 and 102 sets out the profile of the Group's loan portfolio under each of the above grade categories.

Strong/satisfactory

Accounts are considered strong/satisfactory if they have no current or recent credit distress and the probability of default is typically less than 6.95%, they are not in arrears and there are no indications that they are unlikely to repay.

Strong (typically with PD less than 0.99%): Strong credit with no weakness evident.
Satisfactory (typically with PD greater than or equal to 0.99% and less than 6.95%): Satisfactory credit with no weakness evident.

Criticised

Accounts of lower credit quality and considered as less than satisfactory are referred to as criticised and include the following:
Criticised watch: The credit is exhibiting weakness in terms of credit quality and may need additional management attention; the credit may or may not be in arrears.
Criticised recovery: Includes forborne cases that are classified as performing including those which have transitioned from non-performing forborne, but still require additional management attention to monitor for re-default and continuing improvement in terms of credit quality.

In addition to the internal credit ratings as outlined above, the Group implemented IFRS 9 on 1 January 2018. The IFRS 9 PD modelling approach uses a combination of rating grades and scores obtained from these credit risk models along with key factors such as age of an account, the current/recent arrears status or the current/recent forbearance status and macroeconomic factors to obtain the relevant IFRS 9 12 month and Lifetime PDs (i.e. point in time). The Group has set out its methodologies and judgements exercised in determining its expected credit loss ("ECL") under IFRS 9 on pages 88 to 98.

Non-performing/default

On 1 January 2018, the Group introduced a new definition of default aligned with the EBA 'Guidelines on the application of the definition of default' under Article 178 of Capital Requirements Regulation and ECB Banking Supervision Guidance to Banks on Non-performing loans. The Group has aligned the definitions of 'non-performing', 'classification of default' and IFRS 9 Stage 3 'credit impaired', with the exception of those loans which have been derecognised and newly originated in Stage 1 or POCI (purchased or originated credit impaired). This alignment ensures consistency with the Group's internal credit risk management and assessment practices.

These loans are identified as non-performing or defaulted by a number of characteristics. The key criteria resulting in a classification of non-performing are:

- Where the Group considers a credit obligor to be unlikely to pay his/her credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount; or
- The credit obligor is 90 days or more past due on any material credit obligation. Day count starts when any amount of principal, interest or fee has not been paid by a credit obligor on the due date.

The trigger for default is based on a calculation of the sum of all past due amounts related to the credit obligation for a retail credit obligor or related to the credit obligations for a non-retail credit obligor. The Group's definition of financial distress, forbearance, non-performing exposures and unlikeliness to pay are included in the Group's Definition of Default policy.

*Forms an integral part of the audited financial statements

2.1 Credit risk

Internal credit ratings* *(continued)*

Non-performing/default *(continued)*

Non-performing loans are analysed by the following categories on page 105:

Unlikely to pay – Where the Group considers a credit obligor to be unlikely to pay his/her credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount.
Greater than 90 days past due – Credit obligor that is past due by 90 days or more on any material obligation.
Collateral disposals – Post restructure cases requiring asset disposal as part of the restructure agreement. These loans will remain as non-performing until the asset is sold and the loan cleared.
Non-performing loans probation – Where the credit obligor, as a result of financial distress, received a concession from the Group on terms or conditions, and is currently operating in line with the post restructure arrangements, and will remain in the non-performing probationary period for a minimum of 12 months before moving to a performing classification, subject to meeting defined probation criteria.

Credit risk monitoring*

The Group has developed and implemented processes and information systems to monitor and report on individual credits and credit portfolios in order to manage credit risk effectively. 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 to the Board Risk Committee. Credit managers proactively manage the Group's credit risk exposures at a transaction and relationship level. Monitoring includes 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 expected credit losses including individual large non-performing 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. The Group allocates significant resources to ensure ongoing monitoring and compliance with approved risk limits. Credit risk, including compliance with key credit risk limits, is reported monthly. Once an account has been placed on a watch/early warning list, the exposure is carefully monitored and where appropriate, exposure reductions are effected. In addition, exceptions to credit policy are reviewed regularly.

As a matter of policy, unless pre-approved documented exceptions arise, all facilities 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.

Criticised borrowers are subject to an 'unlikely to pay' test at the time of annual review, or earlier, if there is a material adverse change or event in their credit risk profile.

Through a range of forbearance solutions as outlined on page 135, the Group employs a dedicated approach to loan workout, monitoring and proactive management of non-performing loans. A specialised recovery function focuses on managing the majority of criticised loans and deals with customers in default, collection or insolvency. Their mandate is to support customers in difficulty while maximising the return on non-performing loans. 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.

Further details on forbearance are set out in 'Risk management 2.1 Additional credit quality and forbearance disclosures on loans and advances to customers'.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 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, the Group uses various approaches to help mitigate risks relating to individual credits, including transaction structure, collateral and guarantees. Collateral and/or guarantees are usually required as a secondary source of repayment in the event of a borrower's default. The main types of collateral for loans and advances 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 rating. Each bank is assessed for the appropriate maximum exposure limit in line with 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 credit obligation or commitment which has the potential to create interbank or country exposure.

Collateral

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

The principal collateral types for loans and advances are:
- Charges over business assets such as premises, inventory and accounts receivable;
- Mortgages over residential and commercial real estate; and
- Charges over financial instruments such as debt securities and equities.

The nature and level of collateral required depends on a number of factors such as the type of the credit facility, the term of the credit facility and the amount of exposure. Collateral held as security for financial assets, other than for loans and advances, 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 advances to banks, 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.

For non-mortgage lending, where collateral is taken, it will typically include a charge over the business assets such as inventory and accounts receivables. In some cases, a charge over property collateral or a personal guarantee supported by a lien over personal assets may also be taken. Where cash flows arising from the realisation of collateral held are included in ECL assessments, in many cases management rely on valuations or business appraisals from independent external professionals.

Methodologies for valuing collateral

As property loans, including residential mortgages, represent a significant concentration within the Group's loans and advances to customer's portfolio, some key principles have been applied in respect of the valuation of property collateral held by the Group.

In accordance with the Group's Property Valuation Policy and Guidelines, the Group uses a number of methods to assist in reaching appropriate valuations for property collateral held. These include:
- Use of independent professional external valuations; and
- Use of internally developed methodologies, including residual valuations.

Use of independent professional external valuations represent circumstances where external firms are engaged to provide formal written valuations in respect of the property. Up-to-date external independent professional valuations are sought in accordance with the Group's Property Valuation Policy and Guidelines. Available market indices for relevant assets, e.g. residential property are also used in valuation assessments, where appropriate.

*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit exposure

Credit risk mitigants* *(continued)*

Methodologies for valuing collateral *(continued)*

The residual value analysis methodology assesses the value of the 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 in this methodology 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 values may be applied. Alternative use value (subject to planning permission) may also be considered.

In the context of other internal methodologies, appropriate 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), or if available stabilised EBITDA.

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

The value of property collateral is assessed at loan origination and at certain stages throughout the credit life cycle e.g. including at annual review where required, in accordance with the Property Valuation Policy and Guidelines.

Collateral and ECLs

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 remain a key factor in ECLs determination. Additionally, 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 ECL allowance 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.

When undertaking an ECL review for individually assessed cases that have been deemed unlikely to pay, the present value of future cash flows, including the value of collateral held, and the likely time required to realise such collateral is estimated. An ECL allowance is raised for the difference between this present value and the carrying value of the loan.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk – Credit exposure

Credit risk mitigants* *(continued)*

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 99.

Loans and advances to customers – residential mortgages

The following table shows the estimated fair value of collateral held for the Group's residential mortgage portfolio at 31 December 2019 and 2018:

	2019					2018				
	At amortised cost					At amortised cost				
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Fully collateralised[1]										
Loan-to-value ratio:										
Less than 50%	**10,956**	**761**	**858**	**29**	**12,604**	10,187	1,290	835	28	12,340
50% - 70%	**8,421**	**674**	**514**	**67**	**9,676**	8,241	1,065	700	75	10,081
71% - 80%	**3,464**	**267**	**220**	**31**	**3,982**	3,300	416	312	39	4,067
81% - 90%	**2,933**	**201**	**149**	**25**	**3,308**	2,377	305	263	30	2,975
91% - 100%	**917**	**137**	**141**	**19**	**1,214**	1,047	203	255	25	1,530
	26,691	**2,040**	**1,882**	**171**	**30,784**	25,152	3,279	2,365	197	30,993
Partially collateralised										
Collateral value relating to loans over 100% loan-to-value	**232**	**81**	**201**	**10**	**524**	405	137	501	14	1,057
Total collateral value	**26,923**	**2,121**	**2,083**	**181**	**31,308**	25,557	3,416	2,866	211	32,050
Gross residential mortgages	**26,973**	**2,144**	**2,143**	**194**	**31,454**	25,617	3,441	3,023	234	32,315
ECL allowance	**(10)**	**(52)**	**(476)**	**(31)**	**(569)**	(8)	(51)	(623)	(31)	(713)
Net residential mortgages	**26,963**	**2,092**	**1,667**	**163**	**30,885**	25,609	3,390	2,400	203	31,602

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

For residential mortgages, the Group takes collateral in support of lending transactions for the purchase of residential property. Collateral valuations are required at the time of origination of each residential mortgage. The value at 31 December 2019 and 2018 is estimated 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.

*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit exposure

Credit risk mitigants* *(continued)*

Loans and advances to customers – other

In addition to the credit risk mitigants outlined on the previous page, the Group, from time to time, enters reverse repurchase agreements with borrowers. At 31 December 2019, the Group had accepted collateral with a fair value of € 86 million in respect of reverse repurchase agreements. There were no such agreements outstanding at 31 December 2018.

Derivatives

Derivative financial instruments are recognised in the statement of financial position at their fair value. Those with a positive fair value are reported as assets which at 31 December 2019 amounted to € 1,271 million (2018: € 900 million) and those with a negative fair value are reported as liabilities which at 31 December 2019 amounted to € 1,197 million (2018: € 934 million).

The enforcement of netting agreements would potentially reduce the statement of financial position carrying amount of derivative assets and liabilities by € 575 million at 31 December 2019 (2018: € 325 million). The Group also has Credit Support Annexes ("CSAs") in place which provide collateral for derivative contracts. At 31 December 2019, € 643 million (2018: € 609 million) of CSAs are included within financial assets as collateral for derivative liabilities and € 347 million (2018: € 266 million) of CSAs are included within financial liabilities as collateral for derivative assets (note 46 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 advances to banks

Interbank placings, including central banks, are largely carried out on an unsecured basis apart from reverse repurchase agreements. The collateral received in respect of repurchase agreements at 31 December 2019 had a fair value of € 151 million. There were no such agreements outstanding at 31 December 2018.

Investment securities

At 31 December 2019, government guaranteed senior bank debt which amounted to € 268 million (2018: € 250 million) was held within the investment securities portfolio.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk

Measurement, methodologies and judgements*

Introduction

The Group has set out the methodologies used and judgements exercised in determining its expected credit loss ("ECL") allowance for the year to 31 December 2019.

International Financial Reporting Standard 9 (IFRS 9) introduced the expected credit loss impairment model that requires a more timely recognition of ECL across the Group. The standard does not prescribe specific approaches to be used in estimating ECL allowances, but stresses that the approach must reflect the following:

- An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- Underlying models should be point in time – recognising economic conditions;
- The ECL must reflect the time value of money;
- A lifetime ECL is calculated for financial assets in Stages 2 and 3; and
- Models used in the ECL calculation must incorporate reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The standard defines credit loss as the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate ("EIR") or an approximation thereof (see 'Measurement' section below).

ECLs are defined in IFRS 9 as the weighted average of credit losses across multiple macroeconomic scenarios, the probability of each scenario occurring as weights and are an estimate of credit losses over the life of a financial instrument.

The ECL model applies to financial instruments measured at amortised cost or at fair value through other comprehensive income. In addition, the ECL approach applies to lease receivables, loan commitments and financial guarantee contracts that are not measured at fair value through profit or loss.

A key principle of the ECL model is to reflect any relative deterioration or improvement in the credit quality of financial instruments occurring (e.g. change in the risk of a default). The ECL amount recognised as a loss allowance or provision depends on the extent of credit deterioration since initial recognition together with the usual credit risk parameters.

Measurement bases

Under IFRS 9, there are two measurement bases:

1. 12-month ECL (Stage 1), which applies to all financial instruments from initial recognition as long as there has been no significant increase in credit risk; and
2. Lifetime ECL (Stages 2 and 3 and POCI), which applies when a significant increase in credit risk has been identified on an account (Stage 2), an account has been identified as being credit-impaired (Stage 3) or when an account meets the POCI criteria.

Staging

Financial assets are allocated to stages dependent on credit quality relative to when assets were originated.

Credit risk at origination

Credit risk at origination ("CRAO") is a key input into the staging allocation process. The origination date of an account is determined by the date on which the Group became irrevocably committed to the contractual obligation and the account was first graded on an appropriate model.

For undrawn credit facilities, the Group uses the date of origination as the date when it becomes party to the irrevocably contractual arrangements or irrevocable commitment. For overdrafts which have both drawn and undrawn components, the date of origination is the same for both.

The Group uses best available information for facilities which originated prior to a credit risk rating model or scorecard being in place.

For accounts that originated prior to 1 January 2018, a neutral view of the macroeconomic outlook at the time is used, i.e. where macroeconomic variables are used in the Lifetime PD models, long-run averages are used instead of historical forecasts.

*Forms an integral part of the audited financial statements

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Stage 1 characteristics

Obligations are classified Stage 1 at origination, unless purchased or originated credit impaired ("POCI"), with a 12 month ECL being recognised. These obligations remain in Stage 1 unless there has been a significant increase in credit risk.

Accounts can also return to Stage 1 if they no longer meet either the Stage 2 or Stage 3 criteria, subject to satisfaction of the appropriate probation periods, in line with regulatory requirements.

Stage 2 characteristics

Obligations where there has been a 'significant increase in credit risk' ("SICR") since initial recognition but do not have objective evidence of credit impairment are classified as Stage 2. For these assets, lifetime ECLs are recognised.

The Group assesses at each reporting date whether a significant increase in credit risk has occurred on its financial obligations since their initial recognition. This assessment is performed on individual obligations rather than at a portfolio level. If the increase is considered significant, the obligation will be allocated to Stage 2 and a lifetime expected credit loss will apply to the obligation. If the change is not considered significant, a 12 month expected credit loss will continue to apply and the obligation will remain in Stage 1.

SICR assessment

The Group's SICR assessment is determined based on both quantitative and qualitative measures:
Quantitative measure: This measure reflects an arithmetic assessment of the change in credit risk arising from changes in the probability of default. The Group compares each obligation's annualised average probability weighted residual lifetime probability of default ("LTPD") at origination (see 'Credit risk at origination') to its annualised average probability weighted residual LTPD at the reporting date. If the difference between these two LTPDs meets the quantitative definition of SICR, the Group transfers the financial obligation into Stage 2. Increases in LTPD may be due to credit deterioration of the individual obligation or due to macroeconomic factors or a combination of both. On adoption of IFRS 9, the Group determined that an account had met the quantitative measure if the average residual LTPD at the reporting date was more than double the average residual LTPD at origination, and the difference between the LTPDs was at least 50bps.

The impact of this measure is under regular review by the Group for items such as the (i) the volume of exposures moving frequently between Stages 1 and 2, (ii) potential over-reliance on backstop and qualitative measures for identifying Stage 2 exposures and (iii) comparison of Stage 1 and 2 exposures to the internal credit ratings view of exposures. In 2019, following an assessment of mortgage exposures including the items above, a change to the quantitative SICR threshold from 50bps to 85bps was approved by the Group. This was implemented in the Irish residential mortgage portfolio at December 2019.

Qualitative measure: This measure reflects the assessment of the change in credit risk based on the Group's credit management and the individual characteristics of the financial asset. This is not model driven and seeks to capture any change in credit quality that may not be already captured by the quantitative criteria. The qualitative assessment reflects pro-active credit management including monitoring of account activity on an individual or portfolio level, knowledge of client behaviour, and cognisance of industry and economic trends.

The criteria for this trigger include, for example:
- A downgrade of the borrower's/facility's credit grade reflecting the increased credit management focus on these accounts; and/or
- Forbearance has been provided and the account is within the probationary period.

Backstop indicators: The Group has adopted the rebuttable presumption within IFRS 9 that credit obligations greater than 30 days past due represent a significant increase in credit risk.

Where SICR criteria are no longer a trigger, the account can exit Stage 2 and return to Stage 1.

Stage 3 characteristics

Defaulted obligations (with the exception of newly originated loans that are in Stage 1 or POCI) are classified as credit impaired and allocated to Stage 3. Where default criteria are no longer met, the obligor exits Stage 3 subject to probation period, in line with regulatory requirements.

Two key criteria resulting in a classification of default are:
- Where the Group considers a credit obligor to be unlikely to pay his/her credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount; or
- The credit obligor is 90 days or more past due on any material credit obligation (count starts when any amount of principal, interest or fee has not been paid by a credit obligor at the date it was due).

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

The trigger for default is based on a calculation of the sum of all past due amounts related to the credit obligation for a retail credit obligor or related to the credit obligations for a non-retail credit obligor. The Group's definition of financial distress, forbearance, non-performing exposures and unlikeliness to pay are included in the Group's Definition of Default policy.

Loans may return to Stage 3 if any of the default triggers reoccur.

Purchased or originated credit impaired ("POCI")

POCIs are assets originated credit impaired where the difference between the discounted contractual cash flows and the fair value at origination is greater than or equal to 5%. The Group uses an appropriate discount rate for measuring ECL in the case of POCIs which is the credit-adjusted effective interest rate. This rate is used to discount the expected cash flows of such assets to fair value on initial recognition.

POCI obligations remain outside of the normal stage allocation process for the lifetime of the obligation. The ECL for POCI obligations is always measured at an amount equal to lifetime expected credit losses. The amount recognised as a loss allowance for these assets is the cumulative changes in lifetime expected credit losses since the initial recognition of the assets rather than the total amount of lifetime expected credit losses.

Measurement of expected credit loss

The measurement of ECL is estimated through one of the following approaches:

i. Standard approach: This approach is used for the majority of exposures where each ECL input parameter (Probability of Default - PD, Loss Given Default - LGD, Exposure at Default - EAD, and Prepayments - PP) is developed in line with standard modelling methodology which is set out in the Group IFRS 9 ECL Model Framework and has been approved by the relevant governance forum. The Group's IFRS 9 models have been approved in line with the Group's Model Governance Framework. (An overview of credit risk models is outlined on pages 91 and 92).

ii. Simplified approach: For portfolios not on the standard approach, the Group has followed a simplified approach. This approach consists of applying portfolio level ECL averages, drawn from similar portfolios, where it is not possible to estimate individual parameters. These generally relate to portfolios where specific IFRS 9 models have not been developed due to immateriality, low volumes or where there are no underlying grading models. As granular PDs are not available for these portfolios, a non-standard approach to staging is required with more reliance on the qualitative criteria (along with the 30 days past due back-stop).

iii. Discounted cash-flows ("DCFs"): Assets are grouped together and modelled based on asset classification and sector with the exception of those Stage 3 assets where a DCF is used. DCFs are used as an input to the ECL calculation for Stage 3 credit impaired exposures where gross credit exposure is ≥ € 1 million (Republic of Ireland) or ≥ £ 500,000 (UK).

   Collateral valuations and the estimated time to realisation of collateral is a key component of the DCF model. The Group incorporates forward looking information in the assessment of individual borrowers through the credit assessment process. The DCF assessment produces a base case ECL. This is then adjusted to incorporate the impact of multiple scenarios on the base ECL, by using a proportional uplift obtained from ECL modelled sensitivities in the same portfolio.

iv. Management judgement: Where the estimate of ECL does not adequately capture all available forward looking information about the range of possible outcomes, or where there is a significant degree of uncertainty, management judgement may be considered appropriate for an adjustment to ECL. The management adjustment must consider all relevant and supportable information, including but not limited to, historical data analysis, predictive modelling and management experience. The methodology to incorporate the adjustment should consider the degree of over collateralisation (headroom) and should not result in a zero overall ECL unless there is sufficient headroom to support this. The key judgements in the 2019 year end ECL estimates are outlined on page 274.

Effective interest rate

The ECL must incorporate the time value of money discounted to the reporting date using the effective interest rate ("EIR") determined at initial recognition or an approximation thereof.

- The Group uses an approximation approach based on the account level interest rate when calculating ECL which is applied to both drawn and undrawn commitments.
- This approach is subject to an annual assessment that all approximations remain appropriate and do not result in a material misstatement of the ECL.
- The Group has tested the appropriateness of using current interest rates as an approximation for the discount rates required for measuring ECLs. This testing determined that using the current interest rates as the discount rates is an appropriate approximation.

*Forms an integral part of the audited financial statements

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Policy elections and simplifications

Low credit risk exemption

The Group utilises practical expedients, as allowed by IFRS 9, for the stage allocation of particular financial instruments which are deemed 'low credit risk'. This practical expedient permits the Group to assume, without more detailed analysis, that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have 'low credit risk' at the reporting date. The Group allocates such assets to Stage 1.

Under IFRS 9, the credit risk on a financial instrument is considered low if:

- the financial instrument has a low risk of default;
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic business conditions in the longer term may, (but will not necessarily) reduce the ability of the borrower to fulfil its contractual cash flow obligations.

This low credit risk exemption is applied to particular assets within the investment debt securities portfolio and for loans and advances to banks, specifically, assets which have an internal grade equivalent to an external investment grade (BBB-) or higher.

If an asset does not meet the above criteria for the low credit risk exemption, further assessment is required to determine stage allocation. If such assets are on a watch list, they are categorised as Stage 2.

Short term cash

The Group policy does not calculate an ECL for short term cash at central banks and other banks which have a low risk of default ('PD') with a very low risk profile. The calculation of the ECL at each reporting date would be immaterial given these exposures' short term nature and their daily management.

Lease receivables and trade receivables

For lease receivables, the Group has elected to use its standard methodology for both stage allocation and the ECL calculation and has elected to use an expedient (simplified approach) for trade receivables.

Credit risk models

Probability of default

Probability of default ("PD") is the likelihood that an account or borrower defaults over an observation period, given that they are not currently in default. The PD modelling approach uses a combination of rating grades/scores obtained from credit risk models, as outlined on page 82, along with key factors such as the age of an account, the current/recent arrears status or the current/recent forbearance status and macroeconomic factors to obtain the relevant 12 month (Stage 1) and Lifetime (Stage 2) PD.

Loss given default

Loss given default ("LGD") is a current assessment of the amount that will not be recovered in the event of default, taking account of future conditions. It can be thought of as the difference between the amount owed to the Group (i.e. the exposure) and the net present value of future cash flows less any costs expected to be incurred in the recovery process. If an account returns to performing from default (absent any loss making concession) or if the discounted post-default recoveries are equal to or greater than the exposure, the realised loss is zero.

The LGD modelling approach depends on whether the facility has underlying security and, if so, the nature of that security. The following sets out the approaches to the portfolios:

Retail portfolios

For unsecured loans, a cash flow curve, which estimates the cumulative cash received following default until the loan is written-off or returns to performing, is used to estimate the future recovery amount. This is discounted at the effective interest rate and compared to the current outstanding balance. Any shortfall between the recovery amount and the outstanding balance is the ECL.

For secured loans, the value of underlying collateral is estimated at the forecasted time of disposal (taking into account forecasted market price growth/falls and haircuts on market values that are expected at the date of sale) in order to calculate the future recovery amount. Estimated costs of disposal are taken into account in this calculation.

Non-retail portfolios

For unsecured loans, characteristics such as borrower sector and nature of collateral linked to affiliated accounts under the same customer group are used to determine future losses.

For secured loans, the value of the underlying collateral is estimated at the reporting date. This is used to estimate the ECL.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Exposure at default

Exposure at default ("EAD") is defined as the exposure amount that will be owed by a customer at the time of default. This will comprise changes in the exposure amount between the reporting date and the date that the customer defaults. This may be due to repayments, interest and fees charged and additional drawdowns by the customer.

Prepayments

For term credit products, prepayment occurs where a customer fully prepays an account prior to the end of its contractual term. For revolving credit products, 'prepayment' is defined as the cessation of use and withdrawal of the facility provided that the account was not in default prior to closure.

Prepayment is used in the lifetime ECL calculation for Stage 2 loans to account for the proportion of the facilities/customers that prepay each year.

Determining the period over which to measure ECL

Both the origination date and the expected maturity of a facility must be determined for ECL purposes. The origination date is used to measure credit risk at origination (as explained above).

The expected maturity is used for assets in Stage 2, where the ECL must be estimated over the remaining life of the facility. The expected maturity approach is:

- Term credit products: the contractual maturity date, with exposure and survival probability adjusted to reflect behaviour i.e. amortisation and prepayment;
- Revolving credit products: the period may extend beyond the contractual period over which the Group is exposed to credit risk, e.g. overdrafts and credit cards. The Group's approach for these is to assume an appropriate remaining term based on the characteristics of the portfolio and sensitivity of ECLs.

Forward looking indicators in models

For ECL calculations reliant on models in the standard and simplified approaches, forward looking indicators are incorporated into the models through the use of macroeconomic variables. These have been identified statistically as the key macroeconomic variables that drive the parameter being assessed (e.g. PD or LGD). The final model structure incorporates these as inputs with the 12 month and lifetime calculations utilising the macroeconomic forecasts for each scenario. See 'macroeconomic scenarios and weightings' below for more detail on the process for generating scenarios and associated key macroeconomic factors relevant for the models.

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 ECL will be written-off. The Group determines, based on specific criteria, the point at which there is no reasonable expectation of recovery, e.g. inception of formal insolvency proceedings or receivership/other formal recovery action. This is considered on a case-by-case basis.

Debt forgiveness may subsequently arise where there is a formal contract with the customer for the write-off of the loan. In addition, certain forbearance solutions and restructuring agreements may include an element of debt write down (debt forgiveness). Details of forbearance are set out in Risk management 2.1 Additional credit quality and forbearance disclosures on loans and advances to customers.

The contractual amount outstanding of loans written-off during the year that are still subject to enforcement activity are outlined on page 124 and relate to non-contracted write-offs, both full and partial.

The Group recognises cash received from the customer in excess of the carrying value of the loan after a non-contracted write-off as 'recoveries of amounts previously written-off' in the income statement.

*Forms an integral part of the audited financial statements

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Macroeconomic scenarios and weightings

The macroeconomic scenarios used by the Group for ECL allowance calculations are subject to the Group's governance process covering the development and approval of macroeconomic scenarios for planning and stress testing i.e. through Stress Test Working Group and Asset and Liability Committee (ALCo). The parameters used within the Group's ECL models include macroeconomic factors which are established drivers of the default risk and loss estimates. Therefore, a different credit loss estimate is produced for each combination of macroeconomic factors within a particular scenario. These credit loss estimates for each given scenario are then weighted by the assessed likelihood of occurrence of the respective scenarios to yield the ECL outcome.

Macroeconomic scenarios:

The Group's approach is to use its base, downside (both 'global slowdown' and 'disorderly' Brexit) and upside macro-scenarios from the financial planning and stress testing processes for IFRS 9 purposes. The inclusion of a fourth scenario in 2019 ('global slowdown') was deemed necessary to ensure that different triggers of downside outcomes are available given the continued uncertainty over the Brexit process. The use of current planning scenarios ensures that the scenarios used for IFRS 9 are consistent with the Group's expectations of potential outcomes at a point in time. Non-linear effects are captured in the development of risk parameters as well as through the inclusion of both a single upside and two downside scenarios. The Group's Economic Research Unit (ERU) provides base, downside and upside forecasts over five years for planning/IFRS 9. These are then independently reviewed and challenged, on both a quantitative and qualitative basis, by the Group Enterprise Risk Management (ERM) function. The base case is benchmarked against the outlook available from official sources (e.g. Department of Finance, ESRI, IMF, etc.). Upside and downside scenarios are provided based on realistic triggers for each scenario and represent sensitivities around the base. For IFRS 9 purposes, longer term projections are sourced from a reputable external provider with the internal base/upside and downside scenarios converging on a linear basis towards the external forecasts from years 5 to 8. External long term forecasts represent long term base line forecasts for the parameter/economy in question. The forecasted scenarios are approved on a quarterly basis at Group ALCo and on an annual basis by the Board. The scenarios are described below and reflect the views of the Group at the reporting date.

Base case: As at the reporting date, this reflects an 'orderly' Brexit outcome. Under this scenario, the Irish economy continues to perform strongly in the absence of external shocks, helped by very low interest rates, mildly expansionary fiscal policy, solid growth in exports, recovering construction sector and good growth in employment and real incomes. However, some deceleration from the very robust growth rates seen in recent years is likely as the economy is now close to full employment and given the slowdown in growth in Ireland's key export markets. Irish house price inflation has decelerated over the past year reflecting the impact of the Central Bank's macro-prudential rules on mortgage lending and supply. House prices are expected to rise at low single digit levels, broadly in line with wage inflation over the next five years. The rate of increase in commercial real estate prices is expected to run at low single digit levels as the market moves closer to equilibrium.

Under an orderly Brexit, the UK economy is not expected to suffer any significant disruption and will perform at close to its long term potential. In terms of the US economy, growth in GDP is expected to slow as a result of the diminishing effects of the significant fiscal stimulus, a slower pace of global growth and capacity constraints in the 'full-employment' labour market. Growth in the eurozone is expected to improve slightly over the forecast period.

Downside ('disorderly' Brexit): Under this scenario, the UK exits the EU in a disorderly manner and has to apply World Trade Organisation (WTO) rules. There is a significant slowdown in Irish GDP in this period as a result of the deep links between the two economies with 40% of indigenous Irish exports going to the UK, which is also the land bridge route for much of Irish exports to mainland Europe. These exports (as well as imports from the UK) all become subject to customs checks, tariffs, increased administration as well as regulatory costs and transport delays. As a result, this assumes that Irish GDP growth is lower in a 'disorderly' Brexit scenario than in the base case over the three years to 2022 although the adverse effects are offset somewhat by an expected rise of inward investment into Ireland (as firms divert new or existing investments away from the UK).

A 'disorderly' Brexit results in a sharp decline in trade between the UK and EU as well as an outflow of investment from the UK, especially from the financial sector and a decline in Foreign Direct Investment ("FDI"). The UK economy enters recession during this period. The impact on the EU is limited as less than 10% of EU exports go to the UK and the impact on the US is even more limited.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Macroeconomic scenarios and weightings *(continued)*

Downside ('global slowdown'): Under this scenario, the global economy continues to lose momentum. The key triggers under this scenario are:

– a continued move towards protectionism, which would result in further escalation in trade tensions;
– an increase in risk aversion, which would cause large asset price shifts and financial market instability; and
– an 'orderly' Brexit outcome.

In the next three years, large developed European economies would enter a mild recession while activity in the US is subdued. For the Irish economy, given the importance of exports as an engine of growth, the slowdown in the international economy has a significant impact. FDI is also adversely affected with business and consumer confidence lowered as a result. There is a slowdown in the recovery of house building and GDP growth over the first three years is significantly lower than in the base case. Irish house prices register modest declines - the scarcity of supply and the fact that the economy continues to see some growth help support the market, although some foreign institutional investors reduce their exposure.

Upside: Under this scenario, given the moderate pace of growth in the current cycle since the end of the 2008-2009 recession, there is scope for stronger growth in activity over the next number of years than is forecast in the base case. The lagged effects of very loose monetary conditions, with central banks able to maintain interest rates at low levels because of subdued inflation, would see growth strengthen above trend in advanced economies, helped also by an improvement in productivity and a recovery in international trade as tensions in this area subside. Additionally, other countries could follow the lead of the US and adopt a more expansionary fiscal programme of increased capital spending and tax cuts to boost growth, most notably in Europe. The UK agrees an 'orderly' Brexit with the EU.

Given Ireland's exposure to international trade, a better than expected performance by its key trading partners would have a positive knock-on impact on its exports and in turn, on the rate of growth of the economy. This results in stronger growth on the domestic side of the economy also, helped by a more expansionary fiscal policy stance. House building would also pick up strongly, helped by government measures. As a result, Irish growth rates would exceed the base case materially over the first three years of the forecast period.

The table below sets out the average five year forecast for each of the key macroeconomic variables that are required to generate the scenarios or are material drivers of the ECL under (i) base; (ii) downside ('disorderly' Brexit); (iii) downside ('global slowdown'); and (iv) upside scenarios at 31 December 2019 and 2018:

	2019				2018		
Macroeconomic factor (%)	**Base**	**Downside ('disorderly' Brexit)**	**Downside ('global slowdown')**	**Upside**	Base	Downside	Upside
Republic of Ireland							
GDP growth	**2.9**	**1.8**	**1.7**	**4.1**	3.3	2.2	4.4
Residential property price growth	**2.6**	**0.2**	**0.5**	**4.6**	4.9	2.7	7.4
Unemployment rate	**4.7**	**7.8**	**7.4**	**4.0**	4.9	7.1	4.5
Commercial property price growth	**2.0**	**(1.8)**	**(1.8)**	**3.9**	4.0	0.6	6.1
Employment growth	**1.7**	**0.6**	**0.6**	**2.5**	1.9	0.9	2.3
Average disposable income growth	**3.7**	**1.5**	**1.5**	**5**	3.6	1.8	4.2
United Kingdom							
GDP growth	**1.5**	**0.3**	**0.6**	**2.4**	1.6	0.4	2.4
Residential property price growth	**3.3**	**(2.6)**	**0.3**	**5.3**	4.0	(1.6)	6.0
Unemployment rate	**3.6**	**7.1**	**6.1**	**3.3**	4.0	6.6	3.5
Commercial property price growth	**2.6**	**(3.8)**	**(1.5)**	**5.9**	3.4	(1.0)	6.7

The key changes to the scenario forecasts in the reporting period are:

– Reductions in residential property price growth forecast in Ireland across all scenarios as a result of the increased impact of the Central Bank's macro-prudential rules on mortgage lending as the property price growth in recent years has resulted in the loan to value ("LTV") and loan to income ("LTI") thresholds becoming more difficult to meet for purchasers;
– Reductions in the commercial property price growth forecast in Ireland across all scenarios as the market has moved closer to equilibrium; and
– Reductions in residential and commercial property price growth forecast in the UK across all scenarios as a result of lower than expected growth in 2019.

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2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Macroeconomic scenarios and weightings *(continued)*

The four scenarios detailed above are used to reflect a representative sample of possible outcomes (i.e. base, downside ('disorderly' Brexit), downside ('global slowdown') and upside scenarios). The ECL allowance reflects a weighted average of the credit loss estimates under the four scenarios.

Similar to the scenario forecasts, the probability weight assigned to each scenario is proposed by the ERU, with a review and challenge from ERM. These are subject to review and approval at Group ALCo and the probabilities described below reflect the views of the Group at the reporting date.

The weights for the scenarios are derived based on the expert judgement, with reference to external market information, informed by a quantitative analysis. The key quantitative analysis is a statistical distribution analysis of Irish GDP growth over different time horizons informed by historic patterns in the economic data.

These weightings were reviewed regularly during 2019. There were two changes to the probability weightings during the reporting period

- The probability of the downside scenario (prior to the additional downside scenario being added) was increased by 5% in the third quarter of 2019 to reflect the increased uncertainty in relation to the Brexit process;
- A new downside scenario ('global slowdown') was introduced in the fourth quarter of 2019 which required a full review of the probability weightings in order to incorporate this new scenario. As the UK election has brought increased certainty to the withdrawal element of Brexit this was deemed to have reduced the risk of the 'disorderly' Brexit scenario. A review of the new 'global slowdown' scenario indicated that as risks to the global economy remain to the downside, that this new scenario along with the 'disorderly' Brexit scenario should continue to have a significant probability attached. This reflects the fact that uncertainty, evident at 31 December 2019, in relation to both Brexit and global economic conditions, continues to remain elevated.

The weights that have been applied as at the reporting date are:

Scenario	Weighting		
	31 December 2019	30 June 2019	31 December 2018
Base	50%	50%	50%
Downside ('disorderly' Brexit)	25%	35%	35%
Downside ('global slowdown')	15%	n/a	n/a
Upside	10%	15%	15%

In assessing the adequacy of the ECL allowance, the Group has considered all available forward looking information as of the balance sheet date in order to estimate the future expected credit losses. The Group, through its risk management processes (including the use of expert credit judgement and other techniques) assesses its ECL allowance for events that cannot be captured by the statistical models it uses and for other risks and uncertainties. The assessment of ECL at the balance sheet date does not reflect the worst case outcome, but rather a probability weighted outcome of the four scenarios. Should the credit environment deteriorate beyond the Group's expectation, the Group's estimate of ECL would increase accordingly.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Sensitivities

The Group's estimates of expected credit losses are responsive to varying economic conditions and forward looking information. These estimates are driven by the relationship between historic experienced loss and the combination of macroeconomic variables. Given the co-relationship of each of the macroeconomic variables to one another and the fact that loss estimates do not follow a linear path, a sensitivity to any single economic variable is not meaningful. As such, the following sensitivities are provided which indicate the approximate impact on the current ECL allowance before the application of probability weights to the forward looking macroeconomic scenarios. The sensitivities provide an estimate of ECL movements driven by both changes in model parameters including current management judgements, and quantitative 'significant increase in credit risk' ("SICR") staging assignments.

Relative to the base scenario, in the 100% downside 'disorderly' Brexit and 'global slowdown' scenario, the ECL allowance increases by 19% and 12% respectively. In the 100% upside scenario, the ECL allowance declines by 9%, showing that the ECL impact of the two downside scenarios is greater than that of the upside scenario. For 31 December 2019, a 100% downside 'disorderly' Brexit and 'global slowdown' scenarios sees a higher ECL allowance sensitivity of € 235 million and € 146 million respectively compared to base (€ 163 million and € 74 million respectively compared to reported).

	ECL allowance at 31 December 2019				
	Reported	100% Base	100% downside ('disorderly' Brexit)	100% downside ('global slowdown')	100% upside
Loans and advances to customers	Total € m	Total € m	Total € m	Total € m	Total € m
Residential mortgages	569	521	687	617	442
Other personal	175	172	183	180	167
Property and construction	189	182	200	197	171
Non-property business	305	292	328	317	284
Total	1,238	1,167	1,398	1,311	1,064
Loan commitments	19	18	22	20	17
Financial guarantee contracts	23	23	23	23	22
	1,280	1,208	1,443	1,354	1,103
Of which:					
AIB UK segment	133	125	148	137	125

	ECL allowance at 31 December 2018			
	Reported	100% Base	100% downside	100% upside
Loans and advances to customers	Total € m	Total € m	Total € m	Total € m
Residential mortgages	713	691	789	607
Other personal	253	248	262	248
Property and construction	480	460	521	451
Non-property business	593	576	631	565
Total	2,039	1,975	2,203	1,871
Loan commitments	25	24	27	24
Financial guarantee contracts	34	35	32	31
	2,098	2,034	2,262	1,926

*Forms an integral part of the audited financial statements

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Management judgements

The Group reflects reasonable and supportable information that is available at the reporting date in the measurement of ECLs.

Management adjustments may be required to increase or decrease ECLs to reflect all available reasonable and supportable information to include risk factors that have not been included in the risk measurement process or where there is insufficient time to appropriately incorporate relevant new information. Experienced credit judgement may be used to determine the particular attributes of exposures that have not been adequately captured in the impairment models. Adjustments are required to be directionally consistent with forward looking forecasts, supported by appropriate documentation and subject to appropriate governance processes. If an ongoing adjustment is required, the risk measurement methodology should be updated to eliminate the adjustment, and as such, should be temporary in nature, where appropriate.

The ECL allowance at 31 December 2019 includes the following management adjustments:

1. Primary dwelling house ("PDH") mortgage post model adjustments

Stage 3 PDH ECL

The Group's strategy is to deliver sustainable long term solutions and to work with customers through their financial difficulties. This has primarily been through work-out arrangements with customers, including split mortgages, low fixed interest rate, voluntary sale for loss, negative equity trade down and positive equity solution or through loan recovery following realisation of collateral. The mortgage LGD model is based on empirical internal data for such resolved cases, and represents the Group's expected loss based on those expected work-out strategies. However, it is recognised that alternative recovery strategies, such as portfolio sales, also need to be considered which were not envisaged at the time of model development. Accordingly, a post model adjustment has been applied to a cohort of loans to reflect the potential resolution outcomes not currently considered within the modelled outcome.

The post model adjustment is calculated on a range of alternative recovery assumptions (including portfolio sales). An independent external benchmark exercise is undertaken to provide information to support the range of alternative recovery outcomes with reference to collateral values of the loans and to the underlying market conditions. The cohort to which the overlay applies to is primarily those PDH loans in Stage 3 and in deep arrears (greater than 180 days) and was widened in 2019 to include certain loans from the 90 to 180 days past due category (c. € 63 million).

Probability weightings are applied to reflect a range of possible outcomes, incorporating potential market uncertainty around the ultimate execution, aligned to the Group's four economic scenarios used for ECL calculations as outlined on pages 93 to 95.

The ECL allowance of € 552 million for residential mortgages in Ireland at 31 December 2019 includes € 208 million (after non-contracted write-offs amounting to € 40 million in 2019) as a result of this management adjustment.

At 31 December 2018, the ECL allowance of € 686 million included a management adjustment of € 239 million.

In addition to the write-offs noted above, the main movements in the overlay during the year were due to:
- Increase in portfolio following widening of the criteria as noted above;
- Reduction in portfolio following sales;
- Revisions to collateral valuations and market conditions; and
- The impact of the outcome of the four economic scenarios compared to the outcome assessed in 2018.

The revised portfolio size and collateral valuations resulted in an income statement charge of € 16 million. The greater market and economic uncertainty reflected in the four scenarios resulted in a further € 37 million charge. (Total income statement charge in 2019: € 53 million).

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Management judgements *(continued)*

Forbearance product

An element of forborne loans in Stage 3 (€ 160 million), may require an alternative treatment at loan expiry in line with the Group's current mortgage resolution strategy. This is not currently captured within the modelled ECL outcome for this product.

Management have considered the proportion of this cohort that may require alternative treatment and a range of quantitative outcomes in determining the estimated loss amounts at loan expiry which has resulted in a post model adjustment of € 20 million in 2019 (2018: Nil).

Lifetime interest only

A cohort of non-defaulted lifetime interest only mortgages have been identified for individual assessment to confirm likeliness to pay (€ 103 million). The loans within this cohort have been allocated to Stage 2, pending individual assessment, reflecting management's qualitative judgement of a significant increase in credit risk given the additional end of term risk not fully incorporated into modelled outcomes. This has resulted in a post model adjustment of € 9 million in 2019 (2018: Nil).

Further information on the above overlays is not provided as the Group believes that such information could compromise the resolution outcomes given the underlying nature of the portfolios.

2. Syndicated lending portfolio

A detailed review of the ECL model for the syndicated lending portfolio in the CIB business segment was carried out in late 2019 and it was determined that historically observed relationships between default rates and macroeconomic factors in the model needed to be revised. As a result, a management adjustment for this portfolio of € 16 million has been applied at 31 December 2019 to increase the ECL allowance to € 20 million (Stage 1: € 15 million and Stage 2: € 5 million).

3. AIB UK

At 31 December 2019, the AIB UK ECL allowance of € 126 million includes a € 17 million portfolio overlay to take account of the political and economic uncertainties that exist and that were not adequately captured in the output from the macroeconomic scenarios and weightings.

ECL governance

The Board has put in place a framework, incorporating the governance and delegation structures commensurate with a material risk, to ensure credit risk is appropriately managed throughout the Group.

The key governance points in the ECL allowance approval process during 2019 were:

- Model Risk Committee
- Asset and Liability Committee
- Business level ECL Committees
- Group Credit Committee, and
- Board Audit Committee

For ECL governance, the Group management employs its expert judgement on the adequacy of ECL allowance. The judgements are supported by detailed information on the portfolios of credit risk exposures, and by the outputs of the measurement and classification approaches described above, coupled with internal and external data provided on both short term and long term economic outlook. Business segments and Group management are required to ensure that there are appropriate levels of cover for all of its credit portfolios and must take account of both accounting and regulatory compliance when assessing the expected levels of loss.

Assessment of the credit quality of each business segment is initially informed by the output of the quantitative analytical models but may be subject to management adjustments. This ECL output is then scrutinised and approved at individual business unit level (ECL Committee) prior to onward submission to the Group Credit Committee (GCC). GCC reviews and challenges ECL levels for onward recommendation to the Board Audit Committee.

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2.1 Credit risk – Credit exposure overview

Maximum exposure to credit risk*

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 is 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 2019 and 2018:

			2019			2018
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]	**11,323**	**–**	**11,323**	5,908	–	5,908
Items in course of collection	**57**	**–**	**57**	73	–	73
Derivative financial instruments	**–**	**1,271**	**1,271**	–	900	900
Loans and advances to banks	**1,478**	**–**	**1,478**	1,443	–	1,443
Loans and advances to customers	**60,811**	**77**	**60,888**	60,721	147	60,868
Investment securities[4]	**635**	**15,881**	**16,516**	187	15,946	16,133
Included elsewhere:						
Trade receivables	**495**	**–**	**495**	112	–	112
Accrued interest	**261**	**–**	**261**	301	–	301
	75,060	**17,229**	**92,289**	68,745	16,993	85,738
Loan commitments and other credit related commitments	**11,539**	**–**	**11,539**	11,107	–	11,107
Financial guarantees	**711**	**–**	**711**	780	–	780
	12,250	**–**	**12,250**	11,887	–	11,887
Total	**87,310**	**17,229**	**104,539**	80,632	16,993	97,625

[1]All amortised cost items are loans and advances and investment securities which are in a 'held-to-collect' business model.
[2]All items measured at fair value except investment securities at FVOCI and cash flow hedging derivatives are classified as 'fair value through profit or loss'.
[3]Included within cash and balances at central banks of € 11,982 million (2018: € 6,516 million).
[4]Excluding equity shares of € 815 million (2018: € 728 million).

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk – Credit exposure overview *(continued)*

Credit risk exposure derives from standard on-balance sheet products such as mortgages, loans, overdrafts and credit cards. In addition, credit risk arises from other products and activities including, but not limited to: "off-balance sheet" guarantees and commitments; the trading portfolio (e.g. bonds and derivatives); investment securities; asset backed securities; and the failure/partial failure of a trade in a settlement or payments system.

The following table summarises financial instruments in the statement of financial position at 31 December 2019 and 2018:

	2019*				2018*			
			Statement of financial position	Income statement			Statement of financial position	Income statement
	Exposure	ECL allowance	Carrying amount	Net credit impairment (charge)/ writeback	Exposure	ECL allowance	Carrying amount	Net credit impairment (charge)/ writeback
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Cash and balances at central banks	11,982	–	11,982	–	6,516	–	6,516	–
Items in course of collection	57	–	57	–	73	–	73	–
Loans and advances to banks	1,478	–	1,478	–	1,443	–	1,443	1
Loans and advances to customers:								
at amortised cost	62,049	1,238	60,811	(27)	62,760	(2,039)	60,721	209
at FVTPL	77	n/a	77	n/a	147	n/a	147	n/a
	62,126	1,238	60,888	(27)	62,907	(2,039)	60,868	209
Investment debt securities[1]	16,516	–	16,516	–	16,133	–	16,133	–
Loan commitments	11,539	(19)	(19)	6	11,107	(25)	(25)	(9)
Financial guarantee contracts	711	(23)	(23)	5	780	(33)	(33)	3
Total				(16)				204

[1]ECL allowance amounting to € 4 million (2018: € 4 million) included in carrying amount of investment securities at FVOCI.

There was a € 16 million net credit impairment charge in the year to 31 December 2019. This comprised of a € 27 million charge on loans and advances to customers (net re-measurement of ECL allowance charge of € 117 million, offset by recoveries of amounts previously written-off of € 90 million) and a € 11 million writeback for off-balance sheet exposures.

Further details on the net credit impairment charge in the year to 31 December 2019 are set out on page 287.

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2.1 Credit risk – Credit profile of the loan portfolio

The 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 table analyses loans and advances to customers at amortised cost by segment, internal credit ratings and ECL staging at 31 December 2019 and 2018:

Amortised cost

					2019					2018
	Retail Banking	CIB	AIB UK	Group	Total	Retail Banking	CIB	AIB UK	Group	Total
Gross carrying amount	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Residential mortgages	29,565	632	1,257	–	31,454	30,361	619	1,335	–	32,315
Other personal	2,747	100	128	9	2,984	2,821	87	147	20	3,075
Property and construction	868	4,179	2,252	–	7,299	1,750	3,872	2,182	–	7,804
Non-property business	3,389	11,253	5,558	112	20,312	4,093	10,546	4,847	80	19,566
Total	36,569	16,164	9,195	121	62,049	39,025	15,124	8,511	100	62,760
Analysed by internal credit ratings[1]										
Strong	24,693	11,561	6,186	14	42,454	23,747	10,178	6,072	77	40,074
Satisfactory	6,034	4,220	2,437	107	12,798	6,158	4,346	1,658	23	12,185
Total strong/satisfactory	30,727	15,781	8,623	121	55,252	29,905	14,524	7,730	100	52,259
Criticised watch	1,856	173	246	–	2,275	2,225	235	363	–	2,823
Criticised recovery	938	193	44	–	1,175	1,425	232	41	–	1,698
Total criticised	2,794	366	290	–	3,450	3,650	467	404	–	4,521
Non-performing	3,048	17	282	–	3,347	5,470	133	377	–	5,980
Gross carrying amount	36,569	16,164	9,195	121	62,049	39,025	15,124	8,511	100	62,760
Analysed by ECL staging										
Stage 1	30,698	15,680	8,224	121	54,723	29,367	14,664	7,563	99	51,693
Stage 2	2,836	467	689	–	3,992	4,343	376	571	–	5,290
Stage 3	2,841	17	282	–	3,140	5,080	83	377	1	5,541
POCI	194	–	–	–	194	235	1	–	–	236
Total	36,569	16,164	9,195	121	62,049	39,025	15,124	8,511	100	62,760
ECL allowance – statement of financial position										
Stage 1	65	45	31	–	141	109	35	27	–	171
Stage 2	151	23	28	–	202	208	25	38	–	271
Stage 3	796	1	67	–	864	1,419	4	143	–	1,566
POCI	31	–	–	–	31	31	–	–	–	31
Total	1,043	69	126	–	1,238	1,767	64	208	–	2,039
ECL allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	0.2	0.3	0.4	–	0.3	0.4	0.2	0.4	–	0.3
Stage 2	5.3	5.0	4.1	–	5.1	4.8	6.6	6.7	–	5.1
Stage 3	28.0	10.1	23.6	–	27.5	27.9	4.8	37.9	–	28.3
POCI	16.1	–	–	–	16.1	13.2	–	–	–	13.1
Income statement	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net re-measurement of ECL allowance	77	21	19		117	(129)	22	17	1	(89)
Recoveries of amounts previously written-off	(87)	–	(3)	–	(90)	(116)	–	(4)	–	(120)
Net credit impairment charge/(writeback)	(10)	21	16	–	27	(245)	22	13	1	(209)
	%	%	%	%	%	%	%	%	%	%
Net credit impairment charge/ (writeback) on average loans	(0.03)	0.13	0.19	–	0.04	(0.57)	0.19	0.15	0.93	(0.33)

[1]Further analysis of internal credit grade profile by ECL staging is set out on pages 104 and 105.

Risk management – 2. Individual risk types

2.1 Credit risk – Credit profile of the loan portfolio

The following table analyses loans and advances to customers at FVTPL by segment and internal credit ratings at 31 December 2019 and 2018:

FVTPL

	2019					2018				
Carrying amount	**Retail Banking € m**	**CIB € m**	**AIB UK € m**	**Group € m**	**Total € m**	Retail Banking € m	CIB € m	AIB UK € m	Group € m	Total € m
Property and construction	–	77	–	–	77	50	97	–	–	147
Total	–	77	–	–	77	50	97	–	–	147
Analysed by internal credit ratings										
Strong	–	77	–	–	77	–	73	–	–	73
Satisfactory	–	–	–	–	–	–	–	–	–	–
Total strong/satisfactory	–	77	–	–	77	–	73	–	–	73
Criticised watch	–	–	–	–	–	–	–	–	–	–
Criticised recovery	–	–	–	–	–	–	–	–	–	–
Total criticised	–	–	–	–	–	–	–	–	–	–
Non-performing	–	–	–	–	–	50	24	–	–	74
Total	–	77	–	–	77	50	97	–	–	147

Gross loans and advances to customers

Gross loans and advances to customers reduced by € 0.8 billion in the year to 31 December 2019. Of the total portfolio of € 62.1 billion, € 62.0 billion is measured at amortised cost with the remaining € 0.1 billion being measured at fair value through profit or loss. The reduction was driven by redemptions net of interest credited and other miscellaneous movements of € 11.3 billion and disposals of € 2.1 billion. In addition, there was a further reduction of € 0.3 billion due to write-offs. These reductions were offset against new lending activity of € 12.3 billion in 2019 which was € 0.2 billion higher than 2018, and € 0.6 billion in foreign exchange movements. The decrease in gross loans was evident across all asset classes with the exception of the non-property business sector which increased by € 0.7 billion, primarily due to strong new lending volumes in the UK and CIB segments. Overall, from a segment perspective, Retail Banking decreased by € 2.5 billion driven by the disposal of distressed loans. This was slightly offset by increases in CIB and UK of € 1.0 billion, € 0.7 billion respectively.

The asset quality profile of the Group continues to improve and has benefited from the continued deleveraging activity on the non-performing book, the strong quality profile of new business and lower levels of grade deterioration.

Of the total loans to customers of € 62.1 billion, € 55.3 billion or 89% are rated as either 'strong' or 'satisfactory' which is an increase of € 3.0 billion (2018: € 52.3 billion or 83%), and was evidenced across all segments. The 'criticised' classification includes 'criticised watch' of € 2.3 billion and 'criticised recovery' of € 1.2 billion, the total of which has decreased by € 1.1 billion. Overall, the total performing book has increased by € 2.0 billion to € 58.8 billion or 95% of gross loans and advances to customers (2018: € 56.8 billion and 90%).

Stage 3 loans decreased by € 2.4 billion to € 3.1 billion. The reduction was primarily as a result of the portfolio sales completed throughout the year which impacted all asset classes but predominately property (€ 0.6 billion), non-property business (€ 0.6 billion), and mortgage portfolios (€ 0.4 billion). Redemptions net of interest credited across all asset classes accounted for € 0.7 billion.

Non-performing loans are aligned to the Group's definition of default and Stage 3 credit impaired with the exception of those originating in Stage 1 (€ 24 million) and POCI (€ 0.2 billion). Non-performing loans originating in Stage 1 decreased by € 188 million during the year to 31 December 2019, primarily due to disposals and loan quality deterioration. Non-performing loans reduced by € 2.7 billion to € 3.3 billion or 5.4% of gross loans and advances to customers (2018: € 6.1 billion and 9.6%). The reduction in non-performing loans was driven by disposals of € 1.8 billion with the remainder due to redemptions.

ECL allowance

The ECL allowance on loans and advances to customers reduced by € 0.8 billion to € 1.2 billion in the year. The reduction was predominately in Stage 3 relating to the portfolio sales of distressed loans. The ECL cover rate decreased from 3.2% at 31 December 2018 to 2.0% at 31 December 2019. This was primarily driven by the reduction in Stage 3 cover as a result of higher cover loans being disposed of and the increase in lower cover Stage 1 loans.

2.1 Credit risk – Credit profile of the loan portfolio

Income statement

There was a € 16 million net credit impairment charge for the year to 31 December 2019 (2018: credit impairment writeback of € 204 million).

This comprised of a € 27 million credit impairment charge for loans and advances to customers and an € 11 million writeback in relation to off balance sheet exposures (2018: credit impairment writeback of € 209 million and a charge of € 6 million respectively).

The € 27 million charge comprised a € 117 million ECL re-measurement allowance offset by € 90 million recoveries of amounts previously written-off. (2018: € 209 million writeback comprising of € 89 million and € 120 million respectively).

There were a number of drivers which contributed to the € 117 million charge, the most significant of which were: the additional ECL allowance required for post model adjustments; the changes in macroeconomic factors; and the impact of the probability weightings across four economic scenarios.

As outlined under the Management judgements section, the impact of the post model adjustments on the PDH ECL allowance resulted in a charge of € 82 million in Retail Banking. The post model adjustment in relation to the syndicated lending portfolio in CIB, resulted in a charge of € 16 million.

Enhancements in 2019 to Retail Banking models (i.e. the Retail Asset Finance LGD model and the Retail Loans and Overdrafts PD model) resulted in a € 33 million writeback.

Changes to the macroeconomic factors and probability weightings, excluding their impacts in post model adjustments, resulted in a € 46 million charge, which predominantly impacted Retail Banking. In the first half year, the Group updated the House Price Index forecast to reflect slower anticipated growth which resulted in a € 23 million charge. In the second half of 2019, a fourth macroeconomic scenario was introduced to reflect a global slowdown accordingly, the probability weightings across the scenarios were changed, details of which are set out on pages 93 to 95, and resulted in a charge of € 23 million.

Other than the impact of the model changes (€ 76 million) and macroeconomic factors (€ 46 million) there was a net writeback of € 5 million. The ECL allowance movements are outlined on pages 125 to 129.

Against a backdrop of favourable economic conditions and a strong performance by the Group's specialised recovery function, recoveries of amounts previously written-off amounted to € 90 million were reported in 2019 (2018: € 120 million). This relates to € 63 million of cash received on loans where recovery was previously considered unlikely (2018: € 76 million) and a further € 27 million in cash receipts (2018: € 44 million) on loans, which had an element of partial write-down that cured from Stage 3 in the year without any financial loss.

Risk management – 2. Individual risk types

2.1 Credit risk – Credit profile of the loan portfolio

Internal credit grade profile by ECL staging

The table below analyses the internal credit grading profile by ECL staging for loans and advances to customers at 31 December 2019 and 2018:

Amortised cost	2019*					2018*				
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Total										
Strong	42,123	329	–	2	42,454	39,148	923	–	3	40,074
Satisfactory	11,346	1,452	–	–	12,798	10,923	1,262	–	–	12,185
Total strong/satisfactory	53,469	1,781	–	2	55,252	50,071	2,185	–	3	52,259
Criticised watch	1,111	1,163	–	1	2,275	1,226	1,596	–	1	2,823
Criticised recovery	119	1,048	–	8	1,175	184	1,509	–	5	1,698
Total criticised	1,230	2,211	–	9	3,450	1,410	3,105	–	6	4,521
Non-performing	24	–	3,140	183	3,347	212	–	5,541	227	5,980
Gross carrying amount	54,723	3,992	3,140	194	62,049	51,693	5,290	5,541	236	62,760
ECL allowance	(141)	(202)	(864)	(31)	(1,238)	(171)	(271)	(1,566)	(31)	(2,039)
Carrying amount	54,582	3,790	2,276	163	60,811	51,522	5,019	3,975	205	60,721
Analysis by asset class										
Residential mortgages										
Strong	23,766	162	–	2	23,930	22,478	828	–	3	23,309
Satisfactory	2,795	610	–	–	3,405	2,638	659	–	–	3,297
Total strong/satisfactory	26,561	772	–	2	27,335	25,116	1,487	–	3	26,606
Criticised watch	405	668	–	1	1,074	479	882	–	1	1,362
Criticised recovery	4	704	–	8	716	1	1,072	–	5	1,078
Total criticised	409	1,372	–	9	1,790	480	1,954	–	6	2,440
Non-performing	3	–	2,143	183	2,329	21	–	3,023	225	3,269
Gross carrying amount	26,973	2,144	2,143	194	31,454	25,617	3,441	3,023	234	32,315
ECL allowance	(10)	(52)	(476)	(31)	(569)	(8)	(51)	(623)	(31)	(713)
Carrying amount	26,963	2,092	1,667	163	30,885	25,609	3,390	2,400	203	31,602
Other personal										
Strong	1,312	29	–	–	1,341	1,201	43	–	–	1,244
Satisfactory	1,074	106	–	–	1,180	1,062	159	–	–	1,221
Total strong/satisfactory	2,386	135	–	–	2,521	2,263	202	–	–	2,465
Criticised watch	117	103	–	–	220	68	128	–	–	196
Criticised recovery	–	50	–	–	50	1	68	–	–	69
Total criticised	117	153	–	–	270	69	196	–	–	265
Non-performing	1	–	192	–	193	2	–	343	–	345
Gross carrying amount	2,504	288	192	–	2,984	2,334	398	343	–	3,075
ECL allowance	(21)	(40)	(114)	–	(175)	(29)	(52)	(172)	–	(253)
Carrying amount	2,483	248	78	–	2,809	2,305	346	171	–	2,822
Property and construction										
Strong	4,983	78	–	–	5,061	4,286	23	–	–	4,309
Satisfactory	1,313	166	–	–	1,479	1,458	82	–	–	1,540
Total strong/satisfactory	6,296	244	–	–	6,540	5,744	105	–	–	5,849
Criticised watch	114	115	–	–	229	141	201	–	–	342
Criticised recovery	86	68	–	–	154	158	109	–	–	267
Total criticised	200	183	–	–	383	299	310	–	–	609
Non-performing	9	–	367	–	376	157	–	1,187	2	1,346
Gross carrying amount	6,505	427	367	–	7,299	6,200	415	1,187	2	7,804
ECL allowance	(31)	(26)	(132)	–	(189)	(41)	(36)	(403)	–	(480)
Carrying amount	6,474	401	235	–	7,110	6,159	379	784	2	7,324

*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit profile of the loan portfolio

Internal credit grade profile by ECL staging *(continued)*

	2019*					2018*				
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Non-property business										
Strong	12,062	60	–	–	12,122	11,183	29	–	–	11,212
Satisfactory	6,164	570	–	–	6,734	5,765	362	–	–	6,127
Total strong/satisfactory	18,226	630	–	–	18,856	16,948	391	–	–	17,339
Criticised watch	475	277	–	–	752	538	385	–	–	923
Criticised recovery	29	226	–	–	255	24	260	–	–	284
Total criticised	504	503	–	–	1,007	562	645	–	–	1,207
Non-performing	11	–	438	–	449	32	–	988	–	1,020
Gross carrying amount	18,741	1,133	438	–	20,312	17,542	1,036	988	–	19,566
ECL allowance	(79)	(84)	(142)	–	(305)	(93)	(132)	(368)	–	(593)
Carrying amount	18,662	1,049	296	–	20,007	17,449	904	620	–	18,973

Non-performing exposures ("NPE") to customers

The table below analyses non-performing loans and advances to customers by asset class at 31 December 2019 and 2018:

					2019
Non-performing loans	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At amortised cost					
Collateral disposals	128	10	67	21	226
Unlikely to pay (including > 90 days past due)	1,931	168	248	345	2,692
Non-performing loans probation	270	15	61	83	429
Total gross carrying amount at amortised cost	2,329	193	376	449	3,347
Total carrying amount at FVTPL	–	–	–	–	–
Total non-performing loans and advances to customers	2,329	193	376	449	3,347
Total ECL allowance on non-performing loans and advances to customers	507	115	132	144	898
Non-performing loans as % of total loans and advances to customers	7.4%	6.4%	5.1%	2.2%	5.4%

					2018
Non-performing loans	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At amortised cost					
Collateral disposals	188	49	398	112	747
Unlikely to pay (including > 90 days past due)	2,689	261	808	758	4,516
Non-performing loans probation	392	35	140	150	717
Total gross carrying amount at amortised cost	3,269	345	1,346	1,020	5,980
At FVTPL					
Collateral disposals	–	–	14	–	14
Unlikely to pay (including > 90 days past due)	–	–	53	–	53
Non-performing loans probation	–	–	7	–	7
Total carrying amount at FVTPL	–	–	74	–	74
Total non-performing loans and advances to customers	3,269	345	1,420	1,020	6,054
Total ECL allowance on non-performing loans and advances to customers	653	173	412	370	1,608
Non-performing loans as % of total loans and advances to customers	10.1%	11.2%	17.9%	5.2%	9.6%

Non-performing loans reduced by € 2.7 billion or 45% to € 3.3 billion in the year to 31 December 2019. This reduction continues to be reflective of proactive deleveraging activities primarily due to loan portfolio sales and redemptions. Of the total € 2.7 billion reduction, € 1.8 billion is directly attributable to distressed loan portfolio sales with the remainder due to redemptions. NPE reductions were evident across all asset classes with reductions noted in the 'unlikely to pay' stock (including > 90 days past due), 'collateral disposals' and loans in a probationary period.

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Risk management – 2. Individual risk types

2.1 Credit risk – Credit profile of the loan portfolio

Non-performing off-balance sheet commitments

Total non-performing off-balance sheet commitments amounted to € 162 million (2018: € 183 million).

Summary of movements on ECL allowance

The following table summarises the movements on the ECL allowance on loans and advances to customers at 31 December 2019 and 2018:

					2019*
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January	**713**	**253**	**480**	**593**	**2,039**
Net re-measurement of ECL allowance – customers	**129**	**32**	**(27)**	**(17)**	**117**
Changes in ECL allowance due to write-offs	**(188)**	**(39)**	**(100)**	**(35)**	**(362)**
Changes in ECL allowance due to disposals	**(86)**	**(68)**	**(180)**	**(231)**	**(565)**
Exchange translation adjustments/other	**1**	**(3)**	**16**	**(5)**	**9**
At 31 December 2019	**569**	**175**	**189**	**305**	**1,238**

For detailed analysis of ECL allowance movements, see pages 125 to 129.

					2018*
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 31 December 2017 (IAS 39)	1,418	246	1,064	617	3,345
Impact of adopting IFRS 9 at 1 January 2018	(27)	83	42	173	271
At 1 January 2018 (IFRS 9)	1,391	329	1,106	790	3,616
Transfer in	–	–	–	14	14
Net re-measurement of ECL allowance – customers	(59)	13	(90)	47	(89)
Changes in ECL allowance due to write-offs	(564)	(62)	(178)	(225)	(1,029)
Changes in ECL allowance due to disposals	(55)	(27)	(358)	(32)	(472)
Exchange translation adjustments	–	–	–	(1)	(1)
At 31 December 2018	713	253	480	593	2,039

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2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Residential mortgages

Residential mortgages amounted to € 31.5 billion at 31 December 2019, with the majority (96%) relating to residential mortgages in the Republic of Ireland and the remainder relating to the United Kingdom. This compares to € 32.3 billion at 31 December 2018, of which 96% related to residential mortgages in the Republic of Ireland. The split of the residential mortgage portfolio was owner-occupier € 29.0 billion and buy-to-let € 2.5 billion (2018: owner-occupier € 29.1 billion and buy-to-let € 3.2 billion).

At 31 December 2019, a € 0.6 billion ECL allowance was held against the Group's residential mortgages portfolio, or 1.8% total cover rate.

During 2019, there was a net credit impairment charge of € 93 million to the income statement. This was primarily driven by the Republic of Ireland portfolio as a result of post model adjustments i.e. management adjustments as outlined on pages 97 and 98, resulting in a charge of € 82 million. In addition, the Group recovered € 36 million on loans previously written-off.

Residential mortgages – page 108

- Residential mortgage portfolio at amortised cost by segment, internal credit ratings and ECL staging

Republic of Ireland residential mortgages – pages 109 to 113

- By ECL staging
- Actual and weighted average indexed loan-to-value ratios by staging

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

Risk management – 2. Individual risk types

2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Residential mortgages

The following table analyses the residential mortgage portfolio at amortised cost by segment, internal credit ratings and ECL staging at 31 December 2019 and 2018:

					2019*					2018*
Gross carrying amount	**Retail Banking € m**	**CIB € m**	**AIB UK € m**	**Group € m**	**Total € m**	Retail Banking € m	CIB € m	AIB UK € m	Group € m	Total € m
Owner occupier	**27,368**	**457**	**1,157**	**–**	**28,982**	27,394	448	1,227	–	29,069
Buy-to-let	**2,197**	**175**	**100**	**–**	**2,472**	2,967	171	108	–	3,246
Total	**29,565**	**632**	**1,257**	**–**	**31,454**	30,361	619	1,335	–	32,315
Analysed by internal credit ratings										
Strong	**22,684**	**574**	**672**	**–**	**23,930**	21,832	544	933	–	23,309
Satisfactory	**2,975**	**38**	**392**	**–**	**3,405**	3,143	34	120	–	3,297
Total strong/satisfactory	**25,659**	**612**	**1,064**	**–**	**27,335**	24,975	578	1,053	–	26,606
Criticised watch	**986**	**9**	**79**	**–**	**1,074**	1,206	17	139	–	1,362
Criticised recovery	**703**	**8**	**5**	**–**	**716**	1,058	13	7	–	1,078
Total criticised	**1,689**	**17**	**84**	**–**	**1,790**	2,264	30	146	–	2,440
Non-performing	**2,217**	**3**	**109**	**–**	**2,329**	3,122	11	136	–	3,269
Gross carrying amount	**29,565**	**632**	**1,257**	**–**	**31,454**	30,361	619	1,335	–	32,315
Analysed by ECL staging										
Stage 1	**25,296**	**592**	**1,085**	**–**	**26,973**	24,003	543	1,071	–	25,617
Stage 2	**2,044**	**37**	**63**	**–**	**2,144**	3,248	65	128	–	3,441
Stage 3	**2,031**	**3**	**109**	**–**	**2,143**	2,877	10	136	–	3,023
POCI	**194**	**–**	**–**	**–**	**194**	233	1	–	–	234
Total	**29,565**	**632**	**1,257**	**–**	**31,454**	30,361	619	1,335	–	32,315
ECL allowance – statement of financial position										
Stage 1	**9**	**–**	**1**	**–**	**10**	7	–	1	–	8
Stage 2	**50**	**1**	**1**	**–**	**52**	48	1	2	–	51
Stage 3	**461**	**–**	**15**	**–**	**476**	598	1	24	–	623
POCI	**31**	**–**	**–**	**–**	**31**	31	–	–	–	31
Total	**551**	**1**	**17**	**–**	**569**	684	2	27	–	713
ECL allowance cover percentage	**%**	**%**	**%**	**%**	**%**	%	%	%	%	%
Stage 1	**–**	**–**	**0.1**	**–**	**–**	–	–	0.1	–	–
Stage 2	**2.4**	**3.6**	**2.4**	**–**	**2.4**	1.5	1.5	1.6	–	1.5
Stage 3	**22.7**	**2.5**	**13.5**	**–**	**22.2**	20.8	10	17.6	–	20.6
POCI	**16.1**	**–**	**–**	**–**	**16.1**	13.3	–	–	–	13.2
Income statement	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m	€ m
Net re-measurement of ECL allowance	**129**	**(1)**	**1**	**–**	**129**	(58)	–	(1)	–	(59)
Recoveries of amounts previously written-off	**(36)**	**–**	**–**	**–**	**(36)**	(24)	–	(1)	–	(25)
Net credit impairment charge/(writeback)	**93**	**(1)**	**1**	**–**	**93**	(82)	–	(2)	–	(84)
	%	**%**	**%**	**%**	**%**	%	%	%	%	%
Net credit impairment charge/(writeback) on average loans	**0.31**	**(0.12)**	**0.07**	**–**	**0.29**	(0.26)	–	(0.14)	–	(0.26)

*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Republic of Ireland residential mortgages

The following table analyses the Republic of Ireland residential mortgage portfolio at amortised cost by ECL staging at 31 December 2019 and 2018:

	2019*			2018*		
	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Gross carrying amount	**27,825**	**2,372**	**30,197**	27,841	3,139	30,980
Analysed as to ECL staging						
Stage 1	**24,132**	**1,756**	**25,888**	22,615	1,931	24,546
Stage 2	**1,748**	**333**	**2,081**	2,867	446	3,313
Stage 3	**1,757**	**277**	**2,034**	2,137	750	2,887
POCI	**188**	**6**	**194**	222	12	234
Total	**27,825**	**2,372**	**30,197**	27,841	3,139	30,980
ECL allowance – statement of financial position						
Stage 1	**8**	**1**	**9**	5	2	7
Stage 2	**34**	**17**	**51**	36	13	49
Stage 3	**397**	**64**	**461**	451	148	599
POCI	**28**	**3**	**31**	23	8	31
Total	**467**	**85**	**552**	515	171	686
Republic of Ireland residential mortgages at amortised cost	**27,358**	**2,287**	**29,645**	27,326	2,968	30,294
ECL allowance cover percentage	**%**	**%**	**%**	%	%	%
Stage 1	**–**	**0.1**	**–**	–	0.1	–
Stage 2	**2.0**	**5.0**	**2.5**	1.3	3.0	1.5
Stage 3	**22.6**	**23.1**	**22.7**	21.1	19.7	20.7
POCI	**14.9**	**55.0**	**16.1**	10.4	62.5	13.2
Income statement	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Net re-measurement of ECL allowance	**137**	**(9)**	**128**	(13)	(45)	(58)
Recoveries of amounts previously written-off	**(26)**	**(10)**	**(36)**	(16)	(8)	(24)
Net credit impairment charge/(writeback)	**111**	**(19)**	**92**	(29)	(53)	(82)
	%	**%**	**%**	%	%	%
Net credit impairment charge/(writeback) on average loans	**0.40**	**(0.69)**	**0.30**	(0.10)	(1.52)	(0.26)

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

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

Residential mortgages in Ireland amounted to € 30.2 billion at 31 December 2019 compared to € 31.0 billion at 31 December 2018. The decrease in the portfolio was primarily due to loan repayments and disposals, offset by new lending. Total drawdowns in the year were € 3 billion, of which 98% were by owner occupiers, whilst the weighted average indexed loan-to-value for new residential mortgages was 68%. New lending in the year increased by 8% driven by the favourable macroeconomic conditions.

The split of the Irish residential mortgage portfolio is 92% owner-occupier and 8% buy-to-let and comprises 27% tracker rate, 52% variable rate and 21% fixed rate mortgages.

Non-performing loans decreased from € 3.1 billion at 31 December 2018 to € 2.2 billion at 31 December 2019, impacted by the portfolio sales of distressed loans and also partly due to repayments/redemptions and write-offs.

Income statement

There was a net credit impairment charge of € 92 million to the income statement for the year to 31 December 2019 compared to a net credit impairment writeback of € 82 million for 2018. The ECL allowance provision cover level at 31 December 2019 is 2% (2018: 2%). For the Stage 3 element of the portfolio, € 0.5 billion of ECLs are held providing cover of 23% (2018: € 0.6 billion and 21% respectively).

Residential mortgage arrears

Total loans in arrears (including non-performing loans) by value decreased by 26% during the year to 31 December 2019, a decrease of 16% in the owner-occupier portfolio and a decrease of 63% in the buy-to-let portfolio. The decrease in the buy-to-let arrears was driven by the portfolio sale of distressed loans.

The number of loans in arrears (based on number of accounts) greater than 90 days was 4.1% at 31 December 2019 and remains below the industry average of 6.8%[(1)]. For the owner-occupier portfolio, the number of loans in arrears greater than 90 days at 3.8% were below the industry average of 6%[(1)]. For the buy-to-let portfolio, loans in arrears greater than 90 days at 7.5% were below the industry average of 14%[(1)].

[(1)]Source: Central Bank of Ireland ("CBI") Residential Mortgage Arrears and Repossessions Statistics as at 30 September 2019, based on numbers of accounts.

Forbearance

Irish residential mortgages subject to forbearance measures decreased by € 1.1 billion from € 3.6 billion at 31 December 2018 to € 2.5 billion at 31 December 2019. A key feature of the forbearance portfolio is the level of advanced forbearance solutions driven by the Group's strategy to deliver sustainable long term solutions to customers and support customers in remaining in their family home.

Details of forbearance measures are set out in Risk Management 2.1 Additional credit quality and forbearance disclosures on loans and advances to customers.

2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

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

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 loan-to-value ratios at 31 December 2019 and 2018:

2019*

	At amortised cost														
	Stage 1			Stage 2			Stage 3			POCI			Overall total		
	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Less than 50%	9,571	923	10,494	614	125	739	734	96	830	28	–	28	10,947	1,144	12,091
50% to 70%	7,610	538	8,148	567	90	657	421	74	495	66	1	67	8,664	703	9,367
71% to 80%	3,228	127	3,355	228	36	264	185	23	208	30	–	30	3,671	186	3,857
81% to 90%	2,749	73	2,822	174	24	198	119	23	142	25	1	26	3,067	121	3,188
91% to 100%	804	52	856	108	25	133	113	21	134	20	–	20	1,045	98	1,143
101% to 120%	128	21	149	45	18	63	109	16	125	9	–	9	291	55	346
121% to 150%	21	6	27	5	4	9	53	11	64	1	–	1	80	21	101
Greater than 150%	19	14	33	7	9	16	20	6	26	–	–	–	46	29	75
Total with LTVs	24,130	1,754	25,884	1,748	331	2,079	1,754	270	2,024	179	2	181	27,811	2,357	30,168
Unsecured	2	2	4	–	2	2	3	7	10	9	4	13	14	15	29
Total	24,132	1,756	25,888	1,748	333	2,081	1,757	277	2,034	188	6	194	27,825	2,372	30,197

2018*

	At amortised cost														
	Stage 1			Stage 2			Stage 3			POCI			Overall total		
	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Less than 50%	8,798	928	9,726	1,083	165	1,248	594	208	802	28	–	28	10,503	1,301	11,804
50% to 70%	7,375	590	7,965	898	127	1,025	474	200	674	74	1	75	8,821	918	9,739
71% to 80%	3,031	165	3,196	340	58	398	220	82	302	39	–	39	3,630	305	3,935
81% to 90%	2,179	98	2,277	257	39	296	197	54	251	30	–	30	2,663	191	2,854
91% to 100%	902	86	988	174	20	194	180	59	239	25	–	25	1,281	165	1,446
101% to 120%	288	33	321	95	20	115	243	52	295	14	–	14	640	105	745
121% to 150%	21	13	34	13	3	16	163	39	202	1	–	1	198	55	253
Greater than 150%	19	16	35	6	12	18	62	38	100	–	–	–	87	66	153
Total with LTVs	22,613	1,929	24,542	2,866	444	3,310	2,133	732	2,865	211	1	212	27,823	3,106	30,929
Unsecured	2	2	4	1	2	3	4	18	22	11	11	22	18	33	51
Total	22,615	1,931	24,546	2,867	446	3,313	2,137	750	2,887	222	12	234	27,841	3,139	30,980

The weighted average indexed loan-to-value of the stock of residential mortgages at 31 December 2019 was 57% (2018: 58%), new residential mortgages issued during the year was 68% (2018: 70%) and Stage 3 residential mortgages was 63% (2018: 74%).

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Risk management – 2. Individual risk types

2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

Republic of Ireland residential mortgages – aged analysis

The following table provides an age profile of the Republic of Ireland residential mortgage portfolio by ECL staging at 31 December 2019 and 2018:

	2019					2018				
	At amortised cost					At amortised cost				
Owner-occupier	**Stage 1 € m**	**Stage 2 € m**	**Stage 3 € m**	**POCI € m**	**Total € m**	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Not past due	**24,057**	**1,490**	**575**	**143**	**26,265**	22,553	2,596	664	172	25,985
1 - 30 days	**75**	**195**	**91**	**14**	**375**	62	217	110	17	406
31 - 60 days	**–**	**47**	**66**	**4**	**117**	–	38	65	5	108
61 - 90 days	**–**	**16**	**56**	**4**	**76**	–	16	71	2	89
91 - 180 days	**–**	**–**	**119**	**4**	**123**	–	–	115	5	120
181 - 365 days	**–**	**–**	**114**	**4**	**118**	–	–	137	6	143
Over 365 days	**–**	**–**	**736**	**15**	**751**	–	–	975	15	990
Total	**24,132**	**1,748**	**1,757**	**188**	**27,825**	22,615	2,867	2,137	222	27,841
Buy-to-let										
Not past due	**1,751**	**307**	**108**	**5**	**2,171**	1,924	420	252	6	2,602
1 - 30 days	**5**	**20**	**9**	**–**	**34**	7	20	23	–	50
31 - 60 days	**–**	**5**	**7**	**–**	**12**	–	4	13	–	17
61 - 90 days	**–**	**1**	**3**	**–**	**4**	–	2	13	–	15
91 - 180 days	**–**	**–**	**11**	**–**	**11**	–	–	27	–	27
181 - 365 days	**–**	**–**	**12**	**–**	**12**	–	–	43	–	43
Over 365 days	**–**	**–**	**127**	**1**	**128**	–	–	379	6	385
Total	**1,756**	**333**	**277**	**6**	**2,372**	1,931	446	750	12	3,139
Total										
Not past due	**25,808**	**1,797**	**683**	**148**	**28,436**	24,477	3,016	916	178	28,587
1 - 30 days	**80**	**215**	**100**	**14**	**409**	69	237	133	17	456
31 - 60 days	**–**	**52**	**73**	**4**	**129**	–	42	78	5	125
61 - 90 days	**–**	**17**	**59**	**4**	**80**	–	18	84	2	104
91 - 180 days	**–**	**–**	**130**	**4**	**134**	–	–	142	5	147
181 - 365 days	**–**	**–**	**126**	**4**	**130**	–	–	180	6	186
Over 365 days	**–**	**–**	**863**	**16**	**879**	–	–	1,354	21	1,375
Total gross carrying amount of residential mortgages	**25,888**	**2,081**	**2,034**	**194**	**30,197**	24,546	3,313	2,887	234	30,980
ECL allowance	**(9)**	**(51)**	**(461)**	**(31)**	**(552)**	(7)	(49)	(599)	(31)	(686)
Carrying amount	**25,879**	**2,030**	**1,573**	**163**	**29,645**	24,539	3,264	2,288	203	30,294

2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

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

The Group seeks to avoid repossession through working with customers. However, in situations where an agreement cannot be reached, the Group proceeds with the repossession of the property or the appointment of a receiver. The Group uses 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 2019 and 2018 is set out below:

	2019		2018	
	Stock	**Balance outstanding € m**	Stock	Balance outstanding € m
Owner-occupier	**492**	**112**	547	131
Buy-to-let	**23**	**5**	46	10
Total	**515**	**117**	593	141

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

The stock of residential properties in possession decreased by 78 properties in 2019 (2018: 62 properties). This decrease relates to the disposal of 231 properties (2018: 53 properties) which were offset by the addition of 180 properties (2018: 43 properties), the majority of which were voluntary surrenders or abandonments. In addition, a further 27 properties were removed from the stock in 2019 (2018: 52 properties), mainly due to the sale of a portfolio of loans.

The disposal of 231 residential properties in the Republic of Ireland resulted in a total loss on disposal of € 28 million at 31 December 2019 (before ECL allowance) and compares to 31 December 2018 when 53 residential properties were disposed of resulting in a total loss of € 7 million. Losses on the sale of such properties are recognised in the income statement as part of the net credit impairment losses.

Republic of Ireland residential mortgages – repossessions disposed of

The following table analyses the disposals of repossessed properties for the years ended 31 December 2019 and 2018:

					2019
	Number of disposals	**Outstanding balance at repossession date € m**	**Gross sales proceeds on disposal € m**	**Costs to sell € m**	**Loss[1] on sale € m**
Owner-occupier	**228**	**54**	**27**	**1**	**28**
Buy-to-let	**3**	**1**	**1**	**–**	**–**
Total	**231**	**55**	**28**	**1**	**28**

					2018
	Number of disposals	Outstanding balance at repossession date € m	Gross sales proceeds on disposal € m	Costs to sell € m	Loss[1] on sale € m
Owner-occupier	49	13	8	1	6
Buy-to-let	4	1	–	–	1
Total	53	14	8	1	7

[1]Before ECL allowance.

Risk management – 2. Individual risk types

2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Other personal

The following table analyses other personal lending at amortised cost by segment, internal credit ratings and ECL staging at 31 December 2019 and 2018:

					2019*					2018*
	Retail Banking	CIB	AIB UK	Group	Total	Retail Banking	CIB	AIB UK	Group	Total
Gross carrying amount	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Credit cards	676	7	31	–	714	718	6	31	–	755
Loans/overdrafts	2,071	93	97	9	2,270	2,103	81	116	20	2,320
Total	2,747	100	128	9	2,984	2,821	87	147	20	3,075
Analysed by internal credit ratings										
Strong	1,205	42	94	–	1,341	1,125	46	73	–	1,244
Satisfactory	1,099	50	22	9	1,180	1,117	26	58	20	1,221
Total strong/satisfactory	2,304	92	116	9	2,521	2,242	72	131	20	2,465
Criticised watch	210	5	5	–	220	181	8	7	–	196
Criticised recovery	46	3	1	–	50	65	3	1	–	69
Total criticised	256	8	6	–	270	246	11	8	–	265
Non-performing	187	–	6	–	193	333	4	8	–	345
Gross carrying amount	2,747	100	128	9	2,984	2,821	87	147	20	3,075
Analysed by ECL staging										
Stage 1	2,297	90	108	9	2,504	2,131	73	110	20	2,334
Stage 2	264	10	14	–	288	359	10	29	–	398
Stage 3	186	–	6	–	192	331	4	8	–	343
POCI	–	–	–	–	–	–	–	–	–	–
Total	2,747	100	128	9	2,984	2,821	87	147	20	3,075
ECL allowance – statement of financial position										
Stage 1	21	–	–	–	21	28	–	1	–	29
Stage 2	39	1	–	–	40	49	2	1	–	52
Stage 3	111	–	3	–	114	167	–	5	–	172
POCI	–	–	–	–	–	–	–	–	–	–
Total	171	1	3	–	175	244	2	7	–	253
ECL allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	0.9	0.3	0.3	–	0.9	1.3	–	0.9	–	1.2
Stage 2	14.7	7.1	3.2	–	13.9	13.6	20.0	3.4	–	13.1
Stage 3	59.9	–	57.0	–	59.8	50.5	–	62.5	–	50.1
POCI	–	–	–	–	–	–	–	–	–	–
Income statement	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net re-measurement of ECL allowance	33	(1)	–	–	32	9	1	3	–	13
Recoveries of amounts previously written-off	(22)	–	–	–	(22)	(24)	–	(2)	–	(26)
Net credit impairment charge/(writeback)	11	(1)	–	–	10	(15)	1	1	–	(13)
	%	%	%	%	%	%	%	%	%	%
Net credit impairment charge(writeback)/ on average loans	0.37	(0.96)	0.30	–	0.32	(0.52)	3.03	0.64	–	(0.44)

*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Other personal *(continued)*

At 31 December 2019, the other personal lending portfolio of € 3.0 billion comprises € 2.3 billion in loans and overdrafts and € 0.7 billion in credit card facilities (2018: total € 3.1 billion and € 2.3 billion and € 0.8 billion respectively). The credit quality of the portfolio remains strong and improved during the year, with 16% categorised as less than satisfactory, of which defaulted loans amounted to € 0.2 billion (2018: 20% and € 0.4 billion).

The demand for personal loans, which accounts for the largest portion of the portfolio, continues to be strong which is due to the favourable economic environment and the Group's increased automated service offering. This has resulted in an increase in new lending of € 0.2 billion or 13% to € 1.1 billion for the year (2018: € 0.9 billion).

Stage 3 loans, predominately in Retail Banking, decreased by € 0.2 billion in the year to 31 December 2019, primarily due to portfolio sales of distressed loans and redemptions/repayments. At 31 December 2019, the ECL allowance cover was 6% with Stage 3 cover at 60% (2018: 8% and 50% respectively).

The net credit impairment charge in the income statement amounted to € 10 million for the year to 31 December 2019 compared to a writeback of € 13 million for the year to 31 December 2018.

Risk management – 2. Individual risk types

2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Property and construction

The following table analyses property and construction lending at amortised cost by segment, internal credit ratings and ECL staging at 31 December 2019 and 2018:

					2019*					2018*
Gross carrying amount	**Retail Banking € m**	**CIB € m**	**AIB UK € m**	**Group € m**	**Total € m**	Retail Banking € m	CIB € m	AIB UK € m	Group € m	Total € m
Investment:										
Commercial investment	**488**	**2,956**	**750**	**–**	**4,194**	1,010	3,111	823	–	4,944
Residential investment	**129**	**498**	**747**	**–**	**1,374**	308	213	627	–	1,148
	617	**3,454**	**1,497**	**–**	**5,568**	1,318	3,324	1,450	–	6,092
Land and development:										
Commercial development	**99**	**213**	**28**	**–**	**340**	134	124	46	–	304
Residential development	**61**	**431**	**160**	**–**	**652**	189	362	227	–	778
	160	**644**	**188**	**–**	**992**	323	486	273	–	1,082
Contractors	**91**	**81**	**124**	**–**	**296**	109	62	151	–	322
Housing associations	**–**	**–**	**443**	**–**	**443**	–	–	308	–	308
Total	**868**	**4,179**	**2,252**	**–**	**7,299**	1,750	3,872	2,182	–	7,804
Analysed by internal credit ratings										
Strong	**158**	**3,510**	**1,393**	**–**	**5,061**	157	2,872	1,280	–	4,309
Satisfactory	**212**	**548**	**719**	**–**	**1,479**	190	682	668	–	1,540
Total strong/satisfactory	**370**	**4,058**	**2,112**	**–**	**6,540**	347	3,554	1,948	–	5,849
Criticised watch	**150**	**21**	**58**	**–**	**229**	232	40	70	–	342
Criticised recovery	**46**	**94**	**14**	**–**	**154**	84	174	9	–	267
Total criticised	**196**	**115**	**72**	**–**	**383**	316	214	79	–	609
Non-performing	**302**	**6**	**68**	**–**	**376**	1,087	104	155	–	1,346
Gross carrying amount	**868**	**4,179**	**2,252**	**–**	**7,299**	1,750	3,872	2,182	–	7,804
Analysed by ECL staging										
Stage 1	**424**	**4,077**	**2,004**	**–**	**6,505**	541	3,748	1,911	–	6,200
Stage 2	**151**	**96**	**180**	**–**	**427**	229	70	116	–	415
Stage 3	**293**	**6**	**68**	**–**	**367**	978	54	155	–	1,187
POCI	**–**	**–**	**–**	**–**	**–**	2	–	–	–	2
Total	**868**	**4,179**	**2,252**	**–**	**7,299**	1,750	3,872	2,182	–	7,804
ECL allowance – statement of financial position										
Stage 1	**4**	**20**	**7**	**–**	**31**	17	17	7	–	41
Stage 2	**15**	**4**	**7**	**–**	**26**	26	5	5	–	36
Stage 3	**105**	**–**	**27**	**–**	**132**	314	2	87	–	403
POCI	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Total	**124**	**24**	**41**	**–**	**189**	357	24	99	–	480
ECL allowance cover percentage	**%**	**%**	**%**	**%**	**%**	%	%	%	%	%
Stage 1	**1.1**	**0.5**	**0.4**	**–**	**0.5**	3.1	0.5	0.4	–	0.7
Stage 2	**9.8**	**4.2**	**3.5**	**–**	**5.9**	11.4	7.1	4.3	–	8.7
Stage 3	**35.6**	**5.0**	**39.6**	**–**	**35.9**	32.1	3.7	56.1	–	34.0
POCI	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Income statement	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m	€ m
Net re-measurement of ECL allowance	**(34)**	**7**	**–**	**–**	**(27)**	(82)	(1)	(7)	–	(90)
Recoveries of amounts previously written-off	**(19)**	**–**	**–**	**–**	**(19)**	(33)	–	–	–	(33)
Net credit impairment (writeback)/charge	**(53)**	**7**	**–**	**–**	**(46)**	(115)	(1)	(7)	–	(123)
	%	**%**	**%**	**%**	**%**	%	%	%	%	%
Net credit impairment (writeback)/charge on average loans	**(4.00)**	**0.17**	**0.01**	**–**	**(0.62)**	(4.33)	(0.03)	(0.31)	–	(1.5)

*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Property and construction *(continued)*

The property and construction portfolio consists of € 7.3 billion in loans and advances measured at amortised cost together with € 0.1 billion of loans measured at FVTPL (total € 7.4 billion).

The portfolio measured at amortised cost amounted to 12% of total loans and advances. The portfolio comprised of 76% investment loans (€ 5.6 billion), 14% land and development loans (€ 1.0 billion) and 10% other property and construction loans (€ 0.7 billion). The CIB segment accounts for 57% of the portfolio, followed by the AIB UK segment at 31%.

The portfolio reduced by € 0.5 billion or 6% during the year to 31 December 2019. This reduction was driven by redemptions/repayments net of interest credited of € 1.8 billion and disposals of € 0.7 billion as a result of the portfolio sales of distressed loans. The reduction was mainly offset by new lending of € 2.0 billion, which was predominately in the CIB segment and is primarily to provide senior secured funding. At 31 December 2019, € 6.5 billion of the portfolio was in a strong/satisfactory grade, which is an increase of € 0.7 billion in the year. The level of non-performing loans have reduced by € 1.0 billion as a result of the portfolio sales of distressed loans and redemptions/repayments.

Property and construction loans measured at FVTPL reduced by € 70 million to € 77 million in the year to 31 December 2019, the reduction being in non-performing loans as a result of a loan sale.

There was a net credit impairment writeback of € 46 million to the income statement in the year to 31 December 2019. This was due to the recovery of € 19 million on loans previously written-off reflecting continued cash recoveries. There was a net re-measurement writeback of € 27 million driven by a € 39 million writeback in Stage 3 which was mainly in individually assessed loans.

The portfolio held € 0.2 billion of ECL allowance which provide ECL allowance cover of 3%. For the Stage 3 portfolio, the ECL allowance cover is 36% (2018: € 0.5 billion, 6% and 34% respectively).

Investment

Investment property loans amounted to € 5.6 billion at 31 December 2019 (2018: € 6.1 billion) of which € 4.2 billion related to commercial investment. The geographic profile of the investment property portfolio is predominately in the Republic of Ireland (€ 3.7 billion) and the United Kingdom (€ 1.6 billion).

At 31 December 2019, there was a net credit impairment writeback of € 47 million to the income statement on the investment property element of the property and construction portfolio (2018: € 94 million).

Land and development

At 31 December 2019, land and development loans amounted to € 1.0 billion (2018: € 1.1 billion) of which € 0.2 billion related to loans in the Retail Banking segment, € 0.6 billion in the CIB segment and € 0.2 billion in the AIB UK segment.

The income statement net credit impairment writeback for the year to 31 December 2019 was € 17 million (2018: € 26 million writeback).

Contractors

Loans to contractors remained unchanged at € 0.3 billion (2018: € 0.3 billion). However, there was a net credit impairment charge of € 18 million (2018: € 3 million) in the year relating to a small number of borrowers.

Risk management – 2. Individual risk types

2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Non-property business

The following table analyses non-property business lending at amortised cost by segment, internal credit ratings and ECL staging at 31 December 2019 and 2018:

					2019*					2018*
Gross carrying amount	**Retail Banking € m**	**CIB € m**	**AIB UK € m**	**Group € m**	**Total € m**	Retail Banking € m	CIB € m	AIB UK € m	Group € m	Total € m
Agriculture	**1,203**	**435**	**103**	**–**	**1,741**	1,344	396	96	–	1,836
Distribution:										
Hotels	**157**	**1,231**	**824**	**–**	**2,212**	259	1,136	644	–	2,039
Licensed premises	**203**	**215**	**114**	**–**	**532**	305	215	141	–	661
Retail/wholesale	**552**	**1,130**	**342**	**–**	**2,024**	718	1,244	336	–	2,298
Other distribution	**83**	**230**	**176**	**–**	**489**	93	247	180	–	520
	995	**2,806**	**1,456**	**–**	**5,257**	1,375	2,842	1,301	–	5,518
Other services	**727**	**3,160**	**2,088**	**6**	**5,981**	871	3,090	1,960	–	5,921
Other	**464**	**4,852**	**1,911**	**106**	**7,333**	503	4,218	1,490	80	6,291
Total	**3,389**	**11,253**	**5,558**	**112**	**20,312**	4,093	10,546	4,847	80	19,566
Analysed by internal credit ratings										
Strong	**646**	**7,435**	**4,027**	**14**	**12,122**	633	6,716	3,786	77	11,212
Satisfactory	**1,748**	**3,584**	**1,304**	**98**	**6,734**	1,708	3,604	812	3	6,127
Total strong/satisfactory	**2,394**	**11,019**	**5,331**	**112**	**18,856**	2,341	10,320	4,598	80	17,339
Criticised watch	**510**	**138**	**104**	**–**	**752**	606	170	147	–	923
Criticised recovery	**143**	**88**	**24**	**–**	**255**	218	42	24	–	284
Total criticised	**653**	**226**	**128**	**–**	**1,007**	824	212	171	–	1,207
Non-performing	**342**	**8**	**99**	**–**	**449**	928	14	78	–	1,020
Gross carrying amount	**3,389**	**11,253**	**5,558**	**112**	**20,312**	4,093	10,546	4,847	80	19,566
Analysed by ECL staging										
Stage 1	**2,681**	**10,921**	**5,027**	**112**	**18,741**	2,692	10,300	4,471	79	17,542
Stage 2	**377**	**324**	**432**	**–**	**1,133**	507	231	298	–	1,036
Stage 3	**331**	**8**	**99**	**–**	**438**	894	15	78	1	988
POCI	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Total	**3,389**	**11,253**	**5,558**	**112**	**20,312**	4,093	10,546	4,847	80	19,566
ECL allowance – statement of financial position										
Stage 1	**31**	**25**	**23**	**–**	**79**	57	18	18	–	93
Stage 2	**47**	**17**	**20**	**–**	**84**	85	17	30	–	132
Stage 3	**119**	**1**	**22**	**–**	**142**	340	1	27	–	368
POCI	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Total	**197**	**43**	**65**	**–**	**305**	482	36	75	–	593
ECL allowance cover percentage	**%**	**%**	**%**	**%**	**%**	%	%	%	%	%
Stage 1	**1.2**	**0.2**	**0.5**	**–**	**0.4**	2.1	0.2	0.4	–	0.5
Stage 2	**12.5**	**5.3**	**4.6**	**–**	**7.5**	16.8	7.4	10.1	–	12.7
Stage 3	**36.0**	**14.4**	**21.9**	**–**	**32.4**	38.0	6.7	34.6	–	37.2
POCI	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Income statement	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m	€ m
Net re-measurement of ECL allowance	**(51)**	**16**	**18**	**–**	**(17)**	2	22	22	1	47
Recoveries of amounts previously written-off	**(10)**	**–**	**(3)**	**–**	**(13)**	(35)	–	(1)	–	(36)
Net credit impairment (writeback)/charge	**(61)**	**16**	**15**	**–**	**(30)**	(33)	22	21	1	11
	%	**%**	**%**	**%**	**%**	%	%	%	%	%
Net credit impairment (writeback)/charge on average loans	**(1.61)**	**0.15**	**0.29**	**–**	**(0.14)**	(0.57)	0.27	0.46	0.96	0.06

*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Non-property business *(continued)*

The non-property business portfolio comprises of small and medium enterprises ("SMEs") which are reliant on the domestic economies in which they operate and larger corporate and institutional borrowers which are impacted by global economic conditions. The portfolio increased by 4% (€ 0.7 billion) to € 20.3 billion in the year to 31 December 2019 due to continued demand for credit across all segments resulting in new lending of € 6.2 billion (2018: € 6.5 billion). However, this was offset by amortisation and portfolio sales of distressed loans. The non-property business portfolio amounted to 33% of total Group loans and advances at 31 December 2019 (2018: 31%). The majority of the portfolio exposure is to Irish borrowers with the UK and USA being the other main geographic concentrations.

Loans graded as strong/satisfactory increased during the year to 93%, continuing the positive trend experienced in 2018 (89%), with new drawdowns exceeding repayments coupled with upward grade migration on existing loans. The level of less than satisfactory grades (including non-performing loans) reduced from € 2.2 billion at 31 December 2018 to € 1.5 billion at 31 December 2019, mainly due to a reduction of € 0.6 billion in defaulted loans following the portfolio sales of distressed loans.

The following are the key themes within the main sub-sectors of the non-property business portfolio:

- The agriculture sub-sector comprises 9% of the portfolio at € 1.7 billion. A return to more normal weather conditions throughout 2019 helped significantly in reducing input expenditure after a challenging 2018. However, pressure on costs and output prices will continue to be a concern in 2020 for overall farm incomes. The Group is proactively encouraging farmers to understand the impact of future challenges on their farm business and to improve on-farm efficiencies;
- The hotels sub-sector comprises 11% of the portfolio at € 2.2 billion. This sector continued to perform well in the year to 31 December 2019. Tourism performed well despite softening in growth of overseas visitors which was offset by sustained strength in the local Irish economy. Increased supply is starting to come into the Dublin, Cork and Galway markets in order to meet the current levels of demand which may have an impact on occupancy and rates;
- The licensed premises sub-sector comprises 3% of the portfolio at € 0.5 billion. This sector performance is stable in areas of high footfall, however, the challenge remains for licensed premises in more rural locations and in small towns where there is a lot of competition;
- The retail/wholesale sub-sector (10% of the portfolio at € 2.0 billion) was broadly stable in the Republic of Ireland. Challenges include Brexit uncertainty and the growing adoption of online shopping. In the UK, a number of high profile retailers have been impacted by a drop in consumer confidence and disposable income. These headwinds, and similar trends in the US, must be considered when reviewing the sector within the Republic of Ireland, albeit current economic performance is strong and consumer confidence is high;
- The other services sub-sector comprises 29% of the portfolio at € 6.0 billion, 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 has continued to perform comparatively well in 2019; and
- The category titled 'Other' totalling € 7.3 billion (36% of the portfolio) includes a broad range of sub-sectors such as energy, manufacturing, transport and financial. The € 1.0 billion increase in the year to 31 December 2019 was driven by € 0.7 billion of new lending in the energy sector.

The CIB segment includes € 4.8 billion (2018: € 4.6 billion) in syndicated lending exposures, an element of which is included in the 'Other' category referenced above. The Group has specialised lending teams which are involved in participating in the provision of finance to US and European corporations for mergers, acquisitions, buy-outs and general corporate purposes. At 31 December 2019, 99% of the syndicated lending portfolio is in a strong/satisfactory grade. 65% of the customers in this portfolio are domiciled in the USA, 4% in the UK, and 31% in the Rest of the World (2018: 63% in the USA, 5% in the UK and 32% in the Rest of the World (primarily Europe) respectively). The largest industry sub-sectors within the portfolio include telecoms, business services, healthcare and hotel/leisure industries.

Strong economic growth in the Republic of Ireland has continued during 2019. Notwithstanding this, there are still challenges. In particular, the nature of the future relationship between the UK and the EU following Brexit continues to be uncertain.

There was a net credit impairment writeback of € 30 million to the income statement for the year to 31 December 2019. This was driven by a net re-measurement writeback of € 17 million and by recoveries of previously written-off loans of € 13 million. The net re-measurement writeback of € 17 million was driven by a € 51 million writeback in the Retail Banking segment which was offset by a € 18 million charge in the UK segment and a € 16 million charge in the CIB segment. The charge in the UK reflects a small number of borrowers and the charge in the CIB segment was driven by the management overlay in the syndicated lending portfolio.

The portfolio held € 0.3 billion in ECL allowance which provides ECL allowance cover of 2%. For the Stage 3 portfolio, the ECL allowance cover is 32% (2018: € 0.6 billion, 3% and 37% respectively).

Risk management – 2. Individual risk types

2.1 Credit risk – Credit profile of the loan portfolio

The following tables set out the concentration of credit by industry sector and geography for loans and advances to customers and loan commitments and financial guarantee contracts issued together with the related ECL allowance analysed by the ECL stage profile at 31 December 2019 and 2018:

Gross exposures to customers

									2019
	At amortised cost								At FVTPL
	Gross carrying amount			Analysed by ECL stage profile					
	Loans and advances to customers	Loan commitments and financial guarantees issued	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Concentration by industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	1,741	547	2,288	1,993	213	82	–	2,288	–
Energy	1,490	633	2,123	2,104	15	4	–	2,123	–
Manufacturing	3,143	1,461	4,604	4,352	180	72	–	4,604	–
Property and construction	7,299	1,646	8,945	8,054	460	431	–	8,945	77
Distribution	5,257	1,307	6,564	5,840	532	192	–	6,564	–
Transport	1,936	576	2,512	2,438	41	33	–	2,512	–
Financial	764	497	1,261	1,248	9	4	–	1,261	–
Other services	5,981	1,953	7,934	7,514	295	125	–	7,934	–
Personal: Residential mortgages	31,454	866	32,320	27,816	2,151	2,158	195	32,320	–
Other	2,984	2,764	5,748	5,119	429	200	–	5,748	–
Total	62,049	12,250	74,299	66,478	4,325	3,301	195	74,299	77
Concentration by location[1]									
Republic of Ireland	46,893	9,496	56,389	49,820	3,424	2,951	194	56,389	77
United Kingdom	9,589	2,253	11,842	10,735	777	330	–	11,842	–
North America	3,192	120	3,312	3,249	61	2	–	3,312	–
Rest of the World	2,375	381	2,756	2,674	63	18	1	2,756	–
	62,049	12,250	74,299	66,478	4,325	3,301	195	74,299	77

ECL allowance

								2019
	ECL allowance			Analysed by ECL stage profile				
	Loans and advances to customers	Loan commitments and financial guarantees issued	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Concentration by industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	40	2	42	8	11	23	–	42
Energy	7	1	8	4	1	3	–	8
Manufacturing	41	3	44	8	12	24	–	44
Property and construction	189	20	209	34	26	149	–	209
Distribution	125	4	129	34	45	50	–	129
Transport	14	1	15	6	3	6	–	15
Financial	6	–	6	3	1	2	–	6
Other services	72	5	77	24	17	36	–	77
Personal: Residential mortgages	569	–	569	10	52	476	31	569
Other	175	6	181	23	43	115	–	181
Total	1,238	42	1,280	154	211	884	31	1,280
Concentration by location[1]								
Republic of Ireland	1,087	34	1,121	103	173	814	31	1,121
United Kingdom	125	7	132	35	29	68	–	132
North America	15	–	15	9	6	–	–	15
Rest of the World	11	1	12	7	3	2	–	12
	1,238	42	1,280	154	211	884	31	1,280

[1]Based on country of risk.

2.1 Credit risk – Credit profile of the loan portfolio

Gross exposures to customers

	At amortised cost								2018 At FVTPL
	Gross carrying amount			Analysed by ECL stage profile					
	Loans and advances to customers	Loan commitments and financial guarantees issued	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Concentration by industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	1,836	556	2,392	2,018	196	178	–	2,392	–
Energy	983	609	1,592	1,547	31	14	–	1,592	–
Manufacturing	2,934	1,227	4,161	3,947	152	62	–	4,161	–
Property and construction	7,804	1,528	9,332	7,602	460	1,268	2	9,332	147
Distribution	5,518	1,298	6,816	5,879	450	487	–	6,816	–
Transport	1,779	414	2,193	2,099	73	21	–	2,193	–
Financial	595	303	898	836	28	34	–	898	–
Other services	5,921	2,450	8,371	7,856	261	254	–	8,371	–
Personal: Residential mortgages	32,315	356	32,671	25,940	3,450	3,047	234	32,671	–
Other	3,075	3,146	6,221	5,347	516	358	–	6,221	–
Total	62,760	11,887	74,647	63,071	5,617	5,723	236	74,647	147
Concentration by location[1]									
Republic of Ireland	48,530	8,496	57,026	46,635	4,899	5,258	234	57,026	147
United Kingdom	8,864	2,441	11,305	10,269	659	376	1	11,305	–
North America	3,036	94	3,130	3,125	2	3	–	3,130	–
Rest of the World	2,330	856	3,186	3,042	57	86	1	3,186	–
	62,760	11,887	74,647	63,071	5,617	5,723	236	74,647	147

ECL allowance

	ECL allowance			Analysed by ECL stage profile				2018
	Loans and advances to customers	Loan commitments and financial guarantees issued	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Concentration by industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	77	2	79	14	20	45	–	79
Energy	14	1	15	4	5	6	–	15
Manufacturing	49	4	53	8	16	29	–	53
Property and construction	480	30	510	43	39	428	–	510
Distribution	283	8	291	48	64	179	–	291
Transport	17	–	17	5	4	8	–	17
Financial	12	–	12	2	2	8	–	12
Other services	141	7	148	21	31	96	–	148
Personal: Residential mortgages	713	–	713	8	51	623	31	713
Other	253	6	259	32	54	173	–	259
Total	2,039	58	2,097	185	286	1,595	31	2,097
Concentration by location[1]								
Republic of Ireland	1,787	47	1,834	150	240	1,413	31	1,834
United Kingdom	208	10	218	29	44	145	–	218
North America	2	–	2	2	–	–	–	2
Rest of the World	42	1	43	4	2	37	–	43
	2,039	58	2,097	185	286	1,595	31	2,097

[1]Based on country of risk.

Risk management – 2. Individual risk types

2.1 Credit risk – Credit profile of the loan portfolio

Aged analysis of contractually past due loans and advances to customers

The following table shows aged analysis of contractually past due loans and advances to customers by industry sector analysed by ECL staging and segment at 31 December 2019 and 2018:

At amortised cost

							2019
Industry sector	**1–30 days € m**	**31–60 days € m**	**61–90 days € m**	**91–180 days € m**	**181–365 days € m**	**> 365 days € m**	**Total € m**
Agriculture	29	2	2	3	6	12	54
Energy	4	–	–	–	–	4	8
Manufacturing	7	1	3	3	4	7	25
Property and construction	33	15	3	12	12	141	216
Distribution	37	4	2	5	7	31	86
Transport	3	1	–	1	1	4	10
Financial	1	–	–	–	1	2	4
Other services	26	3	4	10	8	20	71
Personal:							
Residential mortgages	416	136	86	141	141	912	1,832
Credit cards	19	6	3	5	14	–	47
Other	63	15	13	22	28	71	212
Total gross carrying amount	638	183	116	202	222	1,204	2,565
ECL staging							
Stage 1	196	–	–	–	–	–	196
Stage 2	300	90	33	–	–	–	423
Stage 3	127	89	79	198	217	1,187	1,897
POCI	15	4	4	4	5	17	49
	638	183	116	202	222	1,204	2,565
Segment							
Retail Banking	551	164	106	185	200	1,114	2,320
CIB	41	2	–	–	1	–	44
AIB UK	46	17	10	17	21	90	201
Group	–	–	–	–	–	–	–
	638	183	116	202	222	1,204	2,565
As a percentage of total gross loans at amortised cost	%	%	%	%	%	%	%
	1.03	0.29	0.19	0.33	0.36	1.94	4.14

At FVTPL

Industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Property and construction	–	–	–	–	–	–	–
Total at FVTPL	–	–	–	–	–	–	–
Segment	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Retail Banking	–	–	–	–	–	–	–
	–	–	–	–	–	–	–
As a percentage of total gross loans at FVTPL	%	%	%	%	%	%	%
	–	–	–	–	–	–	–

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

2.1 Credit risk – Credit profile of the loan portfolio

Aged analysis of contractually past due loans and advances to customers *(continued)*

At amortised cost

							2018
Industry sector	1–30 days € m	31–60 days € m	61–90 days € m	91–180 days € m	181–365 days € m	> 365 days € m	Total € m
Agriculture	36	5	4	10	11	81	147
Energy	–	2	–	–	3	8	13
Manufacturing	11	1	1	3	3	21	40
Property and construction	75	20	21	32	51	532	731
Distribution	66	8	6	9	25	193	307
Transport	4	1	1	1	3	8	18
Financial	2	–	–	–	–	3	5
Other services	23	4	3	8	16	105	159
Personal:							
Residential mortgages	463	136	112	154	195	1,426	2,486
Credit cards	21	4	3	6	17	–	51
Other	52	13	15	19	31	156	286
Total gross carrying amount	753	194	166	242	355	2,533	4,243
ECL staging							
Stage 1	221	–	–	–	–	–	221
Stage 2	323	79	37	–	–	–	439
Stage 3	191	110	127	237	349	2,510	3,524
POCI	18	5	2	5	6	23	59
	753	194	166	242	355	2,533	4,243
Segment							
Retail Banking	651	168	152	230	331	2,352	3,884
CIB	64	1	–	–	–	2	67
AIB UK	38	25	14	12	24	179	292
Group	–	–	–	–	–	–	–
	753	194	166	242	355	2,533	4,243
As a percentage of total gross loans at amortised cost	%	%	%	%	%	%	%
	1.20	0.31	0.26	0.39	0.57	4.04	6.76

At FVTPL

Industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Property and construction	–	–	–	–	–	2	2
Total at FVTPL	–	–	–	–	–	2	2
Segment	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Retail Banking	–	–	–	–	–	2	2
	–	–	–	–	–	2	2
As a percentage of total gross loans at FVTPL	%	%	%	%	%	%	%
	–	0.13	–	–	–	1.31	1.44

In the year to 31 December 2019, total loans past due reduced by € 1.6 billion to € 2.6 billion or 4.1% of total loans and advances to customers (2018: € 4.2 billion or 6.8%). The reduction was predominately in the greater than 365 days past due category which decreased by € 1.3 billion primarily due to portfolio sales of distressed loans.

Residential mortgage loans which were past due at 31 December 2019 amounted to € 1.8 billion. This represents 71% of total loans which were past due (2018: € 2.5 billion or 59%). The level of residential mortgage loans in early arrears (less than 30 days past due) continues to decrease which is due to the active management of early arrears cases and the favourable economic environment.

Property and construction loans which were past due represent 8% or € 0.2 billion of total loans which were past due (2018: 17% or € 0.7 billion), with non-property business at 10% or € 0.3 billion (2018: 16% or € 0.7 billion) and other personal at 10% or € 0.3 billion (2018: 8% or € 0.3 billion).

All loans past due by 90 days or more on any material obligation are considered non-performing/defaulted.

Risk management – 2. Individual risk types

2.1 Credit risk – Credit profile of the loan portfolio

Loans written-off and recoveries of previously written-off loans

The following table analyses loans written-off and recoveries of previously written-off loans by geography[1] and industry sector for the years ended 31 December 2019 and 2018:

	Ireland		United Kingdom		Rest of the World		Total	
Loans written-off	**2019 € m**	2018 € m	**2019 € m**	2018 € m	**2019 € m**	2018 € m	**2019 € m**	2018 € m
Agriculture	**–**	19.0	**0.1**	0.1	**–**	–	**0.1**	19.1
Energy	**0.3**	5.1	**–**	5.5	**–**	–	**0.3**	10.6
Manufacturing	**1.3**	19.8	**0.6**	5.4	**–**	–	**1.9**	25.2
Property and construction	**12.9**	112.0	**61.2**	65.9	**26.1**	–	**100.2**	177.9
Distribution	**11.4**	37.3	**8.0**	9.7	**–**	5.8	**19.4**	52.8
Transport	**–**	3.2	**0.7**	–	**1.4**	–	**2.1**	3.2
Financial	**–**	0.1	**–**	5.2	**–**	1.6	**–**	6.9
Other services	**2.1**	83.0	**8.8**	4.9	**–**	19.8	**10.9**	107.7
Personal – Residential mortgages	**173.1**	543.2	**14.1**	15.8	**1.1**	4.5	**188.3**	563.5
– Other	**35.5**	56.0	**3.1**	6.2	**–**	0.2	**38.6**	62.4
	236.6	878.7	**96.6**	118.7	**28.6**	31.9	**361.8**	1,029.3

	Ireland		United Kingdom		Rest of the World		Total	
Recoveries of amounts previously written-off	**2019 € m**	2018 € m	**2019 € m**	2018 € m	**2019 € m**	2018 € m	**2019 € m**	2018 € m
Agriculture	**4.0**	7.4	**–**	–	**–**	–	**4.0**	7.4
Energy	**0.1**	0.7	**–**	–	**–**	–	**0.1**	0.7
Manufacturing	**1.1**	1.7	**–**	–	**–**	–	**1.1**	1.7
Property and construction	**18.9**	28.1	**0.5**	0.9	**–**	4.1	**19.4**	33.1
Distribution	**1.4**	10.5	**2.2**	0.4	**–**	–	**3.6**	10.9
Transport	**0.8**	0.8	**–**	–	**–**	–	**0.8**	0.8
Financial	**0.5**	0.2	**–**	–	**–**	–	**0.5**	0.2
Other services	**1.5**	12.1	**0.5**	2.6	**0.4**	–	**2.4**	14.7
Personal – Residential mortgages	**34.9**	24.2	**0.8**	0.8	**–**	0.2	**35.7**	25.2
– Other	**22.1**	23.0	**–**	2.6	**–**	–	**22.1**	25.6
	85.3	108.7	**4.0**	7.3	**0.4**	4.3	**89.7**	120.3

[1]By country of risk

The contractual amount outstanding of loans written-off during the year that are subject to enforcement activity amounted to € 202 million (2018: € 750 million) which includes both full and partial write-offs. Total cumulative non-contracted loans written-off at 31 December 2019 amounted to € 1,919 million (2018: € 3,414 million).*

*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit profile of the loan portfolio

Gross loans[1] and ECL movements

The following tables set out the movements in the gross carrying amount and ECL allowance for loans and advances to customers by ECL staging for the years to 31 December 2019 and 2018.

Accounts that triggered movements between Stage 1 and Stage 2 as a result of failing/curing a quantitative measure only (as disclosed on page 89) and that subsequently reverted within the period to their original stage, are excluded from 'Transferred from Stage 1 to Stage 2 and 'Transferred from Stage 2 to Stage 1'. The Group believes this presentation aids the understanding of the underlying credit migration.

Gross carrying amount movements – total

					2019*
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
At 1 January	51,693	5,290	5,541	236	62,760
Transferred from Stage 1 to Stage 2	(3,287)	3,287	–	–	–
Transferred from Stage 2 to Stage 1	3,070	(3,070)	–	–	–
Transferred to Stage 3	(254)	(655)	909	–	–
Transferred from Stage 3	120	447	(567)	–	–
New loans originated/top-ups	12,110	–	–	2	12,112
Redemptions/repayments	(11,124)	(1,111)	(790)	(17)	(13,042)
Interest credited	1,736	169	83	9	1,997
Write-offs	–	–	(357)	(5)	(362)
Derecognised due to disposals	(326)	(47)	(1,673)	(6)	(2,052)
Exchange translation adjustments	521	40	17	–	578
Impact of model, parameter and overlay changes	333	(333)	–	–	–
Other movements	131	(25)	(23)	(25)	58
At 31 December 2019	54,723	3,992	3,140	194	62,049

					2018*
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
At 1 January	46,021	7,912	9,011	238	63,182
Transferred from Stage 1 to Stage 2	(2,777)	2,777	–	–	–
Transferred from Stage 2 to Stage 1	2,833	(2,833)	–	–	–
Transferred to Stage 3	(302)	(658)	960	–	–
Transferred from Stage 3	129	648	(777)	–	–
Other changes in net exposures	2,393	(1,543)	(1,251)	–	(401)
Write-offs	–	–	(1,029)	–	(1,029)
Derecognised due to disposals	(3)	(21)	(1,013)	–	(1,037)
Interest applied to accounts	1,503	231	140	–	1,874
Exchange translation adjustments	78	(12)	–	–	66
Other movements	1,818	(1,211)	(500)	(2)	105
At 31 December 2018	51,693	5,290	5,541	236	62,760

[1]Movements on the gross loans table have been prepared on a 'sum of the months' basis.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk – Credit profile of the loan portfolio

Gross loans and ECL movements *(continued)*

ECL allowance movements – total

					2019*
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
At 1 January	171	271	1,566	31	2,039
Transferred from Stage 1 to Stage 2	(33)	235	–	–	202
Transferred from Stage 2 to Stage 1	59	(211)	–	–	(152)
Transferred to Stage 3	(10)	(93)	203	–	100
Transferred from Stage 3	10	21	(86)	–	(55)
Net re-measurement	(73)	(22)	(17)	2	(110)
New loans originated/top-ups	40	–	–	–	40
Redemptions/repayments	(14)	(15)	–	(1)	(30)
Impact of model and overlay changes	(4)	5	72	3	76
Impact of credit or economic risk parameters	1	10	32	3	46
Income statement net credit impairment charge/(writeback)	(24)	(70)	204	7	117
Write-offs	–	–	(357)	(5)	(362)
Derecognised due to disposals	(4)	(2)	(557)	(2)	(565)
Exchange translation adjustments	2	2	5	–	9
Other movements	(4)	1	3	–	–
At 31 December 2019	141	202	864	31	1,238

					2018*
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
At 1 January	156	303	3,136	21	3,616
Net re-measurement of ECL allowance – income statement	18	(23)	(99)	15	(89)
Exchange translation adjustments	–	–	(1)	–	(1)
Other movements with no income statement impact:					
Changes in ECL allowance due to write-offs	–	–	(1,029)	–	(1,029)
Changes in ECL allowance due to disposals	(1)	(2)	(469)	–	(472)
Transfer in	(2)	(7)	28	(5)	14
At 31 December 2018	171	271	1,566	31	2,039

Total exposures to which an ECL applies decreased during the year by € 0.7 billion from € 62.8 billion as at 1 January 2019 to € 62.1 billion as at 31 December 2019.

Stage transfers are a key component of ECL allowance movements (i.e. Stage 1 to Stage 2 to Stage 3) being the primary driver of a higher income statement charge (and vice versa) in addition to the net re-measurement of ECL due to change in risk parameters within a stage.

Transfers from Stage 1 to Stage 2 of € 3.3 billion represent the underlying credit activity where a significant increase in credit risk occurred at some point during the year through either the quantitative or qualitative criteria for stage movement. The main driver of the movements to Stage 2 was the doubling of PDs, subject to 50bps. 41% of the movements relied on a qualitative or backstop indicator of significant increase in credit risk (e.g. forbearance or movement to a watch grade) of which 3% relied solely on the backstop of 30 days past due to identify that a significant increase in credit risk had occurred. Of the € 3.3 billion which transferred from Stage 1 to Stage 2 during the year, approximately € 2.2 billion is reported as Stage 2 at 31 December 2019.

Similarly, transfers from Stage 2 to Stage 1 of € 3.1 billion represent those loans where the triggers for significant increase in credit risk no longer apply or loans that have fulfilled a probation period. These transfers include loans which have been upgraded through normal credit management process.

In 2019, following an assessment of the mortgage exposures, a change to the quantitative SICR threshold from 50bps to 85bps was approved by the Group. This was implemented in the Irish residential mortgage portfolio as at December 2019. This change resulted in a gross loan Stage 2 to Stage 1 transfer of € 0.4 billion reflected within other movements. 99% of the loans impacted carry a strong/satisfactory risk rating with an immaterial impact on the ECL allowance.

*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit profile of the loan portfolio

Gross loans and ECL movements *(continued)*

Transfers from Stage 2 to Stage 3 of € 0.7 billion represent those loans that defaulted during the period. These arose in cases where it was determined that the customers were unlikely to pay their credit obligations in full without the realisation of collateral regardless of the existence of any past due amount or the number of days past due. In addition, transfers also include all credit obligors that are 90 days or more past due on a material obligation. Of the transfers from Stage 2 to Stage 3 € 0.2 billion had transferred from Stage 1 to Stage 2 earlier in the year.

Transfers from Stage 3 to Stage 2 of € 0.4 billion were mainly driven by resolution activity with the customer, through either restructuring or forbearance previously granted and which subsequently adhered to default probation requirements. As part of the credit management practices, active monitoring of loans and their adherence to default probation requirements is in place. Transfers from Stage 3 to Stage 1 of € 0.1 billion primarily reflect curing events from default where no forbearance measure was required.

Disposals of € 2.1 billion primarily reflects the portfolio sales of distressed loans during the year which was a key driver of the Stage 3 reductions across all sectors.

Reductions due to write-offs continue to reflect the utilisation of ECL stock as a result of the restructure of customer debt in line with the Group's strategy.

Recalibration and enhancements to take account of updated observed outcomes within the Group's definition of default and the IFRS 9 staging process resulted in an increase in Stage 1 gross loans of € 50 million and a reduction in Stage 2 and Stage 3 gross loans of € 40 million and € 10 million respectively which are reflected within other movements.

The revision of the macroeconomic factors and probability weightings resulted in a € 46 million ECL charge.

In summary, the staging movements of the overall portfolio were as follows:

Stage 1 loans increased by € 3 billion in 2019 with an ECL of € 0.1 billion and resulting cover of 0.3%. This was primarily on foot of net new lending and loans curing to Stage 1.

Stage 2 loans decreased by € 1.3 billion in 2019 with an ECL of € 0.2 billion and resulting cover of 5.1%. This was driven by repayments and redemptions and loans for which a significant increase in credit risk no longer applied and/or which had completed a probation period.

Stage 3 loans decreased by € 2.4 billion in 2019 with the ECL cover reducing from 28.3% to 27.5%. Key drivers were portfolio sales of distressed loans and loans completing default probation periods. The reduction in cover reflects the disposal of loans which carried a higher average ECL charge.

Further details on stage movements by asset class are set out in the tables on the following page.

2.1 Credit risk – Credit profile of the loan portfolio

Gross loans[1] and ECL movements *(continued)*

The following tables set out the movements in the gross carrying amount and ECL allowance for loans and advances to customers by asset class and ECL staging for the year to 31 December 2019:

Gross carrying amount movements – Asset class

	Residential mortgages					Other personal				Property and construction					Non-property business			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At 1 January	25,617	3,441	3,023	234	32,315	2,334	398	343	3,075	6,200	415	1,187	2	7,804	17,542	1,036	988	19,566
Transferred from Stage 1 to Stage 2	(1,197)	1,197	–	–	–	(387)	387	–	–	(438)	438	–	–	–	(1,265)	1,265	–	–
Transferred from Stage 2 to Stage 1	1,935	(1,935)	–	–	–	276	(276)	–	–	220	(220)	–	–	–	639	(639)	–	–
Transferred to Stage 3	(30)	(247)	277	–	–	(12)	(85)	97	–	(104)	(90)	194	–	–	(108)	(233)	341	–
Transferred from Stage 3	17	306	(323)	–	–	3	22	(25)	–	41	49	(90)	–	–	59	70	(129)	–
New loans originated/top-ups	3,116	–	–	2	3,118	1,043	–	–	1,043	1,897	–	–	–	1,897	6,054	–	–	6,054
Redemptions/repayments	(3,529)	(394)	(309)	(17)	(4,249)	(996)	(145)	(66)	(1,207)	(1,649)	(156)	(272)	–	(2,077)	(4,950)	(416)	(143)	(5,509)
Interest credited	689	79	36	9	813	190	31	9	230	197	14	18	–	229	660	45	20	725
Write-offs	–	–	(183)	(5)	(188)	–	–	(39)	(39)	–	–	(100)	–	(100)	–	–	(35)	(35)
Derecognised due to disposals	(17)	(21)	(382)	(4)	(424)	(14)	(5)	(128)	(147)	(47)	(14)	(594)	(2)	(657)	(248)	(7)	(569)	(824)
Exchange translation adjustments	55	5	7	–	67	7	2	–	9	111	5	8	–	124	348	28	2	378
Impact of model, parameter and overlay changes	303	(303)	–	–	–	4	(4)	–	–	3	(3)	–	–	–	23	(23)	–	–
Other movements	14	16	(3)	(25)	2	56	(37)	1	20	74	(11)	16	–	79	(13)	7	(37)	(43)
At 31 December 2019	26,973	2,144	2,143	194	31,454	2,504	288	192	2,984	6,505	427	367	–	7,299	18,741	1,133	438	20,312

[1]Movements on the gross loans table have been prepared on a 'sum of the months' basis.

ECL allowance movements – Asset class

	Residential mortgages					Other personal				Property and construction					Non-property business			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At 1 January	8	51	623	31	713	29	52	172	253	41	36	403	–	480	93	132	368	593
Transferred from Stage 1 to Stage 2	(2)	35	–	–	33	(10)	76	–	66	(4)	21	–	–	17	(17)	103	–	86
Transferred from Stage 2 to Stage 1	4	(25)	–	–	(21)	12	(48)	–	(36)	4	(28)	–	–	(24)	39	(110)	–	(71)
Transferred to Stage 3	–	(9)	25	–	16	(1)	(32)	46	13	(5)	(10)	47	–	32	(4)	(42)	85	39
Transferred from Stage 3	1	7	(30)	–	(22)	1	4	(12)	(7)	2	3	(16)	–	(11)	6	7	(28)	(15)
Net re-measurement	(1)	(24)	25	2	2	(16)	(8)	16	(8)	(7)	2	(39)	–	(44)	(49)	8	(19)	(60)
New loans originated/top-ups	1	–	–	–	1	16	–	–	16	6	–	–	–	6	17	–	–	17
Redemptions/repayments	–	(1)	–	(1)	(2)	(1)	(1)	–	(2)	(5)	(2)	–	–	(7)	(8)	(11)	–	(19)
Impact of model and overlay changes	(2)	11	71	3	83	(8)	(2)	1	(9)	–	(1)	1	–	–	6	(3)	(1)	2
Impact of credit or economic risk parameters	–	7	29	3	39	–	–	(1)	(1)	–	2	2	–	4	1	1	2	4
Income statement net credit impairment charge/(writeback)	1	1	120	7	129	(7)	(11)	50	32	(9)	(13)	(5)	–	(27)	(9)	(47)	39	(17)
Write-offs	–	–	(183)	(5)	(188)	–	–	(39)	(39)	–	–	(100)	–	(100)	–	–	(35)	(35)
Derecognised due to disposals	–	–	(84)	(2)	(86)	–	(1)	(67)	(68)	(3)	–	(177)	–	(180)	(1)	(1)	(229)	(231)
Exchange translation adjustments	–	–	1	–	1	–	–	–	–	–	–	4	–	4	2	2	–	4
Other movements	1	–	(1)	–	–	(1)	–	(2)	(3)	2	3	7	–	12	(6)	(2)	(1)	(9)
At 31 December 2019	10	52	476	31	569	21	40	114	175	31	26	132	–	189	79	84	142	305

2.1 Credit risk – Credit profile of the loan portfolio

Movements in off-balance sheet exposures

The following tables set out the movements in the nominal amount and ECL allowance for loan commitments and financial guarantees by ECL staging for the year to 31 December 2019:

Nominal amount movements

								2019*
	Loan commitments				Financial guarantees			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At 1 January	10,688	296	123	11,107	691	31	58	780
Transferred from Stage 1 to Stage 2	(241)	241	–	–	(5)	5	–	–
Transferred from Stage 2 to Stage 1	170	(170)	–	–	16	(16)	–	–
Transferred to Stage 3	(39)	(7)	46	–	(3)	–	3	–
Transferred from Stage 3	11	4	(15)	–	–	–	(1)	(1)
Net movement	509	(41)	(36)	432	(44)	(9)	(26)	(79)
Derecognised due to disposals	–	–	–	–	2	–	9	11
At 31 December 2019	11,098	323	118	11,539	657	11	43	711

ECL allowance movements

								2019*
	Loan commitments				Financial guarantees			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At 1 January	13	11	1	25	3	1	29	33
Transferred from Stage 1 to Stage 2	(4)	24	–	20	–	1	–	1
Transferred from Stage 2 to Stage 1	8	(26)	–	(18)	1	(1)	–	–
Transferred to Stage 3	–	(2)	1	(1)	–	–	–	–
Transferred from Stage 3	–	–	–	–	–	–	–	–
Net re-measurement	(6)	(1)	–	(7)	(2)	–	(4)	(6)
Income statement (credit)/charge	(2)	(5)	1	(6)	(1)	–	(4)	(5)
Derecognised due to disposals	–	–	–	–	–	–	(5)	(5)
Other movements	(1)	2	(1)	–	1	1	(2)	–
At 31 December 2019	10	8	1	19	3	2	18	23

The internal credit grade profile of loan commitments and financial guarantees is set out in the following table:

	2019* € m	2018* € m
Strong	8,230	8,713
Satisfactory	3,642	2,721
Criticised watch	197	255
Criticised recovery	19	15
Default	162	183
Total	12,250	11,887

Non-performing off-balance sheet commitments

Total non-performing off-balance sheet commitments amounted to € 162 million (2018: € 183 million).

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk – Investment securities

The following table analyses the carrying value of investment securities by major classification together with the unrealised gains and losses for those securities measured at FVOCI and FVTPL at 31 December 2019 and 2018:

	2019			2018		
	Carrying value € m	Unrealised gross gains € m	Unrealised gross losses € m	Carrying value € m	Unrealised gross gains € m	Unrealised gross losses € m
Debt securities at FVOCI						
Irish Government securities	5,296	381	(1)	6,282	401	(6)
Euro government securities	1,538	63	–	1,921	78	(4)
Non Euro government securities	212	4	–	158	3	(2)
Supranational banks and government agencies	1,034	22	(1)	1,132	26	(7)
Collateralised mortgage obligations	222	1	(2)	264	–	(11)
Other asset backed securities	106	–	–	103	–	–
Euro bank securities	5,343	77	(3)	5,007	46	(11)
Non Euro bank securities	1,654	12	(2)	815	1	(6)
Euro corporate securities	375	12	(1)	216	–	(2)
Non Euro corporate securities	101	5	–	48	–	–
Total debt securities at FVOCI	15,881	577	(10)	15,946	555	(49)
Debt securities at amortised cost						
Asset backed securities	591			187		
Euro corporate securities	14			–		
Non Euro corporate securities	30			–		
Total debt securities at amortised cost	635			187		
Equity securities						
Equity investments at FVOCI[1]	458	414	–	468	425	–
Equity investments at FVTPL	357	147	(4)	260	84	(3)
Total investment securities	17,331	1,138	(14)	16,861	1,064	(52)

Debt securities and related ECL analysed by IFRS 9 staging at 31 December 2019 and 2018

	2019*				2018			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At amortised cost – gross	635	–	–	635	187	–	–	187
ECL allowance	–	–	–	–	–	–	–	–
At amortised cost – carrying value	635	–	–	635	187	–	–	187
At FVOCI – carrying value	15,881	–	–	15,881	15,946	–	–	15,946
ECL allowance (included in carrying value)	*(4)*	–	–	*(4)*	*(4)*	–	–	*(4)*
Total carrying value	16,516	–	–	16,516	16,133	–	–	16,133

[1]Includes NAMA subordinated bonds with a fair value of € 458 million (2018: € 468 million) of which unrealised gains amount to € 414 million (2018: € 425 million).

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2.1 Credit risk – Investment securities *(continued)*

The following table categorises the debt securities portfolio by contractual residual maturity and weighted average yield at 31 December 2019 and 2018:

								2019
	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 %
At FVOCI								
Irish Government securities	1,217	4.4	1,349	3.2	1,710	0.9	1,020	0.9
Euro government securities	115	2.4	1,155	1.6	260	0.5	8	0.7
Non Euro government securities	21	3.3	124	2.0	67	1.5	–	–
Supranational banks and government agencies	111	0.8	438	1.3	92	1.0	393	2.8
Collateralised mortgage obligations	–	–	–	–	7	2.1	215	2.4
Other asset backed securities	–	–	–	–	–	–	106	0.1
Euro bank securities	988	0.8	3,433	0.5	922	0.6	–	–
Non Euro bank securities	54	1.1	1,454	1.7	146	2.1	–	–
Euro corporate securities	–	–	100	0.5	257	1.0	18	1.2
Non Euro corporate securities	6	1.3	11	2.1	84	2.8	–	–
Total at FVOCI	2,512	2.6	8,064	1.4	3,545	0.9	1,760	1.5
At amortised cost								
Asset backed securities	–	–	–	–	30	2.9	561	2.2
Euro corporate securities	–	–	–	–	14	1.6	–	–
Non Euro corporate securities	–	–	10	3	20	3.6	–	–
Total at amortised cost	–	–	10	3	64	2.8	561	2.2

								2018
	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 %
At FVOCI								
Irish Government securities	1,951	5.0	2,457	3.7	1,091	1.3	783	1.3
Euro government securities	210	1.9	1,221	1.8	490	1.4	–	–
Non Euro government securities	38	3.3	90	2.3	30	1.1	–	–
Supranational banks and government agencies	134	1.7	581	1.0	96	1.7	321	3.0
Collateralised mortgage obligations	–	–	–	–	9	2.2	255	2.4
Other asset backed securities	–	–	–	–	–	–	103	0.1
Euro bank securities	797	0.9	3,767	0.6	443	0.7	–	–
Non Euro bank securities	–	–	781	1.7	34	3.2	–	–
Euro corporate securities	8	–	63	1.2	130	1.3	15	1.7
Non Euro corporate securities	–	–	14	1.3	34	4.1	–	–
Total at FVOCI	3,138	3.6	8,974	1.8	2,357	1.3	1,477	1.8
At amortised cost								
Asset backed securities	–	–	–	–	–	–	187	2.3
Total at amortised cost	–	–	–	–	–	–	187	2.3

Risk management – 2. Individual risk types

2.1 Credit risk – Investment securities *(continued)*

The following tables analyse the investment securities portfolio by geography at 31 December 2019 and 2018:

	2019*			2018*		
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	**5,296**	**–**	**–**	6,282	–	–
Italy	**–**	**516**	**–**	–	497	–
France	**–**	**63**	**–**	–	117	–
Spain	**–**	**868**	**–**	–	1,048	–
Netherlands	**–**	**33**	**–**	–	138	–
Germany	**–**	**–**	**–**	–	53	–
Belgium	**–**	**23**	**–**	–	23	–
Austria	**–**	**27**	**–**	–	28	–
Portugal	**–**	**–**	**–**	–	17	–
Slovakia	**–**	**8**	**–**	–	–	–
United Kingdom	**–**	**–**	**21**	–	–	60
Czech Republic	**–**	**–**	**11**	–	–	11
Poland	**–**	**–**	**43**	–	–	43
Saudi Arabia	**–**	**–**	**73**	–	–	44
Kuwait	**–**	**–**	**29**	–	–	–
United Arab Emirates	**–**	**–**	**35**	–	–	–
	5,296	**1,538**	**212**	6,282	1,921	158

	2019*	2018*
Asset backed securities	**Total € m**	Total € m
United States of America	**364**	292
Republic of Ireland	**372**	158
Netherlands	**169**	85
France	**14**	19
	919	554

	2019*		2018*	
Bank securities	**Euro € m**	**Non Euro € m**	Euro € m	Non Euro € m
Republic of Ireland	**284**	**–**	358	–
France	**985**	**212**	908	86
Netherlands	**451**	**62**	537	55
United Kingdom	**764**	**389**	690	165
Australia	**377**	**245**	396	124
Sweden	**398**	**136**	390	80
Canada	**855**	**347**	753	184
Finland	**178**	**–**	238	–
Norway	**338**	**82**	307	40
Belgium	**102**	**–**	80	–
Germany	**141**	**25**	37	–
Denmark	**142**	**–**	118	–
New Zealand	**69**	**–**	24	–
Switzerland	**59**	**36**	54	22
United States of America	**48**	**58**	40	42
Singapore	**113**	**47**	77	17
Spain	**39**	**15**	–	–
	5,343	**1,654**	5,007	815

*Forms an integral part of the audited financial statements

2.1 Credit risk – Investment securities *(continued)*

Debt securities at FVOCI

Debt securities held at fair value through other comprehensive income ("FVOCI") remained at € 15.9 billion (nominal € 15.1 billion) at 31 December 2019 with a fair value of € 15.9 billion (nominal € 15.2 billion) at 31 December 2018. Bank securities increased by € 1.2 billion offset by decreases in Irish Government securities of € 1 billion.

The external ratings profile remained relatively static with total investment grade ratings remaining at 100%. The profile of the investment grade ratings was AAA: 31% (2018: 29%); AA: 42% (2018: 12%); A: 19% (2018: 46%); and BBB: 8% (2018: 13%).

Republic of Ireland securities

The fair value of Irish debt securities amounted to € 6.0 billion at 31 December 2019 (2018: € 6.8 billion) and consisted of sovereign debt € 5.3 billion (2018: € 6.3 billion), senior unsecured bonds of € 0.1 billion (2018: € 0.1 billion), covered bonds of € 0.2 billion (2018: € 0.2 billion) and others (corporate, and asset backed securities bonds) at € 0.2 billion (2018: € 0.2 billion). The reduction in Irish sovereign debt was primarily driven by bond redemptions in 2019 which reduced the nominal holding by € 1.9 billion and net purchases of € 0.9 billion.

United Kingdom securities

The fair value of United Kingdom securities amounted to € 1.2 billion at 31 December 2019 (2018: € 0.9 billion) and consisted of senior unsecured bonds of € 0.5 billion (2018: € 0.2 billion) and covered bonds of € 0.7 billion (2018: € 0.6 billion).

Euro government securities

The fair value of government securities denominated in euros (excluding those issued by the Irish Government) decreased by € 0.4 billion to € 1.5 billion (2018: € 1.9 billion). This decrease was largely due to net sales of Spanish, French and German government securities.

Bank securities

At 31 December 2019, the fair value of bank securities of € 7.0 billion (2018: € 5.8 billion) included € 3.6 billion in covered bonds (2018: € 3.2 billion), € 3.1 billion in senior unsecured bank debt (2018: € 2.3 billion) and € 0.3 billion in government guaranteed senior bank debt (2018: € 0.3 billion). The net purchases of covered bonds (nominal € 0.3 billion) and senior non preferred debt (nominal € 0.9 billion) drove this increase.

Asset backed securities

Asset backed securities increased to € 0.9 billion (2018: € 0.6 billion).

Equity securities

The fair value of the NAMA subordinated bonds decreased to € 458 million (nominal € 437 million) at 31 December 2019 to 104.75% from 107.20% of nominal. These bonds were repaid in March 2020.

Risk management – 2. Individual risk types

2.1 Credit risk

Credit ratings

External credit ratings of financial assets*

The following table sets out the credit quality of financial assets based on external credit ratings at 31 December 2019 and 2018. These include loans and advances to banks, investment debt securities and trading portfolio financial assets.

										2019
	At amortised cost				At FVOCI					Total
	Bank € m	Corporate € m	Other € m	Total € m	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m	€ m
AAA/AA	840	–	383	1,223	5,257	31	1,277	328	6,893	8,116
A/A-	592	–	198	790	1,396	209	5,420	–	7,025	7,815
BBB+/BBB/BBB-	45	–	10	55	344	208	1,383	–	1,935	1,990
Sub investment	1	44	–	45	–	28	–	–	28	73
Unrated	–	–	–	–	–	–	–	–	–	–
Total	1,478	44	591	2,113	6,997	476	8,080[1]	328	15,881	17,994
Of which: Stage 1	1,478	44	591	2,113	6,997	476	8,080	328	15,881	17,994
Stage 2	–	–	–	–	–	–	–	–	–	–
Stage 3	–	–	–	–	–	–	–	–	–	–

									2018
	At amortised cost			At FVOCI					Total
	Bank € m	Other € m	Total € m	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m	€ m
AAA/AA	987	98	1,085	4,695	–	1,551	367	6,613	7,698
A/A-	423	79	502	807	79	6,381	–	7,267	7,769
BBB+/BBB/BBB-	32	10	42	320	156	1,561	–	2,037	2,079
Sub investment	–	–	–	–	29	–	–	29	29
Unrated	1	–	1	–	–	–	–	–	1
Total	1,443	187	1,630	5,822	264	9,493[1]	367	15,946	17,576
Of which: Stage 1	1,443	187	1,630	5,822	264	9,493	367	15,946	17,576
Stage 2	–	–	–	–	–	–	–	–	–
Stage 3	–	–	–	–	–	–	–	–	–

[1]Includes supranational banks and government agencies.

Large exposures

The 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 2019, the Group's top 50 drawn exposures amounted to € 4.7 billion, and accounted for 7.6% (2018: € 4.4 billion and 7.1%) of the Group's on-balance sheet total gross loans and advances to customers. In addition, these customers have undrawn facilities amounting to € 485 million (2018: € 606 million). No single customer exposure exceeded regulatory requirements.

*Forms an integral part of the audited financial statements

2.1 Credit risk

Additional credit quality and forbearance disclosures on loans and advances to customers

Forbearance*

Overview

Forbearance occurs when a borrower is granted a temporary or permanent concession or an agreed change to the existing contracted terms of a facility ('forbearance measure') for reasons relating to the actual or apparent financial stress or distress of that borrower. This also includes a total or partial refinancing of existing debt due to a borrower availing of an embedded forbearance clause(s) in their contract.

A forbearance agreement is entered into where a borrower is in financial difficulty to the extent that they are unable currently to repay both the principal and interest in accordance with the existing contracted terms of a facility. A concession or an agreed change to the contracted terms 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 its customers. The Group considers requests from customers who are experiencing cash flow difficulties on a case by case basis in line with the Group's Forbearance Policy and relevant procedures, and completes an affordability/repayment capacity assessment taking account of factors such as current and likely future financial circumstances, the borrower's willingness to resolve such difficulties, and all relevant legal and regulatory obligations to ensure sustainable measures are put in place as appropriate.

Group credit policies, supported by relevant processes and procedures, are in place which set out the policy rules and principles underpinning the Group's approach to forbearance, ensuring the forbearance measure(s) provided to borrowers are affordable and sustainable, and in line with relevant regulatory requirements. Key principles include supporting viable Small Medium Enterprises ("SMEs"), and providing support to enable customers remain in their family home, whenever possible. The Group has implemented the standards for the Codes of Conduct in relation to customers in actual or apparent financial stress or distress, as set out by the Central Bank of Ireland, ensuring these customers are dealt with in a professional and timely manner.

A request for forbearance is a trigger event for the Group to undertake an assessment of the customer's financial circumstances prior to any decision to grant a forbearance measure. This may result in the downgrading of the credit grade assigned and an increase in the expected credit loss. Facilities to which forbearance has been applied continue to be classified as forborne until the forbearance measures expire or until an appropriate probation period has passed.

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

Mortgage portfolio

Under the mandate of the Central Bank's Code of Conduct on Mortgage Arrears ("CCMA"), the Group introduced a four-step process called the Mortgage Arrears Resolution Process, or MARP. This process aims to engage with, support and find resolution for mortgage customers (for their primary residence only) who are in arrears, or are at risk of going into arrears.

The four step process is summarised as follows:
- Communications – We are here to listen, support and provide advice;
- Financial information – To allow us to understand the customer's finances;
- Assessment – Using the financial information to assess the customer's situation; and
- Resolution – We work with the customer to find an appropriate resolution.

The core objective of the process is to determine sustainable solutions that, where possible, help to keep customers in their family home. In addition to relevant short term measures, this includes the following long term forbearance measures which have been devised to assist existing Republic of Ireland primary residential mortgage customers in financial difficulty. The types of existing forbearance solutions currently include; low fixed interest rate sustainable solution, split mortgages, negative equity trade down, voluntary sale for loss, arrears capitalisation and term extension.

Non-mortgage portfolio

The Group also has in place forbearance measures for customers in the non-mortgage portfolio who are in financial difficulty. This approach is based on customer affordability and sustainability 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 appropriately provided where customers are co-operative, and are willing but unable to pay.

The forbearance process is one of structured engagement to assess the long term levels of sustainable and unsustainable debt. The commercial aspects of this process require that customer affordability is viewed comprehensively, to include all available sources of finance for debt repayment, including unencumbered assets.

Types of non-mortgage forbearance include short term measures (such as interest only and capital and interest moratorium) and long term measures (such as term extension, debt consolidation, and collateral disposal). This process may result in debt write-off, where appropriate.

See accounting policy (s) 'Impairment of financial assets' in note 1 to the consolidated financial statements.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk

Additional credit quality and forbearance disclosures on loans and advances to customers

Forbearance

The following table sets out the internal credit ratings and ECL staging of forborne loans and advances to customers at 31 December 2019 and 2018:

						2019
	At amortised cost					At FVTPL
Analysed by internal credit ratings	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m	Total € m
Strong	–	–	–	–	–	–
Satisfactory	–	–	–	–	–	–
Total strong/satisfactory	–	–	–	–	–	–
Criticised watch	–	–	–	–	–	–
Criticised recovery	716	51	154	255	1,176	–
Total criticised	716	51	154	255	1,176	–
Non-performing	1,867	80	156	172	2,275	–
Gross carrying amount	2,583[1]	131	310	427	3,451	–
Analysed by ECL staging						
Stage 1	7	1	95	40	143	–
Stage 2	704	50	68	226	1,048	–
Stage 3	1,681	80	147	161	2,069	–
POCI	191	–	–	–	191	–
Total	2,583[1]	131	310	427	3,451	–
Total gross carrying amount of loans and advances to customers	31,454	2,984	7,299	20,312	62,049	77

						2018
	At amortised cost					At FVTPL
Analysed by internal credit ratings	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m	Total € m
Strong	–	–	–	–	–	–
Satisfactory	3	–	–	–	3	–
Total strong/satisfactory	3	–	–	–	3	–
Criticised watch	–	–	1	1	2	–
Criticised recovery	1,078	69	268	283	1,698	–
Total criticised	1,078	69	269	284	1,700	–
Non-performing	2,586	190	772	516	4,064	49
Gross carrying amount	3,667[1]	259	1,041	800	5,767	49
Analysed by ECL staging						
Stage 1	23	4	317	57	401	–
Stage 2	1,074	68	109	260	1,511	–
Stage 3	2,354	187	613	483	3,637	–
POCI	216	–	2	–	218	–
Total	3,667[1]	259	1,041	800	5,767	–
Total gross carrying amount of loans and advances to customers	32,315	3,075	7,804	19,566	62,760	147

[1]Republic of Ireland € 2,541 million (2018: € 3,615 million) and United Kingdom € 42 million (2018: € 52 million).

2.1 Credit risk

Additional credit quality and forbearance disclosures on loans and advances to customers

Forbearance

Republic of Ireland residential mortgages

The Group has a Mortgage Arrears Resolution Strategy ("MARS") for dealing with mortgage customers in actual or apparent financial 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 relevant regulatory requirements. MARS includes long term forbearance measures which have been devised to assist existing Republic of Ireland primary residential mortgage customers in financial difficulty.

Under the definition of forbearance, which complies with that prescribed by the European Banking Authority, facilities subject to forbearance measures remain in forbearance stock for a minimum period of two years from the date forbearance is granted regardless of the forbearance type. Therefore, cases that receive a short term forbearance measure, such as interest only and return to a full principal and interest repayment schedule at the end of the interest only period, will remain in the stock of forbearance for at least two years.

The following table analyses movements in the stock of residential mortgages subject to forbearance at 31 December 2019 and 2018:

	2019		2018	
Total	**Number**	**Balance € m**	Number	Balance € m
At 1 January	**27,982**	**3,615**	32,311	4,692
Implementation of definition of default policy	**–**	**–**	4,074	550
Additions	**1,264**	**153**	1,536	190
Expired arrangements	**(4,134)**	**(554)**	(7,224)	(968)
Payments	**–**	**(207)**	–	(306)
Interest	**–**	**66**	–	88
Closed accounts[1]	**(1,208)**	**(113)**	(1,819)	(195)
Disposals	**(2,496)**	**(352)**	(896)	(177)
Advanced forbearance arrangements – valuation adjustments	**–**	**1**	–	(4)
Write-offs[2]	**–**	**(68)**	–	(255)
At 31 December	**21,408**	**2,541**	27,982	3,615

Of which:

Owner-occupier	**Number**	**Balance € m**	Number	Balance € m
At 1 January	**21,582**	**2,771**	25,067	3,549
Implementation of definition of default policy	**–**	**–**	1,850	240
Additions	**1,177**	**139**	1,372	173
Expired arrangements	**(3,355)**	**(444)**	(5,690)	(758)
Payments	**–**	**(167)**	–	(185)
Interest	**–**	**58**	–	71
Closed accounts[1]	**(654)**	**(56)**	(914)	(92)
Disposals	**(204)**	**(39)**	(23)	(7)
Advanced forbearance arrangements – valuation adjustments	**–**	**2**	–	(3)
Write-offs[2]	**–**	**(65)**	–	(212)
Transfer between owner-occupier and buy-to-let	**7**	**6**	(80)	(5)
At 31 December	**18,553**	**2,205**	21,582	2,771

[1]Accounts closed during the year were due primarily to customer repayments and redemptions.
[2]Includes contracted and non-contracted write-offs.

The stock of loans subject to forbearance measures decreased by € 1.1 billion from € 3.6 billion at 31 December 2018 to € 2.5 billion at 31 December 2019. This decrease was driven by customers exiting the forbearance probation period and by lower numbers of customers seeking new forbearance solutions which is reflective of improving customer ability to meet their mortgage terms.

Risk management – 2. Individual risk types

2.1 Credit risk

Additional credit quality and forbearance disclosures on loans and advances to customers

Forbearance

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by type of forbearance

The following table analyses, by type of forbearance and staging, residential mortgages based on current forbearance measures in the Republic of Ireland at 31 December 2019 and 2018:

							2019
			Gross at amortised cost				
		Total	Stage 1	Stage 2	Stage 3	POCI	ECL allowance
	Number	Balance	Balance	Balance	Balance	Balance	Balance
Total		€ m	€ m	€ m	€ m	€ m	€ m
Interest only	5,414	651	–	140	507	4	137
Reduced payment	1,301	195	–	36	159	–	46
Payment moratorium	954	104	–	29	75	–	23
Fundamental restructure	138	15	2	–	13	–	2
Restructure	531	21	–	4	17	–	8
Arrears capitalisation	7,772	961	–	390	532	39	127
Term extension	864	88	–	36	50	2	13
Split mortgages	829	117	–	51	65	1	18
Voluntary sale for loss	541	10	–	–	1	9	10
Low fixed interest rate	1,192	173	–	1	37	135	19
Positive equity solutions	1,489	152	–	3	149	–	28
Other	383	54	5	9	39	1	8
Total forbearance	21,408	2,541	7	699	1,644	191	439
Of which: Performing	5,433	711	4	699	–	8	20
Non-performing	15,975	1,830	3	–	1,644	183	419
Of which:							
Owner-occupier							
Interest only	4,574	541	–	112	425	4	120
Reduced payment	1,065	153	–	21	132	–	39
Payment moratorium	782	85	–	26	59	–	14
Fundamental restructure	6	1	–	–	1	–	–
Restructure	190	9	–	1	8	–	3
Arrears capitalisation	7,093	865	–	346	480	39	117
Term extension	727	68	–	27	39	2	10
Split mortgages	807	113	–	50	62	1	17
Voluntary sale for loss	345	7	–	–	1	6	7
Low fixed interest rate	1,184	172	–	1	37	134	19
Positive equity solutions	1,468	150	–	3	147	–	28
Other	312	41	5	9	26	1	6
Total	18,553	2,205	5	596	1,417	187	380

2.1 Credit risk

Additional credit quality and forbearance disclosures on loans and advances to customers

Forbearance

Republic of Ireland residential mortgages *(continued)*

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

							2018
			Gross at amortised cost				
		Total	Stage 1	Stage 2	Stage 3	POCI	ECL allowance
Total	Number	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m
Interest only	7,671	1,054	–	221	830	3	211
Reduced payment	1,682	281	–	63	218	–	55
Payment moratorium	1,180	142	–	46	96	–	25
Fundamental restructure	448	56	17	–	39	–	9
Restructure	901	41	–	5	36	–	19
Arrears capitalisation	9,915	1,317	–	571	707	39	138
Term extension	1,187	132	–	62	66	4	15
Split mortgages	1,119	165	–	93	72	–	18
Voluntary sale for loss	721	21	–	–	3	18	17
Low fixed interest rate	1,204	177	–	–	38	139	14
Positive equity solutions	1,495	153	–	–	152	1	9
Other	459	76	5	7	52	12	10
Total forbearance	27,982	3,615	22	1,068	2,309	216	540
Of which: Performing	7,821	1,074	1	1,068	–	5	25
Non-performing	20,161	2,541	21	–	2,309	211	515
Of which:							
Owner-occupier							
Interest only	5,590	748	–	165	580	3	164
Reduced payment	1,178	191	–	35	156	–	41
Payment moratorium	906	105	–	41	64	–	14
Fundamental restructure	2	–	–	–	–	–	–
Restructure	218	12	–	2	10	–	5
Arrears capitalisation	8,384	1,088	–	492	557	39	111
Term extension	905	89	–	43	44	2	9
Split mortgages	1,060	156	–	89	67	–	16
Voluntary sale for loss	413	12	–	–	3	9	10
Low fixed interest rate	1,195	176	–	–	38	138	14
Positive equity solutions	1,472	151	–	–	150	1	9
Other	259	43	5	7	19	12	5
Total	21,582	2,771	5	874	1,688	204	398

Risk management – 2. Individual risk types

2.1 Credit risk

Additional credit quality and forbearance disclosures on loans and advances to customers

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 level of advanced forbearance measures (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 € 0.5 billion accounted for 18% of the total forbearance portfolio at 31 December 2019 (2018: € 0.5 billion, 14%). Following restructure, loans are reported as defaulted for a probationary period of at least 12 months.

Other permanent standard forbearance measures are term extensions and arrears capitalisation (which often include a term extension). Permanent forbearance measures are reported within the stock of forbearance for five years, and therefore, represent in some cases forbearance solutions which were agreed up to five years ago. These include loans where a subsequent interest only or other temporary arrangement had expired at 31 December 2019, 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 2019, accounting for 38% by value of the total forbearance portfolio (2018: 36%). While actually decreasing year on year, a high proportion of the arrears capitalisation portfolio (55% by value) is Stage 3 at 31 December 2019. 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 default, as described above.

Residential mortgages subject to forbearance measures – aged analysis.

The following table sets out gross residential mortgages subject to forbearance measures analysed by credit profile and by the number of days past due status at 31 December 2019 and 2018:

	2019					2018				
	At amortised cost					At amortised cost				
Total	**Stage 1 € m**	**Stage 2 € m**	**Stage 3 € m**	**POCI € m**	**Total € m**	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Not past due	**7**	**627**	**613**	**145**	**1,392**	21	982	812	160	1,975
1 - 30 days	**–**	**65**	**92**	**14**	**171**	1	77	125	17	220
31 - 60 days	**–**	**5**	**67**	**4**	**76**	–	5	72	5	82
61 - 90 days	**–**	**2**	**48**	**4**	**54**	–	4	70	2	76
91 - 180 days	**–**	**–**	**99**	**4**	**103**	–	–	117	5	122
181 - 365 days	**–**	**–**	**100**	**4**	**104**	–	–	152	6	158
Over 365 days	**–**	**–**	**625**	**16**	**641**	–	–	961	21	982
Total loans subject to forbearance	**7**	**699**	**1,644**	**191**	**2,541**	22	1,068	2,309	216	3,615
Of which:										
Owner-occupier										
Not past due	**5**	**531**	**524**	**142**	**1,202**	5	796	602	154	1,557
1 - 30 days	**–**	**58**	**85**	**14**	**157**	–	69	105	17	191
31 - 60 days	**–**	**5**	**60**	**4**	**69**	–	5	60	5	70
61 - 90 days	**–**	**2**	**45**	**4**	**51**	–	4	58	2	64
91 - 180 days	**–**	**–**	**90**	**4**	**94**	–	–	95	5	100
181 - 365 days	**–**	**–**	**92**	**4**	**96**	–	–	114	6	120
Over 365 days	**–**	**–**	**521**	**15**	**536**	–	–	654	15	669
Total	**5**	**596**	**1,417**	**187**	**2,205**	5	874	1,688	204	2,771

Within the forborne portfolio of € 2.5 billion at 31 December 2019, € 1.4 billion is currently performing in accordance with agreed terms. Continued compliance will result in loans exiting forbearance after completion of their probationary period.

The remaining € 1.1 billion includes loans that have been subject to a temporary or short term forbearance solution. These loans will remain classified as forborne and in arrears until a sustainable solution has been put in place.

2.1 Credit risk

Additional credit quality and forbearance disclosures on loans and advances to customers

Forbearance

Republic of Ireland residential mortgages *(continued)*

Republic of Ireland 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 2019 and 2018:

	2019			2018		
	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Less than 50%	763	111	874	784	230	1,014
50% – 70%	602	90	692	727	214	941
71% – 80%	261	36	297	329	106	435
81% – 90%	193	30	223	287	70	357
91% – 100%	170	21	191	242	60	302
101% – 120%	136	22	158	252	58	310
121% – 150%	49	12	61	99	36	135
Greater than 150%	20	3	23	37	40	77
Unsecured	11	11	22	14	30	44
Total forbearance	**2,205**	**336**	**2,541**	2,771	844	3,615

Negative equity in the residential mortgage portfolio in the Republic of Ireland that was subject to forbearance measures at 31 December 2019 was 9% of the owner-occupier portfolio (2018: 14%) and 11% of the buy-to-let portfolio (2018: 16%), due primarily to the continued increase in property prices in 2019 and loan repayments.

Risk management – 2. Individual risk types

2.1 Credit risk

Additional credit quality and forbearance disclosures on loans and advances to customers

Forbearance

Non-mortgage

The following table analyses movements in the stock of loans subject to forbearance in the Republic of Ireland and the United Kingdom at 31 December 2019 and 2018, excluding residential mortgages which are analysed on pages 137 to 141.

	2019				2018			
Republic of Ireland	**Other personal € m**	**Property and construction € m**	**Non-property business € m**	**Total € m**	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At 1 January	**255**	**1,006**	**766**	**2,027**	641	1,311	1,236	3,188
Implementation of definition of default policy	**–**	**–**	**–**	**–**	(211)	66	(22)	(167)
Additions	**26**	**25**	**134**	**185**	35	242	104	381
Fundamental restructures – valuation adjustments	**–**	**(2)**	**(5)**	**(7)**	(11)	(4)	(11)	(26)
Write-offs	**(7)**	**(17)**	**(2)**	**(26)**	(22)	(40)	(59)	(121)
Expired arrangements	**(30)**	**(80)**	**(133)**	**(243)**	(111)	(84)	(351)	(546)
Closed accounts	**(54)**	**(361)**	**(213)**	**(628)**	(42)	(347)	(96)	(485)
Movements in the stock of forbearance loans	**(67)**	**(293)**	**(144)**	**(504)**	(24)	(138)	(35)	(197)
At 31 December	**123**	**278**	**403**	**804**	255	1,006	766	2,027
United Kingdom								
At 1 January	**4**	**35**	**34**	**73**	3	49	45	97
Implementation of definition of default policy	**–**	**–**	**–**	**–**	6	5	18	29
Additions	**5**	**5**	**6**	**16**	1	5	6	12
Write-offs	**(3)**	**(2)**	**–**	**(5)**	–	(1)	–	(1)
Expired arrangements	**–**	**(2)**	**(2)**	**(4)**	(5)	(3)	(12)	(20)
Closed accounts	**1**	**1**	**(11)**	**(9)**	(1)	(8)	(18)	(27)
Movements in the stock of forbearance loans	**1**	**(5)**	**(3)**	**(7)**	–	(12)	(5)	(17)
Disposals	**–**	**–**	**–**	**–**	–	–	–	–
Exchange translation adjustments	**–**	**–**	**–**	**–**	–	–	–	–
At 31 December	**8**	**32**	**24**	**64**	4	35	34	73
Total								
At 1 January	**259**	**1,041**	**800**	**2,100**	644	1,360	1,281	3,285
Implementation of definition of default policy	**–**	**–**	**–**	**–**	(205)	71	(4)	(138)
Additions	**31**	**30**	**140**	**201**	36	247	110	393
Fundamental restructures – valuation adjustments	**–**	**(2)**	**(5)**	**(7)**	(11)	(4)	(11)	(26)
Write-offs	**(10)**	**(19)**	**(2)**	**(31)**	(22)	(41)	(59)	(122)
Expired arrangements	**(30)**	**(82)**	**(135)**	**(247)**	(116)	(87)	(363)	(566)
Closed accounts	**(53)**	**(360)**	**(224)**	**(637)**	(43)	(355)	(114)	(512)
Movements in the stock of forbearance loans	**(66)**	**(298)**	**(147)**	**(511)**	(24)	(150)	(40)	(214)
Disposals	**–**	**–**	**–**	**–**	–	–	–	–
Exchange translation adjustments	**–**	**–**	**–**	**–**	–	–	–	–
At 31 December	**131**	**310**	**427**	**868**	259	1,041	800	2,100

The non-mortgage forbearance portfolio has reduced by € 1.2 billion to € 0.9 billion at 31 December 2019.

2.1 Credit risk

Additional credit quality and forbearance disclosures on loans and advances to customers

Forbearance

Non-mortgage subject to forbearance measures by type of forbearance

The Group has developed treatment strategies for customers in the non-mortgage portfolio who are experiencing financial difficulties. The approach is based on assessing customer affordability and applying strategies that deliver a sustainable solution for the customer and the Group.

Non-retail customers in difficulty may have exposures across a number of asset classes including SME debt, associated property exposures and residential mortgages. The following table sets out an analysis of non-mortgage forbearance solutions at 31 December 2019 and 2018:

Amortised cost

	2019					2018				
	At amortised cost					At amortised cost				
	Total	Stage 1	Stage 2	Stage 3/ POCI[1]	ECL allowance	Total	Stage 1	Stage 2	Stage 3/ POCI[1]	ECL allowance
Other personal	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m
Interest only	11	–	3	8	4	40	–	5	35	17
Reduced payment	5	–	2	3	2	13	–	2	11	6
Payment moratorium	16	–	6	10	7	18	–	9	9	7
Arrears capitalisation	6	–	2	4	2	12	–	3	9	3
Term extension	28	–	12	16	10	34	–	15	19	10
Fundamental restructure	9	1	1	7	3	35	4	2	29	16
Restructure	53	–	24	29	20	87	–	32	55	30
Asset disposals	3	–	–	3	1	20	–	–	20	4
Other	–	–	–	–	–	–	–	–	–	–
Total	131	1	50	80	49	259	4	68	187	93
Property and construction										
Interest only	34	–	6	28	11	102	1	11	90	30
Reduced payment	10	–	5	5	2	41	–	5	36	7
Payment moratorium	7	–	3	4	1	7	–	1	6	2
Arrears capitalisation	7	–	4	3	1	23	2	6	15	9
Term extension	47	–	20	27	8	144	2	31	111	36
Fundamental restructure	51	10	9	32	14	298	143	–	155	61
Restructure	132	84	15	33	18	355	162	53	140	46
Asset disposals	8	–	–	8	3	52	–	1	51	10
Other	14	1	6	7	3	19	7	1	11	3
Total	310	95	68	147	61	1,041	317	109	615	204
Non-property business										
Interest only	35	–	21	14	7	110	–	34	76	33
Reduced payment	17	–	6	11	5	38	–	7	31	13
Payment moratorium	5	–	1	4	2	8	–	1	7	2
Arrears capitalisation	2	–	1	1	–	13	–	2	11	6
Term extension	71	–	49	22	9	94	–	47	47	16
Fundamental restructure	94	22	33	39	20	201	51	50	100	49
Restructure	116	–	57	59	24	287	–	117	170	82
Asset disposals	4	–	–	4	2	41	4	–	37	9
Other	83	18	58	7	5	8	2	2	4	1
Total	427	40	226	161	74	800	57	260	483	211
Total non-mortgage forbearance at amortised cost	868	136	344	388	184	2,100	378	437	1,285	508
Of which: Performing	460	116	344	–	46	623	186	437	–	77
Non-performing	408	20	–	388	138	1,477	192	–	1,285	431

[1]POCI assets amounting to € 0.2 million are included in 'Property and construction' (2018: € 2 million 'Property and construction').

Risk management – 2. Individual risk types

2.1 Credit risk

Additional credit quality and forbearance disclosures on loans and advances to customers

Republic of Ireland residential mortgages by year of origination

The following table profiles the Republic of Ireland residential mortgage portfolio by year of origination at 31 December 2019 and 2018:

	2019				2018			
	Total		Credit impaired/POCI		Total		Credit impaired/POCI	
	Number	Balance € m	Number	Balance € m	Number	Balance € m	Number	Balance € m
1996 and before	1,787	48	347	10	2,158	62	429	15
1997	718	20	126	4	809	24	155	5
1998	961	32	186	7	1,145	40	238	8
1999	1,450	57	281	11	2,991	77	375	17
2000	3,504	109	396	18	3,985	145	493	27
2001	4,168	181	442	27	4,606	222	546	37
2002	6,487	359	684	48	7,166	436	910	70
2003	9,435	636	1,096	88	10,361	760	1,396	126
2004	13,136	1,128	1,630	152	15,076	1,337	2,113	215
2005	19,322	1,834	2,496	243	21,309	2,178	3,219	362
2006	25,868	3,046	3,716	410	28,268	3,549	4,776	599
2007	26,149	3,275	4,041	464	28,273	3,759	4,909	637
2008	25,291	3,295	3,388	415	27,100	3,732	4,066	565
2009	16,191	2,014	1,568	194	17,730	2,277	1,841	255
2010	11,479	1,427	596	73	12,328	1,597	674	89
2011	3,410	408	89	10	3,679	461	109	14
2012	5,042	638	52	6	5,420	718	60	11
2013	4,363	568	30	9	4,724	640	40	10
2014	6,054	818	39	5	6,565	919	40	5
2015	8,671	1,231	75	14	9,315	1,386	108	22
2016	10,144	1,610	48	7	10,873	1,796	95	16
2017	11,831	2,032	30	5	12,437	2,227	51	10
2018	14,258	2,595	19	3	14,626	2,638	27	6
2019	15,434	2,836	20	5	–	–	–	–
Total	245,153	30,197	21,395	2,228	250,944	30,980	26,670	3,121

A significant element (€ 11.4 billion or 38%) of the € 30.2 billion residential mortgage portfolio was originated between 2005 and 2008, of which 13% (€ 1.5 billion) was credit impaired at 31 December 2019. This cohort was particularly impacted by reduced household income and increased unemployment rates in the years during the financial crisis, as individual borrower exposure was higher than in previous periods due to the property price peak in 2007. 8% of the residential mortgage portfolio was originated before 2005 of which 14% was credit impaired at 31 December 2019, while the remaining 54% of the portfolio was originated from 2009 onwards, of which 2% was credit impaired at 31 December 2019.

2.2 Funding and 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 fall due, without incurring unacceptable costs or losses. Funding is the means by which liquidity is generated, e.g. secured or unsecured, wholesale, corporate or retail. In this respect, funding risk is the risk that a specific form of liquidity cannot be obtained at an acceptable cost.

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.

Top and emerging risk drivers

The top and emerging risks to the Group are outlined in the Risk Summary Section on page 39. The below table outlines and describes which of these are key risk drivers for funding and liquidity risk.

Material Risk	Regulatory and legal change	Financial, macroeconomic and geopolitical volatility	Pace of change in competition, labour markets and customer expectations	Cyber	Climate change	Changing external perceptions of AIB
Funding and liquidity risk	✓	✓		✓	✓	✓

- Regulatory and legal change is a key risk due to its potential impact on customer behaviours, markets and internal Group processes and resources.
- Financial, macroeconomic and geopolitical volatility is a key risk driver as a negative macroeconomic environment can lead to market instability and increased funding and liquidity risk. 'Lower for longer' interest rates will continue to suppress the Group's profitability.
- Cyber is a key risk driver as an increased level of cyber attacks may result in negative media commentary which increases the risk of deposit outflows.
- Climate change is a key risk driver. In the event that the Group is not fully cognisant of climate change-related risks, this may increase costs over the medium to long term (e.g. more significant weather events could begin to impact on government finances and thereby impact sovereign bond prices).
- Changing external perceptions is a key risk driver as a change in the Group's credit rating and/or changing market perception may lead to increased funding costs.

Key mitigating actions

Key mitigating actions aim to effectively reduce the threat of a risk and the likelihood of its occurrence. The Group uses various approaches to help mitigate risks relating to funding and liquidity risk including:

- Board Approved Risk Appetite Statement covering key regulatory and internal liquidity requirements,
- Comprehensive Internal Liquidity Adequacy Assessment ("ILAAP") Framework and supporting policies,
- Regular forward looking assessment of liquidity adequacy through annual ILAAP and internal stress testing which considers a range of scenarios,
- Funding contingency and Recovery Planning activities,
- Independent second line of defence review and challenge of ILAAP and Funding and Liquidity Plan.

Identification and assessment

Funding and liquidity risk is measured and controlled using a range of metrics and methodologies including Liquidity Stress Testing and ensuring adherence to limits based on both internal limits and the regulatory defined liquidity ratios, the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). Liquidity stress testing consists of applying severe but plausible stresses to the Group's liquidity buffer through time in order to simulate a survival period. The LCR is designed to promote short term resilience of the Group'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. These metrics are key risk metrics for the Group and are monitored against Board approved limits.

Risk management – 2. Individual risk types

2.2 Funding and liquidity risk *(continued)*

Management and measurement*

The Group operates a three lines of defence model for risk management. For funding and liquidity risk, the first line of defence comprises of the Finance function reporting to the CFO, which is responsible for providing the necessary information for the management of the Group's liquidity gap and the efficient management of the liquidity buffer. This involves the identification, measurement and reporting of funding and liquidity risk and the application of behavioural adjustments to assets and liabilities.

This function is the owner of the Group's Funding and Liquidity Plan which sets out the strategy for funding and liquidity management for the Group and is responsible for the day-to-day management of liquidity to meet payment obligations, execution of wholesale funding requirements in line with the Funding and Liquidity Plan and the management of the foreign exchange funding gap.

First line management of funding and liquidity risk:

- aims to ensure a balanced spread of repayment obligations through active management of the Group's liability maturity profile. Monitoring ratios also apply to longer periods for long term funding stability;
- 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-equivalent and price sensitivity; and
- monitors net inflows and outflows on a daily basis.

The second line of defence comprises of the Risk function reporting to the CRO, which provides second line assurance over the Group's funding and liquidity management. This function provides oversight on the effectiveness of the risk and control environment. It proposes and maintains the ILAAP Framework and supporting policies as the basis of the Group's control architecture for funding and liquidity risk activities, including the annual agreement of funding and liquidity risk limits (subject to the Board approved Risk Appetite Statement). This function is also responsible for the integrity of the Group's liquidity risk methodologies.

The third line of defence comprises Group Internal Audit who provide third line assurance on funding and liquidity risk.

The Group's 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. On an annual basis, the Board attests to the Group's liquidity adequacy via the liquidity adequacy statement as part of ILAAP.

Monitoring, escalating and reporting

The Group funding and liquidity position is reported regularly to the Finance and Risk functions, Group Asset and Liability Committee ("ALCo"), Group Risk Committee ("GRC") and Board Risk Committee ("BRC"). In addition, the Executive Committee and the Board are briefed on funding and liquidity on an ongoing basis.

At 31 December 2019, the Group held € 32,045 million (2018: € 29,896 million) in qualifying liquid assets ("QLA")[1]/contingent funding of which € 2,617 million (2018: € 5,391 million) was not available due to repurchase, secured loans and other restrictions. The available Group liquidity pool comprises the remainder and is held to cover contractual and stress outflows. At 31 December 2019, the Group liquidity pool was € 29,428 million (2018: € 24,505 million). During 2019, the liquidity pool ranged from € 23,420 million to € 30,206 million and the average balance was € 26,754 million.

[1]QLA is an asset that can be readily converted into cash, either with the market or with the monetary authorities, and where there is no legal, operational or prudential impediments to their use as liquid assets.

*Forms an integral part of the audited financial statements

2.2 Funding and liquidity risk *(continued)*

Composition of the Group liquidity pool

The following table shows the composition of the Group's liquidity pool at 31 December 2019 and 2018. The liquidity amounts shown in the table represent the clean prices after deduction of the ECB haircut.

	2019				2018			
		Liquidity pool available (ECB eligible)	High Quality Liquid Assets (HQLA)[1] in the liquidity pool			Liquidity pool available (ECB eligible)	High Quality Liquid Assets (HQLA)[1] in the liquidity pool	
	Liquidity pool € m	€ m	Level 1 € m	Level 2 € m	Liquidity pool € m	€ m	Level 1 € m	Level 2 € m
Cash and deposits with central banks	7,502[2]	–	9,897[2]	–	1,937[2]	–	4,063[2]	–
Total government bonds	6,506	5,444	6,101	405	8,626	8,112	8,428	198
Other:								
Covered bonds	4,576	3,761	3,079	1,409	4,153	4,153	3,103	1,050
Other[3]	10,844	8,007	100	356	9,789	9,011	323	296
Total other	15,420	11,768	3,179	1,765	13,942	13,164	3,426	1,346
Total	29,428	17,212	19,177	2,170	24,505	21,276	15,917	1,544
Of which:								
EUR	26,217				22,143			
GBP	1,549				935			
USD	1,655				1,427			
Other	7				–			

[1]Level 1 - High Quality Liquid Assets ("HQLAs") include amongst others, domestic currency (euro) denominated bonds issued or guaranteed by European Economic Area ("EEA") sovereigns, very highly rated covered bonds, other very highly rated sovereign bonds and unencumbered cash at central banks. Level 2 - HQLAs include highly rated sovereign bonds, highly rated covered bonds and certain other strongly rated securities.

[2]For Liquidity Coverage Ratio ("LCR") purposes, assets outside the Liquidity function's control can qualify as HQLAs in so far as they match outflows in the same jurisdiction. For the Group, this means that UK HQLAs (cash held with the Bank of England) can qualify up to the amount of 30 days UK outflows under LCR but are not included in the Group's calculation of available QLA stocks.

[3]Includes unsecured bank bonds and self-issued covered bonds arising from the securitisation of residential mortgage assets.

Management of the Group liquidity pool

The Group manages the liquidity pool on a centralised basis. The composition of the liquidity pool is subject to limits set by the Board and the Risk function. These pool assets primarily comprise government guaranteed bonds, central bank reserves and internal and external covered bonds. The Group's liquidity buffer increased in 2019 by € 4,923 million which was predominantly due to an increase in Ireland customer deposits, proceeds from the portfolio sale of distressed loans, proceeds from senior unsecured note and subordinated debt issuance during the period offset by the 2019 dividend payout, maturity of senior debt and a retained covered bond redemption.

Other contingent liquidity

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

Liquidity stress testing

Liquidity stress testing is a key component of the ILAAP framework. The Group undertakes liquidity stress testing that includes both firm specific and systemic risk events and a combination of both as a key liquidity control. Stressed assumptions are applied to the Group's liquidity buffer and liquidity risk drivers. 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. Liquidity stress test results are reported to the ALCo, Executive Committee and Board.

As part of its contingency and recovery planning the Group has identified a suite of potential funding and liquidity options which could be exercised to help the Group to restore its liquidity position on the occurrence of a major stress event.

Risk management – 2. Individual risk types

2.2 Funding and liquidity risk *(continued)*

Liquidity regulation

The Group is required to comply with the liquidity requirements of the Single Supervisory Mechanism/Central Bank of Ireland and also with the requirements of local regulators in jurisdictions in which it operates. In addition, the Group is required to carry out liquidity stress testing capturing firm specific, systemic risk events and a combination of both. The Group adheres to these requirements.

The following table outlines the LCR, NSFR and Loan to Deposit Ratio ("LDR") at 31 December 2019 and 2018:

Liquidity metrics	2019 %	2018 %
Liquidity Coverage Ratio	**157**	128
Net Stable Funding Ratio	**129**	125
Loan to Deposit Ratio	**85**	90

The Group monitors and reports its current and forecast position against CRD IV and other related liquidity metrics and has fully complied with the minimum LCR requirement of 100% during 2019.

The calculated NSFR is based on the current Basel standard. The second Capital Requirements Regulation (CRR2), effective 27 June 2019, introduces a binding NSFR requirement of 100% and comes into force in June 2021.

Funding structure*

The Group's funding strategy is to deliver a sustainable, diversified and robust customer deposit base at economic pricing and to further enhance and strengthen the wholesale funding franchise with appropriate access to term markets to support core lending activities. The strategy aims to deliver a solid funding structure that complies with internal and regulatory policy requirements and reduces the probability of a liquidity stress, i.e. an inability to meet funding obligations as they fall due.

Sources of funds	31 December 2019 € m	31 December 2019 %	31 December 2018 € m	31 December 2018 %
Customer accounts	**71,803**	**76**	67,699	76
Of which:				
Euro	**58,507**		54,885	
Sterling	**11,316**		11,001	
US dollar	**1,803**		1,698	
Other currencies	**177**		115	
Deposits by central banks and banks – secured	**294**	**–**	424	1
– unsecured	**529**	**1**	420	1
Asset covered securities ("ACS")	**3,025**	**3**	3,090	3
Senior debt	**3,806**	**4**	2,655	3
Capital	**15,529**	**16**	14,653	16
Total source of funds	**94,986**	**100**	88,941	100
Other	**3,576**		2,595	
	98,562		91,536	

Customer deposits represent the largest source of funding for the Group with the core retail franchises and accompanying deposit base in both Ireland and the UK providing a stable and reasonably predictable source of funds. Customer accounts increased by € 4,104 million in 2019. This was mainly due to a € 3,622 million increase in Euro deposits, primarily in current and demand deposit accounts reflecting strong economic activity. There was an increase in the value of GBP and USD deposits of € 587 million due to currency movements which was offset by an underlying decline in GBP deposits of € 239 million on a constant currency basis.

The management of stable retail funds is paramount to the Group's overall funding and liquidity strategy and will be a key factor in the Group's capacity for future asset growth. The Group maintains access to a variety of sources of wholesale funds, including those available from money markets, repo markets and term investors.

During 2019, senior debt increased € 1,151 million primarily reflecting € 1,640 million in new issuances offset by a € 500 million maturity. Outstanding asset covered securities ("ACS") at 31 December decreased € 65 million to € 3,025 million due to contractual maturities. For further details on debt securities, see 'Debt securities in issue' (note 38) to the consolidated financial statements.

Following the implementation of IFRS 16 on 1 January 2019, lease liabilities of € 429 million were recognised on the balance sheet and were the primary driver of the increase in the 'Other' source of funds category in the table above. For further details see 'Transition to IFRS 16' (note 3) and 'Lease liabilities' (note 37) to the consolidated financial statements.

*Forms an integral part of the audited financial statements

2.2 Funding and liquidity risk *(continued)*

Composition of wholesale funding

At 31 December 2019, total wholesale funding outstanding was € 8,953 million (2018: € 7,384 million). € 1,779 million of wholesale funding matures in less than one year (2018: € 1,130 million). € 7,174 million of wholesale funding has a residual maturity of over one year (2018: € 6,254 million).

Outstanding wholesale funding comprised € 3,319 million in secured funding (2018: € 3,514 million) and € 5,634 million in unsecured funding (2018: € 3,870 million).

									2019
	< 1 month € m	1–3 months € m	3–6 months € m	6–12 months € m	Total < 1 year € m	1–3 years € m	3–5 years € m	> 5 years € m	Total € m
Deposits by central banks and banks	351	–	178	–	529	294	–	–	823
Senior debt	–	500	–	–	500	–	1,916	1,390	3,806
ACS/ABS	–	–	–	750	750	1,250	1,000	25	3,025
Subordinated liabilities and other capital instruments	–	–	–	–	–	–	–	1,299	1,299
Total 31 December	351	500	178	750	1,779	1,544	2,916	2,714	8,953
Of which:									
Secured	–	–	–	750	750	1,544	1,000	25	3,319
Unsecured	351	500	178	–	1,029	–	1,916	2,689	5,634
	351	500	178	750	1,779	1,544	2,916	2,714	8,953

									2018
	< 1 month € m	1–3 months € m	3–6 months € m	6–12 months € m	Total < 1 year € m	1–3 years € m	3–5 years € m	> 5 years € m	Total € m
Deposits by central banks and banks	325	240	–	–	565	–	279	–	844
Senior debt	–	–	500	–	500	500	1,155	500	2,655
ACS/ABS	–	–	–	65	65	1,250	1,750	25	3,090
Subordinated liabilities and other capital instruments	–	–	–	–	–	–	–	795	795
Total 31 December	325	240	500	65	1,130	1,750	3,184	1,320	7,384
Of which:									
Secured	81	64	–	65	210	1,250	2,029	25	3,514
Unsecured	244	176	500	–	920	500	1,155	1,295	3,870
	325	240	500	65	1,130	1,750	3,184	1,320	7,384

Risk management – 2. Individual risk types

2.2 Funding and liquidity risk *(continued)*

Currency composition of wholesale debt

At 31 December 2019, 76% (2018: 82%) of wholesale funding was in euro with the remainder held in GBP and USD. The Group manages cross-currency refinancing risk against foreign exchange cash flow limits.

	2019					2018				
	EUR € m	GBP € m	USD € m	Other € m	Total € m	EUR € m	GBP € m	USD € m	Other € m	Total € m
Deposits by central banks and banks	287	313	223	–	823	186	284	374	–	844
Senior debt	2,249	–	1,557	–	3,806	2,000	–	655	–	2,655
ACS/ABS	3,025	–	–	–	3,025	3,090	–	–	–	3,090
Subordinated liabilities and other capital instruments	1,260	39	–	–	1,299	760	35	–	–	795
Total wholesale funding	6,821	352	1,780	–	8,953	6,036	319	1,029	–	7,384
% of total funding	%	%	%	%	%	%	%	%	%	%
	76	4	20	–	100	82	4	14	–	100

Encumbrance

An asset is defined as encumbered if it has been pledged as collateral, and as a result is no longer available to the Group to secure funding, satisfy collateral needs or to be sold. The Group manages encumbrance levels to ensure that the Group has sufficient contingent collateral to maximise balance sheet flexibility.

The Group had an encumbrance ratio of 11% at 31 December 2019 (2018: 12%) with € 11,572 million of the Group's assets encumbered (2018: € 11,103 million). The movement in the metric was primarily driven by the increase in the overall balance sheet of the Group. The encumbrance level is based on the amount of assets that are required in order to meet regulatory and contractual commitments.

Interbank repurchase agreements and ECB refinancing operations

The following table analyses the interbank repurchase agreements and ECB refinancing operations as at 31 December 2019 and 2018:

	2019				2018			
	<1 month € m	1–3 months € m	>3 months € m	Total € m	<1 month € m	1–3 months € m	>3 months € m	Total € m
Highly liquid	–	–	–	–	81	64	–	145
Less liquid	–	–	–	–	–	–	–	–
Maturity profile	–	–	–	–	81	64	–	145

2.2 Funding and liquidity risk *(continued)*

Financial assets and financial liabilities by contractual residual maturity*

The following table analyses financial assets and financial liabilities by contractual residual maturity at 31 December 2019 and 2018:

						2019
	On demand	<3 months but not on demand	3 months to 1 year	1–5 years	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets						
Derivative financial instruments[1]	–	50	36	292	893	1,271
Loans and advances to banks[2]	1,325	152	1	–	–	1,478
Loans and advances to customers[2]	3,147	1,297	2,068	17,323	38,291	62,126
Investment securities[3]	–	322	2,190	8,073	5,931	16,516
Other financial assets	–	890	–	–	–	890
	4,472	2,711	4,295	25,688	45,115	82,281
Financial liabilities						
Deposits by central banks and banks	351	–	178	294	–	823
Customer accounts	57,954	9,008	3,615	1,160	66	71,803
Derivative financial instruments	–	126	140	166	765	1,197
Debt securities in issue	–	500	750	4,167	1,414	6,831
Subordinated liabilities and other capital instruments	–	–	–	–	1,299	1,299
Other financial liabilities	1,004	–	–	–	–	1,004
	59,309	9,634	4,683	5,787	3,544	82,957

						2018
	On demand	<3 months but not on demand	3 months to 1 year	1–5 years	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets						
Derivative financial instruments[1]	–	22	39	212	627	900
Loans and advances to banks[2]	1,440	3	–	–	–	1,443
Loans and advances to customers[2]	4,647	626	2,655	15,832	39,147	62,907
Investment securities[3]	–	387	2,751	8,974	4,021	16,133
Other financial assets	–	640	–	–	–	640
	6,087	1,678	5,445	25,018	43,795	82,023
Financial liabilities						
Deposits by central banks and banks	246	319	–	279	–	844
Customer accounts	52,509	9,573	3,866	1,710	41	67,699
Derivative financial instruments[1]	–	22	129	194	589	934
Debt securities in issue	–	–	565	4,655	525	5,745
Subordinated liabilities and other capital instruments	–	–	–	–	795	795
Other financial liabilities	1,074	–	–	–	–	1,074
	53,829	9,914	4,560	6,838	1,950	77,091

[1]Shown by maturity date of contract.
[2]Shown gross of expected credit losses.
[3]Excluding equity shares.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.2 Funding and liquidity risk *(continued)*

Financial liabilities by undiscounted contractual maturity*

The balances in the table below include the undiscounted cash flows relating to principal and interest on financial liabilities and as such will not agree directly with the balances on the consolidated statement of financial position. All derivative financial instruments 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 2019 and 2018:

						2019
	On demand	<3 months but not on demand	3 months to 1 year	1–5 years	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Financial liabilities						
Deposits by central banks and banks	351	5	181	297	–	834
Customer accounts	57,954	9,032	3,624	1,164	66	71,840
Derivative financial instruments	–	166	252	439	357	1,214
Debt securities in issue	–	563	822	4,556	1,449	7,390
Subordinated liabilities and other capital instruments	–	–	82	200	1,466	1,748
Other financial liabilities	1,004	–	–	–	–	1,004
	59,309	9,766	4,961	6,656	3,338	84,030

						2018
	On demand	<3 months but not on demand	3 months to 1 year	1–5 years	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Financial liabilities						
Deposits by central banks and banks	246	329	2	284	–	861
Customer accounts	52,509	9,604	3,884	1,721	41	67,759
Derivative financial instruments	–	70	259	361	314	1,004
Debt securities in issue	–	48	618	4,942	556	6,164
Subordinated liabilities and other capital instruments	–	–	31	115	957	1,103
Other financial liabilities	1,074	–	–	–	–	1,074
	53,829	10,051	4,794	7,423	1,868	77,965

*Forms an integral part of the audited financial statements

2.2 Funding and liquidity risk *(continued)*

Financial liabilities by undiscounted contractual maturity* *(continued)*

The undiscounted cash flows potentially payable under guarantees and similar contracts

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 their 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.

The following table analyses undiscounted cash flows potentially payable under guarantees and similar contracts at 31 December 2019 and 2018:

						2019
	On demand	<3 months but not on demand	3 months to 1 year	1–5 years	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Contingent liabilities	711	–	–	–	–	711
Commitments	11,539	–	–	–	–	11,539
	12,250	–	–	–	–	12,250

						2018
	On demand	<3 months but not on demand	3 months to 1 year	1–5 years	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Contingent liabilities	780	–	–	–	–	780
Commitments	11,107	–	–	–	–	11,107
	11,887	–	–	–	–	11,887

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

The following table analyses gross loans and advances to customers by contractual residual maturity and interest rate sensitivity at 31 December 2019 and 2018. Overdrafts, which in the aggregate represent approximately 2% of the portfolio at 31 December 2019, are classified as repayable within one year. Approximately 17% of AIB Group's loan portfolio is provided on a fixed rate basis. Fixed rate loans are defined as those loans for which the interest rate is fixed for the full term of the loan. The interest rate risk exposure is managed within agreed policy parameters. The geographical concentrations are based primarily on the location of the office recording the transaction.

							2019
	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Ireland	9,946	42,794	52,740	5,515	12,583	34,642	52,740
United Kingdom	902	8,325	9,227	997	4,626	3,604	9,227
Rest of the World	–	159	159	–	114	45	159
Total	10,848	51,278	62,126	6,512	17,323	38,291	62,126

							2018
	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Ireland	7,579	46,711	54,290	7,099	11,434	35,758	54,291
United Kingdom	807	7,730	8,537	823	4,324	3,389	8,536
Rest of the World	–	80	80	6	74	–	80
Total	8,386	54,521	62,907	7,928	15,832	39,147	62,907

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.3 Capital adequacy risk*

Capital adequacy risk is the risk that the Group does not maintain sufficient capital to achieve its business strategy, support our customers or to meet regulatory capital requirements.

Top and emerging risk drivers

The key risks impacting the capital adequacy position of the Group are business model risk, credit risk, market risk and operational risk, although it should be noted that all material risks can to some degree, impact capital ratios.

Key mitigating actions

Key mitigating actions aim to effectively reduce the threat of a risk and the likelihood of its occurrence. The Group uses various approaches to help mitigate risks relating to capital adequacy risk including:

- Board approved risk appetite, which includes appropriate management buffers to key regulatory and internal capital requirements;
- Regular forward looking assessment of capital adequacy via annual ICAAP and quarterly internal stress testing which considers a number of scenarios, ranging from a base case to a severe but plausible stress;
- Capital contingency and recovery planning activities;
- Comprehensive ICAAP framework and capital adequacy policy;
- Independent second line of defence review and challenge of ICAAP and capital contingency plans.

Identification and assessment

Capital adequacy risk is primarily evaluated through the annual financial planning and ICAAP processes where the level of capital required to support growth plans and meet regulatory requirements is assessed over the three year planning horizon. Plans are assessed across a range of scenarios ranging from base case and moderate downside scenarios to a severe but plausible stress using the Group's stress testing methodologies. The impact of changing regulatory requirements, changes in the risk profile of the Group's balance sheet and other internal factors, and changing external risks are regularly assessed by first line of defence and second line of defence teams via regular monitoring of performance against the agreed financial plan, monthly capital updates to ALCo and Group Risk Committees and are also assessed via quarterly internal stress testing. An annual material risk assessment is conducted to identify all relevant (current and anticipated) material risks which are then assessed from a capital perspective.

The Board reviews and approves the ICAAP on an annual basis and is also responsible for signing a capital adequacy statement attesting that the Board has reviewed and is satisfied with the capital adequacy of the Group.

Management and measurement

The ICAAP is fully integrated and embedded in the strategic, financial and risk management processes of the Group. An ICAAP Framework is in place which sets out the key processes, governance arrangements and roles and responsibilities which support the ICAAP. Embedding of the ICAAP is facilitated through capital planning, the setting of risk appetite and risk adjusted performance monitoring. In addition to the capital plan, a capital contingency plan is in place which identifies and quantifies actions which are available to the Group in order to mitigate against the impact of a stress event. Trigger points at which these actions will be considered are also identified. A further set of triggers and capital options are set out in the Group's recovery plan, which presents the actions available to the Group to restore viability in the event of extreme stress. Finally, the Group has an approved capital allocation mechanism in place which seeks to ensure that capital is allocated on a risk-adjusted basis.

The Group uses risk adjusted return on capital for capital allocation purposes and as a behavioural driver of sound risk management. The use of risk adjusted return on capital for portfolio management and in lending decisions continues to be an area of focus and a key consideration for pricing of lending products, both at portfolio level and individually for large transactions.

Monitoring, escalating and reporting

The Group monitors its capital adequacy on a monthly basis when a capital reporting pack is presented to senior executive and Board Committees setting out the evolution of the Group's capital position. The output of quarterly stress tests is reviewed by the ("ALCo") and on an annual basis an ICAAP Report is produced which is a comprehensive analysis of the Group's capital position in base and stress scenarios over a three year horizon. This document is reviewed and approved by the Board and is submitted to the Joint Supervisory Team, where it forms the basis of their supervisory review and evaluation process.

Further detail on the Group's capital management, together with its overall capital position can be found in the capital management section of the Annual Financial Report 2019.

*Forms an integral part of the audited financial statements

2.4 Financial risks (a) Market risk

Market risk refers to the risk of income and capital losses arising from adverse movements in wholesale market prices. The Group is exposed to market risk through the following wholesale market risk factors: interest rates, foreign exchange rates, equity prices, inflation rates and credit spreads. Changes in customer behaviours and the relationship between wholesale and retail rates give rise to changes in the Group's exposure to market risk factors and are also an important component of market risk.

The Group assumes market risk as a result of its banking and trading book activities. The main components of market risk are:

- 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 hold-to-collect-and-sell ("HTCS") securities portfolio. Credit spreads are defined as the difference between bond yields and interest rate swap rates of equivalent maturity. The HTCS bond portfolio is the principal source of credit spread risk. The Group also monitors the credit spread risk in its hold-to-collect ("HTC") bond portfolio;
- 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. 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 (NII) through interest-sensitive income and expense effects; and
- 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.

Top and emerging risk drivers

The top and emerging risks to the Group are outlined in the Risk Summary Section on page 39. The table below outlines and describes which of these are key risk drivers for market risk.

Material Risk	Regulatory and legal change	Financial, macroeconomic and geopolitical volatility	Pace of change in competition, labour markets and customer expectations	Cyber	Climate change	Changing external perceptions of AIB
Market risk		✓			✓	

- Financial, macroeconomic and geopolitical volatility is a key risk driver as a negative macroeconomic environment can lead to market instability and increased market risk. 'Lower for longer' interest rates will continue to suppress the Group's profitability. The recent coronavirus (COVID-19) outbreak is also an emerging risk impacting market risk factors.
- Climate change is increasingly a key risk driver of market prices, be that investor appetite for certain sectors or where weather events could begin to impact on government finances and thereby impact sovereign bond prices, for example.

Key mitigating actions

- Board Approved Risk Appetite Statement covering key regulatory and internal capital requirements.
- Regular forward looking assessment of market risk exposure via annual Internal Capital Adequacy Assessment ("ICAAP") and internal stress testing which considers a range of scenarios.
- Comprehensive ICAAP Framework and supporting policies.
- Independent second line of defence review and challenge of ICAAP and market risk strategy.

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 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. In addition to VaR, Capital at Risk ("CaR") is also measured to a one[(1)] year time horizon, a 99% confidence level and a longer set of data.

[(1)]The Capital at Risk on core trading book positions is assessed using a ten day horizon, with the exception of foreign exchange which is assessed using a one year horizon.

Risk management – 2. Individual risk types

2.4 Financial risks (a) Market risk *(continued)*

Management and measurement*

The Group operates a three lines of defence model for risk management. For market risk, the first line comprises the Finance function reporting to the CFO which is responsible for the identification and reporting of the Group's aggregate market risk profile, managing the Group's financial instruments valuation processes, making structural market risk management recommendations to ALCo and managing market risk exposure.

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 which exists within Finance. 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 process.

The Financial Risk function is responsible for the development of the market risk measurement methodologies. 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 third line of defence comprises Group Internal Audit who provide third line assurance on market risk.

Market risk is managed against a range of Board approved VaR limits which cover market risk in the trading book, interest rate risk in the banking book and credit spread risk in the banking book. The Board approved limits are supplemented by a range of ALCo approved limits which include VaR limits, nominal and sensitivity limits and 'stop loss' limits. The first line documents an annual Market Risk Strategy and Appetite statement as part of the annual financial planning cycle which ensures market risk aligns with the Group's strategic business plan.

Credit risk issues inherent in the market risk portfolios are also subject to the credit risk framework that was described in the previous section.

*Forms an integral part of the audited financial statements

2.4 Financial risks (a) Market risk *(continued)*

Monitoring, escalating and reporting*

On a daily basis front office and risk functions receive a range of valuation, sensitivity and market risk measurement reports, while ALCo receives a monthly market risk commentary and summary risk profile. Market risk exposures are reported to the Group Risk Committee ("GRC") and Board Risk Committee ("BRC") on a monthly basis through the CRO Report.

The following table sets out financial assets and financial liabilities at 31 December 2019 and 2018 subject to market risk analysed between trading and non-trading portfolios, showing the principal market risks to which the assets and liabilities are exposed:

				2019
		Market risk measures		
	Carrying amount € m	Trading portfolios € m	Non-trading portfolios € m	Risk factors
Assets subject to market risk				
Cash and balances at central banks	11,982	–	11,982	Interest rate, foreign exchange
Derivative financial instruments	1,271	592	679	Interest rate, foreign exchange, credit spreads, equity, inflation swap rates
Loans and advances to banks	1,478	–	1,478	Interest rate, foreign exchange
Loans and advances to customers	60,888	–	60,888	Interest rate, foreign exchange
Investment securities	17,331	–	17,331	Interest rate, foreign exchange, credit spreads, equity
Liabilities subject to market risk				
Deposits by central banks and banks	823	–	823	Interest rate, foreign exchange
Customer accounts	71,803	–	71,803	Interest rate, foreign exchange
Derivative financial instruments	1,197	771	426	Interest rate, foreign exchange, credit spreads, equity, inflation swap rates
Debt securities in issue	6,831	–	6,831	Interest rate, credit spreads, foreign exchange
Subordinated liabilities and other capital instruments	1,299	–	1,299	Interest rate, credit spreads

				2018
		Market risk measures		
	Carrying amount € m	Trading portfolios € m	Non-trading portfolios € m	Risk factors
Assets subject to market risk				
Cash and balances at central banks	6,516	–	6,516	Interest rate, foreign exchange
Derivative financial instruments	900	517	383	Interest rate, foreign exchange, credit spreads, equity, inflation swap rates
Loans and advances to banks	1,443	–	1,443	Interest rate, foreign exchange
Loans and advances to customers	60,868	–	60,868	Interest rate, foreign exchange
Investment securities	16,861	–	16,861	Interest rate, foreign exchange, credit spreads, equity
Liabilities subject to market risk				
Deposits by central banks and banks	844	–	844	Interest rate, foreign exchange
Customer accounts	67,699	–	67,699	Interest rate, foreign exchange
Derivative financial instruments	934	534	400	Interest rate, foreign exchange, credit spreads, equity, inflation swap rates
Debt securities in issue	5,745	–	5,745	Interest rate, credit spreads, foreign exchange
Subordinated liabilities and other capital instruments	795	–	795	Interest rate, credit spreads

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Risk management – 2. Individual risk types

2.4 Financial risks (a) Market risk *(continued)*

Market risk profile

The table below shows the sensitivity of the Group's banking book to an immediate and sustained 100 basis point ("bp") movement in interest rates in terms of the impact on net interest income over a twelve month period:

Sensitivity of projected net interest income to interest rate movements	2019 € m	2018 € m
+ 100 basis point parallel move in all interest rates	**234**	211
– 100 basis point parallel move in all interest rates	**(274)**	(245)

The above sensitivity table is computed under the assumption that all official and market rates (Euribors/Swaps) move downwards in parallel, however, for upward rates only, the ECB refinancing rate increases by 50% of the market rates.

The interest rate sensitivity increased during the year as a result of balance sheet change and reductions in strategic interest rate hedges being made throughout 2019.

The above analysis is subject to certain simplifying assumptions such as all interest rate movements occurring simultaneously. Additionally, it is assumed that no management action is taken in response to the rate movements.

The following table summarises Group's interest rate VaR profile to a 95% confidence level with a one day holding period for the financial years to 31 December 2019 and 2018. The Group recognises the limitations of VaR models, and supplements its VaR measures with stress tests which draw from a longer set of historical data and also with sensitivity measures.

	VaR (trading book)*		VaR (banking book)*		Total VaR*	
	2019 € m	2018 € m	2019 € m	2018 € m	2019 € m	2018 € m
Interest rate risk						
1 day holding period:						
Average	**0.3**	0.1	**8.3**	6.7	**8.6**	6.7
High	**0.9**	1.4	**10.8**	9.1	**11.2**	9.2
Low	**0.2**	–	**5.1**	3.5	**5.4**	3.7
At 31 December	**0.4**	0.1	**9.8**	8.1	**9.8**	8.2

The following table sets out the VaR for foreign exchange rate and equity risk for the financial years to 31 December 2019 and 2018:

	Foreign exchange rate risk*		Equity risk*	
	VaR (trading book)		VaR (trading book)	
	2019 € m	2018 € m	2019 € m	2018 € m
1 day holding period:				
Average	**0.17**	0.39	**0.02**	0.01
High	**0.80**	0.85	**0.03**	0.03
Low	**0.08**	0.06	**–**	–
At 31 December	**0.10**	0.24	**–**	–

The low level of VaR in the trading book throughout 2019 is as a result of very small discretionary positions managed by Treasury. The higher banking book interest rate VaR is as a result of a more substantial level of interest rate risk existing in the Group's banking book.

Interest rate sensitivity*

The net interest rate sensitivity of the Group at 31 December 2019 and 2018 is illustrated in the following table. The table 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.

*Forms an integral part of the audited financial statements

2.4 Financial risks (a) Market risk – 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	2019* Total € m
Assets											
Loans and advances to banks	1,072	151	1	–	–	–	–	–	254	–	1,478
Loans and advances to customers	42,957	8,592	2,567	2,113	1,624	1,465	2,100	798	(1,328)	–	60,888
Investment securities	1,850	1,623	2,086	1,249	1,492	2,314	1,586	4,316	815	–	17,331
Other assets	11,322	–	–	–	–	–	–	–	6,951	592	18,865
Total assets	57,201	10,366	4,654	3,362	3,116	3,779	3,686	5,114	6,692	592	98,562
Liabilities											
Deposits by central banks and banks	645	–	178	–	–	–	–	–	–	–	823
Customer accounts	33,478	1,142	3,635	639	201	155	9	–	32,544	–	71,803
Debt securities in issue	–	500	750	500	750	2,167	1,639	525	–	–	6,831
Subordinated liabilities and other capital instruments	–	–	750	–	–	–	500	49	–	–	1,299
Other liabilities	–	–	–	–	–	–	–	–	2,805	771	3,576
Equity	–	–	–	–	–	–	–	–	14,230	–	14,230
Total liabilities and equity	34,123	1,642	5,313	1,139	951	2,322	2,148	574	49,579	771	98,562
Derivatives affecting interest rate sensitivity	10,343	(2,109)	(1,928)	(666)	46	(1,438)	(1,565)	(2,683)	–	–	
Interest sensitivity gap	12,735	10,833	1,269	2,889	2,119	2,895	3,103	7,223	(42,887)	(179)	
Cumulative interest sensitivity gap	12,735	23,568	24,837	27,726	29,845	32,740	35,843	43,066	179	–	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	12,666	6,350	194	2,259	1,936	2,696	3,008	6,610	(34,892)	266	
Cumulative interest sensitivity gap	12,666	19,016	19,210	21,469	23,405	26,101	29,109	35,719	827	1,093	
($ in euro equivalents)	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	
Interest sensitivity gap	186	449	(127)	87	(80)	59	(58)	(24)	(2,138)	(2)	
Cumulative interest sensitivity gap	186	635	508	595	515	574	516	492	(1,646)	(1,648)	
(£ in euro equivalents)	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	
Interest sensitivity gap	(87)	4,011	1,203	543	263	140	153	637	(6,429)	(444)	
Cumulative interest sensitivity gap	(87)	3,924	5,127	5,670	5,933	6,073	6,226	6,863	434	(10)	
(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	(30)	23	(1)	–	–	–	–	–	572	1	
Cumulative interest sensitivity gap	(30)	(7)	(8)	(8)	(8)	(8)	(8)	(8)	564	565	

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.4 Financial risks (a) Market risk – Interest rate sensitivity *(continued)*

											2018*
	0<1 Month	1<3 Months	3<12 Months	1<2 Years	2<3 Years	3<4 Years	4<5 Years	5 years +	Non-interest bearing	Trading	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Assets											
Loans and advances to banks	1,098	1	1	–	–	–	–	–	343	–	1,443
Loans and advances to customers	46,902	7,482	2,363	1,587	1,779	702	1,235	866	(2,048)	–	60,868
Investment securities	1,714	1,326	2,647	2,444	1,220	1,364	2,362	3,056	728	–	16,861
Other assets	5,908	–	–	–	–	–	–	–	5,939	517	12,364
Total assets	55,622	8,809	5,011	4,031	2,999	2,066	3,597	3,922	4,962	517	91,536
Liabilities											
Deposits by central banks and banks	605	239	–	–	–	–	–	–	–	–	844
Customer accounts	31,372	1,250	3,967	1,040	200	213	21	1	29,635	–	67,699
Debt securities in issue	–	–	565	1,250	500	750	2,155	525	–	–	5,745
Subordinated liabilities and other capital instruments	–	–	–	750	–	–	–	45	–	–	795
Other liabilities	–	–	–	–	–	–	–	–	2,061	534	2,595
Equity	–	–	–	–	–	–	–	–	13,858	–	13,858
Total liabilities and equity	31,977	1,489	4,532	3,040	700	963	2,176	571	45,554	534	91,536
Derivatives affecting interest rate sensitivity	5,617	107	859	235	(17)	(355)	(1,548)	(4,898)	–	–	
Interest sensitivity gap	18,028	7,213	(380)	756	2,316	1,458	2,969	8,249	(40,592)	(17)	
Cumulative interest sensitivity gap	18,028	25,241	24,861	25,617	27,933	29,391	32,360	40,609	17	–	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	15,661	4,773	(764)	589	2,110	1,261	2,765	7,698	(32,090)	(22)	
Cumulative interest sensitivity gap	15,661	20,434	19,670	20,259	22,369	23,630	26,395	34,093	2,003	1,981	
($ in euro equivalents)	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	
Interest sensitivity gap	889	(100)	(54)	3	(32)	(41)	48	9	(2,479)	16	
Cumulative interest sensitivity gap	889	789	735	738	706	665	713	722	(1,757)	(1,741)	
(£ in euro equivalents)	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	
Interest sensitivity gap	1,554	2,471	430	164	238	238	156	542	(6,603)	(11)	
Cumulative interest sensitivity gap	1,554	4,025	4,455	4,619	4,857	5,095	5,251	5,793	(810)	(821)	
(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	(76)	69	8	–	–	–	–	–	580	–	
Cumulative interest sensitivity gap	(76)	(7)	1	1	1	1	1	1	581	581	

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2.4 Financial risks (a) Market risk *(continued)*

Interest rate benchmark reform

Authorities and regulators have requested that the market transition from interbank offered rates referred to as "IBOR" benchmark rates (e.g. LIBOR) to alternative Risk Free Rates (RFRs) by end 2021. The reform was not contemplated when IAS 39 was published, and consequently the IASB has published a set of temporary exceptions from applying specific hedge accounting requirements to provide clarification on how the relevant standards should be applied in these circumstances.

The application of this set of temporary exceptions is mandatory for accounting periods starting on or after 1 January 2020, but early adoption is permitted which the Group elected to do at 31 December 2019 (note 1 to the consolidated financial statements).

Significant judgement will be required in determining when uncertainty is expected to be resolved and, therefore, when the temporary exceptions will cease to apply. However, at 31 December 2019, the uncertainty continued to exist and so the temporary exceptions apply to all of the Group's hedge accounting relationships that reference benchmarks subject to reform or replacement.

The Group has cash flow and fair value hedge accounting relationships that are exposed to different IBORs. The transition not only impacts financial markets, but also many of the Group's customers who have an IBOR referenced in their contract. IBORs are extensively embedded within the Group's processes, hence, this transformation will have far reaching impacts in terms of pricing, operations, risk, accounting, data and technology infrastructure, along with potential conduct risk implications.

The Group mobilised an Interest Rate Benchmark Reform Transition Programme ("the Programme") in 2018 to manage the successful evolution to, and embedding of, RFRs. The Programme is sponsored by the Chief Financial Officer, overseen by a steering committee, chaired by a senior Treasury executive, supported by a Project Management layer and working groups comprising representation from customer-facing businesses, Finance, Treasury, Risk, Compliance, Legal, Operations and Customer and Strategic Affairs. The programme is organised into four main workstreams, namely:

- Business readiness;
- Technology;
- Contract re-papering; and
- Customer communications and conduct.

The Programme is structured to deliver IBOR transition by the regulators' deadline of 31 December 2021, with much of the recent action focused on business readiness activities, agreeing new fallback clauses and preparing for awareness amongst the Group's customers. The Programme is also briefed on the activities associated with transitioning Euro OverNight Index Average ("EONIA") to Euro short-term rate ("€STER").

In terms of exposures, IBORs are referenced to a significant cohort of the Group's portfolio, including derivative and bond transactions in the Treasury function and loans and deposits in the corporate and institutional businesses. Given the role of derivatives portfolios in supporting interest rate risk management activities both in terms of the Group's structural risk positions and providing solutions to customers, the notional volumes involved are large. For example, within the derivative portfolios, there are approximately 1,700 contracts referencing Euribor, GBP LIBOR and USD LIBOR relating to approximately € 50 billion in notional principal.

The Group also has IBOR exposure within deposits and debt securities amounting to € 3.5 billion approximately. The loan portfolios reference Euribor, GBP LIBOR and USD LIBOR (approximately € 19 billion exposure in total).

Structural foreign exchange risk

Structural foreign exchange risk is the exposure of the Group's 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 comprehensive 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 table below shows the sensitivity of the Group's fully loaded CET1 ratio to a hypothetical and sustained movement in GBP/EUR and USD/EUR foreign exchange rates.

	31 December	
Sensitivity of CET1 fully loaded capital to foreign exchange movements (unaudited)	**2019**	2018
+ 10% move in GBP and USD FX rates	**(0.20%)**	(0.21%)
– 10% move in GBP and USD FX rates	**0.19%**	0.20%

The above analysis is subject to certain simplifying assumptions such as GBP/EUR and USD/EUR foreign exchange rates moving in the same direction and at the same time.

Risk management – 2. Individual risk types

2.4 Financial risks* (b) 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 additional contributions would be required to cover its funding obligations towards current and former employees;
– The capital position of the Group is negatively affected as funding deficits will be fully deductible from regulatory capital; and
– There could be a negative impact on industrial relations if the funding level of the scheme was to deteriorate significantly.

Identification and assessment

The IAS 19 valuation of the pension scheme assets and liabilities may vary which could impact on the Group's capital. The Group works with the Trustees of each scheme to monitor the performance of investments and estimates of future liability to identify deficits. Given that variability in the value of the pension scheme assets and liabilities can impact on the Group's capital the key processes through which pension risk is evaluated are:

- the Internal Capital Adequacy Assessment Process ("ICAAP") as well as quarterly internal stress tests and
- monthly reporting of Pension risk against risk appetite. The pension capital at risk metric is measured and reported monthly against this watch trigger.

The Group maintains a number of defined benefit pension schemes for current and former employees. These defined benefit schemes were closed to future accrual by the 31 December 2013 with all staff transferring to a defined contribution scheme for future service on a standardised basis.

Each scheme has a separate trustee board and the Group has agreed funding plans to deal with deficits in each scheme. As part of each funding agreement, the Group engages with each trustee regarding an appropriate investment strategy to reduce the risk in each scheme.

Irish schemes that are deemed to have a deficit under the Minimum Funding Standard must prepare funding plans to address this situation in a timely manner and submit them to the Pensions Authority for approval.

Management and measurement

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. Although the Group has interaction with the trustees, it cannot direct the investment strategy of the schemes.

The Group has developed a strategy going forward for each of its defined benefit schemes which include the following steps;

1. All defined benefit schemes are closed to future accrual.
2. They have funding plans (or are funded as required for the US schemes) and each defined benefit scheme has an investment strategy in place.
3. All schemes have a strategy of de-risking in line with their regulatory requirements, funding positions and funding plans taking into account the nature of their liabilities.

The AIB Group Irish Pension Scheme exited its funding plan on target at 30 June 2018 and now meets the minimum funding standard requirements. The AIB Group Irish Pension Scheme's triennial actuarial valuation was also completed at 30 June 2018, resulting in an actuarial surplus at that date. On this basis, the AIB Group Irish Pension Scheme's actuary has concluded that the scheme requires no deficit funding at this time.

In December 2019, the Group agreed a revised funding arrangement for the UK scheme with the Scheme Trustee to support the purchase of the pensioner buy-in policy in respect of the pensioner members and an assured payment policy ("APP") in respect of the deferred members. A contribution of £ 10 million was made in December 2019 and an additional one-off £ 12 million contribution will also be made in 2020. Under the revised funding arrangement, the Group also expects to make annual payments of £ 18.5 million each year during 2020 to 2023, with a final balancing payment in 2024 which is currently expected to be c. £ 50 million.

*Forms an integral part of the audited financial statements

2.4 Financial risks* (b) Pension risk *(continued)*

Monitoring, escalating and reporting

Pension risk is monitored and controlled in line with the requirements of the Group's pension risk framework and policy. The surplus or deficit is monitored on a monthly basis by the Group's risk team and is currently reported monthly in both the financial risk report to the Group Assets and Liability Committee ("ALCo") and the Group Chief Risk Officer report. The potential change in this value over a one-year time period is assessed on a monthly basis and is reported versus a Group Risk Appetite Statement watch trigger. This pension Capital at risk exposure against the watch trigger is reported in the CRO report each month.

Pension risk is also included in the quarterly internal stress test. The output of quarterly stress tests is reviewed by ALCo and on an annual basis an ICAAP Report is produced which is a comprehensive analysis of the Group's capital position in base and stress scenarios over a three year horizon. This document is reviewed and approved by the Board and is submitted to the Joint Supervisory Team.

The pension capital at risk exposure is reported against the watch trigger and is contained in the CRO report each month. 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.

2.5 Operational risk

Operational risk is the risk arising from inadequate or failed internal processes, people and systems, or from external events. This includes legal risk – the potential for loss arising from the uncertainty of legal proceedings and potential legal proceedings, but excludes strategic and reputational risk.

Top and emerging risk drivers

The top and emerging risks to the Group are outlined in the Risk Summary Section on page 39. The below table outlines and describes which of these are key risk drivers for operational risk.

Material Risk	Regulatory and legal change	Financial, macroeconomic and geopolitical volatility	Pace of change in competition, labour markets and customer expectations	Cyber	Climate change	Changing external perceptions of AIB
Operational risk	✓		✓	✓	✓	

- Regulatory and legal change is a key risk due to its potential impact on customer behaviours, markets and internal Group processes and resources.
- Pace of change in competition, labour markets and customer expectations is a key risk driver as there is increased competition for the appropriate skills in the market.
- Cyber is a key risk driver as an increased level of cyber attacks may result in increased operational failures or resources being diverted from core tasks.
- Climate change is a key risk driver as the enviromental results of climate change could have a significant impact on staff, properties and the availability of IT systems.

Key mitigating actions

Key mitigating actions aim to effectively reduce the threat of a risk and the likelihood of its occurrence. The Group uses various approaches to help mitigate risks relating to operational risk including:

- Board approved and monitored risk appetite limits covering key dimensions of operational risk;
- Operational Risk Framework and suite of policies, setting out principles, roles and responsibilities and governance arrangements for the management of operational risk across the Group;
- The Group continues to invest significantly in technology which includes cyber deterrents and defences with controls to predict, prevent, detect and respond to cyber risk; and
- The Group operates a risk and control assessment of our processes and people to deliver objectives and keep customers safe.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.5 Operational risk *(continued)*

Identification and assessment

Risk and Control Assessment ("RCA") is a core process in the identification and assessment of operational risk across the Group. The process serves to ensure that key 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 is recorded on SHIELD which is the Group's governance, risk and compliance system. SHIELD provides all areas with one consistent view of the risks, controls, actions and events across the Group. SHIELD underpins an enhanced risk culture focused on ensuring better customer outcomes while helping to safeguard, protect and support the Group. RCAs are regularly reviewed and updated by business unit management. A materiality matrix is in place to enable the scoring of risks, and action plans must be developed to provide mitigants for the more significant risks. Monitoring processes are in place at business unit and support level. The central operational risk team sets and maintains policies and procedures for self-assessment and undertakes risk based reviews and testing to ensure the completeness and robustness of each business unit's self-assessment, and that appropriate attention is given to the more significant risks.

Management and measurement

Each business area is primarily responsible for managing its own risks. The operational risk framework includes policies specific to key operational risks (such as information security; continuity and resilience; and third party management among others) to ensure an effective and consistent approach to operational risk management across the Group. An important element of the Group's operational risk management framework is the ongoing monitoring of risks, control deficiencies and weaknesses, including tracking of operational risk events. The Group also 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. 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 second line assurance process which sits within the Compliance function. 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/cyber/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).

Monitoring, escalating and reporting

The Head of Operational Risk reports to the Chief Risk Officer, and provides information to the Board through the Board Risk Committee, Group Risk Committee and the Operational Risk Committee. The primary objective of operational risk reporting is to provide the Board with a timely and pertinent update on the Operational Risk profile, in order to assist the Board in discharging its responsibilities for the oversight of risk. A secondary objective is to provide senior management with an overview of the operational risk profile, in order to support the effective management of risks. The profile update details the current status of the Group's key operational risks and includes an overview of current trends and an update on recent significant events. The reporting of the Operational Risk profile, as required, at the Group Risk and Board Risk Committees supports these two objectives. In addition, the Group Risk Committee receive summary information on the Group's Operational Risk profile on a regular basis through the Chief Risk Officer ("CRO") report. Business units are required to review and update their assessment of operational risks on a regular basis. Operational risk teams undertake review and challenge assessments of the business unit risk assessments. In addition, assurance teams which are independent of the business, undertake reviews of the operational controls as part of a combined regulatory/compliance/operational risk programme.

2.6 Regulatory compliance risk

Regulatory compliance risk is defined as the risk of legal or regulatory sanctions or failure to protect market integrity, could result in material financial loss or reputational damage. Failure to comply with laws, regulations, or rules, for example Anti-Money Laundering, Countering Terrorist Financing and modern slavery, as well as self regulatory standards and codes of conduct, could result in regulatory sanction.

Top and emerging risk drivers

The top and emerging risks to the Group are outlined in the Risk Summary Section on page 39. The below table outlines and describes which of these are key risk drivers for regulatory compliance risk.

Material Risk	Regulatory and legal change	Financial, macroeconomic and geopolitical volatility	Pace of change in competition, labour markets and customer expectations	Cyber	Climate change	Changing external perceptions of AIB
Regulatory compliance risk	✓	✓	✓		✓	

- Regulatory and legal change is a key risk driver due to the pace and complexity of regulatory change including changes likely as a result of Brexit.
- Pace of change in competition, labour markets and customer expectations is a key risk driver due to depth of regulatory supervision resulting in increased process complexity and increased competition for the appropriate skills in the market.
- Climate change is a growing area of regulatory interest and together the financial, macroeconomic and geopolitical events have the ability to quickly change the regulatory agenda.

Key mitigating actions

Key mitigating actions aim to effectively reduce the threat of a risk and the likelihood of its occurrence. The Group uses various approaches to help mitigate risks relating to regulatory compliance risk. The principal compliance risk mitigants are risk identification, assessment, measurement and the establishment of appropriate controls at business level. Compliance also provides continuous training across the Group in relation to regulatory compliance risks, obligations and responsibilities of the business, therefore, reinforcing a culture of compliance. The Group has insurance policies that cover certain consequences of risk events which fall under the regulatory compliance umbrella, subject to policy terms and conditions.

Identification and assessment

The Regulatory Compliance function is specifically responsible for independently identifying and assessing current and forward looking 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 and taxation law to Group Taxation. Regulatory Compliance undertakes a periodic detailed assessment of the key 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 risk control assessments for the relevant business unit.

Management and measurement

The Board, operating through the Board Risk Committee, approves the Group's compliance policy and its 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 ensures 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.

Risk management – 2. Individual risk types

2.6 Regulatory compliance risk *(continued)*

Monitoring, escalating and reporting

Group risk assurance, within Regulatory Compliance undertakes risk-based assurance of compliance with relevant policies, procedures and regulatory obligations. Assurance can be undertaken by either standalone independent assurance teams, or in collaboration with other control functions such as Group Internal Audit and/or Operational Risk.

Risk prioritised annual assurance plans are prepared with assurance reviews undertaken on both a business unit and a process basis. The annual assurance 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 assurance activity are escalated for management attention, and action plans and implementation dates are agreed. The implementation of these action plans is monitored by group risk assurance.

Regulatory Compliance report to the Chief Risk Officer and independently to the Board, through the Board Risk Committee, on the effectiveness of the processes established to ensure compliance with laws and regulations within its scope.

2.7 Conduct risk

Conduct risk is defined as the risk that inappropriate actions or inactions by the Group cause poor and unfair customer outcomes. Customer complaints outstanding without proper investigation would lead to unfair customer outcomes.

Top and emerging risk drivers

The top and emerging risks to the Group are outlined in the Risk Summary Section on page 39. The below table outlines and describes which of these are key risk drivers for conduct risk.

Material Risk	Regulatory and legal change	Financial, macroeconomic and geopolitical volatility	Pace of change in competition, labour markets and customer expectations	Cyber	Climate change	Changing external perceptions of AIB
Conduct risk	✓	✓	✓		✓	

- Regulatory and legal change is a key risk driver due primarily to changing regulatory expectations which can drive an accelerated process for product design.
- Financial, macroeconomic and geopolitical volatility is a key risk driver as the volatility can result in suboptimal behaviour.
- Pace of change in competition, labour markets and customer expectations is a key risk driver as there is increased competition for the appropriate skills in the market.
- Climate change is a key risk driver as the Group responds to climate risk, reviews current products and develops new products.

Key mitigating actions

Key mitigating actions aim to effectively reduce the threat of a risk and the likelihood of its occurrence. The Group uses various approaches to help mitigate risks relating to conduct risk including a Conduct Risk Framework, aligned with the Group strategy, which is embedded in the organisation and provides oversight of conduct risks at Executive Committee and Board level by way of two key fora. The Group Conduct Committee provides the Executive Committee oversight of conduct through promoting and supporting a 'customer first' culture, and also oversees the key conduct risk appetite metrics for complaints management and product reviews. The Group Product and Proposition Committee focus is exclusively in product oversight and management, including overseeing a rolling programme of product reviews.

Identification and assessment

The compliance and risk assurance team identify upstream conduct risk and communicate to the relevant business areas.

Management and measurement

The points below outline the management and measurement of Conduct risk;

- The Group Head of Customer Advocacy and team provides independent oversight and governance of conduct risk across the Group (and is a mandatory approver of product/propositions proposals), including training and awareness building;
- An approved Group conduct strategy, aligned with the Group's purpose, strategy and core values, is supported by an annual Group action plan delivering against key strategic objectives, ensuring continued progress on embedding conduct and meeting evolving regulatory expectations;
- A centralised customer care unit deals with complex complaints across the organisation;
- Group customer advocacy drive the vulnerable customer strategy; and
- Group Head of Customer Advocacy is a member of key strategic steering groups.

2.7 Conduct risk *(continued)*

Monitoring, escalating and reporting

The points below outline how Conduct risk is monitored, escalated and reported;

- Quarterly Group conduct dashboard measures key management information trends under the five key conduct risk areas, as reflected in the Group conduct action plan; and
- Segment Conduct Committees (operating to standard terms of reference) actively drive the conduct agendas and manage conduct risk within their businesses. Conduct risks are assessed and monitored across the Group in line with risk management procedures, with annual business attestation provided by senior management.

2.8 People and culture risk

People and culture risk is the risk to achieving the Group's strategic objectives as a result of an inability to recruit, retain or develop resources, or as a result of behaviours associated with low levels of employee engagement. It also includes the risk that the business, financial condition and prospects of the Group are materially adversely affected as a result of inadvertent or intentional behaviours or actions taken or not taken by employees that are contrary to the overall strategy, culture and values of the Group.

Top and emerging risk drivers

The top and emerging risks to the Group are outlined in the Risk Summary Section on page 39. The below table outlines and describes which of these are key risk drivers for people and culture risk.

Material Risk	Regulatory and legal change	Financial, macroeconomic and geopolitical volatility	Pace of change in competition, labour markets and customer expectations	Cyber	Climate change	Changing external perceptions of AIB
People and culture risk			✓			✓

- Pace of change in competition, labour markets and customer expectations is a key risk driver as there is increased competition for the appropriate skills in the market.
- Changing external perceptions of AIB is a key risk driver in so far as sustained negative commentary could materially impact on staff morale.

Key mitigating actions

Key mitigating actions aim to effectively reduce the threat of a risk and the likelihood of its occurrence. The Group uses various approaches to help mitigate risks relating to people and culture risk including a continuous review of the market situation and the introduction of new career mapping which will provide a transparent and consistent view of roles and also empower all employees to take accountability and control of their own careers.

Identification and assessment

The Group identifies and reviews employee satisfaction and engagement, indicators of culture, through the staff engagement programme, iConnect, which is facilitated by Gallup on an annual basis. The survey includes measures on our cultural ambitions of accountability, collaboration, trust, diversity and inclusion and safe to speak. Initiatives are undertaken at team level to continuously identify opportunities for further employee engagement. Engagement scores have continued to improve on an annual basis since the staff engagement programme inception.

The Group's performance is heavily dependent on the talents and efforts of highly skilled individuals, and the continued ability of the Group to compete effectively and implement its strategy depends on its ability to attract new employees and retain and motivate existing employees. Competition from within the financial services industry, including from other financial institutions, as well as from businesses outside the financial services industry for key employees is intensifying. In particular, under the terms of the recapitalisation of the Group by the Government, the Group is required to comply with certain executive pay and compensation arrangements, including a cap on salaries as well as a ban on bonuses and similar incentive-based compensation applicable to employees of Irish banks who have received financial support from the Government.

The Group uses the Aspire Performance Management Programme ("Aspire") to facilitate quality performance discussions with staff that contribute to delivering the Group's strategic ambitions. Aspire is designed to allow employees identify "What" personal and business objectives are to be achieved and "How" they will behave in the delivery of those objectives. The Board assesses the Aspire outputs on a half-year and year-end basis. Aspire allows the Group embrace the right behaviours and outcomes with equal weighting, to achieve the Group's strategic ambition.

Risk management – 2. Individual risk types

2.8 People and culture risk *(continued)*

Management and measurement

In 2017 the Group launched its 'Purpose', which is supported and embedded by a clear set of 'customer first' values. These values drive and influence activities of all employees, guiding the Group's dealings with customers, each other and all stakeholders. The Group's Code of Conduct, incorporating the risk culture principles, places great emphasis on the integrity of employees and accountability for both actions taken and inaction. The Code sets out how employees are expected to behave in terms of the business, customer and employee. The Code is supported by a range of employee policies, including 'Conflicts of Interest' and 'Speak up'. The Group has a disciplinary policy which clearly lays out the consequences of inappropriate behaviours.

The Group's 'Speak Up' policy and process also provides those working for the Group with a protected channel for raising concerns, which is at the heart of fostering an open and transparent working culture. The Group's iLearn training portal, provides employees with dedicated and bespoke curricula that allow teams and individuals to invest in themselves and, therefore, the organisation.

Monitoring, escalating and reporting

The Group has made significant steps in increasing engagement and awareness of the Group's risk management activities by embedding the Risk Appetite Statement in policies and frameworks of the Group. The Risk Appetite Statement contains clear statements of intent as to the Group's appetite for taking and managing risk, including people and culture risk. It ensures that the Group monitors and reports against key people and culture metrics when tracking people and culture risk and change.

Internal Audit include people and culture risk on their annual plan of activities, the outputs of which are reviewed by the Board.

The Group, through the Board Audit Committee, reports and monitors issues raised through a number of channels including conflicts of interest, disciplinary policy and speak up policy. The Board monitors and reviews progress and oversight of senior management in relation to our people and culture ambitions through a number of datasets including iConnect, the strategy scorecard and a culture dashboard.

2.9 Business model risk

The risk of not achieving the agreed strategy or approved business plan either as a result of an inadequate implementation plan, or failure to execute the implementation plan as a result of inability to secure the required investment, or due to factors in the economic, political, competitive or regulatory environment. This also includes the risk of implementing an unsuitable strategy, or maintaining an obsolete business model, in light of known internal and external factors.

Top and emerging risk drivers

The top and emerging risks to the Group are outlined in the Risk Summary Section on page 39. The below table outlines and describes which of these are key risk drivers for business model risk.

Material Risk	Regulatory and legal change	Financial, macroeconomic and geopolitical volatility	Pace of change in competition, labour markets and customer expectations	Cyber	Climate change	Changing external perceptions of AIB
Business model risk	✓	✓	✓	✓	✓	✓

- Regulatory and legal change have the potential to significantly impact the business and operating model of the Group.
- Financial, macroeconomic and geopolitical volatility is a key risk driver as it is more difficult to forecast accurately for planning purposes in a volatile environment than in a stable environment. This volatility also increases the risk of changed circumstances over the planning cycle. Changes in financial or macroeconomic or geopolitical events could impact the Group's business model, specifically, its capital utilisation, profitability or strategy.
- The pace of change from competition has increased and, in particular, obtaining and retaining the right level of expertise in a competitive labour market is a key risk driver.
- Cyber is a key risk driver as the volume and sophistication of cyber attacks could result in unexpected vulnerabilities being exposed.
- Changing external perceptions of AIB is a key risk driver as this may challenge the execution of the Group's strategy.

Key mitigating actions

Key mitigating actions aim to effectively reduce the threat of a risk and the likelihood of its occurrence. The Group uses various approaches to help mitigate risks relating to business model risk including:

- Board approved Risk Appetite Statement sets the boundary for acceptable risk taking;
- Detailed review and challenge of plan and strategy through governance process;
- Independent second line of defence review and challenge of key planning and strategic assumptions;
- The Board receives regular updates on performance against strategic objectives by way of a quarterly scorecard and comprehensive reports setting out the current financial performance against budget, multi-year financial projections, capital plans and economic updates; and
- Risk report is produced monthly and reviewed by the Board and Group Risk Committees.

2.9 Business model risk *(continued)*

Identification and assessment

The Group identifies and assesses business model risk as part of its integrated planning process, which encapsulates strategic, business and financial planning. This process drives delivery of strategic objectives aligned to the Group's risk appetite and enables measurable business objectives to be set for management aligned to the short, medium and long term strategy of the Group. The outcomes of these processes form the basis of the Group's Internal Capital Adequacy Assessment Process ("ICAAP") and Internal Liquidity Adequacy Assessment Process ("ILAAP").

The Group reviews underlying assumptions on its external operating environment and, by extension, its strategic objectives on a periodic basis, the frequency of which is determined by a number of factors including the speed of change of the economic environment, changes in the financial services industry and the competitive landscape, regulatory change and deviations in actual business outturn from strategic targets. In normal circumstances, this is annually. The Group's business and financial planning process supports the Group's strategy. Every year, the Group prepares three-year business plans at a Group level based on macroeconomic and market forecasts across a range of scenarios (including a range of "downside" scenarios). The plan includes an evaluation of planned performance against a suite of key metrics, supported by detailed analysis and commentary on underlying trends and drivers, across income statement, balance sheet and business targets. This assessment includes, but is not limited to discussion on new lending volumes and pricing, deposits volumes and pricing, other income, cost management initiatives and credit performance. The plan is subject to robust review and challenge through the governance process and including an independent second line of defence review and challenge by the Risk function. The Group plan is supported by detailed business unit plans. Each business unit plan is aligned to the Group strategy and risk appetite. The business plan typically describes the market in which the segment operates, market and competitor dynamics, business strategy, financial assumptions underpinning the strategy, actions/investment required to achieve financial outcomes and any risks/opportunities to the strategy.

Management and measurement

At a strategic level, the Group manages business model risk within its risk appetite framework, by setting limits in respect of measures such as financial performance, portfolio concentration and risk-adjusted return. At a more operational level, the risk is mitigated through periodic monitoring of variances to plan. Where performance against plan is outside agreed tolerances or risk appetite metrics, proposed mitigating actions are presented and evaluated, and tracked thereafter. During the year, periodic forecast updates for the full year financial outcome may also be produced. The frequency of forecast updates during each year will be determined based on prevailing business conditions.

At an individual level, planning targets translate into accountable objectives to enable performance tracking across the Group and to facilitate formulation and review of Executive Committee performance scorecards.

Monitoring, escalating and reporting

Performance against plan is monitored at segment level on a monthly basis and reported to senior management teams within the business. At an overall Group level, performance against plan is monitored as part of the CFO Report which is discussed at Executive Committee and Board on a monthly basis. Risk profile against risk appetite measures, some of which reference performance against plan, is monitored by the Chief Risk Officer and reported on a monthly basis to the Executive Risk Committee and Board.

2.10 Model risk

The potential loss that the Group may incur, as a consequence of decisions that could be principally based on the output of models, due to errors in the development, implementation or use of such models.

Top and emerging risk drivers

The top and emerging risks to the Group are outlined in the Risk Summary Section on page 39. The below table outlines and describes which of these are key risk drivers for model risk.

Material Risk	Regulatory and legal change	Financial, macroeconomic and geopolitical volatility	Pace of change in competition, labour markets and customer expectations	Cyber	Climate change	Changing external perceptions of AIB
Model risk	✓	✓	✓		✓	

- Pace of regulatory change increases the difficulty in maintaining the Group's suite of models.
- Financial, macroeconomic and geopolitical volatility is a key risk driver as a volatile external environment is more difficult to model accurately than a stable environment.
- Pace of change in competition, labour markets and customer expectations is a key risk driver due to the difficulty in obtaining and retaining the right level of expertise in a competitive labour market.
- Climate change is a driver of model risk because of the lack of relevant historical data to accurately model climate impacts on the Group's exposures.

Risk management – 2. Individual risk types

2.10 Model risk *(continued)*

Key mitigating actions

Key mitigating actions aim to effectively reduce the threat of a risk and the likelihood of its occurrence. The Group uses various approaches to help mitigate risks relating to model risk including:

- Model risk framework and policy;
- Model risk governance, notably the model committees of Model Risk Committee and Risk Measurement Committee;
- Group model risk inventory and reporting;
- Risk appetite statement monitoring and reporting; and
- Second line of defence review; model validation and control testing.

Identification and assessment

The Board has ultimate accountability for ensuring that models used by the Group are fit for purpose, meet all jurisdictional regulatory and accounting standards, and ensuring that there is clarity on the model risk strategy and framework. It is responsible for the appointment of organisational structures to implement and manage the model risk framework and for ensuring that there are appropriate policies in place relating to capital assessment, measurement and allocation.

Operating to the principles outlined in the model risk framework supports the Group's strategic objectives and provides comfort to the Board on the integrity and completeness of the model risk governance.

Management and measurement

The Group mitigates model risk by having a framework, policies and standards in place in relation to model development, operation, and validation together with suitable resources. The Group model risk management framework is designed to ensure that model risk in the Group is properly identified and managed across each step of the model lifecycle within an appropriate control framework. The framework, which is aligned to the Group risk appetite framework and the Group risk management framework, describes the key processes undertaken and reports produced in support of the framework. Models are built and validated by suitably qualified analytical personnel, informed by relevant business and finance functions.

Models are built using the best available data, both internal and external, using international industry standard techniques. All models are validated by an appropriately qualified team, which is independent of the model build process.

Group Internal Audit act as the "third line of defence" providing independent assurance to the Board Audit Committee and the Board on the adequacy, effectiveness and sustainability of the governance, risk management and control framework supporting model risk through their periodic review of the model risk management processes.

Monitoring, escalating and reporting

The Model Risk Committee acts as a sub-committee of the Risk Measurement Committee and reviews and approves the use, or recommends to a higher governance authority, the use of the Group's credit, operational and financial risk models. It also monitors and maintains oversight of the performance of these models. As a material risk, the status of model risk is reported on a monthly basis in the CRO report.

Governance and oversight

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Governance and oversight – Group Directors' report *for the financial year ended 31 December 2019*

The Directors of AIB Group plc ('the Company') present their report and the audited financial statements for the financial year ended 31 December 2019. The Directors' Responsibility Statement is shown on page 224.

For the purposes of this report 'AIB Group' or 'the Group' comprises the Company and its subsidiaries in the financial year ended 31 December 2019.

Results

The Group's profit attributable to the ordinary shareholders of the Company amounted to € 327 million and was arrived at as shown in the consolidated income statement on page 237.

Dividend

The Board is recommending a dividend of € 0.08 per share payable on 7 May 2020 to shareholders on the Company's Register of Members at the close of business on 27 March 2020.

In accordance with the "Joint Decision of the European Central Bank and Prudential Regulatory Authority" of 25 November 2016 as updated on 3 December 2019, the Company is required to obtain prior approval from the European Central Bank in order to distribute dividends to shareholders.

During 2019, the Company paid a final dividend of € 0.17 per share on 3 May 2019 to its ordinary shareholders who were on the Register of Members at the close of business on 22 March 2019.

Going concern

The financial statements for the financial year ended 31 December 2019 have been prepared on a going concern basis as the Directors are satisfied, having considered the principal 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 12 months from the date of approval of these annual financial statements.

In making their assessment, the Directors considered a wide range of information relating to present and future conditions. These included financial plans covering the period 2020 to 2022, liquidity and funding forecasts and capital resources projections, all of which were prepared under base and stress scenarios.

In addition, the Directors considered the principal risks and uncertainties which could materially affect the Group's future business performance and profitability and which are outlined on pages 40 to 43.

Directors Compliance Statement

As required by section 225(2) of the Companies Act 2014, the Directors acknowledge that they are responsible for securing the Company's compliance with its relevant obligations (as defined in section 225(1)). The Directors confirm that:

(a) a compliance policy statement (as defined in section 225(3)(a)) has been drawn up that sets out the Company's policies and, in the Directors' opinion, is appropriate to ensure compliance with the Company's relevant obligations;

(b) appropriate arrangements or structures that are, in the Directors' opinion, designed to secure material compliance with the relevant obligations have been put in place; and

(c) a review of those arrangements or structures has been conducted in the financial year to which this report relates.

Capital

Information on the structure of the Company's share capital, including the rights and obligations attaching to each class of shares, is set out in the Schedule on pages 175 to 177 and is part of note 42 to the consolidated financial statements.

Accounting policies

The principal accounting policies, together with the basis on which the financial statements have been prepared, are set out in note 1 to the consolidated financial statements.

Review of principal activities

The statement by the Chair on pages 10 to 13, the review by the Chief Executive Officer on pages 14 to 19, and the operating and financial review on pages 51 to 66 contain an overview of the development of the business of the Group during the year, of recent events, and of likely future developments.

Directors

At 31 December 2019, the Board of Directors of the Company was comprised of Mr Richard Pym, Mr Thomas (Tom) Foley, Mr Basil Geoghegan, Dr Colin Hunt, Ms Sandy Kinney Pritchard, Ms Carolan Lennon, Ms Elaine MacLean, Mr Brendan McDonagh, Ms Helen Normoyle, Ms Ann O'Brien, Mr Tomás O'Midheach and Mr Ranjit (Raj) Singh.

The following Board changes to the Company occurred with effect from the dates shown:

- Mr Bernard Byrne resigned as CEO and Executive Director on 8 March 2019,
- Dr Colin Hunt was appointed as CEO and Executive Director on 8 March 2019,
- Mr Mark Bourke resigned as CFO and Executive Director on 1 March 2019,
- Mr Tomás O'Midheach was appointed as Executive Director on 13 March 2019,
- Ms Sandy Kinney Pritchard was appointed as Non-Executive Director on 22 March 2019,
- Mr Simon Ball resigned as Non-Executive Director on 24 April 2019,
- Ms Ann O'Brien and Mr Ranjit (Raj) Singh were each appointed as Non-Executive Directors on 25 April 2019,
- Mr Basil Geoghegan and Ms Elaine MacLean were each appointed as Non-Executive Directors on 4 September 2019,
- Mr Peter Hagan resigned as Non-Executive Director on 30 September 2019, and
- Ms Catherine Woods and Mr Jim O'Hara each resigned as Non-Executive Directors on 12 October 2019.

Mr Richard Pym has informed the Board of his intention to resign as Non-Executive Director and Chair on 6 March 2020.

The Group is in the process of identifying the next Chair and an announcement will be made in due course.

A short biographical note on each Director is provided on pages 44 and 45.

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 176 and 177.

Directors' and Secretary's Interests in the share capital

The interests of the Directors and the Group Company Secretary in the share capital of the Company are shown in the Corporate Governance Remuneration statement on page 218.

Directors' Remuneration

The Group's policy with respect to Directors' remuneration is included in the Corporate Governance Remuneration statement on pages 212 to 218. Details of the total remuneration of the Directors in office during 2019 and 2018 are shown in the Corporate Governance Remuneration statement on pages 216 to 218.

Non-Financial Statement

Regulations on non-financial information, which were transposed into Irish law by the European Union (disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017, require that the Group report on specific topics such as environmental matters; social and employee matters; respect for human rights; and bribery and corruption ('key non-financial matters'). The Group is committed to maintaining sustainable and ethically responsible corporate and social practices in every aspect of its business. The table included on pages 48 and 49 of the Annual Financial Report, together with the information it refers to, is intended to assist shareholders to understand our position on key non-financial matters. A description of our business model is included on pages 6 to 8 of the Annual Financial Report and the table on pages 40 to 43 summarises the linkage between the Group's strategic pillars, the principal risks and uncertainties and the Group's material risks. The material risks primarily impacted by key non-financial matters include conduct risk and people and culture risk. Further details of the Group's risk management governance and organisational framework can be found on pages 72 to 78.

Substantial interests in the share capital

At 31 December 2019, the Company had been notified that the Minister for Finance of Ireland holds 1,930,436,543 ordinary shares representing 71.12% of the total voting rights attached to the issued share capital.

There were no other interests disclosed to the Company in accordance with the Market Abuse Regulation and Part 5 of the Transparency Regulations and the related transparency rules during the period from 31 December 2019 to 6 March 2020.

Corporate governance

The Directors' Corporate Governance report is set out on pages 178 to 192 and forms part of this report. Additional information, disclosed in accordance with the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006, is included in the Schedule to the Group Directors' report on pages 175 to 177.

In accordance with Section 167 of the Companies Act 2014, the Directors confirm that a Board Audit Committee is established. Details on the Board Audit Committee's membership and activities are shown on pages 194 to 199.

Political donations

The Directors of the Company have satisfied themselves that there were no political contributions 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 within 'Internal controls' in the Corporate Governance report on pages 220 and 221, and the employment of competent persons. The accounting records are kept at the Company's Registered Office at AIB Bankcentre, Ballsbridge, Dublin 4, Ireland and at the principal addresses outlined on page 383.

Principal risks and uncertainties

Information concerning the principal risks and uncertainties facing the Group, 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 on pages 40 to 43.

Branches outside the State

The Company has not established any branches since incorporation. However, the Company's principal operating subsidiary, Allied Irish Banks, p.l.c., 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.

Governance and oversight – Group Directors' report *for the financial year ended 31 December 2019*

Auditors

The auditors, Deloitte, were appointed to the Group on 20 June 2013 following shareholder approval at the 2013 Annual General Meeting on that date. Furthermore, Deloitte were re-appointed as auditors of the Company at the last Annual General Meeting held on 24 April 2019 and shall hold office until the conclusion of the next Annual General Meeting of the Company pursuant to section 382 of the Companies Act 2014 at which time their continued appointment will be proposed to the shareholders for approval. Deloitte have indicated a willingness to continue in office in accordance with section 383(2) of the Companies Act 2014.

Statement of relevant audit information

Each of the persons who is a Director at the date of approval of this report confirms that:

(a) so far as the Director is aware, there is no relevant audit information of which the company's auditor is unaware; and

(b) the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

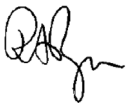
This confirmation is given and should be interpreted in accordance with the provisions of section 330 of the Companies Act 2014.

Other information

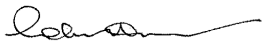
Other information relevant to the Group Directors' report may be found in the following pages of the report:

	Page
2019 financial highlights	4 and 5
Risk management	71 to 170
Non-adjusting events after the reporting period	365

The Group Directors' report for the financial year ended 31 December 2019 comprises these pages and the sections of the report referred to under 'Other information' above, which are incorporated into the Group Directors' report by reference.



Richard Pym
Chair



Colin Hunt
Chief Executive Officer

5 March 2020

Governance and oversight – Schedule to the Group Directors' report *for the financial year ended 31 December 2019*

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 of the Company as of 31 December 2019.

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 2,714,381,237 Ordinary Shares of € 0.625 each.

Rights and obligations of each class of share

The following rights attach to 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 a 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), at least 21 days before the Annual General Meeting, a copy of the Directors' and Auditor's reports accompanied by 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 such summary financial statements as may be permitted by the Companies Act;
- the right to receive notice of general meetings of the Company; and
- 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 within 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 period 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 Ordinary Shares, and there is no requirement to obtain the approval of the Company, or of other holders of 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) 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) 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 Registrar 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 that 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 employee share schemes

The AIB Approved Employee 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. Following the establishment of the Company, the shares previously held in trust in Allied Irish Banks, p.l.c. were exchanged, on a one-for-one basis, for new shares in the Company.

Governance and oversight – Schedule to the Group Directors' report *for the financial year ended 31 December 2019*

Deadlines for exercising voting rights

Voting rights at general meetings of the Company are exercised when the Chair puts the resolution at issue to a 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 Chair 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 30 days from the date of the meeting at which the poll was demanded or directed) as the Chair 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 48 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 48 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 21 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 21 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 90% 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 42 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, have been given to the Company.
- A shareholder may not propose himself or herself for appointment as a Director.
- The Directors have the power to fill a casual vacancy or to appoint an additional Director (within the maximum number of Directors fixed by the Company in a general meeting), and any Director so appointed holds office only until the conclusion of the next Annual General Meeting following his/her 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 no longer have adequate decision making capacity 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/she be absent from meetings of the Directors for six successive months (without an alternate attending) and the Directors resolve that his/her office be vacated on that account;
  - if, unless the Directors or a court otherwise determine, he/she be convicted of an indictable offence;
  - if he/she be requested, by resolution of the Directors, to resign his/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/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/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/her capacity as a Director, he/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/her resignation to the Directors and the Directors resolve to accept it; or
  - the Director 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 2014, remove any Director before the expiry of his/her period of office.
- The Minister for Finance has the power to nominate two Non-Executive Directors in accordance with the Relationship Framework between the Group and the State and certain provisions as outlined therein. The Relationship Framework is available on the Group's website at https://aib.ie/investorrelations/about-aib/relationship-with-irish-state

The powers of the Directors

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 may 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.

Governance and oversight – Corporate Governance report

Chair's introduction

Dear Shareholder,

I am pleased to present our Corporate Governance report for 2019. This report explains how corporate governance standards are applied across the Group, how the Board implements and oversees such standards, how the Board operates, and how it performed in its 2019 effectiveness evaluation. This report should be read in conjunction with the 'Governance in AIB' section which sets out examples of our corporate governance standards being applied in practice during the year and also with the reports of each Board Committee.

The Board as a whole is very cognisant of its accountability to stakeholders for the overall direction and control of the Group. Collectively, we remain committed to the principles of strong corporate governance and to creating sustainable, long term value for our shareholders and society. We recognise the importance of a robust and effective corporate governance framework which will provide us with the support to ensure sound and timely decision-making.

To achieve these aims, it is imperative that we ensure compliance with applicable legal and regulatory requirements. This report provides statements of compliance with our key corporate governance requirements. Key information in this report is presented under the headings of the new UK Corporate Governance Code 2018. Whilst the status of compliance with the various requirements is of utmost importance, the Board also seeks to adhere to the underlying principles and ways of working recommended by those requirements in order to bring accountability, transparency and integrity to the fore of our decision-making.

Richard Pym
Chair of the Board

Corporate Governance arrangements and practices

The Group's Governance Framework (the 'Framework') underpins effective decision-making and accountability and is the basis on which the Group conducts its business and engages with customers and other stakeholders. It ensures that organisational and control arrangements are appropriate to the governance of the Group's strategy and operations and the mitigation of related material risks. The Framework encompasses AIB Group plc and its subsidiaries (collectively referred to as 'AIB Group' or the 'Group').

The Framework takes account of the many statutory and regulatory obligations that apply to the Group, including various corporate governance codes, regulations and best practice standards and guidelines, Irish company law, the Listing Rules of the Main Securities Market of Euronext Dublin and the London Stock Exchange, the UK Corporate Governance Code 2018 and, in relation to the UK businesses, UK company law. Further detail on the Group's governance practices is available on http://aib.ie/investorrelations.

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, led by a Chair who has the relevant qualifications, expertise and background to effectively discharge that role;
- a Chief Executive Officer to whom the Board has delegated responsibility for the day-to-day running of the Group, the selection, motivation and direction of senior executive management, and for the operational management, compliance and performance of all the Group's businesses;
- a clear organisational structure with well defined, transparent and consistent lines of responsibility;
- 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, including a three lines of defence risk governance model; and
- adequate internal control mechanisms, including sound administrative and accounting procedures, IT systems and controls, human resource policies and practices, including remuneration, that are consistent with and promote sound and effective risk management.

Statements of Compliance

This report, in conjunction with the Directors' Responsibility Statement, Corporate Governance Remuneration Statement, Risk Governance section of the Risk Management Framework report and the Statement on Internal Control sets out the Group's approach to governance in practice, the work of the Board and its Committees and explains how the Group applied the principles of the Central Bank of Ireland's Corporate Governance Requirements for Credit Institutions 2015 (the '2015 Requirements'), European Union (Capital Requirements) Regulations 2014 (S.I. 158/2014) ('CRD') and UK Corporate Governance Code 2018 (the 'Code') during 2019 under the headings prescribed under the Code. Further detail is set out below.

Central Bank of Ireland's Corporate Governance Requirements for Credit Institutions 2015 and European Union (Capital Requirements) Regulations 2014

As a financial holding company, AIB Group plc is not directly required to comply with the 2015 Requirements (which is publicly available on www.centralbank.ie).

Allied Irish Banks, p.l.c., the principal subsidiary of AIB Group plc, is a credit institution and is subject to the 2015 Requirements, including compliance with requirements specifically relating to 'high impact institutions' and additional corporate governance obligations on credit institutions deemed significant for the purposes of CRD (which is publicly available on www.irishstatutebook.ie).

The governance structures of AIB Group plc and Allied Irish Banks, p.l.c. are mirrored. As such, the 2015 Requirements and the applicable corporate governance aspects of CRD are applied across both entities. During 2019, AIB Group was materially compliant with the 2015 Requirements and applicable corporate governance aspects of CRD.

UK Corporate Governance Code 2018 and Irish Corporate Governance Annex

AIB Group plc, by virtue of its primary listing on the London Stock Exchange, is subject to the provisions of the Code (which is publicly available on www.frc.org.uk). The Code is not a rigid set of rules but instead consists of principles and provisions. The Listing Rules to which the Group is subject, require it to apply the main principles and report to shareholders on how it has complied with the Code, and where the Group has not, explain the rationale for same.

The ways in which the Group complied with the Code are detailed throughout this report and cross-referencing can be found on page 193. The areas of the Code with which the Group did not comply, or where enhancements were implemented to ensure full compliance, are set out below.

Additional obligations apply to the Group under the Irish Corporate Governance Annex (publicly available on www.ise.ie), which applies to relevant Irish companies with a primary listing on the Main Securities Market of Euronext Dublin. The Group is fully compliant with the Irish Corporate Governance Annex.

Governance and oversight – Corporate Governance report

UK Corporate Governance Code 2018 - Compliance and Enhancements

During 2019, the Group applied the main principles and complied with all provisions of the Code other than in instances related to Section 5: Remuneration, in particular principle R and provisions 32, 36 and 37. The rationale for non-compliance with these principles, and as such, the areas which the Group is required to explain, are set out below:

Principles and Provisions to 'Explain' *Please note the Principles and Provisions detailed below have been shortened for ease of reference. For the full wording of the Principles and Provisions below, please refer to the Code which is available at www.frc.org.uk*	Rationale
Provision 32: The board should establish a remuneration committee of independent Non-Executive Directors, with a minimum membership of three. Before appointment as chair of the remuneration committee, the appointee should have served on a remuneration committee for at least 12 months.	At 31 December 2019, the Remuneration Committee was composed of Ms Elaine MacLean (Chair), Mr Richard Pym, Mr Brendan McDonagh and Ms Ann O'Brien. Ms MacLean did not serve on a remuneration committee for at least 12 months prior to her appointment as Remuneration Committee Chair. This matter was considered at length upon her appointment. By virtue of Ms MacLean's strong human resources and reward experience, coupled with her regular attendance at remuneration committee meetings during her career, the Board was of the view that she was eminently qualified for the role of Remuneration Committee Chair.
Principle R: Exercise of independent judgement and discretion when authorising remuneration outcomes. **Provision 36:** Remuneration schemes should promote long term shareholdings by executive directors that support alignment with long term shareholder interests. **Provision 37:** Remuneration schemes and policies should enable the use of discretion to override formulaic outcomes. **Provision 38:** The pension contribution rates for executive directors, or payments in lieu, should be aligned with those available to the workforce.	Due to certain agreements in place with the Irish State, the Remuneration Committee and the Board are restricted in their ability to fully comply with Principle R and associated provisions. Under such agreements, the implementation of variable remuneration structures is not permitted, the Board's discretion is limited and, as such, the Board cannot be in compliance with the recommendation to exercise independent judgement. Should variable remuneration be introduced, the Group notes and will fully adhere to these principles and provisions in the design, implementation and operation of any future variable remuneration structures. The current status of pension arrangements is considered to be fair in light of the remuneration restrictions. The rates of contribution for executive directors and all employee pensions are fully transparent in the Remuneration Policy contained in this Annual Financial Report.

Having reviewed the Group's existing governance arrangements against the Code and industry best practice, a number of enhancements to documentation and practices have been introduced including updates to the Group's Governance and Organisation Framework, Board Governance Manual and a number of the Terms of Reference of Board Committees. Enhancements to practices, including but not limited to those set out below, have been implemented:

Areas of Enhancements *Please note the Principles and Provisions detailed below have been shortened for ease of reference. For the full wording of the Principles and Provisions below, please refer to the Code which is available at www.frc.org.uk*	**Implementation in AIB**
Provision 15: Board Composition: Additional external appointments should not be undertaken without prior approval of the board, with the reasons for permitting significant appointments explained in the annual report.	Due to the time-sensitive nature of some additional commitments, the Board has agreed that proposed additional commitments will be considered by the Chair and Group Company Secretary in the first instance. Where the additional commitment results in an additional directorship as defined by the Capital Requirements Directive IV, full Board pre-clearance will be required. All other commitments will be assessed by the Chair and Group Company Secretary in the first instance who will consider the time commitment involved and refer onwards, to the Board, if deemed necessary. During 2019, no Executive Director held an external appointment in a FTSE 100 company.
Provision 17/23: The Group is required to develop a diverse pipeline for succession, a policy on diversity and inclusion, detailing its objectives and linkage to company strategy, how it has been implemented and progress on achieving the objectives.	The Board recognises Diversity and Inclusion ('D&I') as a cornerstone of culture within the organisation and as such the D&I strategy was reviewed and integrated within the overall culture evolution programme. It is the Board's belief that a continued focus on D&I will fundamentally improve the decision-making capability of the organisation, through better challenge, more comprehensive analysis and mitigating the risk of group-think. To achieve this, the Board has set medium-term D&I objectives supported by short term activities and outcomes. As part of the Sustainable Business Advisory Committee's responsibility to consider and advise on D&I of the Group's workforce, the Committee was provided with measurement data in relation to gender balance at senior management and by business function.
Stakeholder Engagement:	The Board recognises the importance of Provision 5 of the Code relating to stakeholder engagement with a particular focus on engagement with the workforce. The ways in which the Board engages with the Group's stakeholders are outlined on page 36. With regard to engagement with the workforce, during 2019, the Board did not utilise the particular methods set out in the Code. Rather, the Board engaged with, and considered the views of the workforce in its discussions and decision-making, through a variety of means such as: – face-to-face meetings through the 'Out and Abouts' schedule of visits to branches and offices around the Republic of Ireland and the United Kingdom as further detailed on page 187; – conversations with a number of employees whereby employees were invited to meet the Board to provide their direct personal views of, and experiences in, AIB as further detailed on page 187; – taking account of the views of c. 800 employees across the Group who participated in a series of 'Culture Conversations' to help inform the Board in defining the Group's cultural ambition; and – taking an in-depth look at the results of the 2019 colleague engagement surveys 'iConnect' and 'Pulse' which gave the Board first-hand insights into the views of employees. The Board believes that the foregoing has been effective in ensuring that it had a good understanding of the views of the employees at different levels and locations throughout the Group and these views inform the Board as part of its decision-making. The Board will consider any enhancements required to these arrangements during 2020.
Other minor enhancements:	Enhanced formality to the performance reviews of senior management by the Nomination and Corporate Governance Committee on a regular basis. Additional commentary in this Annual Financial Report on auditor independence and how their objectivity is safeguarded.

Governance and oversight – Corporate Governance report

Board Leadership and Company Purpose

Role of the Board

The Group is headed by an effective Board which is collectively responsible for the long term, sustainable success of the Group, generating value for shareholders and contributing to wider society. The Board is supported by the Executive Committee, being the most senior management committee of the Group which is responsible for maintaining effective oversight of the Group consistent with Board-approved policy.

The Group maintains a clear division of responsibilities, including between the Chair, who is responsible for the overall leadership of the Board and for ensuring its effectiveness, and the CEO, who manages and leads the business. No one individual has unfettered powers of decision. Key roles and responsibilities and a formal schedule of matters specifically reserved for Board decision are clearly defined, documented and communicated to key stakeholders via the Group's website at https://aib.ie/investorrelations/about-aib/corporate-governance

The Board is responsible for corporate governance, encompassing leadership, direction and control of the Group. It assesses the basis on which the Group generates and preserves value over the long term and is accountable to shareholders for financial performance. The Board is also responsible for approving high-level policy and strategic direction in relation to the nature and scale of risk that the Group is prepared to assume in order to achieve its strategic objectives, and for maintaining an appropriate system of internal controls. The Board receives regular updates on the Group's risk profile through the Chief Risk Officer's monthly report, and relevant updates from the Chair of the Board Risk Committee. An overview of the Board Risk Committee's activities is detailed on pages 200 to 203.

The Board supports and strives to operate in accordance with the Group's purpose and values at all times. The Board regularly challenges Management as to whether the purpose, values and strategic direction of the Group align with its desired culture, or if they do not, whether there are options to mitigate negative stakeholder impacts.

While arrangements have been made by the Directors for the delegation of the management, organisation and administration of the Group's affairs, certain matters are reserved specifically for decision by the Board. The schedule of matters reserved for the Board is reviewed at least annually to ensure that it remains relevant, and was recently updated to reflect any enhancements required under evolving corporate governance requirements and industry best practice.

Board Focus in 2019

While not intended to be exhaustive, below is a high level overview of a number of matters considered by the Board and Board Committees during 2019.

Financial

- 2020 – 2022 Financial Plan and Investment Plan
- 2018 results and analyst presentations
- Approval of dividend
- Funding and Liquidity Policy
- ICAAP/ILAAP including Capital Adequacy Statement, Liquidity Adequacy Statement and the Contingency Funding Plan

Governance

- Board Effectiveness
- Chair's performance review
- Board Diversity Policy
- Corporate Governance frameworks
- Investor Relations activities
- AGM briefing
- Subsidiary Governance
- Board and Executive Succession Planning
- Deputy Chair and Chair Succession Processes

Strategy

- Progress implementing the Group's strategy
- Brexit
- Future environment and business model
- Strategy and integrated financial planning 2020 – 2022
- Property strategy
- Non-Performing Exposure strategy and progress against targets
- Organisational Structure changes

Culture and Values

- Culture Evolution Programme (see page 183 for further details)
- Updates on talent and culture across the business
- Sustainability Report and various matters of importance to the sustainability agenda such as climate action
- Employee engagement
- Customer First activities and customer outcomes

Risk Management

- Group Risk Appetite Statement
- IRB Model Programme progress
- Risk Policies and Frameworks
- Group's Remuneration Policy
- Group Recovery Plan
- General material risks, including those related to Brexit and the wider macro-economy

Regulatory

- Regulatory updates
- Regulatory inspections
- AML and CTF updates
- Market Abuse Regulation practices
- Related Party Lending considerations
- Outcome of Supervisory Review and Evaluation Process

Regular Updates

- Business and Financial Performance
- Tracker Mortgage Review Programme
- Risk Management
- Chair's activities
- Board Committee activities
- Group Company Secretary activities

Board interaction with the Culture Evolution Programme

Following on from work in 2018 to enhance the Group's culture and following the Central Bank of Ireland ("CBI") culture review, the Board devoted significant meeting time in 2019 to both the Behaviour and Culture ("B&C") and Diversity & Inclusion ("D&I") agendas. This time included, but was not limited to:

Playback of the CBI feedback on the Group's B&C and D&I plans and the interpretation of findings from CBI review and Irish Banking Culture Board ("IBCB") survey results. This was followed by an analysis of associated risks and underlying behaviours across the Group.

One-to-one engagement meetings between each Board Director and the Executive Committee Culture sponsor, in order to get individual Director perspectives on Culture across the Group and the future plans.

In May, a number of AIB employees, with varying experiences, tenure and roles with the Group were invited to meet the Board to provide their direct personal views of, and experiences in AIB to date, highlighting areas requiring enhancement and greater focus. Key matters discussed by these employees included:

- the importance of communication,
- the effectiveness of conversations and connectivity,
- the importance of listening to employees to ensure the operation of effective teams,
- the benefits to be derived from really understanding the purpose and customer impact of key projects; and
- the benefits of certain activities to the Group outside of the need to meet regulatory requirements.

The Board noted the valuable input from the employees and considered all feedback at length.

In December 2019, the Board received a CBI letter closing out the Behaviour and Culture Review Action Plan and Diversity and Inclusion Assessment.

Review and consideration of feedback provided by a wider employee base through "Culture Conversations" which took place across the Group facilitated by Senn Delaney, an external firm which focuses on transforming cultures in large organisations.

The Board requested that a behavioural psychologist be commissioned to analyse the Group's current culture through available cultural data. As a result, an externally facilitated training workshop was held in May by Denison Consulting on best-practice in Culture evolution at which they provided their independent analysis and insights on the Group's existing culture.

A programme activity update was included in the CEO Report in months where a specific culture topic was not presented.

The Board was provided with information to facilitate discussion on the outcomes of the initial review phase, specifically, regarding the outcome of the culture conversations referred to above.

The Board reviewed the cultural ambition road map, including the evolution of the Group's brand values and from/to model regarding underlying behaviours across the Group.

The Board will continue to focus on the delivery of the Culture Evolution Programme in 2020.

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 Group and its stakeholders. Executive Directors, as employees of the Group, are also subject to the Group's Code of Conduct and Conflicts of Interests Policy for employees.

Stakeholder Engagement

The five designated stakeholder groups in AIB are customers, employees, investors, society, and the Group's regulators. In order for the Group to meet its responsibilities to its stakeholders, it is acknowledged that the Board should ensure effective engagement with, and encourage participation from, these parties.

Engaging with the Group's stakeholders helps the Group to learn about the issues that are important to them and understand what they expect from the Group. In doing so, the Group can consider the best course of action for all stakeholders, evolve the Group's approach and, where a required course of action may negatively impact a stakeholder, the Group can strive to limit the impact as far as practicable.

The Group engages with stakeholders through various means such as face-to-face meetings including scheduled meetings and out of course meetings on specific topics, research, media engagement, the Group's in-house experts liaising directly with associated business, public and charitable groups and participation in expert fora and events.

The Annual General Meeting ('AGM') is an opportunity for shareholders to hear directly from the Board on the Group's performance and strategic direction, and importantly, to ask questions. Details in relation to the 2020 AGM along with other shareholder-related information can be found on pages 221 and 375 and on the Group's website at https://aib.ie/investorrelations/shareholder-information/annual-general-meeting

Further details on the Group's stakeholder engagement as required under the UK Corporate Governance Code 2018 can be found on page 36.

Governance and oversight – Corporate Governance report

Division of Responsibilities

Key Roles and Responsibilities

Chair

Mr Richard Pym leads the Board, setting its agenda, ensuring 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 Pym was appointed as Chair of the Group in 2014. Mr Pym currently has no other external directorship commitments. Mr Pym announced his intention to retire as Chair of the Group in March 2020. The Group is in the process of identifying the next Chair and an announcement will be made in due course. Mr Pym's biographical details are available on page 44.

Senior Independent Director

As Senior Independent Director ('SID'), Mr Tom Foley acts as a conduit for the views of shareholders and is available as an alternate point of contact to address any concerns or issues they feel have not been adequately dealt with through the usual channels of communication. The SID also leads the annual review of the Chair's performance and succession planning for the Chair's role. He attends meetings with major shareholders as required, to listen to their views in order to develop a balanced understanding of the issues of concern to them. Mr Foley was appointed to the role of Senior Independent Director on 12 October 2019, following Ms Catherine Woods' retirement, and his biographical details are available on page 44.

Deputy Chair

Mr Brendan McDonagh was appointed as Deputy Chair on 24 October 2019. In this role, Mr McDonagh steps in as acting Chair of the Board wherever necessary, and ensures continuity of the Chair role as required. He deputises for the Chair, supporting the Chair in representing and acting as a spokesperson for the Board. The Deputy Chair is available to the Directors for consultation and advice. Ms Catherine Woods held the position of Deputy Chair up to 12 October 2019 when she retired from the Group.

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 Group. In their role, Independent Non-Executive Directors scrutinise the performance of management in meeting agreed objectives and monitor their reporting on performance. They bring an independent viewpoint to the deliberations of the Board that is objective and independent of the activities of the Management and of the Group. They constructively challenge and help develop proposals on strategy and other key matters. Biographical details for each of the Independent Non-Executive Directors are available on pages 44 and 45.

Chief Executive Officer (CEO)

Dr Colin Hunt manages the Group on a day-to-day basis and makes decisions on matters affecting the operation, performance and strategy of the Group's business. The Executive Committee assists and advises him in reaching decisions on the Group's strategy, governance and internal controls, performance and risk management. Dr Hunt was appointed CEO of the Group with effect from 8 March 2019. His biographical details are available on page 45.

Mr Bernard Byrne, the previous CEO, stepped down from his executive duties and from the Board on 8 March 2019 and resigned from the Company on 26 April 2019.

Executive Directors

Executive Directors have executive functions in the Group in addition to their Board duties. The role of Executive Directors, led by the CEO, is to propose strategies to the Board and, following challenging Board scrutiny, to execute the agreed strategies to the highest possible standards.

At 31 December 2019, the Board had two Executive Directors, the CEO, who is referenced above, and the Chief Operating Officer and Deputy CEO, Mr Tomás O'Midheach.

Mr Mark Bourke resigned as an Executive Director and Chief Financial Officer ('CFO') with effect from 1 March 2019.

Executive Committee

The Executive Committee is the most senior management committee of the Group and is accountable to the CEO. Subject to financial and risk limits set by the Board, and excluding those matters which are reserved specifically for the Board, the Executive Committee, under the stewardship of the CEO, has responsibility for the day-to-day management of the Group's operations. Biographical details of all Executive Committee members can be found on pages 46 and 47.

Board Committees

The Board is assisted in the discharge of its duties by a number of Board Committees, whose purpose 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 formally reviewed on an annual basis however, as indicated throughout this Annual Financial Report this is, in fact, a continuous process and aligns to the Board's succession planning process. Each Committee operates under Terms of Reference approved by the Board and the Board Committee's Terms of Reference are available on the Group's website at https://aib.ie/investorrelations/about-aib/corporate-governance

The minutes of all meetings of Board Committees are circulated to all Directors for information and are formally noted by the Board. The Chairs of the Committees brief the Board on the activities of the Committee on a regular basis. Papers for all Board Committee meetings are also made available to all Directors, irrespective of membership. Access to minutes and papers is carefully considered and is restricted where a conflict of interest or confidentiality issue exists.

There is a Sustainable Business Advisory Committee in place, which is an advisory committee to the Board. It is comprised of Non-Executive Directors and members of senior management in order to support the execution of the Group's sustainability strategy. Its remit includes the development and safeguarding of the Group's 'social license to operate', such that the Group plays its part in helping its customers and society prosper as an integral component of the Group's business and operations. Further details on the Group's sustainability-related activities are available in the Annual Review section of this Annual Financial Report.

Reports from the Board Audit Committee, the Board Risk Committee, the Nomination and Corporate Governance Committee and the Remuneration Committee are presented later in this Annual Financial Report.

Group Company Secretary

The Directors have access to the advice and services of Ms Helen Dooley, the Group Company Secretary and Group General Counsel, who advises the Board on all governance matters, ensuring that Board procedures are followed and that the Group is in compliance with applicable rules and regulations. The Group Company Secretary facilitates information flows within and between the Board and its Committees and senior executive management. The Group Company Secretary communicates with shareholders as appropriate, and ensures that due regard is paid to their interests. Both the appointment and removal of the Group Company Secretary is a matter for the Board as a whole. The previous Group Company Secretary, Ms Sarah McLaughlin, resigned on 12 July 2019.

Relationship with the Irish State

The Group has received significant support from the Irish State (the 'State') in the context of the financial crisis due to its systemic importance to the Irish financial system. Following a reduction in its shareholding during 2017, the State now holds 71.12% of the issued ordinary shares of AIB Group plc.

The relationship between the Group and the State is governed by a Relationship Framework. Within the Relationship Framework, with the exception of a number of important items requiring advance consultation with or approval by the State, the Board retains 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.

In considering the matters reserved for the Board, it should be noted that certain of those matters require advance consultation with, or consent from, the Minister for Finance. The conditions under which such prior consultation or approvals are required are outlined in the Relationship Framework which is available on the Group's website at https://aib.ie/investorrelations/about-aib/relationship-with-irish-state

Board Meetings

In 2019, 12 scheduled meetings of the Board and 5 additional out of course meetings were held. The Chair and the Chairs of each Committee ensure Board and Committee meetings are structured to facilitate open discussion, constructive challenge and debate. The Board receives a comprehensive update from the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Chief Operating Officer each month. The remainder of the agenda is built from the indicative work programme which includes strategic items, any activities out of the ordinary course of business, requested in depth reviews and scheduled updates on key projects. There is a set escalation process in place through Executive and Board Committees which ensure the Board receives the necessary information at the appropriate time to enable the right decisions to be taken. The Chair leads the agenda setting process, supported by the CEO and Group Company Secretary.

In the rare event of a Director being unable to attend a meeting, the Chair of the relevant meeting discusses the matters proposed with the Director concerned in advance of the meeting whenever possible, to determine their support and feedback on the matters proposed. The Chair represents those views on behalf of the Director at the meeting. The attendance of Directors at meetings of the Board and Board Committees is detailed on page 187.

In its work, the Board is supported by its Committees which make recommendations, where appropriate, on matters delegated to them under their respective Terms of Reference. Each Committee Chair provides an update to the Board on matters discussed at the preceding Committee meeting and an annual report is provided from each Committee to the Board to ensure appropriate oversight.

Governance and oversight – Corporate Governance report

How our Board Meetings work

In advance of the next calendar year	Meeting dates and locations are agreed in advance to ensure contributors/attendees etc. are well prepared for required timelines and potential visits both at a senior management and operational level. An indicative Work Programme including the Board's Continuous Education Programme is prepared in advance of the calendar year, informed by the Board's agreed priorities, the integrated strategy, financial planning and risk assessment process. The Work Programme is shared with key internal stakeholders to ensure preparedness and alignment across the Group.
Agenda setting	The Chair sets the agenda for each Board meeting in consultation with the Group Company Secretary and the CEO. The draft Board agenda is reviewed by the Executive Committee to seek input on any other matters of relevance requiring the Board's attention and to ensure any emerging issues receive adequate agenda time.
Paper preparation	Unless circumstances or the nature of the topic determine otherwise, matters requiring Board attention are generally considered at an executive governance forum in advance. All papers must be drafted within set templates and guidelines. Such templates include a requirement to consider the implications of the paper content against the Group's strategic pillars, with particular reference to any risk considerations, with papers for decision generally being accompanied by a review from the Risk function.
Paper distribution	Meeting papers are typically distributed one week in advance via a secure electronic board portal to afford Directors sufficient time to review papers in advance of the meeting.
Before the Board meeting	Board Committee meetings are normally held in the days prior to the Board meeting. Private sessions between the Non-Executive Directors and members of management may be held to further explore matters. Board education sessions usually take place on the evening before the Board meeting. These sessions are provided by a mix of internal and external facilitators.
During the Board meeting	In his opening remarks, the Chair sets the focus of each meeting. The Chair will then facilitate the meeting with the support of the Group Company Secretary to ensure sufficient time is afforded to each agenda item with all Directors' views and, where relevant, challenge being aired. In bringing discussions to a conclusion, the Chair will confirm the Board's collective position. Presenters are requested to take each paper as read, and highlight the key matters requiring the Board's attention to ensure sufficient time is spent on the key issues. The Chair and the Chief Executive Officer provide updates on matters of relevance from their own internal and external engagements in the recent period. The Group Company Secretary will draw the Board's attention to any matter of importance and remind the Directors of their obligations under certain statutory or regulatory requirements, where necessary. Any actual, potential or perceived conflicts of interest are monitored and managed appropriately throughout the meeting.
After the Meeting	Minutes and actions arising from the meeting are produced and circulated to the Chair for feedback, review and agreement within agreed timeframes. Actions are provided to action owners to ensure responses are prepared and updates provided for the next meeting or within agreed time frames.

Attendance at Board meetings of AIB Group plc is outlined below. Attendance at Board Committees is reported in the respective Committee reports which appear later in this report.

Directors	Board (scheduled) Eligible to attend	Board (scheduled) Attended	Board (out of course) Eligible to attend	Board (out of course) Attended
Those in office at 31 December 2019				
Richard Pym	12	12	5	5
Tom Foley	12	12	5	5
Basil Geoghegan	4	4	0	0
Colin Hunt	9	9	4	4
Carolan Lennon	12	11	5	2
Elaine MacLean	4	4	0	0
Brendan McDonagh	12	12	5	5
Helen Normoyle	12	11	5	4
Ann O'Brien	8	8	4	4
Tomás O'Midheach	9	9	4	3
Sandy Kinney Pritchard	9	8	4	3
Raj Singh	8	7	4	2
Former Directors				
Simon Ball	4	3	1	1
Mark Bourke	3	2	1	0
Bernard Byrne	3	3	1	1
Peter Hagan	9	9	5	4
Jim O'Hara	9	7	5	4
Catherine Woods	9	9	5	5

During 2019, the Non-Executive Directors also met on a number of occasions in the absence of the Executive Directors.

The composition of the Board of AIB Group plc and Allied Irish Banks, p.l.c. is the same. Throughout 2019, a number of the Non-Executive Directors were also Non-Executive Directors of the Group's other material regulated subsidiary companies, namely AIB Group (UK) p.l.c., AIB Mortgage Bank, EBS d.a.c. and EBS Mortgage Finance. This facilitates oversight of subsidiary activities.

Outside of the Group's Board Meetings

Attendance at Board and Board Committee meetings is only one part of the role of a Non-Executive Director. In addition to such meetings and other scheduled activities such as the Board Continuous Education Programme, Non-Executive Directors undertake a full programme of activities. Importantly, these activities include regular meetings with senior management, employees and the Regulator to increase their understanding of the business and the regulatory environment in which the Group operates.

In 2019, the Board wanted to meet employees in less formal settings. To facilitate more informal meetings, members of the Board accompanied Executive Committee members on 'Out and Abouts' with visits to various sites, meeting with employees informally, learning about their work, their views on the Group, and ways in which the Board and Executive Committee could help to enable the teams to fulfil their purpose in more simple and efficient ways. Following these sessions, Board members relayed their experiences to the Board as a whole commenting on a variety of matters including the culture and behaviours being displayed across the business and any feedback received from employees.

Access to Advice

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.

The Board's Professional Development and Continuous Education Programme

The Board's Professional Development programme is multi-faceted and facilitated through:

Formal Induction Programme: This was refreshed in 2019, particularly due to the number of new directors joining the Board. As an introduction, and to ensure all Directors receive a similar understanding of how the Group operates and the key issues that it faces, a suite of induction documentation is furnished to all incoming Directors via an online Board portal. In addition, a series of meetings with senior management from across the organisation are also arranged. Thereafter, the Head of Corporate Governance, the Chair and the incoming Director design a bespoke additional induction programme as required.

Access to an online Corporate Governance Library which is a simple access point for all corporate governance standards, requirements and internal documentation.

Access to the suite of AIB Group iLearn courses. Whilst formal Board training is provided in a collaborative, presentation setting, Directors have access to the AIB Group online suite of training courses should they wish to undertake additional self-learning.

Site visits across the Group including meetings with staff and customers.

Formal Board training: The 2019 Continuous Education Programme, the specific topics of which are noted below, was developed in conjunction with the indicative Work Programme to ensure that Directors receive up-to-date training on topics prior to reviewing Board papers on same. The programme of training topics was developed by the Corporate Governance and Group Organisation Effectiveness team. Sessions were delivered by both internal and external presenters, in some cases jointly. The Irish Management Institute was engaged to source external presenters for a number of topics throughout the year:

- Listing obligations, Corporate Governance requirements and Conversations with an Investor;
- Corporate reputation;
- Culture;
- Resolution planning;
- Growth strategies;
- Anti-Money laundering; and
- Cyber security.

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Composition, Succession and Evaluation

Board Composition

At 31 December 2019, the Board comprised the Chair who was independent on appointment, nine independent Non-Executive Directors and two Executive Directors. The names of the Directors, with brief biographical notes, are shown on pages 44 and 45 and further details on independence considerations are set out on page 189.

The Board deems the appropriate number of Directors to meet the requirements of the business to be between 10 and 14 but acknowledges that this number may go beyond 14 in the short term to accommodate succession planning activities and to ensure the timely induction and development of new Directors.

There was a significant amount of change to the Board in 2019 as illustrated below.

Appointments during 2019	Board and Committee Chair Role	When
Dr Colin Hunt	Chief Executive Officer	March 2019
Mr Tomás O'Midheach	Chief Operating Officer and Deputy Chief Executive Officer	March 2019
Ms Sandy Kinney Pritchard	Non-Executive Director Chair of Board Audit Committee	March 2019 April 2019
Ms Ann O'Brien	Non-Executive Director	April 2019
Mr Raj Singh	Non-Executive Director	April 2019
Mr Basil Geoghegan	Non-Executive Director	September 2019
Ms Elaine MacLean	Non-Executive Director and Chair of Remuneration Committee	September 2019
Mr Brendan McDonagh*	Chair of Board Risk Committee Deputy Chair	September 2019 October 2019
Mr Tom Foley*	Senior Independent Non-Executive Director	October 2019

Resignations during 2019	Board and Committee Chair Role	When
Mr Mark Bourke	Executive Director	March 2019
Mr Bernard Byrne	Chief Executive Officer	March 2019
Mr Simon Ball	Non-Executive Director	April 2019
Mr Peter Hagan	Non-Executive Director and Chair of Board Risk Committee	July 2019
Mr Jim O'Hara	Non-Executive Director and Chair of Remuneration Committee	October 2019
Ms Catherine Woods	Senior Independent Non-Executive Director, Deputy Chair and Chair of Board Audit Committee	October 2019

**Existing Board members who assumed a new role.*

Board Appointments

The review of the appropriateness of the composition of the Board and Board Committees is a continuous process, and recommendations are made based on merit and objective criteria, having regard to the collective skills, experience, independence and knowledge of the Board along with its diversity requirements.

In addressing appointments to the Board, a role profile for proposed new directors is prepared by the Group Company Secretary on the basis of the criteria laid down by 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 where required and deemed necessary by the Nomination and Corporate Governance Committee. In all recruitment processes, the Group aims to ensure a formal, rigorous and, acknowledging the need for confidentiality, transparent process.

Prior to recommendations for appointment of a given candidate, a comprehensive due diligence process is undertaken, which includes the candidate's self-certification of probity and financial soundness, external references and external checks. The due diligence process facilitates the Nomination and Corporate Governance 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 Nomination and Corporate Governance Committee.

The Relationship Framework specified by the Minister for Finance (the 'Minister'), which governs the relationship between AIB and the Minister, on behalf of the Irish State as shareholder, requires the Board to consult with the Minister before appointing, reappointing or removing the Chair or Chief Executive Officer and in respect of any other proposed Board appointments. A Board-approved Policy for the Assessment of the Suitability of Members of the Board, which outlines the Board appointment process, is in place, and is in accordance with applicable joint guidelines issued by the European Securities and Markets Authority and European Banking Authority.

Terms of appointment and time commitment

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.

Following appointment, in accordance with the requirements of the Company's Constitution, Directors are required to retire at the next Annual General Meeting ('AGM'). Directors may go forward for reappointment, and are subsequently required to make themselves available for reappointment at intervals of not more than three years. The 2020 AGM is scheduled for 29 April 2020. The Board has adopted the practice that all directors will retire from office at the date of the AGM and may choose to offer themselves for reappointment.

Letters of appointment, as well as dealing with terms of appointment and appointees' responsibilities, stipulate that a specific time commitment is required from Directors. Copies of Directors' letters of appointment are available to shareholders for inspection at the AGM and at the Registered Office during business hours on request from the Group Company Secretary.

Non-Executive Directors are required to devote such time as is necessary for the effective discharge of their duties. The estimated minimum time commitment set out in the terms of appointment is 30 to 60 days per annum including attendance at Committee meetings.

Before being appointed, Directors disclose details of their other significant commitments along with a broad indication of the time absorbed by such commitments. 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 Chair and the Group Company Secretary, and in certain cases the Board as a whole and/or the Central Bank of Ireland, must be sought.

Balance and Independence

The Board has determined that all of the Non-Executive Directors in office at 31 December 2019, namely Mr Tom Foley, Mr Basil Geoghegan, Ms Sandy Kinney Pritchard, Ms Carolan Lennon, Ms Elaine MacLean, Mr Brendan McDonagh, Ms Helen Normoyle, Ms Ann O'Brien and Mr Raj Singh are independent in character and judgement and free from any business or other relationships with the Company or the Group which could affect their judgement.

In determining independence, the Board had particular regard to the fact that Ms O'Brien and Mr Singh were appointed following their nomination by the Minister for Finance in Ireland, who controls c. 71% of the Group's issued share capital. In determining that they should properly be considered to be independent, the Board gave due regard to the following matters: the nature and history of the shareholding and the alignment of the Irish State's interests with other shareholders, the nature of the individuals nominated and the process followed in identifying them for nomination, their performance and nature of their contribution to the business of and matters discussed at the Board and the Relationship Framework with the Irish State. The Board is satisfied that in carrying out of their duties as Directors, Ms O'Brien and Mr Singh are able to exercise independent and objective judgement without external influence.

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.

Mr Richard Pym was determined as independent on appointment as required under the UK Corporate Governance Code 2018.

The independence of each Director is considered by the Nomination and Corporate Governance Committee prior to appointment and reviewed annually thereafter.

Diversity

Employee diversity and inclusion in the Group is addressed through policy, practices and values which recognise that a productive workforce comprises of different work styles, cultures, generations, genders and ethnic backgrounds. The Group opposes all forms of unlawful or unfair discrimination. The efficacy of related policy and practices and the embedding of the Group's values is overseen by the Board.

The Board recognises and embraces the benefits of diversity among its own members, including the 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.

Whilst the Board recognises that diversity is wider than gender, in order to achieve its objective to build a diverse Board, it has set measurable targets and objectives around the under-represented gender in its Board Diversity Policy.

The original Board Diversity Policy for AIB Group was introduced in 2015 with an initial target to ensure the percentage of females on the Board reached or exceeded 25 per cent by the end of 2016. This target was met in October 2016. On review of the Board Diversity Policy in July 2019, the Board set a new target to achieve 30 per cent female representation by the end of 2020 and thereafter, to take opportunities to increase the number of female directors over time, where that is consistent with other skills and diversity requirements.

At 31 December 2019, the percentage of females on the Board stood at 41 per cent and the Board is confident it will continue to exceed its target in 2020.

In terms of implementation of the Board Diversity Policy, the Nomination and Corporate Governance Committee (the 'Committee') reviews and assesses the Group Board composition and has responsibility for leading the process for identifying and nominating, for approval by the AIB Group

Governance and oversight – Corporate Governance report

Board, candidates for appointment as directors. In reviewing AIB Group Board composition, balance and appointments, the Committee considers candidates on merit against objective criteria and with due regard for the benefits of diversity, in order to maintain an appropriate range and balance of skills, experience and background on the Board. Where external search firms are engaged to assist in a candidate search, they will be requested to aim for a fair representation of both genders to be included in the initial list of potential candidates so that the Committee has a balanced list from which to select candidates for interview.

The Board Diversity Policy and monitoring of performance relative to targets set out therein is a matter for the Committee, which discusses progress against agreed targets. A copy of the Board Diversity Policy is available on the Group's website at https://aib.ie/investorrelations/about-aib/corporate-governance

The Board Sustainable Business Advisory Committee is tasked with considering and advising on the Group's policies relating to employee diversity in the Group generally.

Board Effectiveness

The Board conducts an annual evaluation of its effectiveness, and is required to have an external evaluation conducted once every three years. Having conducted a successful external evaluation in 2017, which was facilitated by Lintstock and reported on in the 2017 Annual Financial Report, an internal evaluation was carried out in 2018 and again, in 2019.

The Chair of the Board leads the annual review of the Board's effectiveness and that of its Committees and individual Directors with the support of the Nomination and Corporate Governance Committee, which he also chairs.

The objective of these evaluations is to review the Board's composition, expertise, diversity and how effectively members work together to achieve objectives. It also reviews 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.

2019 Internal Effectiveness Evaluation

The 2019 evaluation was led by the Chair with the support of the Head of Corporate Governance. Whilst the evaluation was internal in nature, as with the 2018 evaluation, it was facilitated by the provision of formal questionnaires by Lintstock. Lintstock is an independent external consultancy firm, which also conducted an effectiveness evaluation of the Group's UK subsidiary during 2019 but has no other connection to AIB Group.

The provision of the questionnaires and production of a consolidated results report facilitated comparison of the 2019 outcome to 2018 in order to ascertain the level of progress made in the intervening period.

Each Director completed online questionnaires, which sought their views on a range of topics including Board composition and expertise, Board culture and dynamics, the Board's calendar and agenda, the quality and timeliness of information, strategy and operational matters, risk management and internal control, succession planning, human resource management, and priorities. Similar questionnaires were completed for each Board Committee, an evaluation of the Chair and individual director self-assessment.

As a key part of the evaluation process, the Chair met with each Director to review their individual performance. These reviews included discussion of 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 of Ireland Corporate Governance Requirements for Credit Institutions 2015, the requirements of the Central Bank's Fitness and Probity Regulations, and any other specific matters which the Chair and/or Directors wished to raise.

The performance of the Chair was also assessed. It was led by the SID, who met with the Board to discuss the Chair's performance in his absence. The SID subsequently provided an update on the positive outcome of the review to the Chair.

The findings of the Board and Board Committee evaluations were reviewed by the Group Company Secretary. The summary findings were then shared and discussed with the Chair and feedback on each of the Committees was shared with the individual Committee chairs. Feedback on individual Directors was shared directly by Lintstock with the Chair. The results culminated in a consolidated report on the findings of the full evaluation process being presented to the Board and the Committees in November and December 2019.

Highlights from the 2019 internal Board Effectiveness Evaluation

The outcome of the evaluation was generally positive, particularly in light of the substantial change seen at Board and Board Committee level. The evaluation concluded that the Board continued to be effective, with all Directors demonstrating very strong commitment to their roles which at times required them to go above and beyond their required time commitment to the role.

Overall the effectiveness of the Board and its Committees improved year on year. The key themes identified through the Board evaluation included succession planning and integrating new appointments, the focus of the Board on strategy to include devoting more time to market, technology and competitor reviews and monitoring the execution of key projects and ensuring lessons learned were taken and distilled through the business.

As a result of the evaluation, the Board agreed a new set of Board priorities to align with the Group embarking on a new three-year strategy to include:

Simplification	Modernise and simplify the Group, reducing 'cost to serve' and error.
Sustainability	Create leadership of the sustainability agenda in Ireland benefitting customers and wider civil society.
Culture	Create a culture which encourages the right behaviours towards customers and colleagues.
Leadership	Build leadership and talent to develop and sustain the Group through generations.
Bring Resolution of the Past to an end	With particular reference to non-performing exposures and conduct failures.
Returns	Create an operating model which delivers to shareholders an appropriately attractive return for the use of their capital.

During the evaluation, many directors commented favourably on the performance of the Board as a whole, describing it as positively diverse and benefiting from a good mix of skills.

Recommendations from the 2019 review and actions in respect of each which are actively underway, included:

Focus of meetings	The Board expressed an appetite for its work programme to be enhanced to increase information and time spent on (i) strategic forward looking topics (ii) customers (including market research) particularly Small and Medium Enterprise customer journeys, (iii) competitors, (iv) technology and (v) costs. The Board highlighted the need to maintain an appropriate balance between legacy and forward looking matters. In response to these requests, the indicative Work Programme has been enhanced to allow increased time for these matters and additional Non-Executive Director only meetings. Additionally, monthly reporting has been enhanced to deliver better engagement with Management on core business objectives and strategic issues through the use of key performance indicators as well as more forward looking analysis.
Culture	The Board wanted to ensure focus remained on enhancing the Boards' monitoring of culture and behaviours through (i) sustained engagement with the Executive Committee Culture Sponsor, (ii) continued focus on culture in its own right, rather than embedded within larger topics, (iii) focus on the Board's own culture and how it impacts the organisation, (iv) enhancement of clarity across the organisation in relation to the Group's whistleblowing and "speak up" policies and procedures and (v) KPIs to be developed to help measure and assess progress on culture. These actions have been taken into consideration in agenda planning and in the work of the Culture Evolution Programme.
Talent monitoring	Whilst acknowledged as a matter for the Nomination and Corporate Governance Committee, it was agreed that the executive succession plan should be shared with the Board in association with key people risk and the appropriateness of processes for managing and developing talent. An action was taken whereby training would be developed to assist attendees at Board and Board Committees to make impactful presentations and contributions at the meetings and to improve visibility for the Board of the management layer immediately below the Executive Committee and consider the inclusion of middle management at Board events.
Board papers	Recognising the progress made in 2018, the Board requested the continuation of the action to enhance the clarity and conciseness of papers through the use of key issues, summaries and increased clarity on the recommendations in the papers from the business areas.

Governance and oversight – Corporate Governance report

Progress against the 2018 internal Board Effectiveness Evaluation

A summary of the Board's progress against the actions arising from the 2018 external effectiveness review are set out below.

Board Papers – Brevity and Clarity	While observations on the volume of papers did appear again during the 2019 effectiveness review, improvements to the quality and consistency of papers were acknowledged. These improvements were driven by enhancements to templates, paper drafting guidelines and workshops with regular paper submitters. An ongoing drive to reduce the length of Board papers has also seen positive results albeit continuous improvement is still required.
Decision Implementation	The Board was keen to implement a more formal process to assess the quality of implementation of Board decisions and review their effectiveness. To facilitate this, the Board was provided with a summary of key decisions taken from July 2018 to June 2019 with an updated status provided. A similar look back exercise is scheduled for December 2020 to ensure the Board continues to have oversight of the implementation of such decisions and their effectiveness.
Board Work Programme	Acknowledging that the focus of meetings arose again in the 2019 effectiveness evaluation, the indicative Board Work Programme was reviewed in early 2019 to further consider the time spent by the Board and ensure appropriate focus was placed on strategic matters, culture and behaviours.
Enhanced Stakeholder Engagement	In the 2018 review, Directors cited a desire to enhance engagement with key stakeholders with a particular focus on customers and employees. Through a series of informal visits known as 'Out and Abouts' as detailed in this Corporate Governance report, branch visits and various staff events, the Board took the opportunity to increase face-to-face meetings with employees throughout 2019. Further details on stakeholder engagement are outlined on page 36.

Audit, Risk and Internal Control

The Board has delegated responsibility for the consideration and approval of certain items pertaining to audit, risk and internal control to the Board Audit Committee and Board Risk Committee. Where required, topics will be referred onward to the Board as a whole for further discussion or approval. Information on the activities of the Board Audit Committee and Board Risk Committee in 2019 can be found in the reports of these Committees, which form part of this Governance and oversight section of the Report.

Remuneration

The Board has delegated responsibility for the consideration and approval of the remuneration arrangements of the Chair, Executive Directors, Executive Committee members, the Group Company Secretary and certain other senior executives to the Remuneration Committee. The Board as a whole, with the Non-Executive Directors abstaining, considers the fees paid to Non-Executive Directors. Information on the activities of the Remuneration Committee in 2019 can be found in the Remuneration report, which forms part of this Governance and oversight section of the Report.

UK Corporate Governance Code Disclosures Index

The ethos of the UK Corporate Governance Code 2018 (2018 Code) aligns with the Board's focus on ensuring long-term sustainability and the continued importance of the cultural evolution programme, stakeholder engagement and succession planning. Following the Code's publication in 2018, 2019 was a year of embedding new processes and implementing enhancements, where required.

Further to the information on UK Code Compliance and Enhancements set out on pages 180 and 181, including the rationale for certain instances of non-compliance, the below table outlines where the disclosures on how AIB has applied the main principles of the 2018 Code can be found. The Group's Statement of Compliance with the 2018 Code is on page 179.

	Code Principle	Section	Page
Section 1. Board Leadership and Company Purpose			
A.	A successful company is led by an effective and entrepreneurial board, whose role is to promote the long term sustainable success of the company, generating value for shareholders and contributing to wider society.	• Board Leadership and Company Purpose	182
B.	The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	• Corporate Governance in Action • Board Leadership and Company Purpose	32 182
C.	The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	• Risk Governance and Oversight • Corporate Governance arrangements and practices • Internal Controls	73 178 220
D.	In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.	• Engaging with Our Stakeholders • UK Corporate Governance Code 2018 – Compliance and Enhancements • Stakeholder Engagement	36 180 183
E.	The board should ensure that workforce policies and practices are consistent with the company's values and support its long term sustainable success. The workforce should be able to raise any matters of concern.	• Board Leadership and Company Purpose • Report of the Board Audit Committee	182 194
Section 2. Division of Responsibilities			
F.	The chair leads the board and is responsible for its overall effectiveness in directing the company. The chair should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.	• Division of Responsibilities • Balance and Independence	184 189
G.	The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.	• Board Leadership and Company Purpose • Division of Responsibilities	182 184
H	Non-executive directors should have sufficient time to meet their board responsibilities. Non-executive directors should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.	• Division of Responsibilities • Board Appointments	184 188
I.	The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.	• Division of Responsibilities • Board Effectiveness	184 190
Section 3. Composition, succession and evaluation			
J.	Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria, and promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.	• Corporate Governance in Action • Composition, succession and evaluation • Report of the Nomination and Corporate Governance Committee	32 188 204
K.	The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.	• Composition, succession and evaluation • Report of the Nomination and Corporate Governance Committee	188 204
L.	Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.	• Composition, succession and evaluation • Board Effectiveness	188 190
Section 4. Audit, Risk and Internal Control			
M.	The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.	• Report of the Board Audit Committee	194
N.	The board should present a fair, balanced and understandable assessment of the company's position and prospects.	• Report of the Board Audit Committee • Directors' Responsibility Statement	194 224
O.	The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long term strategic objectives.	• Risk Governance and Oversight • Report of the Board Audit Committee • Report of the Board Risk Committee	73 194 200
Section 5. Remuneration			
P.	Remuneration policies and practices should be designed to support strategy and promote long term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long term strategy.	• Report of the Remuneration Committee • Corporate Governance Remuneration Statement	208 212
Q.	A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.	• Report of the Remuneration Committee • Corporate Governance Remuneration Statement	208 212
R.	Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	• UK Corporate Governance Code 2018 – Compliance and Enhancements • Corporate Governance Remuneration Statement	180 212

Governance and oversight – Report of the Board Audit Committee

Letter from Sandy Kinney Pritchard, Chair of the Board Audit Committee

Dear Shareholder,

On behalf of the Board Audit Committee ('the Committee'), I am pleased to deliver my first report to you on the Committee's activities during the financial year ended 31 December 2019.

2019 was a year of significant change for the Committee. Following my appointment to the Board in March 2019, I was appointed Committee Chair in April 2019, taking the mantle from Ms Catherine Woods following her eight year tenure as Chair. I would like to take this opportunity to acknowledge the positive contributions of Ms Catherine Woods, Mr Peter Hagan and Mr Jim O'Hara who stepped down from the Committee this year. In September, we were delighted to welcome Mr Basil Geoghegan to the Committee. Basil's considerable corporate and non-executive experience is a valuable addition to the Committee.

The Group Head of Internal Audit resigned from the Group in April 2019, at which time an interim appointment to the role was approved. Over the course of the year, a robust selection process was conducted by the Committee to appoint a successor to this role. I am pleased to note that we have selected a strong internal candidate who is currently progressing though the regulatory approval process. During this period of substantial change, the Committee continuously assessed the performance and independence of the Internal Audit function, and the Committee is satisfied that all appropriate structures remained in place throughout the year.

The Committee is tasked with ensuring that the Group operates a strong control environment and acts independently of Management so that the interests of shareholders and other stakeholders are appropriately protected in relation to internal control and financial reporting.

With regard to the internal control environment, the Committee continued to monitor the effectiveness of the three lines of defence model across the Group, with a primary focus on activity overseen by the third line of defence. To this end, the Committee received regular reports from the Group Internal Audit function regarding control issues identified through the execution of the internal audit plan, as well as Management's response to those issues. Audit engagements were rated based on the strength of both the control environment in operation, and Management's awareness of the risks facing their business areas, and the controls in place to mitigate those risks. The 2020 Audit Plan was subject to robust review and challenge on a number of occasions by the Committee in order to ensure the appropriate coverage and focus on the risk profile of the Group. The Committee also considered reports and presentations from the External Auditor, Chief Financial Officer and the Risk function on the effectiveness of the control environment.

In light of a sustained focus on the enhancement of the three lines of defence model, the Committee continued to assess control issues against a number of "Key Control Enhancement Themes", each owned by an accountable Executive Committee Member. In 2019, the themes included Key Person Succession, Oversight of Subsidiaries, IT Governance, Third Party Management, Credit and Compliance Risk Management including Anti Money Laundering.

The Committee has responsibility for ensuring that appropriate arrangements are in place by which employees can, in confidence, raise concerns regarding possible improprieties in matters of financial reporting or other matters. We received updates from Management regarding the Group's whistleblowing or "Speak Up" governance arrangements in place. A deep dive review of whistleblowing governance and support structures was undertaken in 2019, with a number of enhancements proposed for implementation in 2020. The Committee will monitor the progress of the delivery of those enhancements, and will continue to ensure that appropriate support and arrangements are in place for staff in this regard throughout the coming year.

A primary role of the Committee is to consider the significant matters relating to the annual and interim accounts. Key accounting judgements are subject to in depth discussion and challenge with Management and the External Auditor in advance of recommending to the Board. This ensures that all financial reports, including the annual report and accounts, taken as a whole, are considered to be a fair, balanced and understandable assessment of the Group's financial position, and provide the necessary information for shareholders to assess the Company's performance, risks, business model and strategy.

The key matters of judgement considered by the Committee in relation to the 2019 financial statements, and how they were addressed, are set out below:

Impairment of financial assets

On 1 January 2018, the Group transitioned to the financial instruments accounting standard IFRS 9. This accounting standard requires losses to be reflected on an expected credit loss ("ECL") basis. Expected credit losses are required to incorporate forward looking information, reflecting Management's view of potential future economic environments. The complexity involved required Management to develop new methodologies involving the use of subjective judgements as well as significant changes to systems, processes and controls.

The key judgements include:

- Determining the criteria for a significant increase in credit risk relative to origination and for being classified as credit impaired;
- Developing the appropriate models, probability of default (PD) and loss given default (LGD) assumptions for measuring ECL;
- Determining the life of a financial instrument and therefore, the period over which to measure ECL;
- Key assumptions, including collateral valuation and cash flow timings, used in discounted cash-flows ('DCFs') of individually assed loans. DCFs are the most significant input to the ECL calculation for non-retail Stage 3 loans;
- Post model adjustments determined by Management for certain portfolios; and
- Establishing the number and relative weightings for forward looking macroeconomic scenarios for ECL.

The Committee obtained regular and detailed reports and presentations from Management throughout 2019 on the ECL outcomes and the process for updating the key assumptions noted above. The Committee particularly focused on changes to models and the criteria for determining a significant increase in credit risk, as well as the full embedding of IFRS 9 processes and controls in 2019. The Committee also considered the reports of independent assurance processes within the Group as well as reports from Internal Audit. In relation to forward looking macroeconomic scenarios, the Committee considered and challenged the process used by Management to determine the assumptions and weightings, including the potential impact of Brexit and a wider global economic slowdown. The Committee has also reviewed the sensitivities and disclosures in the Risk management section of this report and and is satisfied that these are balanced and fair. Based on the work performed, the Committee concurred that the judgements and assumptions used in determining the ECL provision at 31 December 2019 were appropriate.

Deferred taxation

The Group has recognised deferred tax assets for unutilised tax losses totalling € 2,771 million. It is assessed that it will take in excess of 20 years for the deferred tax asset to be utilised. The assessment of the conditions for the recognition of a deferred tax asset is a critical judgement particularly given the inherent uncertainties associated with projecting profitability over a long time period.

In assessing the recognition of the deferred tax assets, the Committee has considered the Group's financial plan and the growth assumptions and profitability levels underpinning the plan. The Committee noted that reduced profitability forecasts in the plan has resulted in the period of utilisation of the deferred tax asset to increase. As a result, the Committee reassessed the range of positive and negative evidence prepared by Management and the inherent uncertainties in any long term assumptions and projections. Based on this evidence, the Committee agreed that the recognition basis for the deferred tax asset remains appropriate and that the assumptions used by Management in assessing the recognition of deferred tax assets are reasonable.

Retirement benefit obligations

There is a high degree of estimation and judgement in the calculation of retirement benefit liabilities. These liabilities are highly sensitive to changes in the underlying actuarial assumptions including the discount rate, pension in payment increases and inflation rates.

In assessing the reasonableness of defined benefit obligation assumptions, the Committee has reviewed reports by Management setting out the processes for deriving the key assumptions and how these assumptions are benchmarked to external market data. The Committee has also reviewed assessments by independent actuaries who have provided an expert opinion to Management. Based on the work performed, the Committee agreed that the assumptions supporting the retirement benefit liabilities are reasonable.

Provisions for liabilities and commitments

The measurement of provisions, including those for customer redress and related matters, is highly judgemental. Back in 2017, following review and analysis of the parameters of the Central Bank of Ireland's Tracker Mortgage Examination framework, the Group concluded that a cohort of customers who were never on a tracker rate would be paid compensation. However, in January 2020, the Group received a preliminary Financial Services and Pensions Ombudsman ("FSPO") decision which upheld a claim by an impacted customer within this cohort and awarded further redress. The Group considered this preliminary decision and recorded a provision of € 265 million based on an initial assessment of the likelihood that additional redress may be due to all customers in this cohort. The Group recognises that there is a range of possible outcomes and has created this provision, which was subject to review and approval by the Board. This represents Management's best estimate of loss taking into account the available evidence and assessment of the potential outcomes in finalising this matter with the relevant stakeholders. The Committee has reviewed the position and the process for estimating the provision. Based on its assessment, the Committee has concluded that this provision is reasonable taking into account the inherent uncertainties in the calculation and the judgemental nature of key assumptions, particularly relating to the identification of impacted customers and related redress costs. The Committee has also reviewed the disclosure set out on pages 277 and 328 of this report.

Governance and oversight – Report of the Board Audit Committee

Impairment of investment of AIB Group plc in Allied Irish Banks, p.l.c.

The Group completed a corporate reorganisation during 2017 which included the creation of a new Group holding company, AIB Group plc. The Company balance sheet included a € 12.9 billion investment in Allied Irish Banks, p.l.c. before the impairment assessment. The Company reviews its equity investment for impairment at the end of each reporting period if there are indications that impairment may have occurred.

The testing for possible impairment involves comparing the estimated recoverable amount of an investment with its carrying amount. Where the recoverable amount is less than the carrying amount, the difference is recognised as an impairment provision in the Company's financial statements. The recoverable amount is the higher of fair value less costs to sell and value-in-use ("VIU").

At 31 December 2019, the Group has assessed an impairment of € 3,444 million in the carrying value of its investment in Allied Irish Banks, p.l.c. based on its VIU. There is a significant level of judgement associated with the determination of the VIU as it is predicated on the achievement of future projections. The Committee has considered the key assumptions determined by Management, including future growth and discount rates. The Committee also considered reports commissioned by Management from independent experts which included benchmarking to external data. Based on the assessment of this expert opinion, the Committee has concluded that the judgements supporting the impairment calculation are reasonable.

Further details on the Committee's responsibilities, membership and the record of attendance at meetings during 2019 are outlined in the full report of the Committee.

I am honoured to take on the responsibility of the role of Chair of the Board Audit Committee and appreciate the considerable support afforded to me in my transition into the role from my fellow Members, both past and current. I would like to extend my heartfelt thanks to Catherine Woods, my predecessor, who laid the strong foundations for the effective and robust manner in which the Committee discharges its duties.

Sandy Kinney Pritchard,
Committee Chair

Report of the Board Audit Committee

Membership and meetings

In 2019, the composition of the Committee changed significantly, with the resignation of three committee members including the Committee Chair. Succession planning throughout 2018 and 2019 resulted in the appointment of two new Directors to the Committee, including Ms Sandy Kinney Pritchard as Committee Chair. The Committee, as at 31 December 2019, comprised four Non-Executive Directors, all deemed to be independent, and who the Board determined have the collective skills, competence 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, three Members of the Committee are also members of the Board Risk Committee. This common membership provides effective oversight of relevant risk and finance issues. Details of each of the Members are outlined on pages 44 and 45.

The Committee met on 13 occasions during 2019, ten of which were scheduled, and three of which were out of course meetings. In addition to the regular schedule of meetings, the Committee met jointly on one occasion with the Board Risk Committee to discuss a matter relevant to the remit of both committees. The Members held an additional deep dive meeting with the Interim Group Head of Internal Audit and members of the senior Audit Management team to discuss the 2020 Group Internal Audit plan. Scheduled meetings were attended by the Chief Financial Officer, the Chief Risk Officer, the Interim Group Head of Internal Audit and the Lead Audit Partner from the External Auditor, Deloitte. Other senior Executives also attended by invitation, where appropriate.

In the course of the year, the Committee also met with the Chief Financial Officer, the Interim Group Head of Internal Audit, the Chief Risk Officer and twice with the External Auditor in the absence of Management. The Chair and Members of the Committee, together with their attendance at meetings, are set out below.

Current Committee members are shown below. Members who retired during the year are shaded.

Member attendance during 2019*:	Eligible to attend	Attended
Sandy Kinney Pritchard	9	8
Tom Foley	13	13
Basil Geoghegan	4	4
Brendan McDonagh	13	11
Catherine Woods	10	9
Peter Hagan	9	8
Jim O'Hara	10	7

*As indicated in the Report, there were a number of membership changes throughout the year which, in turn, led to differences in the number of Committee meetings individual directors were eligible to attend.

To ensure ongoing awareness of the work of the Committee by all Directors, the Committee Chair provided an update to the Board following each meeting on the key items discussed and considered by the Committee.

Committee purpose

A full overview of the responsibilities of the Committee is set out in its Terms of Reference. The Committee is appointed by the Board to assist them in fulfilling its independent oversight responsibilities in relation to:

- the quality and integrity of the Group's accounting policies, financial and narrative reports, and disclosure practises;
- the effectiveness of the Group's internal control, risk management and financial reporting systems;
- the adequacy of arrangements by which staff may, in confidence, raise concerns regarding possible improprieties in matters of financial reporting or other matters;
- the independence and performance of the Internal and External Auditors.

The Committee's Terms of Reference can be found on the Group's website at: https://aib.ie/investorrelations/about-aib/corporate-governance

Governance and oversight – Report of the Board Audit Committee

Matters considered by the Committee

The following, while not intended to be exhaustive, is a summary of key items considered, reviewed and/or approved or recommended by the Committee during the year:

Area of focus	Role of the Committee
Financial and Narrative Reporting	– Recommended to Board the approval of the Annual and Interim Financial Report. – Reviewed and recommended as appropriate significant financial reporting judgements and accounting assumptions made by Management. – Reviewed and approved, as appropriate, new accounting policies and changes to existing policies prior to implementation, including those supporting the application of IFRS 16 *Leases*. – Considered the minutes of the Group Disclosure Committee in advance of recommending the financial statements to the Board.
Internal Control	– Received reports from Management regarding the operation and effectiveness of the system of controls over financial reporting. This includes Managements assessment of IT controls and the mitigation of IT risks, including conclusions from reviews by Internal and External audit. – Received reports from Management regarding key internal controls in respect of fraud prevention and detection. – Approved Directors' statements concerning internal controls to be included in the Annual Financial Report. – Reviewed the minutes of the subsidiary audit committees of AIB Group (UK) p.l.c., EBS d.a.c. and AIB Mortgage Bank.
Code of Conduct and "Speak Up" Policy	– Received reports on the operation of the Group Code of Conduct and Conflicts of Interest Policy across the Group. – Received reports regarding the operation of the "speak up" policy and all other whistleblowing options available in the Group. – Considered proposed enhancements to the governance structures in place to support the Group's "speak up" arrangements.
Internal Auditor	– Considered the findings of internal audit reports and special investigation reports, and Management's response to actions outlined therein. – Monitored progress against the agreed 2019 Group Internal Audit Plan, and progress against issues raised. – Considered the annual and half year audit opinion in relation to the overall control environment. – Approved the Annual Internal Audit Plan for 2020. – Approved the Group Internal Audit Charter. – Approved the approach to compliance with Article 191 of the Capital Requirements Regulation, including the output of the Annual General Risk Assessment relating to Internal Models.
External Auditor	– Reviewed the scope of the statutory external audit, as well as the findings, conclusions and recommendations of the External Auditor. – Reviewed and made recommendations to the Board regarding the Audit Representation Letter. – Reviewed the annual report from Management regarding the employment of former employees of the External Auditor across the Group. – Reviewed the level of non-audit fees paid to the External Auditor. – Approved the fees paid to the External Auditor.

Internal Audit

The Committee provided assurance to the Board regarding the independence and performance of the Group Internal Audit function. It also considered and approved the annual audit plan with reference to the material risks of the business and the adequacy of resources allocated to the function. Throughout the year, the Chair of the Committee met with Group Internal Audit Management between scheduled meetings of the Committee to discuss material issues arising as well as to plan forthcoming agendas and the focus of upcoming Committee meetings. The Committee also met with the Interim Group Head of Internal Audit in private session during 2019, in the absence of Management. The Group Head of Internal Audit has unrestricted access to the Chair of the Board Audit Committee.

The Committee is responsible for making recommendations in relation to the Group Head of Internal Audit, including their appointment, replacement and remuneration, in conjunction with the Remuneration Committee, and confirming the Group Head of Internal Audit's independence. To this end, following the resignation of the Group Head of Internal Audit, the Committee conducted a selection process to identify an appropriate successor to that role. Following a robust and formal selection process, an internal candidate was selected as the successful candidate, and approved for the role by the Committee. The Nomination and Corporate Governance Committee further endorsed that appointment, subject to the required regulatory approvals.

External Audit

Following a tender process in 2013, Deloitte were appointed as the Group's Auditor. Mr John McCarroll was appointed lead Audit Partner in March 2018 and has continued in that role throughout 2019. In line with the relevant EU Directive requirements, and strong corporate governance practices, the next tendering process for a new Group auditor will be no later than 2023.

The Committee provided oversight in relation to the Auditor's effectiveness and relationship with the Group including agreeing the Auditor's terms of engagement, remuneration and monitoring the independence and objectivity of the Auditor. To help ensure the objectivity and independence of the Auditor, the Committee has established a policy on the engagement of the Auditor to supply non-audit services, which outlines the quantum of non-audit fees for which the use of the Auditor is pre-approved. It also provides guidance regarding which non-audit services require specific approval from the Committee before they are contracted and those from which the Auditor is excluded. Further details on the approach can be found on the Group's website at: https://aib.ie/investorrelations/about-aib/corporate-governance

In addition, the Committee provided oversight in monitoring the effectiveness of the policy for the employment of individuals previously employed by the Auditor. The Committee received an update on the application of that policy, including the number of former employees of the external auditor currently employed in senior management positions in the Group, and assisted the Committee in assessing the Auditor's independence and objectivity in respect of the audit. The policy for the employment of individuals previously employed by the Auditor was established in 2016 in accordance with the EU Audit Regulations 537/2014 and Directive 2014/56/EU, which was transposed into Irish law on 25 July 2018.

The Committee considered the detailed audit plan in respect of the annual and interim financial statements and the Auditor's findings, conclusions and recommendations arising from the half-yearly review and annual audit. The Committee satisfied itself with regard to the Auditor's effectiveness, independence and objectivity through a number of mechanisms throughout the year. These included consideration of the work undertaken, confidential discussions with the Auditor and feedback received from Management.

The Committee recommends that Deloitte should be reappointed as the Auditors at the Annual General Meeting on 29 April 2020. This recommendation is based on the considerations set out above in addition to the Committee's determination of the Auditor's effectiveness, independence and objectivity.

Performance evaluation

An internal performance evaluation of the Board was conducted in 2019, as noted on page 190; this included a review of the Committee. The overall results of that review were positive and concluded that the Committee continued to operate in an efficient manner. Minor enhancements have been agreed by the Committee and will be tracked for conclusion in 2020.

Governance and oversight – Report of the Board Risk Committee

Letter from Brendan McDonagh, Chair of the Board Risk Committee

Dear Shareholder,

On behalf of the Board Risk Committee ('the Committee'), I am pleased to deliver my first report to you on the Committee's activities throughout the financial year ended 31 December 2019.

The significant changes on the Group Board which have been outlined to you within the Corporate Governance report of this Annual Financial Report were mirrored at the Committee level. Following a four year tenure as Committee Chair, and seven years as Director, Mr Peter Hagan retired in September. Peter strongly steered the Committee through a period where its mandate continued to grow, with enhanced focus on the material risks facing the Group. In addition, 2019 also saw Ms Catherine Woods and Mr Simon Ball retire from the Group. I would like to take this opportunity to thank them all for their considerable contribution to the Committee.

We welcomed Ms Sandy Kinney Pritchard, Mr Raj Singh and Mr Basil Geoghegan to the Committee in 2019, bringing with them substantial corporate understanding and practical risk management experience. I look forward to their continued support in the coming year.

Throughout the year, the Committee continued to discharge its roles and responsibilities, with detailed consideration given to a wide range of both existing and emerging risks facing the Group, whilst remaining cognisant of uncertainties within the macroeconomic environment. To that end, the Committee received regular reports from the Chief Risk Officer on the foremost risks facing the Group, which focused on the material risks, as well as a number of key matters, including the external environment, the Group's capacity for keeping pace with a challenging regulatory change agenda, a focus on conduct risk considerations, overall regulatory compliance and operational risk.

Credit risk management was at the forefront of considerations of the Committee throughout the year, particularly in light of the possibility of a disorderly UK exit from the European Union. The Credit Risk profile was reported to the Committee at each of its meetings, with a focus on specific risk areas at appropriate junctures throughout the year. For instance, in response to political uncertainty surrounding Brexit, a number of changes to the Group Risk Appetite Statement ("RAS") were proposed via a standalone Brexit RAS, with a view to ensuring enhanced monitoring and oversight of new lending, credit quality and portfolio composition metrics. A full analysis of credit risk early warning indicators on a sectoral basis was also undertaken, in order to assess any evidence of weakness in specific sectors in advance of Brexit. The Committee also obtained detailed analysis from first and second line management regarding the composition of specific loan portfolios in both the eurozone and United States markets, in order to better understand overall portfolio quality and composition, as well as the key risks and related management controls underpinning the effective day-to-day management of those portfolios.

The Group RAS formulation is an iterative process for the Committee each year, whereby Management assesses the risk profile of the Group, the macroeconomic environment, and the overall position of the Group in an economic context. Following that, the RAS is proposed to the Committee. After a number of robust review and challenge sessions, the Committee recommended the 2020 Risk Appetite Statement to the Board for approval.

This year, the Committee was also pleased to observe the continued embedding and enhancement of the three lines of defence model across the Group. Clear examples of strong risk review and oversight of key strategic matters by the second line of defence were evidenced throughout the year.

As was the case in 2018, the ongoing development of the Group's modelling capabilities and key deliverables was an area of sustained focus for both the Committee and the Board, including the output of stress testing and economic assumptions. A key focus of the Committee was on Internal Ratings Based ("IRB") modelling capabilities, and the processes, infrastructure and governance in place to support the delivery and use of those models. Engagement with the Joint Supervisory Team ("JST") will continue throughout 2020 regarding the Group's IRB implementation plan.

The Committee also received regular reports regarding the Group's compliance with relevant Anti-Money Laundering and Counter Terrorist Financing regulation, as well as compliance with all relevant sanctions regimes.

Other areas of focus for the Committee during 2019 included:

- Review of the output of inspections from the JST and other regulatory bodies, with any Risk Mitigation Programme ("RMP") action points subject to review and approval by the Committee. The Committee also maintained oversight of open RMP actions on an ongoing basis throughout the year;
- Consideration of the evolving risk themes of cyber risk and climate risk, and the actions underway to address same;
- Progress against the implementation of Payment Services Directive 2 regulatory requirements, with a focus on the rollout of strong customer authentication to impacted customers;
- Oversight and approval of risk frameworks and policies, in line with the Group risk policy architecture;

- The capital and liquidity position of the Group, with particular reference to the contingent elements of the Internal Capital Adequacy Assessment Process ("ICAAP") and Internal Liquidity Adequacy Assessment Process ("ILAAP");
- Ongoing monitoring of the achievement of the Risk Function Plan, Operational Risk Plan and Compliance Plan by the Group Risk Function, with regular updates provided by the CRO regarding same;
- An assessment of the outsourcing and cloud policy and the third party management framework put in place to ensure consistent and robust application of that policy;
- Pillar 3 Disclosures; and
- Consideration of the Group Equity Investment Framework and Strategy.

The Committee's focus throughout 2020 will continue to be on ensuring appropriate oversight of the Group's risk appetite, risk management structure, policies and procedures, as well as challenging as to whether the Management controls in place are adequately robust to ensure the Group achieves its overall purpose and strategic goals in an appropriately risk controlled manner.

Brendan McDonagh
Committee Chair

Governance and oversight – Report of the Board Risk Committee

Report of the Board Risk Committee

Membership and meetings

As at 31 December 2019, the Committee comprised five Non-Executive Directors, all deemed to be independent. Further details on independence considerations are located at page 189. The Board has determined that the Committee members have the collective skills and relevant experience to enable the Committee to discharge its responsibilities. To ensure co-ordination of the work of the Committee with the risk related considerations of the Board Audit Committee, Mr Brendan McDonagh, Ms Sandy Kinney Pritchard and Mr Basil Geoghegan are also members of the Board Audit Committee. This common membership provides effective oversight of 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 Committee and the Remuneration Committee is maintained through the joint membership of both Committees of Mr Brendan McDonagh. Details of each of the Members are outlined on pages 44 and 45.

The Committee met on eleven occasions during 2019, eight of which were scheduled and one of which was a joint meeting with the Remuneration Committee. All meetings were attended by the Chief Financial Officer, the Chief Risk Officer, the Group Head of Internal Audit, and the Lead Audit Partner from the External Auditor, Deloitte. Other senior executives also attended by invitation, where appropriate. The Chief Risk Officer attended all meetings of the Committee and has unrestricted access to the Chair of the Board Risk Committee, and met twice in confidential session with the Committee, in the absence of Management. Additionally, the Committee also met with the Group Chief Compliance Officer, the Chief Credit Officer and the Chief Financial Officer in confidential session on one occasion each throughout the year. The Chair of AIB Group (UK) p.l.c. also attends meetings of the Committee by invitation, where appropriate.

The Chair and Members of the Committee, together with their attendance at scheduled meetings, are shown below.

Current Committee members are shown below. Members who retired during the year are shaded.

Member attendance during 2019*:	Eligible to attend	Attended
Brendan McDonagh	12	12
Basil Geoghegan	4	4
Sandy Kinney Pritchard	9	9
Raj Singh	7	7
Carolan Lennon	12	11
Peter Hagan	9	9
Simon Ball	4	4
Catherine Woods	9	9

*As indicated in the Report, there were a number of membership changes throughout the year which, in turn, led to differences in the number of Committee meetings individual directors were eligible to attend.

To ensure the continued awareness of the Committee's work by all Directors, the Committee Chair provided an update to the Board following each meeting on the key items discussed and considered by the Committee. The Committee Chair continued to remain satisfied that the skills and experience of the Committee Members enable the Committee to provide the independent risk oversight it is tasked with, while maintaining a constructive relationship with Management.

Committee Purpose

A full overview of the responsibilities of the Committee is set out in its Terms of Reference. The Committee assists the Board in proactively fostering sound risk governance across the Group by 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 remit of the Committee continues to evolve year on year. However, its primary roles and responsibilities are:

- fostering sound risk governance across the Group's operations, encompassing all operations, legal entities and branches in Ireland, the United Kingdom and the USA, taking a forward looking perspective and anticipating changes in business conditions;
- discharging its responsibilities in ensuring that risks within the Group are appropriately identified, reported, assessed, managed and controlled to include commission, receipt and consideration of reports on key strategic and operational risk issues;
- ensuring that the Group's overall actual and future risk appetite and strategy, taking into account all types of risks, are aligned with the business strategy, objectives, corporate culture and values of the institution; and
- promoting a risk awareness culture within the Group.

The responsibilities of the Committee are discharged through its meetings, and through the regular commissioning, receiving and considering of reports from the Chief Risk Officer, the Chief Credit Officer, the Chief Financial Officer and the Group Head of Internal Audit, all of whom attend meetings of the Committee.

The Committee's Terms of Reference can be found on the Group's website at: https://aib.ie/investorrelations/about-aib/corporate-governance

Matters considered by the Committee

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:

Area of focus	Role of the Committee
Risk Appetite, Risk Profile and Key Risk Areas/Issues	– Reviewed regular reports from the Chief Risk Officer which provide an overview of key material risks, including funding and liquidity, capital adequacy, credit risk, market risk, regulatory risk, business risk, conduct risk, cyber risk, model risk, operational risk and people and culture risk and related mitigants. – Reviewed and recommended the Group Risk Appetite Statement ("RAS") to the Board for approval, whilst ensuring alignment to the Group's business objectives, and that the subsequent business and strategic plans were developed in line with agreed RAS metrics. – Monitored the Group's risk profile against agreed Group RAS metrics on an ongoing basis, and recommended changes to the Group RAS as appropriate. – Reviewed 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. – Assessed credit risk performance and trends, including regular updates on significant credit transactions. – Reviewed the ongoing operational risk profile, including significant operational risk events and potential risks. – Received status updates regarding Brexit planning. – Reviewed and approved the Group's Pillar 3 Report.
Risk Frameworks and Policies	– Approved and recommended risk frameworks and policies as appropriate, including those relating to credit risk, model risk, people and culture risk and funding and liquidity. – Reviewed and recommended the Group Equity Strategy and Framework for approval.
Liquidity, Funding and Capital	– Reviewed and recommended as appropriate capital, funding and liquidity planning, including consideration of Group ICAAP and ILAAP reports and related Group wide stress test scenarios.
Compliance	– Received reports from the Money Laundering Reporting Officer regarding the status of the Anti-Money Laundering/Counter Terrorist Financing control environment, and compliance with Anti-Money Laundering/Financial Sanctions policies and frameworks.
Chief Risk Officer and Group Risk Function	– Received reports regarding the structure and operation of the Risk and Compliance functions and progress against deliverables.
Internal Ratings Based Model and Model Risk	– Received reports from the Chief Risk Officer regarding the status of modelling capabilities across the Group, as well as progress against set deliverables.
Regulatory Engagement	– Reviewed quarterly reports regarding the status of Risk Mitigation Programme action plans. – Reviewed and recommended as appropriate Management action plans put in place to address failings identified as part of regulatory onsite inspections. – Considered any relevant regulatory correspondence which required the Committee's attention.

Performance evaluation

An internal performance evaluation of the Board was conducted in 2019 as noted on page 190 and this included a review of the Committee. The overall results of that review concluded that the Committee continued to operate in an efficient manner. Members noted the importance of continuing to ensure that the Committee maintains appropriate focus and oversight of the material risks facing the Group, and allow sufficient time to discharge those responsibilities. Some minor areas for enhancement have been set out in actions which will be tracked for conclusion in 2020.

Governance and oversight – Report of the Nomination and Corporate Governance Committee

Letter from Richard Pym, Chair of the Nomination and Corporate Governance Committee

Dear Shareholder,

On behalf of the Nomination and Corporate Governance Committee (the "Committee"), I am pleased to present our report on the Committee's activity during the financial year ended 31 December 2019.

The year was dominated by succession planning. Following on from substantial change in 2018, 2019 brought about further change with the appointments to the Board of Dr Colin Hunt, Chief Executive Officer ("CEO") and Mr Tomás O'Midheach, Chief Operating Officer and Deputy CEO both as Executive Directors, Ms Sandy Kinney Pritchard, Ms Ann O'Brien, Mr Raj Singh, Mr Basil Geoghegan and Ms Elaine MacLean were each appointed as Non-Executive Directors.

Regrettably, 2019 also brought the retirements of a number of our long standing Non-Executive Directors: Mr Simon Ball, Mr Peter Hagan, Ms Catherine Woods and Mr Jim O'Hara, as well as the resignation of Mr Bernard Byrne, CEO and Mr Mark Bourke, Chief Financial Officer as detailed in last year's Annual Financial Report.

These changes also impacted the Committee's composition as Mr Ball, Ms Woods and Mr O'Hara stepped down during the year. Ms MacLean joined the Committee in September 2019, Mr Foley in October and Mr Brendan McDonagh in November. We believe that the current Committee composition is strong with good diversity of experience augmented by Ms MacLean's extensive human resources background.

As noted earlier in this Annual Financial Report and as announced in October 2019, I intend to retire as Chair of the Group in March 2020. Prior to this decision, I had requested the previous Deputy Chair, Ms Catherine Woods, to commence a process to identify a potential Chair Designate. On review of our current Board and following Catherine's retirement, current board member Mr Brendan McDonagh was appointed as Deputy Chair and Mr Tom Foley was appointed as Senior Independent Director, both effective from October 2019.

With regard to my successor, a rigorous process has been undertaken through which the Committee, in my absence, has met with a number of internal and external candidates. The Group is in the process of identifying the next Chair and an announcement will be made in due course.

These changes and the continuous review of the Board Succession Plan culminated in the identification of retail banking and accountancy as two specific skill sets which may require enhancement on the Board as we prepare for future board rotation. In order to ensure the Board continues to maintain its current high level of experience and suitability, the Committee requested two searches be conducted to identify the most appropriate candidates in these fields. The searches are ongoing and further announcements will be made in due course on selection of the preferred candidates and upon the conclusion of the associated regulatory processes.

Through both past and current searches, candidates are required to be of sufficient calibre and experience for appointment to the Board as Non-Executive Directors and also have the ability to facilitate a culture where there is a commitment to high standards of conduct and customer fairness. Importantly, through the Committee's work, diversity was also a key consideration and I am delighted that the Group was highlighted as an organisation with one of the most gender balanced boardrooms of companies in Ireland with a 50/50 split between the genders of our Non-Executive Directors.

The developments at Board level were coupled with substantial change to our Executive Committee ("ExCo"), the composition of which was recommended to the Committee by the CEO to align with a refreshed operating structure. Executive succession planning is vital to ensuring the long term sustainability of the business and I am encouraged to see a strong, diverse ExCo in place, particularly given a backdrop of the remuneration restrictions applied to the Group but not to many of our competitors.

Moreover, the ExCo succession plan was reviewed at multiple intervals throughout the year by the Committee to ensure the Group has robust successors to the ExCo members and importantly, to identify employees across the Group who may be successors to senior management in the longer term and thereby develop a strong succession pipeline.

Turning to the Committee's corporate governance oversight responsibilities, throughout 2019 we took time to ensure we were fulfilling our obligations under existing corporate governance requirements and that we were well positioned for the introduction of new requirements with particular reference to the UK Corporate Governance Code 2018 which is further detailed in the Corporate Governance report.

Our work in 2019 also included a refresh of the Non-Executive Directors' induction plan, substantial oversight of subsidiary board succession planning and governance standards, as well as the annual requirements to complete a collective suitability assessment of the Board, review the time committed to the Group by each Non-Executive Director and to review the various codes and policies which fall within the Committee's remit.

As this is my final report to you in this role, I would like to thank my fellow Committee Members both past and present for their unwavering commitment in what was another extremely busy year. I am very grateful to the Committee for the amount of time and effort committed to finding the best possible candidates to ensure a strong Board is in place to lead the Group in the years ahead.

I am confident that my successor will continue to focus on building the human resources to lead the business into a positive and sustainable future.

Richard Pym
Committee Chair

Governance and oversight – Report of the Nomination and Corporate Governance Committee

Report of the Nomination and Corporate Governance Committee

The Committee composition changed significantly in 2019 with the retirement of Mr Simon Ball, Mr Jim O'Hara and Ms Catherine Woods and the appointment of Ms Elaine MacLean, Mr Tom Foley and Mr Brendan McDonagh as Committee members.

As at 31 December 2019, the Committee was comprised of three Non-Executive Directors, all deemed to be independent and the Chair, who was independent on appointment. Throughout the year, the Committee's composition was fully compliant with the Central Bank of Ireland's Corporate Governance Requirements for Credit Institutions 2015, the UK Corporate Governance Code 2018 and the Capital Requirements Directive IV.

The Chair of the Board is the Chair of the Committee and chairs all meetings, other than when the Committee is dealing with the process for appointing a successor to the role of Board Chair. In such instances, the Senior Independent Director, Ms Catherine Woods up to October 2019 and thereafter, Mr Tom Foley, leads the Committee discussions.

Biographical details of each of the Committee Members are outlined on pages 44 and 45.

The Committee met fourteen times during 2019, four of which were scheduled meetings. The Chair and Members of the Committee, together with their attendance at meetings, are shown below. The Committee meets regularly with no management present. The Chief Executive Officer, Chief People Officer and other members of Management are invited to attend meetings where the agenda item is relevant and their attendance is requested by the Committee.

Current Committee members are shown below. Members who retired during the year are shaded.

Member attendance during 2019*:	Eligible to attend	Attended
Richard Pym	12	12
Tom Foley	2	2
Elaine MacLean	4	4
Brendan McDonagh	1	0**
Jim O'Hara	12	11
Catherine Woods	12	11
Simon Ball	4	4

* As indicated in the Report, there were a number of membership changes throughout the year which, in turn, led to differences in the number of Committee meetings individual directors were eligible to attend.

**Mr McDonagh was unable to attend this meeting due to his attendance being required at a regulatory meeting at the same time.

During 2019, the Committee engaged Korn Ferry to facilitate searches for a Chair Designate and Non-Executive Directors.

It should be noted that Korn Ferry have been engaged by the Group for a number of candidate searches in recent years and to conduct a number of internal management assessments. Separately, Korn Ferry has been appointed by the Minister for Finance to conduct a Remuneration Review; confirmation was received that Korn Ferry employees who carried out the candidate search processes were separate to those engaged in the Minister's Review. The Group is mindful at all times of the need to avoid possible conflicts of interest.

The Institute of Directors were also engaged for a number of candidate searches for Non-Executive Directors for the Group's, various Irish subsidiaries, and Heidrick and Struggles were engaged similarly by AIB Group (UK) p.l.c. Whilst the search firms were engaged by and for the subsidiaries, the results of such searches were reported to the Committee.

Individual Directors do not have any material connections with the aforementioned search firms. Notwithstanding that, it may be the case that individual Directors may be considered within candidate searches being conducted by those firms from time to time for other clients or that individual directors may have engaged these search firms through prior engagement in other external executive or non-executive roles.

To ensure ongoing awareness of the Committee's activities by the full Board, the Chair provides an update to the Board following each meeting on the key items discussed and considered by the Committee. Additionally, Committee meeting minutes are generally tabled for information at the next scheduled Board meeting following their approval and the Committee provides an annual written report to the Board on its activities during the preceding twelve months.

Committee Purpose

A full overview of the responsibilities of the Committee is set out in its Terms of Reference. Included among these are the following:

- to support and advise the Board in fulfilling its oversight responsibilities in relation to the composition of the Board by ensuring it is comprised of individuals who are best able to discharge the duties and responsibilities of Directors to include leading the process for nominations and appointments to the Board and Board Committees as appropriate, and making recommendations on these matters to the Board for its approval;
- to support and advise the Board in fulfilling its oversight responsibilities in relation to the composition of the Group's Executive Committee and the composition of the boards of its licensed subsidiaries; and
- to keep Board governance arrangements, corporate governance compliance and related policies under review and make appropriate recommendations to the Board to ensure corporate governance practices are consistent with best practice corporate governance standards.

The Committee's Terms of Reference can be found on the Group's website at: https://aib.ie/investorrelations/about-aib/corporate-governance

Matters considered by the Committee

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:

Area of focus	Role of the Committee
Non-Executive Board composition and succession planning	– Robustly considered the Board and Board Committee's collective skillset, suitability and composition. Reviewed and enhanced the three year Board succession plan to ensure preparedness for anticipated changes over that period and provide additional coverage in the event of unanticipated changes. – Conducted a robust internal and external search for a new Deputy Chair, Chair Designate and additional Non-Executive Directors. The Committee engaged Korn Ferry, prepared candidate specifications for the roles, oversaw the search processes for candidates, assessed potential successors for Board roles, and kept the Board abreast of progress. Open advertising for the Board positions was not used by AIB in 2019 as the Committee believes that targeted recruitment is the optimal way of recruiting for such positions. – Shortlisted candidates were interviewed by Committee Members, or where necessary due to changes in Committee membership, designated interview panel members. Thereafter, the Committee met as a whole to discuss feedback and reach consensus prior to recommending to the Board for consideration and approval. – Reviewed the appointment of the Senior Independent Director. – Assessed collective suitability of the Board and the independence of individual Directors against certain criteria, including whether Directors were demonstrably independent and free of relationships and other circumstances that could affect their judgement, and whether they met criteria set out in applicable Irish and UK codes, standards and regulations as detailed in the Corporate Governance report.
Executive Committee succession planning	– Considered proposals for appointments to the Executive Committee on foot of changes brought about under a new business operating model in November 2019. – Considered proposals for appointments to the roles of Group Head of Internal Audit and Chief People Officer. – Considered enhancements to the executive management succession strategy.
Subsidiary Director Succession Planning and Subsidiary Oversight	– Considered the material subsidiary boards' collective composition whilst acknowledging the final approval of all appointments and succession planning for the subsidiary boards rested with each separate board. – Engaged the Institute of Directors in Ireland to conduct searches for new Non-Executive Directors to material subsidiaries in the Republic of Ireland. – Oversaw the engagement of Heidrick and Struggles to assist AIB Group (UK) p.l.c. in its searches for new Non-Executive Directors. – Received regular updates regarding compliance by the material licensed subsidiaries with applicable regulation and guidance.
Corporate Governance considerations	– Received regular updates on the compliance status of the Group with regard to the updated UK Corporate Governance Code 2018, potential items for explanation and discussing the implications of same. – Considered the Group's corporate governance policies and procedures. Policies reviewed during 2019 included the Board Governance Manual and matters reserved for the Board, the Board Code of Conduct and Conflicts of Interests Policy, the Board Diversity Policy, the Governance and Organisation Framework and Committee Terms of Reference. Additionally, received bi-annual corporate governance updates to include the compliance status of the Group and upcoming compliance requirements.

Performance Evaluation

An internal performance evaluation of the Board and Board Committees was conducted during 2019 as noted in the Corporate Governance report contained in this Annual Financial Report, and included a review of the Committee. The review concluded that the Committee continued to operate in an efficient manner, particularly in light of the heightened level of change to the Board's composition during the year. During the evaluation, the Committee Members emphasised the importance of continued focus on executive succession planning and ensuring upcoming corporate governance requirements were monitored to ensure the Group was appropriately positioned for potential change. Consideration to the phasing of length of tenure of Non-Executive Directors was highlighted as an area of consideration for 2020 to prevent concurrent retirement of directors in the future.

Governance and oversight – Report of the Remuneration Committee

Letter from Elaine MacLean, Chair of the Remuneration Committee

Dear Shareholder,

I am pleased to present my first report on the Remuneration Committee's (the "Committee") activity during the financial year ended 31 December 2019. I joined the Committee and was appointed Chair in September 2019.

My report is provided on behalf of the Committee as a whole, and on its behalf, I would like to acknowledge the steadfast dedication of Mr Simon Ball who stepped down from the Committee in April 2019 and Mr Jim O'Hara, who chaired the Committee from 2012 to September 2019. Mr O'Hara was a strong leader who made a significant contribution to the Committee during his tenure.

The Committee composition further changed in 2019 with Ms Ann O'Brien joining in April 2019 and her experience gained through her career has provided helpful insights to the Committee.

Acknowledging previous Remuneration Reports of the Committee, through my own research into the Group and my induction upon appointment, I have learned how the remit of Management and the Committee with regard to remuneration across the Group is impacted by the remuneration restrictions contained in certain agreements with the Irish State following the State's recapitalisation of the Group in 2010 and 2011 ("State Agreements"). Such restrictions affect the ability of the Group to implement a variable pay structure that would be the norm for many of our comparative peers and, due to the resultant increase risk of employee attrition, negatively impacts on the long term sustainability of the Group.

Since joining the Board, I have seen first-hand the continuing impact of these restrictions on the Group's ability to retain and attract key management, particularly as new competitors enter the Irish financial services market who are not subject to the same restrictions. The Committee and the Board as a whole are acutely aware of, and concerned about, the impact of these continuing restrictions and we await the outcome of the Minister for Finance's review on this matter as also noted in the 2018 Report of the Remuneration Committee.

In line with its annual review cycle, the Committee reviewed the Group Remuneration Policy in 2019 which continues to be governed in accordance with the remuneration restrictions contained in the State Agreements. The Committee's desired remuneration policy continues to be the implementation of a competitive, market-aligned, performance-related remuneration model, fully compliant with the Capital Requirements Directive IV and EBA Guidelines on Sound Remuneration Policies, which will mitigate the Group's key people risks and align the remuneration of our staff with the achievement of the Group's strategic objectives. However, due to the current restrictions, this has yet to be achieved.

When the State's remuneration review concludes and clarity is provided on any potential recommendations that might arise, the Committee will consider the Group's Remuneration Policy with, where required, the necessary presentation of an updated Remuneration Policy to shareholders being arranged thereafter. Further information on the Group Remuneration Policy is contained in the Report following this letter.

Notwithstanding the aforementioned restrictions, during 2019, the Committee continued its efforts to ensure it was well positioned should the Group return to a variable remuneration environment in the future whilst continuing its business as usual. To that end, in January the Committee received specific training alongside our Board Risk Committee colleagues on the EBA Guidelines on Sound Remuneration Policies which positioned both Committees for robust and challenging review of the material risk taker processes, remuneration-associated elements of the Risk Appetite Statement and the potential future implementation of any new remuneration structures. Additionally, the Committee spent a substantial amount of time in 2019 reviewing the remuneration levels of members of the Executive Committee and Heads of Control functions to ensure all roles were appropriately remunerated and supported the long term sustainability of the Group, whilst adhering to the restrictions.

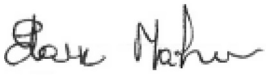
Compliance with the UK Corporate Governance Code 2018 was a key theme of the Committee's work during 2019 and compliance with the remuneration elements have been independently assured by external consultants. Further information on the compliance status of the Group as a whole with the UK Corporate Governance Code is detailed in the Corporate Governance report.

The Committee considered the Group's preparation for the introduction of the Gender Pay Gap Information Act in the Republic of Ireland which is expected in 2020-21 following the Irish Government approving the Gender Pay Gap Information Bill in June 2018. This will facilitate the introduction of mandatory Gender Pay Gap reporting. Upon the relevant requirements being available, the Committee will consider any required actions to ensure reporting is compliant.

Finally, the Committee appointed PricewaterhouseCoopers as its new remuneration consultants. We thank Willis Towers Watson for their support in recent years.

Looking ahead, the Committee will continue its work with Management to oversee and, where required, challenge proposals to ensure appropriate remuneration structures are in place across the Group in line with our strategic aims, the restrictions to which the Group is subject and ultimately create a structure that operates in the best interests of the Group's employees, shareholders and other stakeholders.

I am eager to continue my learning about the Group in the next year and fostering strong relationships with our stakeholders, including seeing many of our shareholders at the AGM and having the opportunity to hear their views on remuneration matters.



Elaine MacLean
Committee Chair

Governance and oversight – Report of the Remuneration Committee

Report of Remuneration Committee

Membership and Meetings

The Committee composition changed significantly in 2019 with the resignation of two Committee members, Mr Simon Ball and Mr Jim O'Hara, and the appointment of Ms Ann O'Brien as a Committee member and Ms Elaine MacLean as the new Committee Chair. At 31 December 2019, the Committee comprised of three Independent Non-Executive Directors and the Chair of the Board, who was independent on appointment. Further details on independence considerations are set out on page 189.

The Committee's composition is fully compliant with the Central Bank of Ireland's Corporate Governance Requirements for Credit Institutions 2015 and the Capital Requirements Directive IV. The composition of the Committee is not in full compliance with the UK Corporate Governance Code 2018 (the "Code") with particular reference to Provision 32 of the Code regarding the tenure of Ms MacLean serving on a remuneration committee. The Committee and the Board as a whole are satisfied that the composition of the Committee is appropriate and have chosen to explain this area of non-compliance under the 'comply and explain' principle of the Code. Further information on compliance with the Code is located in the Corporate Governance report.

In order 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 Brendan McDonagh providing this overlap.

Biographical details of each of the Committee members are outlined on pages 44 and 45.

The Committee met eleven times during 2019, five of which were scheduled meetings and one being a joint meeting with the Board Risk Committee. The Chair and Members of the Committee, together with their attendance at meetings, are shown below.

The Committee met on one occasion with no management present. The Chief Executive Officer, the Chief People Officer, Head of Reward and other members of Management are invited to attend the meetings where the agenda item is relevant and at the request of the Committee. The Chief Risk Officer is a permanent attendee unless the topic under discussion relates to her own remuneration or that of her executive colleagues. No member of Management is permitted to attend where a specific proposal relating to their own remuneration is scheduled for discussion.

Current Committee members are shown below. Members who retired during the year are shaded.

Member attendance during 2019*:	Eligible to attend	Attended
Elaine MacLean	3	3
Brendan McDonagh	11	10
Ann O'Brien	6	5
Richard Pym	11	11
Jim O'Hara	9	8
Simon Ball	5	5

*As indicated in the Report, there were a number of membership changes throughout the year which, in turn, led to differences in the number of Committee meetings individual directors were eligible to attend.

During 2019, the Committee used the services of Willis Towers Watson ("WTW") and PricewaterhouseCoopers ("PwC") for advice on market-based remuneration practices, compliance and training. WTW had a standing invitation to attend Committee meetings up to December 2019.

In December 2019, the Committee appointed PwC as its designated remuneration advisors. Prior to their appointment, PwC were invited to attend a number of meetings in 2019 to provide advice and guidance on matters of remuneration policy and going forward, they have a standing invitation to attend Committee meetings where their advice would enhance the discussion at the Committee.

WTW, the designated remuneration advisors for the Committee up to December 2019, are solely focused on Human Resources and remuneration consultancy and have no other relationship with the Group. PwC provide a range of consultancy services to the Group.

To ensure ongoing awareness of the Committee's activities by the full Board, the Committee Chair provides an update to the Board following each meeting on the key items discussed and considered by the Committee.

Committee Purpose

A full overview of the responsibilities of the Committee is set out in its Terms of Reference and include responsibility:

- to oversee the design and implementation of the Group's overall Remuneration Policy for employees and directors, designed to support the long term business strategy, values and culture of the Group as well as to promote effective risk management and comply with applicable legal and regulatory requirements;
- to oversee the operation of Group-wide remuneration policies and practices for all employees, with specific reference to Executive Directors, the Chief Executive Officer, Executive Committee members, Heads of Control Functions and Material Risk Takers; and
- to perform any other functions appropriate to a Remuneration Committee or assigned to it by the Board.

The Committee discharges its responsibility whilst operating under the principle that no individual shall be involved in deciding their own remuneration. The Committee's Terms of Reference can be found on the Group's website at https://aib.ie/investorrelations/about-aib/corporate-governance

Matters considered by the Committee

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:

Area of focus	Role of the Committee
Remuneration Model and Key Remuneration Risks	– Considered the impact of the continuing remuneration constraints across the Group and the associated heightened people risk. – Reviewed the total remuneration of each member of the Executive Committee and various Heads of Control functions. – Considered the implementation of a commission scheme for staff of Payzone upon the completion of the Group's joint venture acquisition of Payzone. – Considered the continued appropriateness or otherwise of the Group's Remuneration Policy and the likely outcome of the Irish Minister for Finance's review into remuneration in the banking industry. – Considered the potential to introduce additional commission schemes across the Group acknowledging the restrictions in certain State Agreements. – Reviewed the impact of the revised career structure on the employee base by both level and location. – Received an update on the preparation for Gender Pay Gap reporting in anticipation of related legislation being implemented in the Republic of Ireland in the coming years.
Compliance and annual matters for review	– Reviewed the composition and remuneration components of Identified Staff and the process for the identification of Material Risk Takers. – Reviewed the duties and responsibilities of the Committee in accordance with the requirements of Capital Requirements Directive IV ("CRD IV"), EBA guidelines on sound remuneration practices and monitored ongoing compliance with relevant statutory disclosures, regulatory requirements and guidelines. – Reviewed the compliance status of the Group with the remuneration elements of the updated UK Corporate Governance Code 2018 with any amendments being approved to the Remuneration Policy and Terms of Reference as required.

Performance Evaluation

An internal performance evaluation of the Board and Board Committees was conducted during 2019 as noted in the Corporate Governance report in this Annual Financial Report, and included a review of the Committee. The review concluded that the Committee continued to operate in an efficient manner, with progress made when compared to the previous year. In particular, the composition of the Committee and the support provided by in-house resources were strengthened throughout the year. The Committee Members highlighted the need for further enhancements to the quality of external advice provided to the Committee and the appointment of PwC was welcomed.

Directors' Remuneration

Details of the total remuneration of the Directors in office during 2019 and 2018 are shown in the Corporate Governance Remuneration statement on pages 216 and 217. Dr Hunt is a Non-Executive Director of The Ireland Funds, Ireland Chapter which is a charitable organisation and company limited by guarantee. Dr Hunt receives no remuneration for this role. Mr O'Midheach does not currently hold any external Non-Executive Directorships. Limitations on such external directorships are outlined in CRD IV and both of the Group's Executive Directors are fully compliant with these limitations.

Governance and oversight – Corporate Governance Remuneration statement

Remuneration Constraints

The Group has been required to comply with certain executive pay and compensation restrictions following the Group's re-capitalisation by the Irish Government in 2010 and 2011. The application of market aligned remuneration policies and practices are significantly constrained by the terms of Subscription and Placing Agreements entered into between AIB and the Irish Government. In particular, AIB is precluded from introducing any new bonus or incentive schemes, allowances or other fringe benefits without prior agreement with the State. Consequently, the absence of performance based variable pay, combined with the requirement to operate within an overall cap on individual salaries and allowances of € 500,000, precludes AIB from aligning the remuneration of key executives and other key employees with the achievement of longer term customer, financial and strategic targets.

Remuneration Policy and Governance

The Group Remuneration Policy sets the framework for all remuneration related policies, procedures and practices for all employees and directors of AIB Group. The principal aim of the Remuneration Policy is to support AIB in becoming a bank to believe in, recognised for outstanding customer experience and superior financial performance. The Remuneration Policy is designed to foster a truly customer focused culture; to create long term sustainable value for our customers and shareholders; to attract, develop and retain the best people and to safeguard the Group's capital, liquidity and risk positions. The Board recognises that the long term success of the Group is dependent on the talent of employees and, in particular, the ability to consistently perform at the highest level in the best interests of our customers. The Board aims to ensure that remuneration is aligned with performance and that employees are rewarded fairly and competitively within the remuneration constraints, for their contribution to the Group's future success and growth. The Group is committed to a simple, transparent and affordable reward structure which is fair, performance based, externally aligned and risk aligned. The scope of the Remuneration Policy applies to all employees and directors of the Group.

The Remuneration Policy is governed by the Remuneration Committee on behalf of the Board. The Committee is responsible for determining the Remuneration Policy and for overseeing its implementation. The Committee oversees the operation and effectiveness of the Remuneration Policy, including the process for the identification of material risk takers. The Committee's governance role in this respect is outlined in its Terms of Reference. The Committee further ensures that the Remuneration Policy and practices are subject to a review at least annually, taking into account the alignment of remuneration to the Group's culture for all employees and executive directors. The annual review is informed by appropriate input from the Group's risk and internal audit functions to ensure that remuneration policies and practices are operating as intended, are consistently applied across the Group and are compliant with regulatory requirements.

During 2019, the Remuneration Policy and the Committee's Terms of Reference were updated to incorporate amendments relating to the UK Corporate Governance Code 2018.

Regarding provision 40 of the Code, the Remuneration Policy sets the framework which underpins remuneration policies and practices equally for executive directors and all employees. In particular:

Clarity	Remuneration arrangements are clearly outlined and the policy is publicly available;
Simplicity	The Group is committed to a simple reward structure as outlined in the policy;
Risk	The Group's fixed remuneration arrangements operate under strict remuneration constraints. If variable schemes were introduced in the future, the design of any such schemes would include full risk assessment measures;
Predictability	If variable schemes were introduced in the future, specific details, including worked examples, of directors remuneration would be included in the policy;
Proportionality	The Group's existing remuneration structure does not provide for the awarding of any individual awards; and
Alignment to culture	The Group does not currently operate any incentive schemes other than a small number of limited commission schemes. These schemes are designed to ensure that the rights and interests of customers are protected at all times through robust customer centric performance criteria, the prevention of conflicts of interest and the assessment and mitigation of risks to the customer.

In relation to provision 41 of the Code:

- Executive director remuneration is governed by the policy and determined by the Committee;
- In 2019, new career levels were introduced with market related pay ranges for each level. All employees were mapped to a career level and associated pay range based on their level of accountability;
- The Report of the Remuneration Committee describes the operation of the policy;
- As the same remuneration restrictions remained in place and there were no material changes to remuneration policy during 2019, shareholder engagement was not required in this area;
- The Corporate Governance report references engagement with the workforce; and
- In the absence of variable remuneration, discretion is not a material factor.

It should be noted that some of the provisions of the Code (including provisions 36 and 37) are not currently applicable to the Group, as the Group does not operate variable incentive arrangements, other than a small number of limited commission schemes.

European Banking Authority (EBA) Guidelines

Remuneration policies, procedures and practices reflect the provisions, where applicable, of national and EU legislation, State Agreements and commitments provided to the Irish Government, the Capital Requirements Directive (CRD IV) and relevant guidelines issued by the European Banking Authority (EBA) and other regulatory authorities. In the absence of variable incentive schemes, there was little scope in practice to apply the provisions of the EBA Guidelines pertaining to variable remuneration. The Remuneration Policy incorporates the provisions of the EBA Guidelines in relation to the ongoing design, implementation and governance of remuneration.

Pillar 3 and Other Remuneration Disclosures

The Group publishes additional remuneration disclosures in the annual Group Pillar 3 Report. These disclosures provide further details in relation to the Group's decision making process and governance of remuneration, the link between pay and performance, the remuneration of those employees whose professional activities are considered to have a material impact on the Group's risk profile and the key components of the Group's remuneration structure. The Group's Pillar 3 Report is available on the Group website.

EBA remuneration benchmarking requirements require the Group to disclose remuneration data in respect of material risk takers and high earners (those earning above € 1 million) to the Central Bank of Ireland. The Group continued to comply with these reporting requirements during 2019. There were no employees whose total remuneration exceeded € 1 million during 2019.

The Group published its gender pay gap report for 2018 in 2019 in relation to its UK based employees. The disclosures are available on the AIB (GB) website, www.aibgb.co.uk.

Identified Staff and Risk Oversight

The Group is required to maintain a list of employees whose professional activities have a material impact on the Group's risk profile ("Identified Staff"). The list of Identified Staff is prepared using a combination of qualitative and quantitative criteria in accordance with the relevant EU regulations and guidelines together with additional criteria specific to the Group's structure, business activities and risk profile. The list is prepared at Group and subsidiary levels for the Republic of Ireland and the United Kingdom.

A key principle of the Remuneration Policy is the promotion of a strong risk culture and risk taking which is aligned to the Group's Risk Appetite Statement. The Remuneration Committee is supported by the Chief Risk Officer in its assessment of the key risks that should be considered in the context of the Group's remuneration structure and future remuneration strategy. The Chief Risk Officer attends all meetings of the Remuneration Committee.

Reward Structure and Operation in 2019

The continued existence of remuneration constraints significantly impedes the Group's ability to apply its desired remuneration policy and to implement market aligned remuneration policies and practices. In particular, the Group is precluded from introducing any new bonus or incentive schemes, allowances or other fringe benefits without prior agreement with the State. Consequently, the absence of performance based variable pay, combined with the requirement to operate within an overall cap on individual salaries and allowances of € 500,000, precludes the Group from aligning the remuneration of key executives and other key employees with the achievement of longer term customer, financial and strategic targets.

During 2019, remuneration across the Group continued to be principally comprised of fixed pay elements encompassing base salary, allowances and employer pension contributions. Base salary endeavours to reflect the size and level of responsibilities attaching to individual roles while allowances are paid in lieu of benefits generally available in the external market. The Group operates defined contribution pension schemes which followed the closure of all Group defined benefit schemes to future accrual on 31 December 2013. Further details in respect of the Group's fixed pay elements are provided in the table below.

Increases to salary in 2019 were awarded following the annual pay review process, through promotion, progression and, in exceptional cases, through out-of-course increases to retain business critical staff and key skills. A number of employees also received increases to align their salary to the new ranges that were introduced.

Pay increases under the 2019 annual pay review comprised of two individual components: a flat rate increase to base pay, as well as an increase aligned to individual performance ratings. These increases represented a one year agreement with employee representatives arising from the recommendations of the Workplace Relations Commission (WRC). Separate recommendations were issued for each of the jurisdictions of the Republic of Ireland, Northern Ireland and Great Britain. The next annual pay review is due to take place in April 2020.

The remuneration of Executive Directors and members of ExCo was determined and approved by the Remuneration Committee within the remuneration constraints set by the State.

There were no general short or long term variable incentive schemes or share incentive schemes in operation during 2019. The Group operates three local business commission schemes. These schemes are designed to protect the rights and interests of customers through customer centric performance criteria, the prevention of conflicts of interest and the assessment and mitigation of risks to the customer. The maximum amount payable to any individual per year is € 20,000.

Governance and oversight – Corporate Governance Remuneration statement

Remuneration of Executive Directors and ExCo

The remuneration of Executive Directors and members of the ExCo is determined by the Remuneration Committee. The level of remuneration aims to provide an appropriate level of competitive remuneration commensurate with the size and functional responsibilities attaching to roles.

In line with current remuneration restrictions on the introduction of variable pay and a cap on individual salaries and allowances of € 500,000, remuneration principally consists of base salary, allowances and pension contributions. Allowances consist of non-pensionable cash allowances of up to € 30,000, subject to salary and allowances remaining within the € 500,000 cap, while employer pension contributions of 20% of base salary are payable in respect of Executive Directors and ExCo members.

Following a review of compliance with the UK Corporate Governance Code, the pension arrangements of Executive Directors and ExCo members were considered by the Committee and deemed to be appropriate, due to the remuneration restrictions in place at this time.

The Group appointed a new Chief Executive Officer in March 2019. In line with the cap on salaries and allowances imposed by existing remuneration restrictions, the Chief Executive Officer was appointed on a base salary of € 500,000 together with an employer pension contribution of 20% (€ 100,000) to a defined contribution scheme.

The Chief Operating Officer (who is also Deputy Chief Executive Officer) was appointed as an Executive Director in March 2019. His base salary is € 485,000, with a non-pensionable allowance of € 15,000 and an employer pension contribution of 20% (€ 97,000) to a defined contribution scheme.

There were no bonuses, shares or other incentive schemes paid or awarded to Executive Directors or ExCo members in 2019. The Committee undertakes a periodic review of the remuneration of Executive Directors and ExCo members against external benchmark data.

Fixed Pay Elements

The principal fixed pay design elements are outlined below.

Pay Element	Rationale and alignment to Strategy	Design and Operation	Performance Assessment and Maximum Potential Value
Base Salary	To attract, motivate and retain the right calibre of individuals to support the Group's future success and growth.	Base salary is designed to reflect individual experience, contribution and the size and level of responsibilities attached to each role. Base salaries are typically reviewed annually as part of the annual pay review process with increases taking effect from 1 April. Base salaries of Executive Directors and members of the Executive Committee are reviewed annually by the Remuneration Committee on behalf of the Board.	Increases in base salary are performance based, determined by performance against objectives which reflect the Group's strategy, goals and values and typically occur as part of the annual pay review process. Increases may also arise through progression and promotion and, in exceptional cases, through out of-course increases to retain key talent and skills. Base salaries of all employees, including Executive Directors, are managed in accordance with existing remuneration restrictions. The annual base salary for each Executive Director is set out in the Directors Remuneration Report.
Allowances	To provide a contribution to market aligned benefits and allowances generally available in the market.	Non-pensionable cash allowances are provided to eligible employees according to their career level.	Non-pensionable allowances for senior career levels range from € 10,000 to € 20,000 per annum (£ 8,300 to £ 11,000 in the UK). Allowances of up to € 30,000 per annum (£ 14,000 in the UK) are payable to Executive Directors and ExCo members.
Pension	To enable employees plan for an appropriate standard of living in retirement.	Employees are entitled to participate in the Group's Defined Contribution Scheme with a monthly contribution based on a percentage of base salary. Executive Directors and Executive Committee members are also entitled to participate in the Defined Contribution Scheme. In the UK, employees may elect to receive cash in lieu of their pension contribution.	A standard contribution of 10% of base salary plus an additional matching contribution of up to 8%, depending on the age of the employee. The employer pension contribution for Executive Directors and Executive Committee members is up to 20% of base salary.
Other Benefits	To provide affordable benefits in accordance with general market practice.	Benefits include medical insurance (US and UK employees only), income protection, death-in-service cover and free banking services. Relocation costs, including tax advice, accommodation and flight allowances, may be provided in line with market practice. The Remuneration Committee retains the right to provide additional benefits subject to current remuneration restrictions.	The Group does not operate a company car scheme. A functional car policy is in place based on role requirements.

Governance and oversight – Corporate Governance Remuneration statement

Directors' remuneration*

The following tables detail the total remuneration of the Directors in office during 2019 and 2018:

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	2019 Total € 000
Executive Directors						
Colin Hunt			407	–	81	488
Tomás O'Midheach			379	22	76	477
			786	22	157	965
Non-Executive Directors						
Tom Foley[2]	93	34				127
Basil Geoghegan	28					28
Sandy Kinney Pritchard	73					73
Carolan Lennon	80					80
Elaine MacLean	26					26
Brendan McDonagh *(Deputy Chair)*	109					109
Helen Normoyle	75					75
Ann O'Brien	51					51
Richard Pym[1(a)] *(Chair)*	365					365
Raj Singh	55					55
	955	34				989
Former Directors						
Simon Ball	47					47
Mark Bourke			105	–	17	122
Bernard Byrne			93	–	19	112
Peter Hagan	70					70
Anne Maher[5]						41
Jim O'Hara	98					98
Catherine Woods	147					147
Other[6]						11
Total						1,637

[1]Fees paid to Non-Executive Directors in 2019 were as follows:

(a) Mr Richard Pym, Chair, was paid a non-pensionable flat fee of € 365,000, which includes remuneration for all services as a Director;

(b) All other Non-Executive Directors were paid a basic, non-pensionable fee in respect of service as a Director of € 65,000 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 Deputy Chair, Senior Independent Non-Executive Director;

[2]Current or former Non-Executive Directors of AIB Group plc and Allied Irish Banks, p.l.c., as applicable, 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, Mr Foley earned fees as quoted during 2019;

[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 Chair, Deputy Chair 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; and

[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

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	2018 Total € 000
Executive Directors						
Mark Bourke			490	10	98	598
Bernard Byrne			500	–	100	600
			990	10	198	1,198
Non-Executive Directors						
Simon Ball	95					95
Tom Foley	88	34				122
Peter Hagan	95					95
Carolan Lennon	80					80
Brendan McDonagh	94					94
Helen Normoyle	75					75
Jim O'Hara	115					115
Richard Pym *(Chair)*	365					365
Catherine Woods *(Deputy Chair)*	180					180
	1,187	34				1,221
Former Directors						
Declan Collier		7				7
Anne Maher	39					39
Other						11
Total						1,278

*Forms an integral part of the audited financial statements

Governance and oversight – Corporate Governance Remuneration statement

Directors' remuneration* *(continued)*

Interests in shares

The beneficial interests of the Directors and the Group Company Secretary in office at 31 December 2019, and of their spouses and minor children, in the Company's ordinary shares are as follows:

Ordinary shares	31 December 2019	1 January 2019**
Directors:		
Tom Foley	**2,501**	2,501
Basil Geoghegan	**–**	–
Colin Hunt	**12,500**	–
Sandy Kinney Pritchard	**–**	–
Carolan Lennon	**7,700**	7,700
Elaine MacLean	**–**	–
Brendan McDonagh	**10,000**	10,000
Helen Normoyle	**2,000**	2,000
Ann O'Brien	**–**	–
Tomas O'Midheach	**4**	4
Richard Pym	**30,000**	2,000
Raj Singh	**–**	–
Group Company Secretary:		
Helen Dooley	**–**	–

**or date of appointment, if later

The following table sets out the beneficial interests of the Directors and Executive Committee (Members of the Executive Committee at 31 December 2019) members of AIB as a group (including their spouses and minor children):

Title of class	Identity of person or group	Number owned	Percent of class
Ordinary shares	Directors and Executive Committee members of AIB as a group	64,784	***

***The total ordinary shares in issue at 31 December 2019 was 2,714,381,237.

Share options

No share options were granted or exercised during 2019, and there were no options to subscribe for ordinary shares outstanding in favour of the Executive Directors or Group Company Secretary at 31 December 2019.

Performance shares

There were no conditional grants of awards of ordinary shares outstanding to Executive Directors or the Group Company Secretary at 31 December 2019.

Apart from the interests set out above, the Directors and Group Company Secretary in office at 31 December 2019 and their spouses and minor children, have no other interests in the shares of the Company.

There were no changes in the interests of the Directors and the Group Company Secretary shown above between 31 December 2019 and 5 March 2020.

The year end closing price of the Company's ordinary shares on the Main Market of Euronext Dublin was € 3.106 per share.

Service contracts

All Executive Directors have a service contract whereas all Non-Executive Directors have a letter of appointment.

In respect of Executive Directors, no service contract exists between the Company and any Director which provides for a notice period from AIB Group of greater than one year.

Non-Executive Directors are appointed for an initial term of three years. Terms of office for Non-Executive Directors will not be extended beyond nine years in total unless the Board, on the recommendation of the Nomination and Corporate Governance Committee, concludes that such extension is necessary and appropriate.

All Directors, should they choose to stand, are subject to annual re-election by shareholders.

*Forms an integral part of the audited financial statements

Governance and oversight – Viability statement

Viability statement

In accordance with provision 31 of the UK Corporate Governance Code published in July 2018, the Directors have assessed the viability of the Group taking into account its current position, the prevailing economic and trading conditions and principal risks facing the Group over the next three years to 31 December 2022.

Horizon period

The Directors concluded that three years was an appropriate period to assess the viability of the Group for the following reasons:

- It is the same period used within the Group for the strategic and financial planning process;
- The Group prepares its annual Internal Capital Adequacy Assessment ("ICAAP") and Internal Liquidity Adequacy Assessment ("ILAAP") on an annual basis using a three year time horizon;
- A three year time horizon is used for both internal and regulatory stress testing. Where certain impacts can be assessed reliably beyond the 3 year forecast horizon, a quantification is performed (for example the ECB Prudential provisioning backstop for non-performing exposures) and considered;
- A three year time horizon is consistent with the internal risk management practices within the Group, including but not limited to: setting of the Risk Appetite, the Material Risk Assessment as well as Recovery and Resolution planning.

Considerations in assessing viability of the Group

Assessment of prospects

The assessment of the Group's prospects is built up based on the current financial position of the Group including its funding and liquidity on pages 145 to 153 and capital position as set out on pages 67 to 70.

The Group has completed a review of its Strategy, covering the period of assessment which is described on pages 24 to 29. The Board participated fully in the strategic process by means of regular updates during the year and an extended Board meeting in November 2019. Furthermore, the Directors robustly assessed the risks facing the Group including those that would threaten the competitive position of the business, its operational capacity as well as the Group's governance and internal control systems.

During the year, the Directors rely on the following processes to identify and assess risks which could impact on the continued viability of the Group:

- The Group's Material Risk Assessment process seeks to ensure that all significant risks to which the Group is exposed have been identified and are being appropriately managed. New and emerging risks are also identified and mitigating actions are put in place.
- As part of the setting of the Group's risk appetite, consideration is given to the amount of risk the Group is willing to accept in pursuit of its strategic objectives.
- On a quarterly basis, internal stress testing of the Group's capital and liquidity position is performed. This is conducted using a variety of different macroeconomic scenarios.
- In recovery and resolution planning, consideration is given to market factors and the operational resiliency of the Group
- The regular reporting of the Group's financial performance by the Chief Financial Officer and the reporting of the Group's risk profile by the Chief Risk Officer.

A full description of the principal risks facing the Group is provided in the Risk management section – Individual risk types pages 79 to 170.

Assessment of viability

The financial planning process is the main tool for assessing the continued financial prospects of the Group. The plan is a detailed three year financial forecast for each division, and includes forecasts of operating results, headcount, investment expenditure and new strategic initiatives. Progress against the plan is reported monthly to the Executive Committee and the Board. Updated forecasts are prepared as required and mitigating management actions are taken where required.

The Board considers the independent review of the plan by the Risk function covering the alignment of the plan with Group strategy and the risk appetite. This review also identifies the key risks to delivery of the Group's plan.

The plan uses the Group's base case forecast, but also includes consideration of downside scenarios. In 2019, the Group considered three downside scenarios; (i) a global downturn impacting on the Group's core markets in Ireland, UK and USA; (ii) a Brexit scenario, comprising of a disorderly exit of the UK from the European Union; and (iii) a severe but plausible scenario which is used for internal stress testing of the Group's capital position. The Group's severe scenario is typically more severe than the regulatory stress tests. In addition, the Group performs regular stress testing of its liquidity position, and during 2019 conducted specific liquidity stress tests in response to changing Brexit conditions.

As part of the internal capital adequacy assessment process, material risks and emerging risks to the Group's financial performance are considered in terms of their potential impact on the Group's position. These risks are set out on pages 38 to 43. Stress testing not only includes changes in macroeconomic forecasts but also other factors such as; financial crime losses, disruption to IT systems or cost of a cyber incident as well as financial loss arising from compliance or conduct issues.

After considering these risks, and reviewing the financial plan for the Group as well as the results of stress testing scenarios, the Group continues to;

- Demonstrate internal capital generation through continued profitability in each of the forecast years;
- Remain in excess of its regulatory capital requirements;
- Have significant liquidity over its liquidity coverage ratio and net stable funding ratio.

Statement of viability

On the basis of the above, the Directors believe, taking into account the Group's current position, and subject to the identified risks, the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period of assessment.

Governance and oversight – Internal controls

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 that the Group is able 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 financial statements, and which accords with the Central Bank of Ireland's Corporate Governance requirements for Credit Institutions 2015 and the UK Corporate Governance Code.

Supporting this process, the Group's system of internal controls is based on the following:

Board Governance and Oversight

- The Board has ultimate responsibility for reviewing the effectiveness of the system of internal control on a continuous basis and is supported by a number of sub-committees including Board Audit Committee ("BAC"), Board Risk Committee ("BRC"), Remuneration Committee and Nomination and Corporate Governance Committee.
- The BRC is responsible for fostering sound risk governance across all of the Group's entities and operations, 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 and tolerance for future strategy.
- The BAC reviews various aspects of internal control, including the design and operating effectiveness of the internal controls in place supporting the application of the Group's accounting policies, provision of statutory accounts and financial and narrative reports, and financial reporting systems. It also ensures that no restrictions are placed on the scope of the statutory audit or the independence of the internal audit function.
- The Chief Financial Officer ("CFO"), the Chief Risk Officer ("CRO") and the Group Internal Auditor are involved in all meetings of the BAC and BRC.
- The Group'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, leading the process for Board appointments and making the recommendations to the Board in this regard, monitoring succession planning at Board and Executive Committee levels and reviewing the Group's corporate governance practices.

Executive Risk management and controls

- The Executive Committee ("ExCo") is the most senior management committee of the Group and accountable to the CEO, 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 Group Risk Committee ("GRC") which is a sub-committee of the ExCo 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 ExCo and acts as the Group's strategic balance sheet management forum that combines a business decisioning and risk governance mandate.
- There is a centralised risk control function headed by the CRO who is responsible for ensuring that risks are identified, measured, monitored and reported on, and for reporting on risk mitigation actions.
- The Risk function is responsible for establishing and embedding risk management frameworks, ensuring that material risk policies are reviewed, and reporting on adherence to risk limits as set by the Board of Directors.
- The Group's risk profile is measured against its risk appetite on a monthly basis and exceptions are reported to the GRC and BRC through the monthly CRO report. Elements of the CRO report are also contained in the Executive Management Report reported to the full Group Board monthly. Material breaches of risk appetite are escalated to the Board and reported to the Central Bank of Ireland/Joint Supervisory Team ("JST").
- The centralised credit function is headed by a Chief Credit Officer who reports to the CRO.
- Compliance, which is part of the Risk function, provides advisory services to the Group and 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 reports directly to the Chair of the BAC.
- 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 72 to 78 of this report.

Governance and oversight – Internal controls / Other governance information

Internal controls *(continued)*

Executive risk management and controls *(continued)*

In the event that material failings or weaknesses in the systems of risk management or internal control are identified, Management are 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, BAC and representations made by the ExCo 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.

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.

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 Group's website at www.aib.ie/investorrelations and 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. The Report, which covers the Group's performance in the previous year, is available on the Group's website and sent in hard copy to those shareholders who request it. The Report does not form part of the Annual Financial Report and is for reference purposes only.

Website

The Group's website, contains, for the years since 2000, 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 Group's website. None of the information on the Group's website is incorporated in, or otherwise forms part of, this Annual Financial Report.

Annual General Meeting ("AGM")

The AGM is an opportunity for shareholders to hear directly from the Board on the Group's performance and developments of interest for the year to date and, importantly, to ask questions.

All shareholders of the Company are invited to attend the AGM. 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 the Group'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 Chairs of the Board Committees are available to answer questions about the Committee's activities. A help desk facility is available to shareholders attending. The Company's 2020 AGM is scheduled to be held on 29 April 2020, at the Ballsbridge Hotel, Ballsbridge, Dublin 4 and it is intended that Notice of the Meeting will be made available on the Group's website and sent in hard copy to those shareholders who request it, at least 20 working days before the meeting, in accordance with UK Code requirements.

Governance and oversight – Supervision and Regulation

Throughout 2019, the Group continued to work with its regulators, which include the European Central Bank ("ECB"), the Central Bank of Ireland ("CBI"), the Prudential Regulation Authority ("PRA"), the Financial Conduct Authority ("FCA") in the United Kingdom ("UK"), the New York State Department of Financial Services ("NYSDFS") and the Federal Reserve Bank of New York in the United States of America ("USA").

AIB Group plc is the holding company of Allied Irish Banks, p.l.c. (the principal operating company of AIB Group) and as such AIB Group plc is subject to consolidated supervision with respect to Allied Irish Banks, p.l.c. and other credit institutions and investment firms in the Group.

Current climate of regulatory change

The level of regulatory change remained high in 2019 as the regulatory landscape for the banking sector continued to evolve, with a large volume of significant regulatory initiatives becoming effective. There was an increased focus on regulatory supervision.

The Regulatory focus on Conduct and Culture will continue in 2020 and beyond, with anticipated regulatory developments in the form of the Senior Executive Accountability Regime, and review of the Fitness and Probity requirements.

The Group is committed to proactively identifying regulatory obligations arising in each of the Group's operating markets in Ireland, the UK and the USA and ensuring the timely implementation of regulatory change.

Throughout 2019, the Group continued cross-functional programmes to ensure the Group met its new regulatory requirements. In particular, the Group focused on the EU directives on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing the "4th AML Directive, the implementation of PSD2 Strong Customer Authentication requirements; the Credit Reporting Act 2013 asset finance reporting to the central credit register; the EBA Guidelines on Outsourcing, EBA Guidelines on connected clients/large exposures and the EU Regulations on Cross Border Payments.

2020 will continue to see regulators and supervisors assessing how recent key regulatory requirements have been implemented, the level of regulatory change is expected to remain at high levels in 2020 and beyond.

United Kingdom

During 2019, AIB Group (UK) p.l.c. continued to prioritise compliance with its regulatory obligations in Great Britain and Northern Ireland and will remain focused on this throughout 2020.

Regulatory change horizon – UK

AIB Group (UK) p.l.c. is subject to the European Regulation described under "Current climate of regulatory change" above and works closely with AIB Group to ensure the requirements are implemented compliantly taking into consideration UK regulatory requirements. During the transition period, as set out in the Withdrawal Bill, the UK will remain aligned to EU regulations until at least 31 December 2020. Post the transition period, there may well be areas of regulatory divergence. As further regulatory reforms continue to emerge from the regulators, AIB Group (UK) p.l.c. will continue to focus on the management of regulatory change and its compliance obligations.

In addition, AIB Group (UK) p.l.c. continues to focus on the implementation of the retail banking market investigation order (2017) (the "Order"). The Order will provide for remedies to market-wide issues identified as part of the Competition and Markets Authority's Retail Banking Market Investigation into the Personal Current Accounts and SME Banking markets in the UK, in particular, the creation of an Open Banking infrastructure aimed at fostering competition.

2019 saw a focus on regulatory interventions to limit the cost of credit, particularly unauthorised overdrafts and anti-fraud measures such as 'Confirmation of Payee' and this focus will continue throughout 2020. In addition, UK regulators are placing a focus on enhancing operational resilience in the UK financial services sector and requiring banks to make plans to take account of climate change.

United States

Compliance with federal and state banking laws and regulations

During 2019, AIB's state-licensed branch in New York continued to prioritise compliance with its regulatory obligations in the USA and will remain focused on this throughout 2020. In particular, it will continue to monitor ongoing business activities with regard to the Dodd Frank Act 2010. In addition, particular focus will be given to the new Transaction Monitoring and Filtering Programme Regulation and Cybersecurity Regulation from the NYSDFS.

Financial statements

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Directors' Responsibility Statement

The following statement which should be read in conjunction with the statement of Auditor's 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 are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU and have elected to prepare the Company financial statements in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2014.

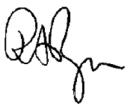
In preparing both the Group and Company financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

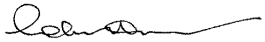
The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2014. They are also responsible for taking such steps as 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 and corporate governance requirements, the Directors are also responsible for preparing the Directors' Report and the reports relating to the Directors' remuneration and corporate governance that comply with that law and the relevant listing rules of Euronext Dublin (the Irish Stock Exchange) and the UK Listing Authorities.

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 whose names and functions are listed on pages 44 and 45 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 adopted by the EU, give a true and fair view of the state of the Group's affairs as at 31 December 2019 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 2019;
- 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 and the company's position and performance, business model and strategy.

For and on behalf of the Board





Richard Pym
Chairman

Colin Hunt
Chief Executive Officer

5 March 2020

Independent Auditor's Report

Independent auditor's report to the members of AIB Group plc

Report on the audit of the financial statements

Opinion on the financial statements of AIB Group plc (the "Company")

In our opinion, the Group and Company financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Group and Company as at 31 December 2019 and of the profit of the Group 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 we have audited comprise:

The Group financial statements:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated Statement of Financial Position;
- the Consolidated Statement of Cash Flows;
- the Consolidated Statement of Changes in Equity; and
- the related notes 1 to 59, including a summary of significant accounting policies as set out in note 1.

The Company financial statements:

- the Company Statement of Financial Position;
- the Company Statement of Cash Flows;
- the Company Statement of Changes in Equity; and
- the related notes a to m, including a summary of significant accounting policies as set out in note a.

The relevant financial reporting framework that has been applied in the preparation of the Group and Company financial statements is the Companies Act 2014 and International Financial Reporting Standards ("IFRS") as adopted by the European Union ("the relevant financial reporting framework").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law. Our responsibilities under those standards are described below in the "*Auditor's responsibilities for the audit of the financial statements*" section of our report.

We are independent of the Group and Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority ("IAASA"), as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: – Expected credit losses on loans and advances to customers; – Recoverability of deferred tax asset; – Defined benefit obligations; – Provision for tracker mortgage examination; – Impairment of investment in subsidiary (Company only key audit matter); and – IT systems and controls. Within this report, any new key audit matters are identified with ⌃ and any key audit matters which are the same as the prior year are identified with ⟫.
Materiality	We determined materiality for: – the Group to be € 55 million based on approximately 7% of adjusted Profit Before Tax ("PBT"); and – the Company to be € 54 million which is 0.5% of total equity of the Company.

Independent Auditor's Report

Scoping	We focused the scope of our Group audit primarily on the audit work in AIB Group plc and four legal entities all of which were subject to individual statutory audit work, whilst the other legal entities were subject to specified audit procedures, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations in those entities. These audits and specified audit procedures covered over 94% of the Group's total assets and 92% of the Group's total operating income.
Significant changes in our approach	*Key audit matters* As part of our 2019 audit we have identified two new key audit matters: – *Impairment of investment in subsidiary (Company only key audit matter):* An impairment test was performed by the Company on its investment in its subsidiary. A value in use ("VIU") model was used to calculate an estimated recoverable amount. We regard this area as a key audit matter due to the fact that the assumptions used in the VIU model involve significant Management judgement and estimation. – *IT systems and controls:* We regard this area as a key audit matter owing to the high level of IT dependency within the Group, the associated complexity and the risk that automated controls are not designed and operating effectively. *Materiality* For the current year we have considered adjusted PBT to be the critical component for determining materiality. The adjusted PBT is normalised to remove the effect of certain restitution items which are considered not to reflect the long-term performance of the Group.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Financial Report, in relation to which ISAs (Ireland) or the Listing Rules require us to report to you whether we have anything material to report, add or draw attention to:

- the Directors' confirmation in the Annual Financial Report on page 219 that they have carried out a robust assessment of the principal and emerging risks facing the Group and the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 38 to 43 in the Annual Financial Report that describe the principal risks, procedures to identify emerging risks, and an explanation of how they are being managed or mitigated;
- the Directors' statement on page 172 in the Annual Financial Report about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement relating to going concern required in accordance with Listing Rules 6.1.82(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation on page 219 in the Annual Financial Report as to how they have assessed the prospects of the Group and the Company, 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 and the Company 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit for the financial statements of the current financial year and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected credit losses on loans and advances to customers

Key audit matter description

In line with IFRS 9, losses on financial assets which are classified at amortised cost are recognised on an Expected Credit Loss ("ECL") basis. ECLs are required to incorporate forward looking information, reflecting Management's view of potential future economic environments. The complexity involved in the calculations require Management to develop methodologies involving the use of significant judgements.

Expected credit loss allowances on loans and advances to customers was € 1,238 million at 31 December 2019 (2018: € 2,039 million).

Measurement of the ECL allowance on loans and advances to customers is a key audit matter as the determination of assumptions for ECLs is highly subjective due to the level of judgement applied by Management. The most significant judgements include:

- Determining the criteria for a significant increase in credit risk ("SICR"), and for being classified as credit impaired;
- Accounting interpretations and assumptions used to build the models that calculate the ECL;
- The determination of key assumptions, including collateral valuation and cashflow timings, used in discounted cash flows ("DCFs") of individually assessed loans;
- The completeness and accuracy of data used to calculate the ECL;
- The completeness and valuation of post-model adjustments determined by Management for certain higher risk portfolios and to address known model limitations; and
- Establishing the number and relative weightings for forward looking macroeconomic scenarios applied in measuring the ECL. This is highly subjective given that such assumptions are subject to significant uncertainty related to future economic outcomes, including the impact of Brexit. This results in a wide range of possible outcomes.

Please also refer to page 194 (Audit Committee Report), page 263 (Accounting Policy (s) – Impairment of financial assets), Note 2 – Critical accounting judgements and estimates, Note 15 – Net credit impairment (charge)/writeback and Note 26 – ECL allowance on financial assets.

How the scope of our audit responded to the key audit matter

We tested key controls supporting the calculation of ECLs on loan and advances to customers focusing on:

- model development, validation and approval to ensure compliance with IFRS 9 requirements;
- review and approval of key assumptions, judgements and macroeconomic forward looking information used in the models;
- the integrity of data used as input to the models including the transfer of data between source systems and the ECL models;
- the application of SICR criteria and the definition of default used to determine stage outcomes;
- governance and approval of post-model adjustments recorded by Management;
- governance and approval of the output of IFRS 9 models; and
- front line credit monitoring and assessment controls including annual case file reviews.

Our testing included an evaluation of the design and implementation of these key controls. Where control deficiencies were identified we tested compensating controls implemented to produce the ECLs and financial statement disclosures. We also assessed Management review controls and governance controls including attendance at and observation of Board Risk Committee and Group Credit Committee meetings.

We evaluated IT system controls including assessing data inputs and general IT controls. We tested the completeness and accuracy of key data inputs and reconciled to source systems, where appropriate.

We critically assessed the ECL models developed by the Group. In conjunction with Deloitte credit modelling specialists, we challenged judgements and assumptions supporting the ECL requirements of IFRS 9. These included assumptions used in the ECL models applied in stage allocation, calculation of lifetime probability of default and methods applied to derive loss given default rates. We evaluated the methodology and performed code reviews for a sample of models.

Independent Auditor's Report

We assessed the reasonableness of forward looking information incorporated into the impairment calculations. We challenged the macroeconomic scenarios chosen and changes to the weightings applied. This included benchmarking the economic data used to recognised external data sources. We also considered the impact of key uncertainties, including Brexit as well as assumptions made by Management around a 'Global Slowdown' scenario.

We considered material post-model adjustments applied by Management to address model and data limitations. We challenged the rationale for these adjustments and performed testing on their calculation and application.

In examining a risk based sample of DCF individually assessed loan cases, we challenged Management on the judgements made regarding the application of the default policy, status of loan restructures, collateral valuation and realisation time frames and examined the credit risk functions analysis of data at a portfolio level. 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 used and to assess the objectivity of the external experts used.

We considered significant items impacting the ECL allowance balance. This included portfolio sales and non-contracted write-offs, as well as recoveries on amounts previously written-off.

We evaluated the adequacy of disclosures made in the financial statements. In particular, we focused on challenging Management that the disclosures were sufficiently clear in highlighting the significant uncertainties that exist in respect of the ECL allowance and the sensitivity of the allowance to changes in the underlying assumptions.

Based on the evidence obtained, we found that the ECLs on loans and advances to customers are within a range we consider to be reasonable.

Recoverability of deferred tax asset

Key audit matter description

The key audit matter relates to the incorrect recognition or measurement of the deferred tax asset. Deferred tax assets of € 2,771 million (2018: € 2,808 million) are recognised for unutilised 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 Management judgement, given the inherent uncertainties associated with projecting profitability over a long time period. This is highly subjective given the significant uncertainty related to future economic outcomes, including the impact of Brexit and a potential global economic slowdown. The Group has reassessed profitability and growth forecasts for the period 2020 to 2022. This forecast has been revised downwards and results in an increase in the expected deferred tax utlisation period.

Please refer to page 194 (Audit Committee Report), page 253 (Accounting Policy (k) – Income tax, including deferred income tax), Note 2 – Critical accounting judgements and estimates and Note 33 – Deferred taxation.

How the scope of our audit responded to the key audit matter

We have evaluated the design and determined the implementation of key controls over the preparation of financial plans and budgets.

We assessed whether the level of forecasted profits were appropriate by challenging the growth, profitability and economic assumptions. We tested the accuracy of Management's forecasting process by reviewing previous forecasts and comparing to actual results.

We reviewed 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 compared Management's assumptions to industry norms and other economic metrics where possible. We reviewed Management's analysis of the "more likely than not" test and assessed the adequacy of the financial statement disclosures.

Based on the evidence obtained, we found that the assumptions used by Management in the recognition of the deferred tax asset is within a range we consider to be reasonable.

Defined benefit obligations

Key audit matter description

The key audit matter is that the recognition and measurement of defined benefit obligations of € 5,904 million (2018: € 5,323 million) is inappropriate.

There is a high degree of estimation and judgement in the calculation of defined benefit obligations. A material change in the liability can result from small movements in the underlying actuarial assumptions, specifically the discount rates, pension in payment increases and inflation rates.

Please refer to page 194 (Audit Committee Report), page 252 (Accounting Policy (j) – Employee benefits), and Note 2 – Critical accounting judgements and estimates and Note 34 – Retirement benefits.

How the scope of our audit responded to the key audit matter

We understood the key controls over the completeness and accuracy of data extracted and supplied to the Group's actuary, which is used in the valuation of the Group's defined benefit obligations. We also evaluated the design and implementation of the relevant controls for determining the actuarial assumptions and the approval of those assumptions by Management.

We have utilised Deloitte actuarial specialists as part of our team to assist us in challenging the appropriateness of actuarial assumptions with particular focus on discount rates, pension in payment increases and inflation rates.

Our work included inquiries with Management and their actuaries to understand the processes and assumptions used in calculating the defined benefit obligations. We benchmarked economic and demographic assumptions against market data and assessed Management adjustments to market rates for Company and scheme specific information. For scheme specific assumptions we considered the scheme rules, historic practice and other information relevant to the selection of the assumption.

We evaluated and assessed the adequacy of disclosures made in the financial statements, including disclosures of the assumptions and sensitivity of the defined benefit obligation to changes in the underlying assumptions.

Based on the evidence obtained, we concluded that assumptions used by Management in the actuarial valuations for defined benefit obligations are within a range we consider to be reasonable.

Provision for tracker mortgage examination

Key audit matter description

The calculation of provisions for the tracker mortgage examination is highly judgemental and involves the use of several Management assumptions including the identification of relevant impacted customers, related redress costs and potential enforcement fines. There is also a risk that known and emerging issues may not be appropriately disclosed in the financial statements. As a result, we consider this a key audit matter.

Included in Note 40 - Provisions for liabilities and commitments the Group has recorded a provision of € 271 million (2018: € 10 million) for customer redress and compensation and € 70 million (2018: Nil) for related enforcement fines expected to be imposed.

Please refer to page 194 (Audit Committee Report), page 269 (Accounting Policy (z) – Non-credit risk provisions), Note 2 – Critical accounting judgements and estimates, Note 40 - Provisions for liabilities and commitments, and Note 47 – Memorandum items: contingent liabilities and commitments, and contingent assets.

How the scope of our audit responded to the key audit matter

We have evaluated the design and determined the implementation of the Group's relevant controls over the identification, measurement and the disclosure of the provision. We also assessed Management review and governance controls.

We reviewed the correspondence with regulators, the Financial Services and Pensions Ombudsman ("FSPO") and legal advice obtained. We assessed Management's interpretation of the impact of this decision. We reviewed the basis for recording a provision taking into consideration the information available and the requirements of IAS 37. We also considered Management's interactions with regulators including the status of the enforcement process.

Independent Auditor's Report

Given the inherent uncertainty in the calculation of the provision and its judgemental nature, we evaluated the adequacy of disclosures made in the financial statements. We challenged Management on the disclosures, in particular, whether they are sufficiently clear in highlighting the exposures that remain, the significant uncertainties that exist in respect of the provisions and the sensitivity of the provisions to changes in the underlying assumptions.

Based on the evidence obtained, we found that the assumptions used by Management in measurement of the provision for the tracker mortgage examintions are within a range we consider to be reasonable.

Impairment of investment in subsidiary (Company only Key Audit Matter)

Key audit matter description

The key audit matter relates to the recoverability of the Company's investment in its subsidiary undertaking and the significant judgements and estimates required to determine its recoverable amount.

Following a corporate reorganisation during 2017, the Group implemented a new holding company, AIB Group plc, which holds the Group's investment in Allied Irish Banks, p.l.c. The Company accounts for its investment in subsidiary at cost less provisions for impairment. At the end of each reporting period, the Company reviews its investment for impairment if there are indications that impairment may have occurred.

As at 31 December 2019, the market capitalisation of the Company's investment was lower than the carrying amount of the investment. This is considered an indicator of potential impairment. An impairment test was performed by the Company using a VIU model to calculate an estimated recoverable amount.

The assumptions used in the VIU model involved significant Management judgement and estimation. This includes determining future cash flow projections during the period of the financial plan and the choice of growth and discount rates.

The carrying amount of the Company's investment in subsidiary at 31 December 2019 was € 9,996 million (2018: € 12,940 million). As a result of the impairment test the recoverable amount was calculated at € 9,496 million and this resulted in an impairment charge for 2019 of € 3,444 million.

Please refer to page 194 (Audit Committee Report), page 249 (Accounting Policy (d) – Basis of consolidation), Note 2 – Critical accounting judgements and estimates and Note e – Investment in subsidiary undertaking (AIB Group Company financial statements).

How the scope of our audit responded to the key audit matter

We evaluated the design and determined the implementation of key controls over the preparation of financial plans and budgets.

We assessed whether the level of forecasted profits was appropriate by challenging the growth, profitability and economic assumptions. We tested the accuracy of Management's forecasting process by reviewing previous forecasts and comparing to actual results.

In conjunction with our Deloitte Banking valuation specialist we evaluated the methodology utilised by the Company in preparing the VIU calculation. In particular, we challenged the assumptions used in assessing the recoverability of the investment. We independently sourced market information around discount rates and growth rates. We determined a range of estimates around these assumptions and the resulting impairment charge.

Given the inherent uncertainty in the calculation of a recoverable amount for the investment, we evaluated adequacy of the disclosures made in the financial statements. We challenged Management on the disclosures, in particular, whether they are sufficiently clear in highlighting the key assumptions and the sensitivity of the investment to changes in the underlying assumptions.

Based on the evidence obtained, we concluded that the assumptions used by Management in assessing the recoverability of the investment in Allied Irish Banks, p.l.c. are within a range we consider reasonable.

IT systems and controls

Key audit matter description	The Group's financial reporting processes are reliant on processes, controls and data managed by IT systems. The IT environment is complex and pervasive to the operations of the Group due to the large volume of transactions processed daily and the reliance on automated and IT dependent manual controls. This risk is also impacted by dependency on third parties and outsourced arrangements as well as migration to new systems. Our planned audit approach relies extensively on IT applications and the operating effectiveness of the control environment. As part of our assessment of the IT environment, we considered privileged user access management controls to be critical in ensuring that only appropriately authorised changes are made to relevant IT systems. Moreover, appropriate access controls contribute to mitigating the risk of potential fraud or error as a result of changes to applications or processing unauthorised transactions. We regard this area as a key audit matter owing to the high level of IT dependency within the Group, as well as the associated complexity and the risk that automated controls are not designed and operating effectively.
How the scope of our audit responded to the key audit matter	We examined the design of the governance framework associated with the Group's IT architecture We gained an understanding and tested relevant General IT Controls for systems we considered relevant to the financial reporting process, including access management, programme development and change management. We gained an understanding of relevant IT controls over applications, operating systems and databases that are relevant for the financial reporting process and tested their operating effectiveness. We assessed the relevent automated controls within business processes and the reliability of relevant reports used as part of manual controls. This included assessing the integrity of system interfaces, the completeness and accuracy of data feeds and automated calculations. We tested user access by assessing the controls in place for in-scope applications and verifying the addition and removal of users. While we identified certain design and operating effectiveness deficiencies in relation to user access controls, we tested validation activities performed by Management and compensating controls to mitigate the risk of fraud or error as a result of unauthorised transactions. Based on this testing we were able to place reliance on IT controls for the purpose of our audit.

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.

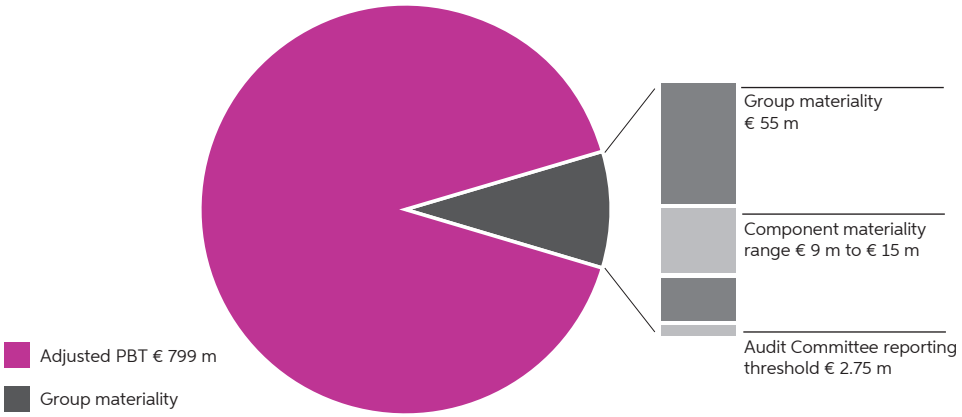
Independent Auditor's Report

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 € 55 million, which is approximately 7% of adjusted PBT. In the prior year, we determined materiality with reference to an unadjusted PBT. For the current year, we have considered adjusted PBT to be the critical component for determining materiality. We used an adjusted PBT normalised to remove the effect of certain restitution items which are considered not to reflect the long-term performance of the Group. We have considered quantitative and qualitative factors such as understanding the entity and its environment, history of misstatements, complexity of the Group and the reliability of the control environment.

We determined materiality for the Company to be € 54 million which is 0.5% of Company total equity. We have selected total equity as an appropriate benchmark for Company materiality as the Company's primary purpose is to act as a holding company with investments in the Group's primary subsidiary and therefore a profit based measure is not relevant.



We agreed with the Board Audit Committee that we would report to them any audit differences in excess of € 2.75 million, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Board Audit Committee on material disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

We determined the scope of our Group audit by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

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 the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

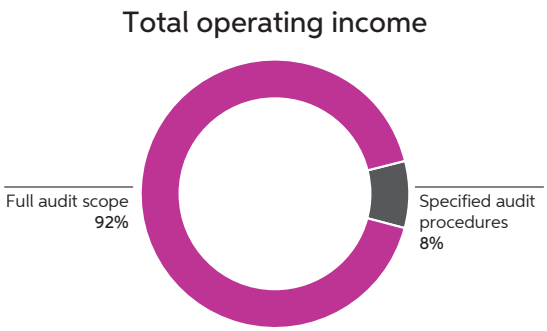
Based on that assessment, we focused our Group audit work in AIB Group plc and the four legal entities as disclosed in Note 48 to the consolidated financial statements, all of which were subject to individual statutory audits, whilst the other legal entities were subject to specified audit procedures, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations in those entities. These audits and specified audit procedures covered over 94% of the Group's total assets and 92% of the Group's total operating income. In addition, audits will be performed for statutory purposes for all legal entities.

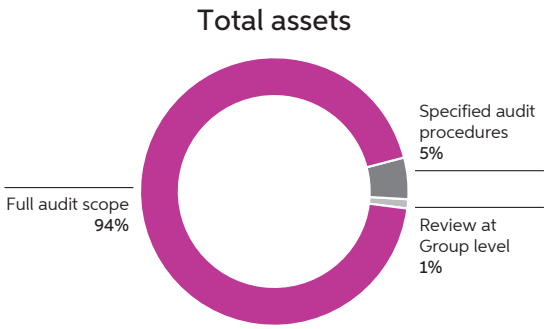
We also tested the consolidation process and carried out analytical procedures to assess there were no additional significant risks of material misstatement arising from the aggregated financial information of the remaining entities not subject to audit or specified audit procedures.

An overview of the scope of our audit *(continued)*

The Group audit team sent component auditors detailed instructions on audit procedures to be undertaken and the information to be reported back to the Group audit team. Regular contact was maintained throughout the course of the audit with component auditors which included holding Group planning meetings, maintaining communications on the status of the audits and continuing with a programme of planned visits designed so that the Group audit team met each significant component audit team during the year.

The levels of coverage of key financial aspects of the Group by type of audit procedures as set out below:





Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Financial Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable – the statement given by the Directors that they consider the Annual Financial Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and the Company's position and performance, business model and strategy is materially inconsistent with our knowledge obtained in the audit; or

- Board Audit Committee reporting – the section describing the work of the Board Audit Committee does not appropriately address matters communicated by us to the Board Audit Committee; or

- Directors' statement of compliance with the UK Corporate Governance Code and the Irish Corporate Governance Annex – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code and the Irish Corporate Governance Annex containing provisions specified for review by the auditor in accordance with Listing Rule 6.1.85 and Listing Rule 6.1.86 do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code or the Irish Corporate Governance Annex.

Independent Auditor's Report

Responsibilities of Directors

As explained more fully in the Directors' Responsibility Statement, 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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (Ireland), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Company (or where relevant, the Group) to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Group to express an opinion on the consolidated financial statements. The Group auditor is responsible for the direction, supervision and performance of the Group audit. The Group auditor remains solely responsible for the audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

For listed entities and public interest entities, the auditor also provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, including the Ethical Standard for Auditors (Ireland) 2016, and communicates with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

Where the auditor is required to report on key audit matters, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore, the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that:

- 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.
- The Company Statement of Financial Position is in agreement with the accounting records.
- In our opinion the information given in those parts of the Directors' report as specified for our review is consistent with the financial statements and the Directors' report has been prepared in accordance with the Companies Act 2014.

Corporate Governance

We report, in relation to information given in the Governance and oversight section of the Annual Financial Report on pages 171 to 222 that:

- In our opinion, based on the work undertaken during the course of the audit, the information given in the Governance and oversight section of the Annual Financial Report pursuant to subsections 2(c) and (d) of section 1373 of the Companies Act 2014 is consistent with the Company's statutory financial statements in respect of the financial year concerned and such information has been prepared in accordance with section 1373 of the 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, based on the work undertaken during the course of the audit, the Governance and oversight section of the Annual Financial Report contains the information required by Regulation 6(2) of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 (as amended); and
- In our opinion, based on the work undertaken during the course of the audit, the information required pursuant to section 1373(2)(a), (b), (e) and (f) of the Companies Act 2014 is contained in the Governance and oversight section of the Annual Financial Report.

Independent Auditor's Report

Matters on which we are required to report by exception

Based on the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in those parts of the Directors' report as specified for our review.

The Companies Act 2014 also requires us to report to you if, in our opinion, the Company has not provided the information required by Regulation 5(2) to 5(7) of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and Groups) Regulations 2017 (as amended) for the financial year ended 31 December 2019. We have nothing to report in this regard.

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of Directors' remuneration and transactions specified by law are not made.

The Listing Rules of Euronext Dublin require us to review six specified elements of disclosures in the report to shareholders by the Board of Directors' Remuneration Committee. We have nothing to report in this regard.

Other matters which we are required to address

Following the recommendation of the Board Audit Committee of Allied Irish Banks, p.l.c., we were appointed at the Annual General Meeting on 20 June 2013 to audit the financial statements for the financial year ended 31 December 2013. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 7 years, covering the years ending 2013 to 2019.

Following the corporate restructure of AIB Group plc in 2017 which led to the implementation of AIB Group plc, we were appointed on 21 September 2017 to audit the financial statements of AIB Group plc for the financial year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 3 years, covering the years ending 2017 to 2019.

The non-audit services prohibited by IAASA's Ethical Standard were not provided and we remained independent of the Company in conducting the audit.

Our audit opinion is consistent with the additional report to the Board Audit Committee that we are required to provide in accordance with ISA (Ireland) 260.

John McCarroll
For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House, Earlsfort Terrace, Dublin 2
Dublin

5 March 2020

Deloitte.

Notes: An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the Directors but no control procedures can provide absolute assurance in this area.

Legislation in Ireland governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Consolidated income statement

for the financial year ended 31 December 2019

	Notes	2019 € m	2018 € m
Interest income calculated using the effective interest method	5	2,291	2,289
Other interest income and similar income	5	79	77
Interest and similar income	5	2,370	2,366
Interest and similar expense	6	(294)	(266)
Net interest income		2,076	2,100
Dividend income	7	26	26
Fee and commission income	8	543	498
Fee and commission expense	8	(71)	(41)
Net trading (loss)/income	9	(57)	5
Net gain on other financial assets measured at FVTPL	10	140	146
Net (loss)/gain on derecognition of financial assets measured at amortised cost	11	(48)	121
Other operating income	12	46	19
Other income		579	774
Total operating income		2,655	2,874
Operating expenses	13	(1,935)	(1,661)
Impairment and amortisation of intangible assets	29	(146)	(110)
Impairment and depreciation of property, plant and equipment	30	(100)	(52)
Total operating expenses		(2,181)	(1,823)
Operating profit before impairment losses		474	1,051
Net credit impairment (charge)/writeback	15	(16)	204
Operating profit		458	1,255
Associated undertakings	28	20	12
Profit on disposal of property	16	21	2
Loss on disposal of business	17	–	(22)
Profit before taxation		499	1,247
Income tax charge	19	(135)	(155)
Profit for the year		364	1,092
Attributable to:			
– Equity holders of the parent		327	1,092
– Non-controlling interests	44	37	–
Profit for the year		364	1,092
Basic earnings per share			
Basic earnings per ordinary share	20(a)	12.1c	38.9c
Diluted earnings per share			
Diluted earnings per ordinary share	20(b)	12.1c	38.9c

Consolidated statement of comprehensive income

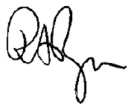
for the financial year ended 31 December 2019

	Notes	2019 € m	2018 € m
Profit for the year		**364**	1,092
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Net actuarial (losses)/gains in retirement benefit schemes, net of tax	19	**(188)**	26
Net change in fair value of equity investments at FVOCI, net of tax	19	**(9)**	2
Total items that will not be reclassified subsequently to profit or loss		**(197)**	28
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Net change in foreign currency translation reserves	19	**66**	10
Net change in cash flow hedges, net of tax	19	**184**	28
Net change in fair value of investment debt securities at FVOCI, net of tax	19	**(44)**	(291)
Total items that will be reclassified subsequently to profit or loss when specific conditions are met		**206**	(253)
Other comprehensive income for the year, net of tax		**9**	(225)
Total comprehensive income for the year		**373**	867
Attributable to:			
– Equity holders of the parent		**336**	867
– Non-controlling interests		**37**	–
Total comprehensive income for the year		**373**	867

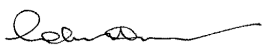
Consolidated statement of financial position

as at 31 December 2019

	Notes	2019 € m	2018 € m
Assets			
Cash and balances at central banks		11,982	6,516
Items in course of collection		57	73
Disposal groups and non-current assets held for sale	22	20	10
Derivative financial instruments	23	1,271	900
Loans and advances to banks	24	1,478	1,443
Loans and advances to customers	25	60,888	60,868
Investment securities	27	17,331	16,861
Interests in associated undertakings	28	83	90
Intangible assets and goodwill	29	917	682
Property, plant and equipment	30	803	330
Other assets	32	655	356
Current taxation		8	10
Deferred tax assets	33	2,666	2,702
Prepayments and accrued income		364	454
Retirement benefit assets	34	39	241
Total assets		98,562	91,536
Liabilities			
Deposits by central banks and banks	35	823	844
Customer accounts	36	71,803	67,699
Lease liabilities	37	429	–
Derivative financial instruments	23	1,197	934
Debt securities in issue	38	6,831	5,745
Current taxation		70	74
Deferred tax liabilities	33	109	107
Retirement benefit liabilities	34	60	49
Other liabilities	39	869	887
Accruals and deferred income		339	325
Provisions for liabilities and commitments	40	503	219
Subordinated liabilities and other capital instruments	41	1,299	795
Total liabilities		84,332	77,678
Equity			
Share capital	42	1,696	1,696
Reserves		11,543	11,668
Total shareholders' equity		13,239	13,364
Other equity interests	43	496	494
Non-controlling interests	44	495	–
Total equity		14,230	13,858
Total liabilities and equity		98,562	91,536



Richard Pym
Chairman



Colin Hunt
Chief Executive Officer

5 March 2020

Consolidated statement of cash flows

for the financial year ended 31 December 2019

	Notes	2019 € m	2018 € m
Cash flows from operating activities			
Profit before taxation for the year		**499**	1,247
Adjustments for:			
– Non-cash and other items	52	**780**	(4)
– Change in operating assets	52	**247**	(740)
– Change in operating liabilities	52	**2,581**	(345)[1]
– Taxation paid		**(56)**	(44)
Net cash inflow from operating activities		**4,051**	114
Cash flows from investing activities			
Purchase of investment securities	27	**(4,937)**	(3,276)
Proceeds from sales and maturity of investment securities	27	**4,689**	2,392
Additions to property, plant and equipment	30	**(69)**	(65)
Disposal of property, plant and equipment		**30**	8
Additions to intangible assets	29	**(259)**	(223)
Acquisition cost of subsidiary	31/52	**(60)**	–
Investment in associated undertakings		**–**	(10)
Disposal of associated undertakings		**–**	2
Dividends received from associated undertakings	28	**27**	10
Net cash outflow from investing activities		**(579)**	(1,162)
Cash flows from financing activities			
Net proceeds on issue of Additional Tier 1 Securities	43	**496**	–
Net proceeds on issue of € 500 million Tier 2 Notes	41	**500**	–
Proceeds on issue of debt securities – MREL[1]	38	**1,640**	1,651
Dividends paid on ordinary shares	21	**(461)**	(326)
Distributions paid to other equity interests	21	**–**	(37)
Distributions paid to non-controlling interests	44	**(37)**	–
Repayment of lease liabilities	30	**(59)**	–
Interest paid on debt securities – MREL		**(70)**	–
Interest paid on subordinated liabilities and other capital instruments		**(31)**	(31)
Net cash inflow from financing activities		**1,978**	1,257
Change in cash and cash equivalents		**5,450**	209
Opening cash and cash equivalents		**7,246**	7,058
Effect of exchange translation adjustments		**227**	(21)
Closing cash and cash equivalents	52	**12,923**	7,246

[1]2018 has been re-presented to align the balance sheet classification. MREL was previously presented in operating activities and is now presented in financing activities.

Consolidated statement of changes in equity

for the financial year ended 31 December 2019

	Attributable to equity holders of parent												
	Share capital	Other equity interests	Capital reserves	Merger reserve	Capital redemp-tion reserves	Reval-uation reserves	Invest-ment securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Total	Non-controlling interests	Total equity
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2019	1,696	494	1,133	(3,622)	14	14	676	285	13,763	(595)	13,858	–	13,858
Total comprehensive income for the year													
Profit for the year	–	–	–	–	–	–	–	–	327	–	327	37	364
Other comprehensive income *(note 19)*	–	–	–	–	–	–	(53)	184	(188)	66	9	–	9
Total comprehensive income for the year	–	–	–	–	–	–	(53)	184	139	66	336	37	373
Transactions with owners, recorded directly in equity													
Contributions by and distributions to owners of the Group:													
Transferred to non-controlling interests *(notes 43 and 44)*	–	(494)	–	–	–	–	–	–	–	–	(494)	494	–
Non-controlling interests on acquisition of subsidiary *(note 44)*	–	–	–	–	–	–	–	–	–	–	–	1	1
Issue of Additional Tier 1 Securities *(note 43)*	–	496	–	–	–	–	–	–	–	–	496	–	496
Dividends paid on ordinary shares *(note 21)*	–	–	–	–	–	–	–	–	(461)	–	(461)	–	(461)
Distributions paid to other equity interests *(note 21)*	–	–	–	–	–	–	–	–	–	–	–	–	–
Distributions paid to non-controlling interests *(note 44)*	–	–	–	–	–	–	–	–	–	–	–	(37)	(37)
Total contributions by and distributions to owners of the Group	–	2	–	–	–	–	–	–	(461)	–	(459)	458	(1)
At 31 December 2019	1,696	496	1,133	(3,622)	14	14	623	469	13,441	(529)	13,735	495	14,230

Consolidated statement of changes in equity

for the financial year ended 31 December 2018

	Attributable to equity holders of parent											
	Share capital	Other equity interests	Capital reserves	Merger reserve	Capital redemp-tion reserves	Reval-uation reserves	Available for sale securities reserves	Invest-ment securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Total equity
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 31 December 2017	1,697	494	1,133	(3,622)	14	14	981	–	257	13,249	(605)	13,612
Impact of adopting IFRS 9 at 1 January 2018	–	–	–	–	–	–	(981)	965	–	(251)	–	(267)
Impact of adopting IFRS 15 at 1 January 2018	–	–	–	–	–	–	–	–	–	10	–	10
Restated balance at 1 January 2018	1,697	494	1,133	(3,622)	14	14	–	965	257	13,008	(605)	13,355
Total comprehensive income for the year												
Profit for the year	–	–	–	–	–	–	–	–	–	1,092	–	1,092
Other comprehensive income *(note 19)*	–	–	–	–	–	–	–	(289)	28	26	10	(225)
Total comprehensive income for the year	–	–	–	–	–	–	–	(289)	28	1,118	10	867
Transactions with owners, recorded directly in equity												
Contributions by and distributions to owners of the Group:												
Dividends paid on ordinary shares *(note 21)*	–	–	–	–	–	–	–	–	–	(326)	–	(326)
Distributions paid to other equity interests *(note 21)*	–	–	–	–	–	–	–	–	–	(37)	–	(37)
Other movements	(1)	–	–	–	–	–	–	–	–	–	–	(1)
Total contributions by and distributions to owners of the Group	(1)	–	–	–	–	–	–	–	–	(363)	–	(364)
At 31 December 2018	1,696	494	1,133	(3,622)	14	14	–	676	285	13,763	(595)	13,858

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Notes to the consolidated financial statements

1 Accounting policies

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1 Accounting policies *(continued)*

The significant accounting policies that the Group applied in the preparation of the financial statements are set out in this section.

(a) Reporting entity

AIB Group plc ('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. AIB Group plc is registered under the Companies Act 2014 as a public limited company under the company number 594283 and is the holding company of the Group.

The consolidated financial statements for the year ended 31 December 2019 include the financial statements of AIB Group plc and its subsidiary undertakings, collectively referred to as 'AIB Group' or 'the Group', where appropriate, including certain special purpose entities and the Group's interest in associates using the equity method of accounting and are prepared to the end of the financial period. 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 adopted by the European Union ("EU") and applicable for the financial year ended 31 December 2019. The consolidated financial statements also comply with those parts of the Companies Act 2014 and the European Union (Credit Institutions: Financial Statements) Regulations 2015 applicable to companies reporting under IFRS, 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, apart from policy adopted as a result of the implementation of IFRS 16 *Leases*.

(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 investment securities at FVOCI.

The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and the holding company's separate statements of financial position, the consolidated and the holding company's separate statements of cash flows, and the consolidated and the holding company's separate 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 ongoing 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 expected credit losses on 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.

A description of these judgements and estimates is set out in 'Critical accounting judgements and estimates' on pages 273 to 277.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(c) Basis of preparation *(continued)*

Going concern

The financial statements for the financial year ended 31 December 2019 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.

First time adoption of new accounting standard/amendments to standards

The following new standard and amendments to standards have been adopted by the Group during the year ended 31 December 2019.

IFRS 16 *Leases*

The effective date for IFRS 16 *Leases* was 1 January 2019 and was adopted by the Group on that date. The new standard replaces IAS 17 *Leases*.

The Group is applying this standard using the modified retrospective approach. Therefore, the comparative financial information for 2018 is not being restated as allowed in IFRS 16 paragraph C7 and continues to be reported under IAS 17. Accordingly, accounting policy (n) 'Leases' as set out in the Annual Financial Report 2018 applies for comparative information.

The total impact of IFRS 16 over the life of a lease will be neutral on the income statement, however, its implementation will result in a higher charge in the earlier years following implementation with a lower charge in later years. This impact is not material in the financial year to 31 December 2019.

Details on the impact of adopting IFRS 16 are set out in note 3 to these financial statements.

Interest Rate Benchmark Reform

Amendments to IFRS 9 *Financial Instruments*; Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*; and Amendments to IFRS 7 *Financial Instruments: Disclosures*.

In September 2019, the IASB amended some of its requirements for hedge accounting in order to support the provision of useful financial information by companies during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs) and their replacement with alternative nearly risk-free interest rates. These amendments allow hedging relationships affected by the IBOR reform to be accounted for as continuing hedges.

The Group has early adopted these amendments for the financial year to 31 December 2019. The Group will continue to apply the amendments to IFRS 9 and IAS 39 until the uncertainty arising from interest rate benchmark reform with respect to the timing and amount of underlying cash flows ends. The Group has assumed that this uncertainty will not end until the Group's contracts that reference IBORs are amended or fallback clauses are added to existing contracts.

For further details of Interest Rate Benchmark Reform see page 161.

***Definition of Material* (Amendments to IAS 1 and IAS 8)**

The amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policy, Changes in Accounting Estimates and Errors which* were issued in October 2018 and effective for reporting periods beginning on or after 1 January 2020 with earlier application permitted, clarify the definition of material as follows:

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity".

The amendments are aimed at improving the understanding of the existing requirements rather than to significantly impact current materiality judgements. The new definition of material is to be used to assess whether information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments are not expected to significantly impact on the Group's interpretation of material.

The Group early adopted these amendments with effect from 1 January 2019.

Other amendments resulting from Improvements to IFRSs which the Group adopted in 2019 did not have a material impact on the accounting policies, financial position or performance of the Group.

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 IFRS 9 *Financial Instruments*, 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.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(d) Basis of consolidation *(continued)*

Non-controlling interests

For each business combination, the Group recognises any non-controlling interest in the acquiree either:

– at fair value; or
– at their proportionate share of the acquiree's identifiable net assets.

For changes in the Group's interest in a subsidiary that do not result in a loss of control, the Group adjusts the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The difference between the change in value of the non-controlling interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the parent.

Common control transactions

The Group accounts for the acquisition of businesses and 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 (aa) '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 IFRS 9 *Financial Instruments*.

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.

1 Accounting policies *(continued)*

(d) Basis of consolidation *(continued)*

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.

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.

The Company reviews its equity investment for impairment at the end of each reporting period if there are indications that impairment may have occurred.

The testing for possible impairment involves comparing the estimated recoverable amount of an investment with its carrying amount. Where the recoverable amount is less than the carrying amount, the difference is recognised as an impairment provision in the Company's financial statements. The recoverable amount is the higher of fair value less costs to sell and value-in-use ("VIU").

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.

(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 designated at FVOCI, 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 cumulative translation reserve within shareholders' equity. When a foreign operation is disposed of in full, the relevant amount of this 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. In the case of a partial disposal, a pro-rata amount of the foreign currency cumulative translation reserve is transferred to the income statement. This also applies in the case where there has not been a reduction in the overall percentage holding, i.e. repayment of capital.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(f) Interest income and expense recognition

Interest income and expense is recognised in the income statement using the effective interest method.

Effective interest rate

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 gross carrying amount of the financial asset; or
– the amortised cost of the 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 for financial instruments other than credit impaired assets, the Group estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding expected 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.

Amortised cost and gross carrying amount

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The gross carrying amount of a financial asset is the amortised cost before adjusting for any loss allowance.

Calculation of interest income and interest expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability.

For financial assets that have become credit impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit impaired, the calculation of interest income reverts to the gross basis.

However, for financial assets that were credit impaired on initial recognition, interest income is calculated by applying the credit adjusted effective interest rate to the amortised cost of the financial asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

When a financial asset is no longer credit impaired or has been repaid in full (i.e. cured without financial loss), the Group presents previously unrecognised interest income as a reversal of credit impairment/recovery of amounts previously written-off.

Interest income and expense on financial assets and liabilities classified as held for trading or at FVTPL is recognised in 'other interest income and similar income' or 'interest expense' in the income statement, as applicable.

1 Accounting policies *(continued)*

(f) Interest income and expense recognition *(continued)*

Presentation

Interest income and expense presented in the consolidated income statement include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- Interest on investment debt securities measured at FVOCI calculated on an effective interest basis;
- Interest on financial assets measured at FVTPL;
- 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.

The Group policy for the recognition of leasing income is set out in accounting policy (n).

(g) Dividend income

Dividends on equity investments measured at FVTPL are recognised in the income statement when the entity's right to receive payment is established. Dividends on equity investments measured at FVOCI are recognised in the income statement provided that they represent a return on capital.

(h) Fee and commission income

The measurement and timing of recognition of fee and commission income is based on the core principles of IFRS 15 *Revenue from Contracts with Customers*.

The principles in IFRS 15 are applied using the following 5 step model:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognise revenue when or as the Group satisfies its performance obligations.

Fee and commission income is recognised when the performance obligation in the contract has been performed, ‘point in time’ recognition, or ‘over time’ recognition if the performance obligation is performed over a period of time unless the income has been included in the effective interest rate calculation.

The Group includes in the transaction price, some or all of an amount of variable consideration estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The majority of the Group’s fee and commission income arises from retail banking activities. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or retained a part at the same effective interest rate as applicable to the other participants.

Foreign exchange income is fee income that is derived from arranging foreign exchange transactions on behalf of customers. Such income is recognised when the individual performance obligation has been fulfilled.

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 time in line with the performance obligation. 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 over time in line with the performance obligation except arrangement fees where it is likely that the facility will be drawn down, and which are included in the effective interest rate calculation.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(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. Interest revenue and dividend income on trading assets are shown in 'interest income' and 'dividend income' respectively.

(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, except for insurance policies acquired as part of a buy in. If the policies are qualifying policies under IAS 19 and if the timing and amount of payments under the policies exactly match some or all of the benefits payable under the scheme, then the present value of the related obligation is determined and is deemed to be the fair value of the insurance policies to be included in plan assets.

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. A surplus is only recognised as an asset to the extent that it is recoverable through a refund from the scheme or through reduced contributions in the future. Actuarial gains and losses are recognised immediately in other comprehensive income.

The cost of providing defined benefit pension schemes to employees, comprising the net interest on the net defined benefit liability/(asset), calculated by applying the discount rate to the net defined benefit liability/(asset) at the start of the annual reporting period, taking into account contributions and benefit payments during the period, is charged to the income statement within personnel expenses.

Re-measurements 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 defined benefit liability/(asset)) are recognised in other comprehensive income. Amounts recognised in other comprehensive income in relation to re-measurements of the net defined benefit liability/(asset) will not be reclassified to profit or loss in a subsequent period.

In early 2017, the Board reassessed its obligation to fund increases in pensions in payment. The Board confirmed that funding of increases in pensions in payment is a decision to be made by the Board each year where increases are discretionary. This was based on actuarial and external legal advice obtained.

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. A settlement is a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit scheme. Gains or losses on plan amendments, curtailments and settlements are recognised in the income statement.

1 Accounting policies *(continued)*

Retirement benefit obligations *(continued)*

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 past service cost. These are recognised in the income statement.

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 the income statement 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.

(k) 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. However, the income tax consequences of payments on financial instruments that are classified as equity but treated as liabilities for tax purposes are recognised in profit or loss if those payments are distributions of profits previously recognised in profit or loss.

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.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(k) Income tax, including deferred income tax *(continued)*

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.

(l) Financial assets

Recognition and initial measurement

The Group initially recognises financial assets on the trade date, being the date on which the Group commits to purchase the assets. Loan assets are recognised when cash is advanced to borrowers.

Financial assets measured at amortised cost or at fair value through other comprehensive income ("FVOCI") are recognised initially at fair value adjusted for direct and incremental transaction costs. Financial assets measured at fair value through profit or loss ("FVTPL") are recognised initially at fair value and transaction costs are taken directly to the income statement.

Derivatives are measured initially at fair value on the date on which the derivative contract is entered into. 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.

Classification and subsequent measurement

On initial recognition, a financial asset is classified and subsequently measured at amortised cost, FVOCI or FVTPL.
The classification and subsequent measurement of financial assets depend on:

- The Group's business model for managing the asset; and
- The cash flow characteristics of the asset (for assets in a 'hold-to-collect' or 'hold-to-collect-and-sell' business model).

Based on these factors, the Group classifies its financial assets into one of the following categories:

– Amortised cost

Assets that have not been designated as at FVTPL, and are held within a 'hold-to-collect' business model whose objective is to hold assets to collect contractual cash flows; and whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. The carrying amount of these assets is calculated using the effective interest method and is adjusted on each measurement date by the expected credit loss allowance for each asset, with movements recognised in profit or loss.

– Fair value through other comprehensive income ("FVOCI")

Assets that have not been designated as at FVTPL, and are held within a 'hold-to-collect-and-sell' business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI"). Movements in the carrying amount of these assets are taken through other comprehensive income ("OCI"), except for the recognition of credit impairment gains or losses, interest revenue or foreign exchange gains and losses, which are recognised in profit or loss. When a financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss other than in the case of equity instruments designated at FVOCI.

1 Accounting policies *(continued)*

(I) Financial Assets *(continued)*

– Fair value through profit or loss ("FVTPL")

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. Gains or losses (excluding interest income or expense) on such assets are recognised in profit or loss on an ongoing basis.

In addition, the Group may irrevocably designate a financial asset as at FVTPL that otherwise meets the requirements to be measured at amortised cost or at FVOCI if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

– Embedded derivatives

Certain hybrid contracts may contain both a non-derivative host and an 'embedded derivative'. Under IFRS 9, there is no bifurcation of embedded derivatives from the host financial asset. As a result, such financial assets will generally fail the SPPI test unless the embedded derivative does not substantially modify the cash flows that would otherwise be required by the contract. Those failing the SPPI test will be classified and measured at FVTPL.

Business model assessment

The Group makes an assessment of the objective of the business model at a portfolio level, as this reflects how portfolios of assets are managed to achieve a particular objective, rather than management's intentions for individual assets.
The assessment considers the following:

- The strategy for the portfolio as communicated by management;
- How the performance of the portfolio is evaluated and reported to senior management;
- The risks that impact the performance of the business model, and how those risks are managed;
- How managers of the business are compensated (i.e. based on fair value of assets managed or on the contractual cash flows collected); and
- The frequency, value and timing of sales in prior periods, reasons for those sales, and expectations of future sales activity.

Financial assets that are held for trading or managed within a business model that is evaluated on a fair value basis are measured at FVTPL because the business objective is neither hold-to-collect contractual cash flows nor hold-to-collect-and-sell contractual cash flows.

Characteristics of the contractual cash flows

An assessment ('SPPI test') is performed on all financial assets at origination that are held within a 'hold-to-collect' or 'hold-to-collect-and-sell' business model to determine whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset at initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding, and for other basic lending risks and costs (i.e. liquidity, administrative costs), and profit margin.

The SPPI test requires an assessment of the contractual terms and conditions to determine whether a financial asset contains any terms that could modify the timing or amount of contractual cash flows of the asset, to the extent that they could not be described as solely payments of principal and interest. In making this assessment, the Group considers:

- Features that modify the time value of money element of interest (e.g. tenor of the interest rate does not correspond with the frequency within which it resets);
- Terms providing for prepayment and extension;
- Leverage features;
- Contingent events that could change the amount and timing of cash flows;
- Terms that limit the Group's claim to cash flows from specified assets; and
- Contractually linked instruments.

Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(l) Financial Assets *(continued)*

Reclassifications

Reclassifications of financial assets to alternative measurement categories, (e.g. from amortised cost to FVOCI), should be very infrequent, and will only occur when, and only when, the Group changes its business model for managing a specific portfolio of financial assets.

Investments in equity instruments

Equity instruments are classified and measured at FVTPL with gains and losses reflected in profit or loss.

On initial recognition, the Group may elect to irrevocably designate at FVOCI, an equity instrument that is not held for trading. This election is made on an instrument-by-instrument basis. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss on derecognition of the equity instrument.

(m) Financial liabilities and equity

The Group categorises financial liabilities as at amortised cost or as at fair value through profit or loss.

The Group recognises a financial liability when it becomes party to the contractual provisions of the contract.

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 subsequent 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 re-measurement 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.

(n) 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.

1 Accounting policies *(continued)*

(n) Leases *(continued)*

Lessee

Leases are recognised, measured and presented in line with IFRS 16 *Leases*.

Identifying a lease

The Group assesses whether a contract is, or contains, a lease at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This assessment involves the exercise of judgement about whether it depends on a specified asset, whether the Group obtains substantially all the economic benefits from the use of that asset, and whether the Group has the right to direct the use of the asset.

This policy is applied to all of its contracts that meet the definition of a lease.

The Group has elected to apply the practical expedient to account for each lease component and any non-lease component as a single lease component.

Lease term

The lease term comprises the non-cancellable period of the lease contract for which the Group has the right to use an underlying asset together with:

– periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option; and
– periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option.

Recognition

The Group recognises a right-of-use asset and a lease liability at the commencement date of the contract for all leases except for short term leases of 12 months or less or leases where the underlying asset is of low value i.e. the value of the underlying asset, when new, is less than € 5,000/£ 5,000. The commencement date is the date on which a lessor makes an underlying asset available for use by the Group.

Initial measurement of right-of-use asset

Right-of-use assets are initially measured at cost, which comprises:

– the amount of the initial measurement of the lease liability;
– any lease payments made at or before the commencement date, less any lease incentives;
– any initial direct costs incurred by the Group; and
– an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets or restoring the site on which the assets are located.

The Group provides for dilapidations/restoration costs where it has been identified or planned that it intends on exiting the premises, and/or where it has completed extensive modifications. The Group recognises asset restoration obligations mainly in relation to leased head office locations and branches and any other space which would need to be restored to their previous condition when the lease ends. Asset restoration obligations are capitalised as part of the cost of right-of-use assets and depreciated over the asset's estimated useful life on a straight-line basis.

Subsequent measurement of right-of-use asset

After the commencement date, a right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the lease liability. The Group applies IAS 36 *Impairment of Assets* as set out in the Group's accounting policy (x) 'Impairment of property, plant and equipment, goodwill and intangible assets' to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

The Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset and the end of the lease term on a straight-line basis. When determining the relevant time period to calculate depreciation, the Group uses the lease term as determined in the initial recognition calculation.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(n) Leases *(continued)*

Initial measurement of lease liability

The lease liability is initially measured at the present value of the lease payments that are payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under a residual value guarantee;
- the exercise price of a purchase option if the Group is reasonably certain to exercise;
- lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

Lease payments exclude variable elements which are dependent on external factors, e.g. payments that are based on transaction volume/usage. Variable lease payments that are not included in the initial measurement of the lease liability are recognised directly in the income statement in the period in which the event or condition that triggers these payments occurs.

VAT payments are not included in the calculation of the lease liability. These are expensed to the income statement when incurred and are included in 'Operating expenses' (note 13) within 'General and administrative expenses'.

Where a lease agreement contains a clause to restore the asset to a specified condition i.e. restoration/dilapidation costs, the Group recognises a provision for restoration costs under IAS 37 in its statement of financial position under 'Provisions for liabilities and commitments'.

Subsequent measurement of lease liability

After the commencement date, the Group measures the lease liability by:
- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect lease payments made; and
- re-measuring the carrying amount to reflect any reassessment or lease modifications.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to Nil.

Lease modifications

Lease modifications arise from changes to the underlying contract between the Group and the lessor. The accounting for the modification is dependent on whether the modification is considered a separate lease or not.

A lease modification is accounted for as a separate lease if both the modification increases the scope of the lease by adding the right to use one or more underlying assets and the consideration for the lease increases by an amount commensurate with the standalone price for the increase in scope. If both criteria are met, the Group adopts the accounting policy on the initial recognition and measurement of lease liabilities and right-of-use assets.

If a lease modification fails the test above or the modification is of any other type (e.g. a decrease in scope from the original contract), the Group must modify the initially recognised components of the lease contract.

1 Accounting policies *(continued)*

(n) Leases *(continued)*

The accounting treatment required for lease modifications that are not accounted for as separate leases is as follows:

Decrease in scope:

(a) Re-measure lease liability using revised discount rate*;
(b) Decrease right-of-use asset by its relative scope compared to the original lease; and
(c) Difference between (a) and (b) recognised as a gain or loss in the income statement in 'Profit on disposal of leases'.

All other lease modifications:

(a) Re-measure lease liability using the revised discount rate*; and
(b) Re-measure right-of-use asset by same amount.

*The interest rate implicit in the lease for the remainder of the lease term is used. If this cannot be readily determined, the incremental borrowing rate at the effective date of the modification is used.

Sublease accounting

Where the Group sub-leases an asset (intermediate lessor) which it has leased from another lessor (the 'head lessor' who ultimately owns the asset from a legal perspective), the Group, assesses whether the sub-lease is a finance or operating lease in the context of the right-of-use asset being leased, not the actual underlying asset.

Statement of financial position

The Group presents right-of-use assets in 'Property, plant and equipment' and lease liabilities as a separate line item in the statement of financial position.

Practical expedients

The Group has elected to apply the practical expedient not to recognise right-of-use assets and lease liabilities for short term leases i.e. leases that have a lease term of 12 months or less and for leases of low-value assets (i.e. leases where the value of the underlying asset when new is less than € 5,000/£ 5,000). The lease payments associated with these leases are recognised as an expense on a straight-line basis over the lease term. The election to adopt the recognition exemption for short term leases is made by class of underlying asset to which the right-of-use relates.

The Group has elected to apply the practical expedient, as allowed by IFRS 16, to apply the Standard to a portfolio of leases with similar characteristics when it expects that the effects on the financial statements of applying the Standard to the portfolio would not differ materially from applying this Standard to the individual leases within the portfolio. The Group has applied the portfolio approach to its leases of motor vehicles and the spaces in which its offsite ATMs are located. On this basis, the Group has made estimates and assumptions that reflect the size and composition of the portfolio.

Under IAS 17

Until 31 December 2018, under the requirements of IAS 17, the Group's policy for operating leases for the comparative period for the year ended 31 December 2018 was as follows: Operating lease rentals payable were recognised as an expense in the income statement on a straight-line basis over the lease term unless another systematic basis is more appropriate.

(o) 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.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(o) 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 ask 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 ask 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)*

(o) 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.

(p) 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.

(q) Derivatives and hedge accounting

Derivatives, such as interest rate swaps, options and forward rate agreements, futures, 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 re-measured 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.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(q) Derivatives and hedge accounting *(continued)*

Hedging

The Group has opted to remain with the IAS 39 hedge accounting requirements until macro hedge accounting is addressed by the IASB as part of a separate project. This is an accounting policy choice allowed by IFRS 9.

All derivatives are carried at fair value and the accounting treatment of the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Where derivatives are held for risk management purposes, and where transactions meet the criteria specified in IAS 39 *Financial Instruments: Recognition and Measurement*, the Group designates certain derivatives as either:

– hedges of the fair value of recognised assets or liabilities or firm commitments ('fair value hedge'); or
– hedges of the exposure to variability of cash flows attributable to a recognised asset or liability, or a highly probable forecasted transaction ('cash flow hedge'); or
– hedges of a net investment in a foreign operation.

When a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The Group discontinues hedge accounting when:

a) it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
b) the derivative expires, or is sold, terminated, or exercised;
c) the hedged item matures or is sold or repaid; or
d) a forecast transaction is no longer deemed highly probable.

To the extent that the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged risk in the hedged item; or the cumulative change in the fair value of the hedging derivative differs from the cumulative change in the fair value of expected future cash flows of the hedged item, ineffectiveness arises. The amount of ineffectiveness, (taking into account the timing of the expected cash flows, where relevant) provided it is not so great as to disqualify the entire hedge for hedge accounting, is recorded in the income statement.

In certain circumstances, the Group may decide to cease hedge accounting even though the hedge relationship continues to be highly effective by no longer designating the financial instrument as a hedge.

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 debt securities measured at FVOCI, 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.

1 Accounting policies *(continued)*

(q) Derivatives and hedge accounting *(continued)*

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.

(r) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Relevant costs incurred with the disposal of a financial asset are deducted in computing the gain or loss on disposal.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. However, the amount held in investment securities reserves is transferred to revenue reserves on derecognition. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate or is less than adequate for performing the servicing.

The write-off of a financial asset constitutes a derecognition event. Where a financial asset is partially written-off, and the portion written-off comprises specifically identified cash flows, this will constitute a derecognition event for that part written-off.

(s) Impairment of financial assets

The Group recognises loss allowances for expected credit losses at each balance sheet date for the following financial instruments that are not measured at FVTPL:

- Financial assets at amortised cost;
- Financial assets at FVOCI (except for equity instruments);
- Lease receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued.

Investments in equity instruments are recognised at fair value, accordingly, expected credit losses are not recognised separately for equity instruments.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(s) Impairment of financial assets *(continued)*

ECLs are the weighted average of credit losses. These are an estimate of credit losses over the life of a financial instrument. When measuring ECLs, the Group takes into account:

- probability-weighted outcomes;
- the time value of money so that ECLs are discounted to the reporting date; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The amount of ECLs recognised as a loss allowance depends on the extent of credit deterioration since initial recognition. There are two measurement bases:

- 12-month ECLs (Stage 1), which applies to all items as long as there is no significant deterioration in credit quality since initial recognition; and
- Lifetime ECLs (Stages 2 and 3), which applies when a significant increase in credit risk has occurred on an individual or collective basis.

The 12 month ECL is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL is the expected credit losses that result from all possible default events over the expected life of a financial instrument.

In the case of Stage 2, credit risk on the financial instrument has increased significantly since initial recognition but the instrument is not considered credit impaired. For a financial instrument in Stage 3, credit risk has increased significantly since initial recognition and the instrument is considered credit impaired.

Financial assets are allocated to stages dependent on credit quality relative to when the asset was originated.

A financial asset can only originate in either Stage 1 or as purchased or originated credit impaired ("POCI"). The ECL held against an asset depends on a number of factors, one of which is its stage allocation. Assets allocated to Stage 2 and Stage 3 have lifetime ECLs. Collateral and other credit enhancements are not considered as part of stage allocation. Collateral is reflected in the Group's loss given default models ('LGD').

Purchased or originated credit impaired

Purchased or originated credit impaired ("POCI") financial assets are those that are credit-impaired on initial recognition. The Group may originate a credit-impaired financial asset following a substantial modification of a distressed financial asset that resulted in derecognition of the original financial asset.

POCIs are assets originated credit impaired where the difference between the discounted contractual cash flows and the fair value at origination is greater than or equal to 5%. The Group uses an appropriate discount rate for measuring ECL in the case of POCIs which is the credit-adjusted EIR. This rate is used to discount the expected cash flows of such assets to fair value on initial recognition.

POCIs remain outside of the normal stage allocation process for the lifetime of the obligation. The ECL for POCIs is always measured at an amount equal to lifetime expected credit losses. The amount recognised as a loss allowance for these assets is the cumulative changes in lifetime expected credit losses since the initial recognition of the assets rather than the total amount of lifetime expected credit losses.

At each reporting date, the Group recognises the amount of the change in lifetime expected credit losses as a credit impairment gain or loss in the income statement. Favourable changes in lifetime expected credit losses are recognised as a credit impairment gain, even if the favourable changes exceed the amount previously recognised in profit or loss as a credit impairment loss.

1 Accounting policies *(continued)*

(s) Impairment of financial assets *(continued)*

Modification

From time to time, the Group will modify the original terms of a customer's loan either as part of the ongoing relationship or arising from changes in the customer's circumstances such as when that customer is unable to make the agreed original contractual repayments. A modification refers to either:

– A change to the previous terms and conditions of a debt contract; or
– A total or partial refinancing of a debt contract.

Modifications may occur for both customers in distress and for those not in distress. Any financial asset that undergoes a change or renegotiation of cash flows and is not derecognised is a modified financial asset.

When modification does not result in derecognition, the modified assets are treated as the same continuous lending agreement but requires a modification gain or loss to be taken to profit or loss immediately. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

The stage allocation for modified assets which are not derecognised is by reference to the credit risk at initial recognition of the original, unmodified contractual terms i.e. the date of initial recognition is not reset.

Where renegotiation of the terms of a financial asset 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.

Derecognition occurs if a modification or restructure is substantial on a qualitative or quantitative basis. Accordingly, certain forborne assets are derecognised. The modified/restructured asset (derecognised forborne asset ('DFA')) is considered a 'new financial instrument' and the date that the new asset is recognised is the date of initial recognition from this point forward. DFAs are allocated to Stage 1 on origination and follow the normal staging process, thereafter.

If there is evidence of credit impairment at the time of initial recognition of a DFA, and the fair value at recognition is at a discount to the contractual amount of the obligation, the asset is deemed to be a POCI. POCIs are not allocated to stages but are assigned a lifetime PD and ECL for the duration of the obligation's life. Where the modification/restructure of a non-forborne credit obligation results in derecognition, the new loan is originated in Stage 1 and follows the normal staging process thereafter.

Collateralised financial assets – Repossessions

The ECL calculation for 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 that are credit impaired, the Group may repossess collateral previously pledged as security in order to achieve an orderly realisation of the loan. The Group 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 that asset and not as a credit impairment of the original loan.

Financial assets at FVOCI

The ECL allowance for financial assets measured at FVOCI does not reduce the carrying amount in the statement of financial position because the carrying amount of these assets is fair value. However, an amount equal to the ECL allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income ('OCI') as an accumulated credit impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit or loss upon derecognition of the assets (together with other accumulated gains and losses in OCI).

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(s) Impairment of financial assets *(continued)*

Write-offs and debt forgiveness

The Group reduces the gross carrying amount of a financial asset either partially or fully when there is no reasonable expectation of recovery.

Where there is no formal debt forgiveness agreed with the customer, the Group may write-off a loan either partially or fully when there is no reasonable expectation of recovery. This is considered a non-contracted write-off. In this case, the borrower remains fully liable for the credit obligation and is not advised of the write-off.

Once a financial asset is written-off either partially or fully, the amount written-off cannot subsequently be recognised on the balance sheet. It is only when cash is received in relation to the amount written-off that income is recognised in the income statement as a 'recovery of bad debt previously written-off'.

Debt forgiveness arises where there is a formal contract agreed with the customer for the write-off of a loan.

(t) 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 advances 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 advances continues to be recorded on the statement of financial position. Collateral paid away in the form of cash is recorded in loans and advances 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 on 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.

(u) Financial guarantees and loan commitment contracts

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 principal operating company) issues financial guarantees to other Group entities.

A loan commitment is a contract with a borrower to provide a loan or credit on specified terms at a future date. The contract may or may not be cancelled unconditionally at any time without notice depending on the terms of the contract.

1 Accounting policies *(continued)*

(u) Financial guarantees and loan commitment contracts *(continued)*

Financial guarantees and loan commitment contracts are initially recognised in the financial statements at fair value on the date that the guarantee or loan commitment is given. Subsequent to initial recognition, the Group applies the impairment provisions of IFRS 9 and calculates an ECL allowance for financial guarantees and loan commitment contracts that are not measured at FVTPL.

The origination date for such contracts is the date when the contracts become irrevocable. The credit risk at this date is used to determine if a significant increase in credit risk has subsequently occurred.

The ECL allowance calculated on financial guarantees and loan commitment contracts is reported within IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

(v) 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 depreciates right-of-use assets arising under lease obligations from the commencement date of a lease to the earlier of the end of the useful life of the right-of-use asset and the end of the lease term on a straight-line basis. When determining the relevant time period to calculate depreciation, the Group uses the lease term as determined in the initial recognition calculation.

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.

(w) Intangible assets and goodwill

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.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(w) Intangible assets and goodwill *(continued)*

Acquired intangible assets

Customer related intangible assets and brands acquired in a business combination are recognised at fair value at acquisition date.

Customer related intangible assets and brands have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line basis to allocate the cost over their estimated useful life (6 years).

Goodwill

Goodwill is not amortised but is tested for impairment in accordance with accounting policy (x) as set out below.

(x) 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, goodwill 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 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, goodwill 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.

(y) 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 re-measurement. However, financial assets within the scope of IFRS 9 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 re-measurement 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.

1 Accounting policies *(continued)*

(z) 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.

(aa) 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 and Subscriber 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 equity.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(aa) Equity *(continued)*

Dividends and distributions

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or in the case of the interim dividend when they become irrevocable having already been approved for payment by the Board of Directors. The interim dividend may be cancelled at any time prior to the actual payment.

Dividends declared after the end of the reporting date are disclosed in note 57.

Other equity interests

Other equity interests include

- Additional Tier 1 Perpetual Contingent Temporary Write Down Securities (AT1s) (note 43); and
- Warrants to acquire a fixed number of the company shares for a fixed amount of currency are classified as equity instruments and are recognised on initial recognition at the fair value of consideration received.

Distributions on the AT1s are recognised in equity when approved for payment by the Board of Directors.

Other capital reserves

Other capital reserves represent transfers from retained earnings in accordance with relevant legislation.

Capital contributions

Capital contributions represent the receipt of non-refundable considerations arising from transactions with the Irish Government (note 53). 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 in the statement of financial position arose during 2011 from (a) EBS transaction and (b) non-refundable receipts from the Irish Government and the NPRFC.

The capital contribution from the EBS transaction is treated as non-distributable as the related net assets received were largely non-cash in nature.

Non-refundable receipts of € 6,054 million from the Irish Government and the NPRFC are distributable. These are included in revenue reserves.

Capital redemption reserves

Capital redemption reserves arose in 2015 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 2018, Subscriber Shares were redeemed resulting in a transfer of € 25,000 from revenue reserves to capital redemption reserves.

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.

Investment securities reserves

Investment securities reserves represent the net unrealised gain or loss, net of tax, arising from the recognition in the statement of financial position of investment securities at FVOCI.

On disposal of equity securities which had been designated at FVOCI on initial recognition, any amounts held in the investment securities reserves account is transferred directly to revenue reserves without recycling through profit or loss.

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)*

(aa) Equity *(continued)*

Revenue reserves

Revenue reserves represent retained earnings of the parent company, subsidiaries and associated undertakings together with amounts transferred from issued share capital, share premium and capital redemption reserves following Irish High Court approval. They also include amounts arising from the capital reduction which followed the 'Scheme of Arrangement' undertaken by the Group in December 2017.

The cumulative surplus/deficit within the defined benefit pension schemes and other appropriate adjustments are included in/offset against revenue reserves.

Foreign currency cumulative translation reserves

The foreign currency cumulative 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.

Merger reserve

The merger reserve arose following the Scheme of Arrangement approved by the Irish High Court in December 2017 where a new company, AIB Group plc ("the Company"), was introduced as the holding company of AIB Group (note 45).

In the consolidated financial statements of AIB Group plc, the carrying value of the investment in Allied Irish Banks, p.l.c. by AIB Group plc was eliminated against the share capital and share premium account in Allied Irish Banks, p.l.c. and the merger reserve in AIB Group plc resulting in a negative merger reserve.

In AIB Group plc's company financial statements, impairment losses which arise from AIB Group plc's investment in Allied Irish Banks, p.l.c. will be charged to the profit or loss account and transferred to the merger reserve in so far as a credit balance remains in the merger reserve.

Non-controlling interests

Non-controlling interests comprise equity interests which relate to the interests of outside shareholders in consolidated subsidiaries. They also include other equity instruments such as additional tier 1 securities issued by consolidated subsidiaries.

(ab) 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.

(ac) 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 Executive Committee. The Executive Committee 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.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(ad) Prospective accounting changes

The following amendments to IFRS 3 which have been approved by the IASB, but not early adopted by the Group, may impact the Group's financial reporting in future periods. However, their impact can only be assessed as a situation arises.

Amendments to IFRS 3 Business Combinations

The amendments to IFRS 3 Business Combinations, which were issued in October 2018, clarify the definition of a business through the following changes:

- To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process;
- They narrow the definitions of a business and outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.

Effective date: Business combinations where the acquisition date is on or after annual reporting periods beginning on or after 1 January 2020.

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 the Group'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.

Significant judgements

The significant judgements made by the Group in applying its accounting policies are set out below. The application of these judgements also necessarily involves estimations, apart from that relating to retirement benefit obligations, which are discussed separately.

- Deferred taxation;
- Impairment of financial assets;
- Retirement benefit obligations;
- Provisions for liabilities and commitments; and
- Determination of fair value of financial instruments.

Deferred taxation

The Group's accounting policy for deferred tax is set out in accounting policy (k) in note 1. Details of the Group's deferred tax assets and liabilities are set out in note 33.

A key judgement in relation to the recoverability of deferred tax assets is that it is probable that there will be sufficient future taxable profits against which the losses can be used.

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 assets 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:

- AIB as a Pillar Bank, with a strong Irish franchise;
- the absence of any expiry dates for Irish and UK tax losses;
- the turnaround evident in the financial performance over the past number of years and the continuing growth in the Irish economy since 2014;
- external forecasts for Ireland which indicate continued economic growth through the period of the medium–term financial plans;
- the introduction of the bank resolution framework under the BRRD and the establishment in 2017 of AIB Group plc as the new holding company of the Group provides greater confidence in relation to the future viability of Allied Irish Banks, p.l.c. (as the principal operating bank subsidiary) as there are now effective tools in place that should facilitate its recapitalisation in a future crisis; and
- the non-enduring nature of the loan impairments at levels which resulted in the losses in prior years (2009-2013).

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 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;
- the impact of Brexit;
- potential instability in the eurozone and global economies over an extended period; and
- 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.

Notes to the consolidated financial statements

2 Critical accounting judgements and estimates *(continued)*

Deferred taxation *(continued)*

Profitability and growth were reassessed in the annual planning exercise covering the period 2020 to 2022 undertaken by the Group in the second half of 2019. Growth assumptions and profitability levels underpinning the plan have been revised downwards compared to previous years reflecting the lower for longer interest rate environment in particular, however, these are within current 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. Using the Group's financial plan 2020 to 2022 as a base and a profit growth rate of 3% from 2022, it was assessed that it will take in excess of 20 years for the deferred tax asset (€ 2.7 billion) to be utilised. Furthermore, under this scenario, it is expected that 77% of the deferred tax asset will be utilised within 20 years and 51% utilised within 15 years (2018: 83%). If the growth rate assumption was decreased by 1%, then the utilisation period increases by a further 4 years. The Group's analysis of this and other scenarios examined would not alter the basis of recognition or the current carrying value. In 2018, the Group reported that it expected that it would take less than 20 years for the deferred tax asset to be utilised.

Notwithstanding the absence of any expiry date for tax losses in the UK, the Group has concluded that the recognition of deferred tax assets in its UK subsidiary be limited to the amount projected to be realised within a time period of 15 years. This is the timescale within which the Group believes that it can assess the likelihood of its UK profits arising as being more likely than not. The deferred tax asset for unutilised tax losses in the UK amounts to £ 87 million at 31 December 2019, following a write down of £ 22 million as the expected profitability level over the 15 years has reduced.

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 the recognition of deferred tax assets. The amount of recognised deferred tax assets arising from unused tax losses amounts to € 2,771 million of which € 2,669 million relates to Irish tax losses and € 102 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.

Impairment of financial assets

The Group's accounting policy for impairment of financial assets is set out in accounting policy (s) in note 1. The expected credit loss ('ECL') allowance for financial assets at 31 December 2019 represents Management's best estimate of the expected credit losses on the various portfolios at the reporting date.

The calculation of the ECL allowance is complex and therefore, an entity must consider large amounts of information in their determination. This process requires significant use of a number of accounting judgements, estimates and assumptions, some of which, by their nature, are highly subjective and very sensitive to risk factors such as changes to economic conditions. Changes in the ECL allowance can materially affect net income.

The most significant judgements applied by the Group in estimating the ECL allowance are as follows:

- *determining the criteria for a significant increase in credit risk and for being classified as credit impaired;*
- *definition of default;*
- *choosing the appropriate models and assumptions for measuring ECL, e.g. PD, LGD and EAD and the parameters to be included within the models;*
- *determining the life of a financial instrument and therefore, the period over which to measure ECL;*
- *establishing the number and relative weightings for forward looking scenarios for each asset class and ECL, particularly, in relation to Brexit uncertainty;*
- *determining post-model adjustments using an appropriate methodology; and*
- *assessing the impact of forbearance strategies on cash flows and therefore, the ECL allowance for restructured loans.*

The management process for the calculation of the ECL allowance is underpinned by independent tiers of review. The ECL allowance is, in turn, reviewed and approved by the Group Credit Committee on a quarterly basis with final Group levels being approved by the Board Audit Committee. Further detail on the ECL governance process is set out on page 98.

All the Group's segments assess and approve their ECL allowance and their adequacy on a quarterly basis. Credit quality and ECL provisioning are independently monitored by credit and risk management on a regular basis. On an ongoing basis, the various judgements, estimates and assumptions are reviewed in light of differences between actual and previously calculated expected losses. These are then recalibrated and refined to reflect current and evolving economic conditions.

The significant accounting judgements noted above and made by Management in estimating the ECL allowance are outlined on pages 97 and 98 in the Risk management section of this report.

2 Critical accounting judgements and estimates *(continued)*

Retirement benefit obligations

The Group's accounting policy for retirement benefit schemes is set out in accounting policy (j) in note 1.

The significant judgement is that a constructive obligation has not been created, notwithstanding the decision by the Group in the recent past, following an annual process, to fund discretionary increases in pensions in payment.

In 2017, the Board, having taken actuarial and external legal advice, determined that the funding of discretionary increases in pensions in payment is a decision to be made by the Board annually for the Group's main Irish schemes. A process, taking account of all relevant interests and factors has been implemented by the Board. These interests and factors include the advice of the Actuary; the interests of the members of the scheme; the interests of the employees; the Group's financial circumstances and ability to pay; the views of the Trustees; the Group's commercial interests and any competing obligations to the State.

In early 2017, the Board implemented this process which has continued to date. The Group completed the same process early in 2020 taking account of all relevant factors and decided that funding of discretionary increases to pensions in payment was not appropriate for 2020.

The above process is a formal annual process that is carried out on a standalone basis. Therefore, no constructive obligation is being created on behalf of scheme members with regard to future funding by the Group of increases in pensions in payment. Accordingly, the assumption for long term rate of increases in pensions in payment is Nil. This does not reflect the ability of the Trustee to grant increases at any point in the future when the financial position of the scheme would enable such an increase at that point in time.

Provisions for liabilities and commitments

The Group's accounting policy for provisions for liabilities and commitments is set out in accounting policy number (z) '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.

Significant management judgement is involved in this process which, of its nature, may require revisions to earlier judgements and estimates as matters progress towards resolution, particularly, in establishing provisions and the range of reasonably possible losses.

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. 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.

The judgements employed in determining potential losses will change over time and the actual losses may vary significantly.

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 (o) in note 1.

The best evidence of fair value is quoted prices in an active market but in the absence of quoted prices increased reliance is placed on valuation techniques.

Significant judgement is required in the estimation of fair value in the absence of quoted prices. 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 than those based wholly on observable data require a higher level of subjective management judgement relating to the applicability and functionality of internal valuation models, the significance of inputs to the valuation of an instrument and the degree of illiquidity in certain markets to calculate a fair value. Financial instruments which are classified under the fair value hierarchy as level 3 require a higher level of management judgement in their valuation.

Notes to the consolidated financial statements

2 Critical accounting judgements and estimates *(continued)*

Determination of fair value of financial instruments *(continued)*

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, the income statement.

A sensitivity analysis to possible changes in key variables of the fair value of financial instruments classified under the fair value hierarchy as level 3 is set out in note 51.

Critical accounting estimates

The accounting estimates with a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year were in relation to:

- ECL allowance;
- Retirement benefit obligations;
- Provisions for liabilities and commitments; and
- Impairment of investments in subsidiaries in the separate financial statements.

ECL allowance

ECL allowances at 31 December 2019 amounted to € 1,238 million (2018: € 2,039 million). As noted above, there are significant judgements involved in estimating ECL allowance. Certain of these estimates together with estimates which do not involve accounting judgements may have a significant risk of material adjustment to carrying amounts of assets within the next financial year. In particular, discounted cash-flows ('DCFs') are the most significant input to the ECL calculation for Stage 3 credit impaired obligors where the gross credit exposure is ≥ € 1 million for Ireland or ≥ £ 500,000 for the UK. Collateral valuations and the estimated time to realisation of collateral is a key component of the DCF model. The DCF assessment produces a base case ECL which is then adjusted to incorporate the impact of multiple scenarios on the base ECL. The size of the adjustment must consider all relevant and supportable information, including but not limited to, historical data analysis, predictive modelling and management judgement.

The macroeconomic variables used in models to calculate ECL allowance are based on assumptions, forecasts and estimates. These are subject to change as the economic landscape changes. Accordingly, changes in local and international factors could have a material bearing on the ECL allowance within the next financial year. The Group's sensitivity to a range of macroeconomic factors under (i) base forecast; (ii) upside; and (iii) downside scenarios is set out on pages 93 to 95 of the Risk Management section of this report.

Retirement benefit obligations

The Group's accounting policy for retirement benefit obligations is set out in accounting policy (j) in note 1.

Details of the assumptions adopted by the Group in calculating the schemes' liabilities are set out in note 34 to the financial statements.

The actuarial valuation of the schemes' liabilities is dependent upon a number of financial and demographic assumptions which are inherently uncertain. Changes to those assumptions could materially impact the reported amount for schemes' liabilities and the actuarial gains/losses reported in equity. A sensitivity analysis for the principal assumptions used to measure the schemes' liabilities is set out in note 34 to the financial statements.

Provisions for liabilities and commitments

Provisions for liabilities and commitments are set out in note 40 to the financial statements and their recognition involves a significant degree of estimation. The overall provision amounting to € 503 million comprising: € 265 million in respect of tracker mortgage customers - the '06-09 Ts & Cs who never had a tracker' cohort; € 70 million in respect of potential CBI penalties; € 11 million residual provision for tracker mortgages in respect of previous settlements and related matters; and a number of separate provisions, the majority of which are not individually significant. The Group has not disclosed a range of outcomes for such provisions given their diverse nature and the number of provisions involved.

In relation to the '06-09 Ts & Cs who never had a tracker' cohort, in 2017, following review and analysis of the parameters of the Central Bank of Ireland's Tracker Mortgage Examination framework, the Group concluded that a cohort of customers who were never on a tracker rate would be paid compensation. These customers had the option within the terms and conditions of their loan offer to choose a prevailing tracker rate at the end of their fixed rate period. However, between October 2008 and December 2013, AIB had withdrawn the prevailing tracker rate and as such these customers were not provided with this choice. These customers are referred to as the '06-09 Ts & Cs who never had a tracker' cohort. AIB paid each of these customers (c. 5,900) compensation of € 1,000 plus € 615 towards independent advice. The customers also had the option for a 12 month period to avail of the then prevailing tracker rate at the time of the compensation payment on a go forward basis and the right to appeal through the Independent Appeals process, being an integral part of the CBI Tracker Mortgage Examination framework.

2 Critical accounting judgements and estimates *(continued)*

Provisions for liabilities and commitments *(continued)*

At 31 December 2018, a provision amounting to € 10 million was held against, what was then considered to be, the practical completion of the identification of all impacted accounts subject to 'customer redress and compensation' and the on going appeals process. In determining this provision, the Group assessed other possible redress scenarios and concluded that the possibility of a further outflow of economic resources was remote.

However, following a complaint to the Financial Services and Pensions Ombudsman ("FSPO") by a customer from the '06-09 Ts & Cs who never had a tracker' cohort as outlined above, the Group received a preliminary decision in January 2020 which upheld a claim for further redress due to this impacted customer.

The Group has considered this preliminary decision and recorded a provision of € 265 million based on an initial assessment of the likelihood that additional redress may be due to all customers in this cohort. The Group is continuing to engage and consider its position with regard to the impact of this preliminary decision and the methodology applied by the FSPO. There are a number of issues that need to be resolved. Accordingly, there is a range of possible outcomes, however, the provision represents the Group's best estimate based on the available information at this stage.

As detailed in notes 40 and 47, AIB and EBS were advised in 2018 by the CBI of the commencement of investigations as part of an administrative sanctions procedure in connection with the Tracker Mortgage Examination. In this regard, the Group created a provision of € 70 million for the impact of potential monetary penalties that are expected to be imposed on the Group by the CBI being its best estimate based on external developments in the industry at 31 December 2019. This matter is still considered to be at a relatively early stage, and the amount provided for is subject to uncertainty with a range of outcomes possible with the final outcome being higher or lower depending on finalisation of all matters associated with the investigation. Accordingly, this is a critical accounting estimate which could result in a material adjustment in the next financial year but it is difficult to quantify a range of outcomes.

Other than as outlined above, there is no individually significant provision that is expected to result in a material adjustment in the next financial year.

Impairment of investments in subsidiaries in the separate financial statements

The Group's accounting policy for the impairment of investments in subsidiaries is set out in accounting policy (d) in note 1 and in note e to the Company's financial statements.

Investments in subsidiaries in the separate financial statements of the Company are reviewed for impairment when there are indications that impairment losses may have occurred. If any such indications exist, the Company undertakes an impairment review by comparing the carrying value of the investment in the subsidiary with its estimated recoverable amount with any shortfall being reported as an impairment charge in the Company's financial statements. The estimated recoverable amount is based on value-in-use ("VIU") calculations.

The Company tested its investment in Allied Irish Banks, p.l.c. for impairment as the carrying value was higher than the fair value. In determining the VIU, the estimated pre-tax cash flow projections in the Company's financial plan for the period 2020 to 2022 were used as a base and a growth rate of 3% from 2022 was assumed into perpetuity. These projections were discounted at a risk adjusted interest rate of 9%. The VIU was calculated at € 9,496 million which resulted in an impairment charge of € 3,444 million.

Testing for impairment inherently involves both significant estimations which involve a high degree of uncertainty (cash flow projections during the period of the financial plan) and judgements (choice of appropriate discount and growth rates).

Given the uncertainties and the high level of subjectivity involved in the estimation process, it is possible that the outcomes in the next financial year could differ from the expectations on which Company's estimates are based resulting in the recognition and measurement of material different amounts from those estimated in these financial statements.

Details of the VIU calculation and the sensitivity of current estimates to possible changes in key variables are set out in note e.

Notes to the consolidated financial statements

3 Transition to IFRS 16

(a) Summary

On 1 January 2019, the Group implemented the requirements of IFRS 16 *Leases*, a new accounting standard which replaced 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.

Details of the Group's accounting policy for lessee accounting are set out in note 1 (n) 'Leases' to these financial statements.

The information set out below provides details relevant to understanding the impact of IFRS 16 on the Group's financial position at 1 January 2019.

(b) Principal impacts of IFRS 16

As permitted by IFRS 16, the Group transitioned to the standard in accordance with the modified retrospective approach, and accordingly, the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations. There was no impact on retained earnings arising from the adoption of IFRS 16 on 1 January 2019.

As a lessee

On initial application of IFRS 16 for operating leases, right-of-use assets were generally measured at the amount of the lease liability, using the Group's incremental borrowing rate at the time of initial application. The weighted average rate applied was c. 3.0%. For the measurement of the right-of-use assets at the date of initial application, initial direct costs were not taken into account in accordance with IFRS 16 C10 (d).

The Group elected to apply the practical expedient that allows a single discount rate to be applied to a portfolio of leases with reasonably similar characteristics and a similar remaining lease term. The Group applied single discount rates to its leases of motor vehicles and its leases of ATM locations.

The Group also elected to apply the practical expedient where the lease term ends within 12 months of the date of initial application to account for such leases as short term leases with the associated lease payments being recognised as an expense for short term leases.

In addition, the Group elected to apply the practical expedient that allows an entity to rely on its assessment of whether leases were onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application as an alternative to performing an impairment review. This resulted in right-of-use assets being reduced by € 3 million on initial application (note 40).

Contracts that qualified as leases as defined by IFRS 16 related primarily to property, motor vehicles and ATM locations. On initial application of IFRS 16, the Group recognised assets and liabilities for its leases previously classified as operating leases under IAS 17, resulting in an increase in total assets under property, plant and equipment and total liabilities at 1 January 2019. On transition to IFRS 16, the principal impacts were the recognition of right-of-use assets of € 479 million (includes € 12 million for future dilapidation provisions (note 40)) and lease liabilities of € 465 million. There was no impact to the reported EPS in 2019 following the adoption of IFRS 16.

Comparative data in these financial statements has been prepared under IAS 17 *Leases* as allowed in IFRS 16.

As a lessor

The Group was not required to make any adjustment on transition to IFRS 16 for leases where it is a lessor, except for subleases.

At the date of initial application, the Group reassessed subleases that were classified as operating leases under IAS 17 to determine whether these should be reclassified under IFRS 16. The Group concluded that the subleases in existence require classification as finance leases under IFRS 16 and as a result € 4 million was recognised as finance leases in 'Other assets'.

3 Transition to IFRS 16 *(continued)*

(c) Financial statement impacts at 1 January 2019

Opening statement of financial position

The following table reconciles the statement of financial position under IAS 17 at 31 December 2018 to that under IFRS 16 at 1 January 2019.

	31 December 2018 (IAS 17) € m	IFRS 16 Impact € m	1 January 2019 (IFRS 16) € m
Assets			
Cash and balances at central banks	6,516	–	6,516
Items in course of collection	73	–	73
Disposal groups and non-current assets held for sale	10	–	10
Trading portfolio financial assets	–	–	–
Derivative financial instruments	900	–	900
Loans and advances to banks	1,443	–	1,443
Loans and advances to customers	60,868	–	60,868
Investment securities	16,861	–	16,861
Interests in associated undertakings	90	–	90
Intangible assets	682	–	682
Property, plant and equipment[1]	330	479	809
Other assets	356	4	360
Current taxation	10	–	10
Deferred tax assets	2,702	–	2,702
Prepayments and accrued income	454	(9)	445
Retirement benefit assets	241	–	241
Total assets	91,536	474	92,010
Liabilities			
Deposits by central banks and banks	844	–	844
Customer accounts	67,699	–	67,699
Lease liabilities	–	465	465
Trading portfolio financial liabilities	–	–	–
Derivative financial instruments	934	–	934
Debt securities in issue	5,745	–	5,745
Current taxation	74	–	74
Deferred tax liabilities	107	–	107
Retirement benefit liabilities	49	–	49
Other liabilities	887	–	887
Accruals and deferred income	325	–	325
Provisions for liabilities and commitments[2]	219	9	228
Subordinated liabilities and other capital instruments	795	–	795
Total liabilities	77,678	474	78,152
Total equity	13,858	–	13,858
Total liabilities and equity	91,536	474	92,010

[1]Right-of-use assets include provisions for future dilapidations amounting to € 12 million and are net of impairment provisions of € 3 million (previously reported as onerous contracts).

[2]Provisions for future dilapidations of € 12 million offset by a transfer of onerous lease provisions of € 3 million to right-of-use assets.

(d) Reconciliation of operating lease obligations

The following table reconciles the Group's operating lease obligations at 31 December 2018, as previously disclosed in the consolidated financial statements, to the lease obligations recognised on initial application of IFRS 16 at 1 January 2019:

	2019 € m
Operating lease commitments at 31 December 2018	405
Extension options reasonably certain to be exercised – gross	157
	562
Discounting effect – using the incremental borrowing rate at 1 January 2019	(95)
Recognition exemption for short term/other	(2)
Lease obligations recognised at 1 January 2019	465

Notes to the consolidated financial statements

4 Segmental information

Segment overview

Following changes to the Group's operating model in 2019 performance is now managed and reported across Retail Banking, Corporate, Institutional & Business Banking ("CIB"), AIB UK and Group segments. The allocation of costs by segment has been amended to reflect the revised operating model. In addition the Group has revised the methodology used to allocate funding and liquidity income/ charges by segment. Figures for the prior year have been restated on a comparative basis. Segment performance excludes exceptional items.

Retail Banking

Retail Banking comprises Homes & Consumer, SME and Financial Solutions Group ("FSG") in a single integrated segment, focused on meeting the current, emerging and future needs of our personal and SME customers.

- Homes & Consumer is responsible for meeting the homes needs of customers in Ireland across the AIB, EBS and Haven brands and delivering innovative and differentiated products, propositions and services to meet our customers' everyday banking needs through an extensive range of physical and digital channels. Our purpose is to achieve a seamless, transparent and simple customer experience in all of our propositions across current accounts, personal lending, payments and credit cards, deposits, insurance and wealth to maintain and grow our market leading position.
- SME is a leading provider of financial services to micro and small SMEs through our sector-led strategy and local expertise with an extensive product and proposition offering across a number of channels. Our purpose is to help our customers create and build sustainable businesses in their communities.
- FSG is a standalone dedicated workout unit to which the Group has migrated the management of the majority of its non-performing exposures ("NPEs"), predominantly consisting of homes, consumer and SME products, with the objective of delivering the Group's NPE strategy to reduce NPEs in line with European norms.

Corporate Institutional & Business Banking ("CIB")

CIB provides institutional, corporate and business banking services to the Group's larger customers and customers requiring specific sector or product expertise. CIB's relationship driven model serves customers through sector specialist teams including: corporate banking; real estate finance; business banking and energy; climate action and infrastructure. In addition to traditional credit products, CIB offers customers foreign exchange and interest rate risk management products, cash management products, trade finance, mezzanine finance, structured and specialist finance, equity investments and corporate finance advisory services, as well as Private Banking services and advice. CIB also has syndicated and international finance teams based in Dublin and in New York.

AIB UK

AIB UK offers retail and business banking services in two distinct markets, a sector-led corporate and commercial bank supporting businesses in Great Britain ("Allied Irish Bank (GB)"), and a retail and business bank in Northern Ireland ("AIB (NI)").

Group

Group comprises wholesale treasury activities and Group control and support functions. As part of the Finance function, treasury manages the Group's liquidity and funding positions and provides customer treasury services and economic research. The Group control and support functions include Business & Customer Services, Risk, Group Internal Audit, Finance, Legal & Corporate Governance, Human Resources and Corporate Affairs & Strategy.

Segment allocations

The segments' performance statements include all income and directly related costs, excluding overheads which are managed centrally and the costs of which are included in the Group segment. Funding and liquidity income/ 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.

4 Segmental information *(continued)*

	Retail Banking	CIB	AIB UK	Group	Total	Exceptional items[1]	2019 Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Operations by business segment							
Net interest income	1,234	471	268	103	2,076	–	2,076
Net fee and commission income*	335	78	59	–	472	–	472
Other	63	9	9	66	147	(40)	107
Other income	398	87	68	66	619	(40)[2]	579
Total operating income	1,632	558	336	169	2,695	(40)	2,655
Other operating expenses	(923)	(115)	(176)	(290)	(1,504)	(573)	(2,077)
Of which: Personnel expenses	*(458)*	*(83)*	*(90)*	*(143)*	*(774)*	*(56)*[3][4]	*(830)*
General and administrative expenses	*(313)*	*(25)*	*(65)*	*(98)*	*(501)*	*(500)*[4]-[7]	*(1,001)*
Depreciation, impairment and amortisation	*(152)*	*(7)*	*(21)*	*(49)*	*(229)*	*(17)*	*(246)*
Bank levies and regulatory fees	(2)	–	–	(102)	(104)	–	(104)
Total operating expenses	(925)	(115)	(176)	(392)	(1,608)	(573)	(2,181)
Operating profit/(loss) before impairment losses	707	443	160	(223)	1,087	(613)	474
Net credit impairment writeback/(charge)	17	(18)	(15)	–	(16)	–	(16)
Operating profit/(loss)	724	425	145	(223)	1,071	(613)	458
Associated undertakings	17	–	3	–	20	–	20
Profit on disposal of property	–	–	–	–	–	21[5]	21
Profit/(loss) before taxation	741	425	148	(223)	1,091	(592)	499

[1]Exceptional and one-off items are shown separately above. These are items that Management view as distorting comparability of performance from period to period. Exceptional items include:

[2]Loss on disposal of loan portfolios;
[3]Termination benefits;
[4]Restitution costs;
[5]Property strategy;
[6]Restructuring costs; and
[7]Provision for regulatory fines.

For further information on these items see page 56.

*Analysis of net fee and commission income	Retail Banking	CIB	AIB UK	Group	2019 Total
	€ m	€ m	€ m	€ m	€ m
Retail banking customer fees	258	27	35	18	338
Foreign exchange fees	40	21	9	1	71
Credit related fees	11	21	18	–	50
Other fees and commissions	87	11	2	(16)[1]	84
Fee and commission income	396	80	64	3	543
Fee and commission expense	(61)	(2)	(5)	(3)	(71)
	335	78	59	–	472

[1]Reflects the allocation of the Group's segment fee and commission income to Retail Banking and CIB segments.

Further information on 'Net fee and commission income' is set out in note 8.

Notes to the consolidated financial statements

4 Segmental information *(continued)*

							2018
	Retail Banking	CIB	AIB UK	Group	Total	Exceptional items[1]	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Operations by business segment							
Net interest income	1,335	387	255	123	2,100	–	2,100
Net fee and commission income*	319	76	58	4	457	–	457
Other	71	39	(7)	66	169	148	317
Other income	390	115	51	70	626	148[2]	774
Total operating income	1,725	502	306	193	2,726	148	2,874
Other operating expenses	(875)	(108)	(152)	(296)	(1,431)	(293)	(1,724)
Of which: Personnel expenses	*(431)*	*(78)*	*(89)*	*(132)*	*(730)*	*(34)*[3][4]	*(764)*
General and administrative expenses	*(358)*	*(24)*	*(62)*	*(119)*	*(563)*	*(235)*[4]-[7]	*(798)*
Depreciation, impairment and amortisation	*(86)*	*(6)*	*(1)*	*(45)*	*(138)*	*(24)*	*(162)*
Bank levies and regulatory fees	(1)	–	1	(99)	(99)	–	(99)
Total operating expenses	(876)	(108)	(151)	(395)	(1,530)	(293)	(1,823)
Operating profit/(loss) before impairment losses	849	394	155	(202)	1,196	(145)	1,051
Net credit impairment writeback/(charge)	247	(22)	(21)	–	204	–	204
Operating profit/(loss)	1,096	372	134	(202)	1,400	(145)	1,255
Associated undertakings	10	–	2	–	12	–	12
Profit on disposal of property	–	–	2	–	2	–	2
Loss on disposal of business	–	–	–	–	–	(22)[8]	(22)
Profit/(loss) before taxation	1,106	372	138	(202)	1,414	(167)	1,247

[1]Exceptional and one-off items are shown separately above. These are items that Management view as distorting comparability of performance from period to period. Exceptional items include:

[2]Gain on disposal of financial instruments;
[3]Termination benefits;
[4]Restitution and restructuring costs;
[5]Property strategy costs;
[6]Customer redress;
[7]IFRS 9 and associated regulatory costs; and
[8]Loss on disposal of business activities.

For further information on these items see page 56.

					2018
	Retail Banking	CIB	AIB UK	Group	Total
***Analysis of net fee and commission income**	€ m	€ m	€ m	€ m	€ m
Retail banking customer fees	245	21	39	21	326
Foreign exchange fees	31	29	11	–	71
Credit related fees	13	17	14	–	44
Other fees and commissions	60	12	–	(15)[1]	57
Fee and commission income	349	79	64	6	498
Fee and commission expense	(30)	(3)	(6)	(2)	(41)
	319	76	58	4	457

[1]Reflects the allocation of the Group's segment fee and commission income to Retail Banking and CIB segments.

Further information on 'Net fee and commission income' is set out in note 8.

4 Segmental information *(continued)*

Other amounts – statement of financial position

	31 December 2019				
	Retail Banking € m	CIB € m	AIB UK € m	Group € m	Total € m
Loans and advances to customers:					
– measured at amortised cost	35,526	16,095	9,069	121	60,811
– measured at FVTPL	–	77	–	–	77
Total loans and advances to customers	35,526	16,172	9,069	121	60,888
Customer accounts	48,636	11,347	10,364	1,456	71,803

	31 December 2018				
	Retail Banking € m	CIB € m	AIB UK € m	Group € m	Total € m
Loans and advances to customers:					
– measured at amortised cost	37,258	15,060	8,303	100	60,721
– measured at FVTPL	50	97	–	–	147
Total loans and advances to customers	37,308	15,157	8,303	100	60,868
Customer accounts	45,262	10,798	9,911	1,728	67,699

	Year to 31 December 2019			
Geographic information[1][2]	Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
Gross external revenue	2,154	467	34	2,655
Inter-geographical segment revenue	139	(109)	(30)	–
Total revenue	2,293	358	4	2,655

	Year to 31 December 2018			
Geographic information[1][2]	Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
Gross external revenue	2,528	329	17	2,874
Inter-geographical segment revenue	26	(18)	(8)	–
Total revenue	2,554	311	9	2,874

Revenue from external customers comprises interest and similar income (note 5) and interest and similar expense (note 6), and all other items of income (notes 7 to 12).

	31 December 2019			
Geographic Information	Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
Non-current assets[3]	1,608	107	5	1,720

	31 December 2018			
Geographic Information	Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
Non-current assets[3]	951	60	1	1,012

[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 goodwill and property, plant and equipment.

Notes to the consolidated financial statements

5 Interest and similar income

	2019 € m	2018 € m
Interest on loans and advances to customers at amortised cost	2,038	2,005
Interest on loans and advances to banks at amortised cost	38	33
Interest on investment securities	195	226
	2,271	2,264
Negative interest on financial liabilities at amortised cost	20	25
Interest income calculated using the effective interest method	**2,291**	2,289
Interest income on finance leases and hire purchase contracts	76	71
Interest income on financial assets at FVTPL	3	6
Other interest income and similar income	**79**	77
Total interest and similar income	**2,370**	2,366

Interest income includes a credit of € 115 million (2018: a credit of € 143 million) transferred from other comprehensive income in respect of cash flow hedges which is included in 'Interest on loans and advances to customers'.

The Group presents interest resulting from negative effective interest rates on financial liabilities as interest income rather than as offset against interest expense.

6 Interest and similar expense

	2019 € m	2018 € m
Interest on deposits by central banks and banks	12	21
Interest on customer accounts	128	157
Interest on lease liabilities	14	–
Interest on debt securities in issue	91	45
Interest on subordinated liabilities and other capital instruments	33	32
	278	255
Negative interest on financial assets at amortised cost	16	11
Interest expense calculated using the effective interest method	**294**	266

Interest expense includes a charge of € 31 million (2018: a charge of € 56 million) transferred from other comprehensive income in respect of cash flow hedges which is included in 'Interest on customer accounts'.

Interest expense reported above, calculated using the effective interest rate method, relates to financial liabilities not carried at fair value through profit or loss.

The Group presents interest resulting from negative effective interest rates on financial assets as interest expense rather than as offset against interest income.

7 Dividend income

	2019 € m	2018 € m
NAMA subordinated bonds at FVOCI	23	23
Equity investments at FVTPL	3	3
Total	**26**	26

8 Net fee and commission income

	2019 € m	2018 € m
Retail banking customer fees	338	326
Foreign exchange fees	71	71
Credit related fees	50	44
Other fees and commissions	84[1][2]	57[1]
Fee and commission income	543	498
Fee and commission expense	(71)[3][4]	(41)[3]
	472	457

[1]Other fees and commissions includes wealth commissions € 25 million (2018: € 25 million), insurance commissions € 20 million (2018: € 20 million), and other commissions € 12 million (2018: € 12 million). Following a reclassification of income within 'Net fee and commission income', income of € 15 million previously reported in 'Retail banking customer fees' is now reported as 'Other fees and commissions' for the year 2018.
[2]Includes consideration received or receivable amounting to € 27 million in respect of services and prepaid credits for cellular phones and utilities sold to third parties.
[3]Fee and commission expense includes credit card commissions of € 36 million (2018: € 25 million), and ATM expenses of € 4 million (2018: € 5 million), both of which relate to 'Retail banking customer fees'. This also includes € 6 million (2018: € 11 million) relating to 'Other fees and commissions'.
[4]Includes expenses amounting to € 25 million in respect of services and prepaid credits for cellular phones and utilities sold to third parties.

Fees and commissions which are an integral part of the effective interest rate are recognised as part of interest and similar income (note 5) or interest and similar expense (note 6).

9 Net trading (loss)/income

	2019 € m	2018 € m
Foreign exchange contracts	(26)	(12)
Interest rate contracts and debt securities[1]	25	24
Credit derivative contracts	(11)	2
Equity investments, index contracts and warrants[2]	(45)	(9)
	(57)	5

[1]Includes a gain of € 10 million (2018: gain of € 8 million) in relation to XVA adjustments.
[2]Includes a loss amounting to € 45 million on a total return swap, which is hedging equities measured at FVTPL (2018: loss of € 10 million).

The total hedging ineffectiveness on cash flow hedges reflected in the consolidated income statement amounted to Nil (2018: Nil).

10 Net gain on other financial assets measured at FVTPL

	2019 € m	2018 € m
Loans and advances to customers[1]	66	105
Investment securities – equity[2]	74	41
Total	140	146

[1]Excludes interest income (note 5).
[2]Includes unrealised gain of € 62 million on equities hedged by a trading total return swap (2018: € 18 million).

Notes to the consolidated financial statements

11 Net (loss)/gain on derecognition of financial assets measured at amortised cost

				2019
	Carrying value at derecognition € m	Gain on derecognition € m	Loss on derecognition € m	Net loss on derecognition € m
Loans and advances to customers	1,487	254[1]	(302)[1]	(48)

				2018
	Carrying value at derecognition € m	Gain on derecognition € m	Loss on derecognition € m	Net gain on derecognition € m
Loans and advances to customers	781	200[1]	(79)[1]	121

[1]The gain/loss on derecognition has been based on the sales proceeds, net of costs, computed at a customer connection level.

Loans and advances to customers were derecognised due mainly to the sale of distressed loan portfolios.

12 Other operating income

	2019 € m	2018 € m
Gain on disposal of investment securities at FVOCI – debt	93	24
Loss on termination of hedging swaps[1]	(48)	(9)
Miscellaneous operating income[2]	1	4
	46	19

[1]The majority of the loss on termination of hedging swaps relates to the disposal of investment securities at FVOCI – debt. In 2018, it also includes € 1 million transferred from other comprehensive income in respect of cash flow hedges.
[2]Profit in relation to the disposal of finance leases amounted to € 1 million (2018: € 1 million).

13 Operating expenses

	2019 € m	2018 € m
Personnel expenses:		
Wages and salaries	619	587
Termination benefits[1]	48	21
Retirement benefits[2]	100	92
Social security costs	69	65
Other personnel expenses[3]	23	21
	859	786
Less: staff costs capitalised[4]	(29)	(22)
Personnel expenses	830	764
General and administrative expenses[5][6]	585	678
Restitution and associated costs	416[7]	120
	1,001	798
Bank levies and regulatory fees[8]	104	99
Operating expenses	1,935	1,661

[1]Voluntary severance programme charge of € 48 million (2018: € 21 million).
[2]Comprises a defined contribution charge of € 80 million (2018: a charge of € 75 million), a charge of € 11 million in relation to defined benefit expense (2018: a charge of € 8 million), and a long term disability payments/death in service benefit charge of € 9 million (2018: a charge of € 9 million). For details of retirement benefits, see note 34.
[3]Includes staff training, recruitment and various other staff costs.
[4]Staff costs capitalised relate to intangible assets.
[5]In 2018, operating lease expenses (€ 63 million) were included. Following the implementation of IFRS 16 *Leases* in 2019, operating lease expenses have been replaced by (a) interest expense on lease liabilities (note 6) and (b) depreciation on right-of-use assets (note 30).
[6]Includes provisions for regulatory fines of € 70 million for the CBI investigation with regard to the Tracker Mortgage Examination (2018: Nil). See note 40.
[7]Includes € 265 million provisions for the '06-09 Ts & Cs who never had a tracker' mortgage cohort. See note 40.
[8]Includes € 20 million relating to supervisory fees which were previously included in 'General and administrative expenses'. December 2018 has been represented to report € 17 million in supervisory fees within 'Bank levies and regulatory fees'.

The average number of employees for 2019 and 2018 is set out in note 54 'Employees'.

14 Share-based compensation schemes

Employees' Profit Sharing Scheme

The Group 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.

Income statement expense

The expense arising from share-based payment transactions amounted to Nil for the year ended 31 December 2019 (2018: Nil).

15 Net credit impairment (charge)/writeback

The following table analyses the income statement net credit impairment (charge)/writeback on financial instruments for the years to 31 December 2019 and 2018.

			2019			2018
Credit impairment (charge)/writeback on financial instruments	**Measured at amortised cost € m**	**Measured at FVOCI € m**	**Total € m**	Measured at amortised cost € m	Measured at FVOCI € m	Total € m
Net re-measurement of ECL allowance						
Loans and advances to banks	**–**	**–**	**–**	1	–	1
Loans and advances to customers	**(117)**	**–**	**(117)**	89	–	89
Loan commitments	**6**	**–**	**6**	(9)	–	(9)
Financial guarantee contracts	**5**	**–**	**5**	3	–	3
Investment securities – debt	**–**	**–**	**–**	–	–	–
Credit impairment (charge)/writeback	**(106)**	**–**	**(106)**	84	–	84
Recoveries of amounts previously written-off	**90**	**–**	**90**	120	–	120
Net credit impairment (charge)/writeback	**(16)**	**–**	**(16)**	204	–	204

16 Profit on disposal of property

Profit on disposal of property amounted to € 21 million, principally, the gain arising on disposal of Bankcentre land (2018: € 2 million).

17 Loss on disposal of business

Loss on disposal of business amounted to Nil. In 2018, the loss of € 22 million followed the repatriation of part of the capital of certain foreign subsidiaries in the Group which had ceased trading. A pro-rata amount of the related foreign currency cumulative translation reserve was transferred to the income statement.

Notes to the consolidated financial statements

18 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 Auditor only (Deloitte Ireland LLP) for services relating to the audit of the Group and relevant subsidiary financial statements in the categories set out below.

	2019 € m	2018 € m
Auditors' fees *(excluding VAT):*		
Audit of Group financial statements	**2.6**	2.6
Other assurance services	**0.9**	0.6
Other non-audit services	**0.8**	1.1
Taxation advisory services	**–**	–
	4.3	4.3

All the above amounts were paid to the Group Auditor for services provided to the Group and its subsidiaries including Allied Irish Banks, p.l.c.

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, provide 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 LLP):

	2019 € m	2018 € m
Auditors' fees excluding Deloitte Ireland LLP *(excluding VAT):*	**0.71**	0.58

19 Taxation

AIB Group plc and subsidiaries	2019 € m	2018 € m
Corporation tax in Ireland		
Current tax on income for the year	(21)	(21)
Adjustments in respect of prior years	–	(3)
	(21)	(24)
Foreign tax		
Current tax on income for the year	(33)	(21)
Adjustments in respect of prior years	–	1
	(33)	(20)
	(54)	(44)
Deferred taxation		
Origination and reversal of temporary differences	(42)	(10)
Adjustments in respect of prior years	2	13
Deferred tax assets written down	(25)	–
Reduction in carrying value of deferred tax assets in respect of carried forward losses	(16)	(114)
	(81)	(111)
Total tax charge for the year	(135)	(155)
Effective tax rate	27.1%	12.4%

Factors affecting the effective tax rate

The following table sets out 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:

	2019		2018	
	€ m	%	€ m	%
Profit before tax	499		1,247	
Tax charge at standard corporation tax rate in Ireland of 12.5%	(62)	12.5	(156)	12.5
Effects of:				
Foreign profits taxed at other rates	(13)	2.6	(8)	0.6
Expenses not deductible for tax purposes	(22)	4.4	(17)	1.4
Exempted income, income at reduced rates and tax credits	4	(0.8)	2	(0.2)
Share of results of associates shown post tax in the income statement	3	(0.6)	1	(0.1)
Income taxed at higher tax rates	(30)	6.0	(14)	1.1
Tax legislation on equity distributions – current and prior years	5	(1.0)	14	(1.1)
(Deferred tax assets not recognised)/reversal of amounts previously not recognised	12	(2.4)	11	(0.9)
Deferred tax assets written down	(25)	5.0	–	–
Other differences	(5)	1.0	10	(0.7)
Change in tax rates	(4)	0.8	–	–
Adjustments to tax charge in respect of prior years	2	(0.4)	2	(0.2)
Tax charge	(135)	27.1	(155)	12.4

As noted in accounting policy note 1 (k), 'Income tax, including deferred income tax', current and deferred tax is provided for based on legislation and rates expected to apply when income taxes become payable/refundable or deferred tax assets are realised/deferred tax liabilities are settled. This necessarily involves some estimation because the tax law is uncertain and its application requires a degree of judgement, which authorities may dispute.

Liabilities are recognised based on best estimates of the probable outcome, taking into account all available evidence and external advice, where appropriate.

The Group does not expect significant liabilities to arise in excess of the amounts provided. Any difference between the final outcome and the amounts provided will affect the income tax charge in the period when the matter is resolved.

Notes to the consolidated financial statements

19 Taxation *(continued)*

Analysis of selected other comprehensive income

	2019			2018		
	Gross € m	**Tax € m**	**Net € m**	Gross € m	Tax € m	Net € m
Property revaluation reserves						
Net change in property revaluation reserves	**–**	**–**	**–**	–	–	–
Total	**–**	**–**	**–**	–	–	–
Retirement benefit schemes						
Actuarial (losses)/gains in retirement benefit schemes	**(251)**	**63**	**(188)**	35	(9)	26
Total	**(251)**	**63**	**(188)**	35	(9)	26
Foreign currency translation reserves						
Foreign currency translation losses transferred to income statement	**–**	**–**	**–**	22	–	22
Change in foreign currency translation reserves recognised in other comprehensive income	**66**	**–**	**66**	(12)	–	(12)
Total	**66**	**–**	**66**	10	–	10
Cash flow hedging reserves						
Amounts reclassified from the cash flow hedging reserves to the income statement as a reclassification adjustment:						
– *amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur*	**–**	**–**	**–**	–	–	–
– *amounts that have been transferred because the hedged item has affected the income statement*	**(84)**	**10**	**(74)**	(86)	10	(76)
Hedging gains recognised in other comprehensive income	**295**	**(37)**	**258**	118	(14)	104
Total	**211**	**(27)**	**184**	32	(4)	28
Investment debt securities at FVOCI reserves						
Fair value (gains) transferred to income statement	**(93)**	**12**	**(81)**	(24)	3	(21)
Fair value gains/(losses) recognised in other comprehensive income	**43**	**(6)**	**37**	(308)	38	(270)
Total	**(50)**	**6**	**(44)**	(332)	41	(291)
Investment equity securities measured at FVOCI reserves						
Fair value (losses)/gains recognised in other comprehensive income	**(11)**	**2**	**(9)**	2	–	2
Total	**(11)**	**2**	**(9)**	2	–	2

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 own shares held.

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 own shares held, adjusted for the effect of dilutive potential ordinary shares.

(a) Basic	2019 € m	2018 € m
Profit attributable to equity holders of the parent	**327**	1,092
Distributions on other equity interests *(note 21)*	**–**	(37)
Profit attributable to ordinary shareholders of the parent	**327**	1,055
	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the year	**2,714.4**	2,714.4
Earnings per share – basic	**EUR 12.1c**	EUR 38.9c

(b) Diluted	2019 € m	2018 € m
Profit attributable to ordinary shareholders of the parent *(note 20 (a))*	**327**	1,055
	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the year	**2,714.4**	2,714.4
Potential weighted average number of shares	**2,714.4**	2,714.4
Earnings per share – diluted	**EUR 12.1c**	EUR 38.9c

The ordinary shares are included in the weighted average number of shares on a time apportioned basis.

Warrants

The Minister for Finance was issued warrants in 2017 to subscribe for 271,166,685 ordinary shares of AIB Group plc.

The warrants are exercisable during the period commencing 27 June 2018 and ending 27 June 2027 (see note 42 for further detail). These warrants were not included in calculating the diluted earnings per share as they were antidilutive.

Notes to the consolidated financial statements

21 Distributions on equity shares and other equity interests

	2019 € m	2018 € m
Ordinary shares – dividends paid	**461**	326
Other equity interests – distributions	**–**	37

Final dividends are not accounted for until they have been approved at the Annual General Meeting of shareholders or in the case of the interim dividend, when they become irrevocable having already been approved for payment by the Board of Directors. Interim dividends may be cancelled at any time prior to the actual payment.

On 24 April 2019, a final dividend of € 0.17 per ordinary share, amounting in total to € 461 million (2018: € 326 million), was approved at the Annual General Meeting of AIB Group plc and subsequently paid on 3 May 2019.

There were no distributions paid on the AT1 Securities issued in 2019. Distributions in 2019 which amounted to € 37 million related to AT1 Securities now classified as non-controlling interests (note 44) but in 2018 were reported above under 'Other equity interests - distributions'.

22 Disposal groups and non-current assets held for sale

	2019 € m	2018 € m
Property and non-financial assets held for sale[1]	**19**	10
Other	**1**	–
Total disposal groups and non-current assets held for sale	**20**	10

[1]Includes property surplus to requirements and repossessed assets which are expected to be disposed of within one year.

23 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 notional principal amount of interest rate, exchange rate, equity and credit derivative contracts together with the positive and negative fair values attaching to those contracts at 31 December 2019 and 2018:

	2019 € m	2018 € m
Interest rate contracts[1]		
Notional principal amount	**51,330**	44,488
Positive fair value	**1,230**	848
Negative fair value	**(998)**	(901)
Exchange rate contracts[1]		
Notional principal amount	**6,710**	4,369
Positive fair value	**36**	38
Negative fair value	**(180)**	(24)
Equity contracts[1]		
Notional principal amount	**354**	479
Positive fair value	**5**	14
Negative fair value	**(6)**	(5)
Credit derivatives[1]		
Notional principal amount	**240**	355
Positive fair value	**–**	–
Negative fair value	**(13)**	(4)
Total notional principal amount	**58,634**	49,691
Total positive fair value[2]	**1,271**	900
Total negative fair value	**(1,197)**	(934)

[1]Interest rate, exchange rate, equity and credit derivative contracts are entered into for both hedging and trading purposes.
[2]At 31 December 2019, 30% of fair value relates to exposures to banks (2018: 39%).

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 of this report.

Notes to the consolidated financial statements

23 Derivative financial instruments *(continued)*

The following table analyses the 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:

	2019				2018			
Residual maturity	**Less than 1 year € m**	**1 to 5 years € m**	**5 years + € m**	**Total € m**	Less than 1 year € m	1 to 5 years € m	5 years + € m	Total € m
Notional principal amount	**17,901**	**20,638**	**20,095**	**58,634**	11,843	18,694	19,154	49,691
Positive fair value	**86**	**293**	**892**	**1,271**	61	212	627	900

The 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**	
	2019 € m	2018 € m	**2019 € m**	2018 € m
Ireland	**55,604**	47,366	**857**	547
United Kingdom	**2,856**	2,129	**400**	341
United States of America	**174**	196	**14**	12
	58,634	49,691	**1,271**	900

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. The level of credit risk is minimised by dealing with counterparties of good credit standing, by the use of Credit Support Annexes and ISDA Master Netting Agreements and increased clearing of derivatives through Central Counterparties (CCPs). As the traded instruments are recognised at market value, any changes in market value directly affect reported income for a given period.

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. Market risk within the banking book is also controlled through limits approved by the Board and monitored by an independent second line risk function.

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 interest rate risk management objectives. Similarly, foreign exchange derivatives can be used to hedge the Group's exposure to foreign exchange risk.

The fair values of derivatives fluctuate as the underlying market interest rates or foreign exchange rates change. If the derivatives are purchased or sold as hedges of statement of financial position items, the change in fair value 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 2019 and 2018, are presented within this note.

23 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 at 31 December 2019 and 2018. A description of how the fair values of derivatives are determined is set out in note 51.

	2019			2018		
	Notional principal amount	Fair values		Notional principal amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
	€ m	€ m	€ m	€ m	€ m	€ m
Derivatives held for trading						
Interest rate derivatives – over the counter ("OTC")						
Interest rate swaps	**5,115**	**506**	**(474)**	4,736	414	(446)
Cross-currency interest rate swaps	**731**	**29**	**(37)**	381	31	(31)
Interest rate options bought and sold	**1,919**	**1**	**–**	1,270	1	(1)
Total interest rate derivatives – OTC	**7,765**	**536**	**(511)**	6,387	446	(478)
Interest rates derivatives – OTC – central clearing						
Interest rate swaps	**5,147**	**15**	**(62)**	2,814	19	(23)
Total interest rate derivatives – OTC – central clearing	**5,147**	**15**	**(62)**	2,814	19	(23)
Interest rate derivatives – exchange traded						
Interest rate futures bought and sold	**1,430**	**–**	**–**	1,124	–	–
Total interest rate derivatives – exchange traded	**1,430**	**–**	**–**	1,124	–	–
Total interest rate derivatives	**14,342**	**551**	**(573)**	10,325	465	(501)
Foreign exchange derivatives – OTC						
Foreign exchange contracts	**6,657**	**35**	**(180)**	4,274	36	(24)
Currency options bought and sold	**54**	**1**	**–**	95	2	–
Total foreign exchange derivatives	**6,711**	**36**	**(180)**	4,369	38	(24)
Equity derivatives – OTC						
Equity index options bought and sold	**182**	**5**	**(4)**	376	5	(5)
Equity total return swaps	**171**	**–**	**(2)**	103	9	–
Total equity derivatives	**353**	**5**	**(6)**	479	14	(5)
Credit derivatives – OTC						
Credit derivatives	**240**	**–**	**(12)**	355	–	(4)
Total credit derivatives	**240**	**–**	**(12)**	355	–	(4)
Total derivatives held for trading	**21,646**	**592**	**(771)**	15,528	517	(534)

Notes to the consolidated financial statements

23 Derivative financial instruments *(continued)*

	2019			2018		
	Notional principal amount	Fair values		Notional principal amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
	€ m	€ m	€ m	€ m	€ m	€ m
Derivatives held for hedging						
Derivatives designated as fair value hedges – OTC						
Interest rate swaps	7,617	75	(95)	10,486	86	(176)
Total derivatives designated as fair value hedges – OTC	7,617	75	(95)	10,486	86	(176)
Derivatives designated as fair value hedges – OTC – central clearing						
Interest rate swaps	10,639	116	(208)	5,178	53	(28)
Total interest rate fair value hedges – OTC – central clearing	10,639	116	(208)	5,178	53	(28)
Total derivatives designated as fair value hedges	18,256	191	(303)	15,664	139	(204)
Derivatives designated as cash flow hedges – OTC						
Interest rate swaps	5,504	187	(93)	7,134	158	(116)
Cross currency interest rate swaps	1,824	14	(10)	1,965	4	(57)
Total interest rate cash flow hedges – OTC	7,328	201	(103)	9,099	162	(173)
Derivatives designated as cash flow hedges – OTC – central clearing						
Interest rate swaps	11,404	287	(20)	9,400	82	(23)
Total interest rate cash flow hedges – OTC – central clearing	11,404	287	(20)	9,400	82	(23)
Total derivatives designated as cash flow hedges	18,732	488	(123)	18,499	244	(196)
Total derivatives held for hedging	36,988	679	(426)	34,163	383	(400)
Total derivative financial instruments	58,634	1,271	(1,197)	49,691	900	(934)

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, debt securities at FVOCI and fixed rate liabilities. The fair values of financial instruments are set out in note 51. The net mark to market on fair value hedging derivatives, excluding accrual and risk adjustments at 31 December 2019 is negative € 138 million (2018: negative € 79 million) and the net mark to market on the related hedged items at 31 December 2019 is positive € 136 million (2018: positive € 78 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 46.

23 Derivative financial instruments *(continued)*

Nominal values and average interest rates by residual maturity

At 31 December 2019 and 2018, the Group held the following hedging instruments of interest rate risk in fair value and cash flow hedges respectively:

						2019
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	5 years +	Total
Fair value hedges – Interest rate swaps						
Assets						
Hedges of investment securities – debt						
Nominal principal amount **(€ m)**	73	84	848	4,711	4,457	10,173
Average interest rate **(%)**[1]	0.74	1.02	1.81	0.57	0.65	0.72
Liabilities						
Hedges of debt securities in issue						
Nominal principal amount **(€ m)**	–	500	750	5,058	525	6,833
Average interest rate **(%)**[1]	–	1.38	0.63	2.20	2.39	1.98
Hedges of subordinated debt						
Nominal principal amount **(€ m)**	–	–	750	500	–	1,250
Average interest rate **(%)**[1]	–	–	4.13	1.88	–	3.23
Cash flow hedges – Interest rate swaps[2]						
Hedges of financial assets						
Nominal principal amount **(€ m)**	205	149	2,330	4,812	7,539	15,035
Average interest rate **(%)**[3]	1.84	0.92	1.18	0.91	0.67	0.84
Hedges of financial liabilities						
Nominal principal amount **(€ m)**	482	583	918	1,143	571	3,697
Average interest rate **(%)**[3]	0.72	0.28	1.26	0.89	2.79	1.16

						2018
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	5 years +	Total
Fair value hedges – Interest rate swaps						
Assets						
Hedges of investment securities – debt						
Nominal principal amount **(€ m)**	125	114	1,459	4,430	3,041	9,169
Average interest rate **(%)**[1]	0.99	0.74	4.24	0.85	0.97	1.43
Liabilities						
Hedges of debt securities in issue						
Nominal principal amount **(€ m)**	–	–	565	4,655	525	5,745
Average interest rate **(%)**[1]	–	–	3.02	1.61	2.39	1.82
Hedges of subordinated debt						
Nominal principal amount **(€ m)**	–	–	–	750	–	750
Average interest rate **(%)**[1]	–	–	–	4.13	–	4.13
Cash flow hedges – Interest rate swaps[2]						
Hedges of financial assets						
Nominal principal amount **(€ m)**	147	452	2,067	2,250	9,401	14,317
Average interest rate **(%)**[3]	0.25	0.35	0.24	0.59	0.78	0.65
Hedges of financial liabilities						
Nominal principal amount **(€ m)**	3	240	1,550	1,800	589	4,182
Average interest rate **(%)**[3]	1.60	0.77	0.90	1.03	2.84	1.22

[1] Represents the fixed rate on the hedged item which is being swapped for a variable rate.

[2] Includes interest rate swaps and cross currency swaps used to hedge interest rate risk on variable rate EUR/GBP and EUR/USD assets and liabilities.

[3] This is the average interest rate on the fixed leg of swap agreements where the variable rate on the assets and liabilities in cash flow hedges is being swapped for a fixed rate.

Notes to the consolidated financial statements

23 Derivative financial instruments *(continued)*

Fair value hedges of interest rate risk

The tables below set out the amounts relating to items designated as (a) hedging instruments and (b) hedged items in fair value hedges of interest rate risk together with the related hedge ineffectiveness at 31 December 2019 and 2018:

							2019
		Carrying amount[1]					
	Nominal	Assets	Liabilities	Line item in SOFP* where the hedging instrument is included	Change in fair value used for calculating hedge ineffectiveness for the year	Hedge ineffectiveness recognised in the income statement	Line item in the income statement that includes hedge ineffectiveness
(a) Hedging instruments	€ m	€ m	€ m		€ m	€ m	
Interest rate swaps hedging:							
Investment securities – debt	10,173	12	(298)	Derivative financial instruments	(108)	(2)	Net trading income
Debt securities in issue	6,833	174	–	Derivative financial instruments	43	–	Net trading income
Subordinated debt	1,250	5	(5)	Derivative financial instruments	6	–	Net trading income

						2019
	Carrying amount of hedged items recognised in the SOFP*		Accumulated amount of fair value hedge adjustments on the hedged items included in the carrying amount of the hedged items		Line item in SOFP* where hedged item is included	Change in fair value of hedged items used for calculating hedge ineffectiveness for the year	Accumulated amount of fair value hedge adjustments remaining in the SOFP* for any hedged items that have ceased to be adjusted for hedging gains and losses
	Assets	Liabilities	Assets	Liabilities			
(b) Hedged items	€ m	€ m	€ m	€ m		€ m	€ m
Investment securities – debt	10,789		249		Investment securities	106	–
Debt securities in issue		(6,936)		(105)	Debt securities in issue	(43)	–
Subordinated debt		(1,258)		(8)	Subordinated liabilities and other capital instruments	(6)	–

							2018
		Carrying amount[1]					
	Nominal	Assets	Liabilities	Line item in SOFP* where the hedging instrument is included	Change in fair value used for calculating hedge ineffectiveness for the year	Hedge ineffectiveness recognised in the income statement	Line item in the income statement that includes hedge ineffectiveness
(a) Hedging Instruments	€ m	€ m	€ m		€ m	€ m	
Interest rate swaps hedging:							
Investment securities – debt	9,169	17	(204)	Derivative financial instruments	31	(1)	Net trading income
Debt securities in issue	5,745	117	–	Derivative financial instruments	17	–	Net trading income
Subordinated debt	750	5	–	Derivative financial instruments	3	–	Net trading income

							2018
	Carrying amount of hedged items recognised in the SOFP*		Accumulated amount of fair value hedge adjustments on the hedged items included in the carrying amount of the hedged items		Line item in SOFP* where hedged item is included	Change in fair value of hedged items used for calculating hedge ineffectiveness for the year	Accumulated amount of fair value hedge adjustments remaining in the SOFP* for any hedged items that have ceased to be adjusted for hedging gains and losses
	Assets	Liabilities	Assets	Liabilities			
(b) Hedged items	€ m	€ m	€ m	€ m		€ m	€ m
Investment securities – debt	9,453		142		Investment securities	(32)	–
Debt securities in issue		(5,806)		(61)	Debt securities in issue	(17)	–
Subordinated debt		(753)		(3)	Subordinated liabilities and other capital instruments	(3)	–

[1]The mark to market of these instruments, excluding accruals of € 64 million, is € 176 million (2018: € 14 million is € 79 million).

*Statement of financial position

23 Derivative financial instruments *(continued)*

Cash flow hedges of interest rate

The tables below set out the amounts relating to (a) items designated as hedging instruments and (b) the hedged items in cash flow hedges of interest rate risk together with the related hedge ineffectiveness at 31 December 2019 and 2018:

											2019
		Carrying amount					Hedge ineffectiveness		Amounts reclassified from cash flow hedging reserves to the income statement		
	Nominal amount	Assets	Liabilities	Line item in the SOFP* where hedging instruments are included	Change in fair value of hedging instruments used for calculating hedge ineffectiveness in the year	Change in fair value of the hedging instruments recognised in OCI in the year	Hedge Ineffectiveness recognised in the income statement	Line item in the income statement that includes hedge ineffectiveness	Amounts for which hedge accounting had been used but for which the hedged future cash flows are no longer expected to occur	Amounts that have been transferred because the hedged item has affected the income statement	Line item in the income statement affected by the reclassification
(a) Hedging Instruments	€ m	€ m	€ m		€ m	€ m	€ m		€ m	€ m	
Interest rate swaps[1]											
Derivative assets	15,035	486	(18)	Derivative financial instruments	244	216	–	Net trading income	–	115	Interest and similar income
Derivative liabilities	3,697	2	(105)	Derivative financial instruments	73	(5)	–	Net trading income	–	(31)	Interest expense

*Statement of financial position

[1]Hedging interest rate risk. These include both interest rate swaps and cross currency interest rate swaps, both of which are hedging interest rate risk.

						2019
	Line item in SOFP* in which hedged item is included	Change in fair value of hedged items used for calculating hedge ineffectiveness for the year	Amount in the cash flow hedging reserves for continuing hedges[1] pre tax	Amounts in the cash flow hedging reserves for continuing hedges[1] post tax	Amounts remaining in the cash flow hedging reserves from any hedging relationship for which hedge accounting is no longer applied pre tax	Amounts remaining in the cash flow hedging reserves from any hedging relationship for which hedge accounting is no longer applied post tax
(b) Hedged items		€ m	€ m	€ m	€ m	€ m
Interest rate risk	Loans and advances to customers	(244)	505	442	124	107
Interest rate risk	Customer accounts	(73)	(91)	(80)	–	–

*Statement of financial position

[1]The cash flow hedging reserves are adjusted to the lower of either the cumulative gain or loss or the cumulative change in fair value (present value) of the hedged item from inception of the hedge. The portion that is offset by the change in the cash flow hedging reserves is recognised in other comprehensive income with any hedge ineffectiveness recognised in the income statement.

23 Derivative financial instruments *(continued)*

Cash flow hedges of interest rate *(continued)*

2018

		Carrying amount					Hedge ineffectiveness		Amounts reclassified from cash flow hedging reserves to the income statement		
	Nominal amount	Assets	Liabilities	Line item in the SOFP* where hedging instruments are included	Change in fair value of hedging instruments used for calculating hedge ineffectiveness in the year	Change in fair value of the hedging instruments recognised in OCI in the year	Hedge Ineffectiveness recognised in the income statement	Line item in the income statement that includes hedge ineffectiveness	Amounts for which hedge accounting had been used but for which the hedged future cash flows are no longer expected to occur	Amounts that have been transferred because the hedged item has affected the income statement	Line item in the income statement affected by the reclassification
(a) Hedging Instruments	€ m	€ m	€ m		€ m	€ m	€ m		€ m	€ m	
Interest rate swaps[1]											
Derivative assets	14,317	232	(80)	Derivative financial instruments	(175)	(17)	–	Net trading income	–	143	Interest and similar income
Derivative liabilities	4,182	12	(116)	Derivative financial instruments	55	49	–	Net trading income	–	(56)	Interest expense

*Statement of financial position

[1]Hedging interest rate risk. These include both interest rate swaps and cross currency interest rate swaps, both of which are hedging interest rate risk.

2018

	Line item in SOFP* in which hedged item is included	Change in fair value of hedged items used for calculating hedge ineffectiveness for the year	Amount in the cash flow hedging reserves for continuing hedges[1] pre tax	Amounts in the cash flow hedging reserves for continuing hedges[1] post tax	Amounts remaining in the cash flow hedging reserves from any hedging relationship for which hedge accounting is no longer applied pre tax	Amounts remaining in the cash flow hedging reserves from any hedging relationship for which hedge accounting is no longer applied post tax
(b) Hedged items		€ m	€ m	€ m	€ m	€ m
Interest rate risk	Loans and advances to customers	175	261	228	151	132
Interest rate risk	Customer accounts	(55)	(86)	(75)	–	–

*Statement of financial position

[1]The cash flow hedging reserves are adjusted to the lower of either the cumulative gain or loss or the cumulative change in fair value (present value) of the hedged item from inception of the hedge. The portion that is offset by the change in the cash flow hedging reserves is recognised in other comprehensive income with any hedge ineffectiveness recognised in the income statement.

23 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:

					2019
	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	**66**	**21**	**25**	**55**	**167**
Forecast payable cash flows	**50**	**42**	**49**	**17**	**158**

					2018
	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	64	19	122	231	436
Forecast payable cash flows	44	33	36	29	142

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:

					2019
	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	**66**	**21**	**25**	**55**	**167**
Forecast payable cash flows	**97**	**85**	**80**	**20**	**282**

					2018
	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	64	19	122	231	436
Forecast payable cash flows	105	72	81	35	293

Ineffectiveness reflected in the income statement that arose from cash flow hedges at 31 December 2019 amounted to Nil (31 December 2018: Nil).

Pay fixed cash flow hedges are used to hedge the cash flows on variable rate liabilities and 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 at 31 December 2019 was a gain of € 184 million (2018: a gain of € 28 million).

Notes to the consolidated financial statements

24 Loans and advances to banks	2019 € m	2018 € m
At amortised cost		
Funds placed with central banks	468	589
Funds placed with other banks	1,010	854
ECL allowance	–	–
	1,010	854
Total loans and advances to banks	1,478	1,443
Amounts include:		
Reverse repurchase agreements	151	–

Loans and advances to banks by geographical area[1]	2019 € m	2018 € m
Ireland	881	752
United Kingdom	595	689
United States of America	2	2
	1,478	1,443

[1]The classification of loans and advances to banks by geographical area is based primarily on the location of the office recording the transaction.

Loans and advances to banks include cash collateral of € 631 million (2018: € 570 million) placed with derivative counterparties in relation to net derivative positions and placed with repurchase agreement counterparties. In addition, these include € 4 million relating to restricted balances held in trust in respect of certain payables which are included in 'other liabilities' (note 39).

Under reverse repurchase agreements, the Group accepts collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. At 31 December 2019, the collateral received consisted of non-government securities with a fair value of € 151 million, none of which had been resold or repledged. These transactions were conducted under terms that are usual and customary to standard reverse repurchase agreements.

25 Loans and advances to customers

	2019 € m	2018 € m
Amortised cost		
Loans and advances to customers	60,359	61,309
Reverse repurchase agreements	87	–
Amounts receivable under finance leases and hire purchase contracts	1,603	1,451
	62,049	62,760
ECL allowance	(1,238)	(2,039)
	60,811	60,721
Mandatorily at fair value through profit or loss		
Loans and advances to customers	77	147
Total loans and advances to customers	60,888	60,868
Of which repayable on demand or at short notice	3,147	4,647
Amounts include:		
Due from associated undertakings	1[1]	–

[1]Undrawn commitments amount to € 104 million and are for less than one year.

Loans and advances to customers include cash collateral amounting to € 18 million (2018: € 79 million) placed with derivative counterparties.

Under reverse repurchase agreements, the Group has accepted collateral with a fair value of € 86 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 of loans and advances to customers, including forbearance, refer to the 'Risk management' section of this report.

Amounts receivable under finance leases and hire purchase contracts

The following balances principally comprise of leasing arrangements and hire purchase agreements involving vehicles, plant, machinery and equipment:

	2019 € m	2018 € m
Gross receivables		
Not later than 1 year	601	582
Later than 1 year and not later than 2 years	448	390
Later than 2 years and not later than 3 years	329	287
Later than 3 years and not later than 4 years	206	179
Later than 4 years and not later than 5 years	104	90
Later than five years	16	18
Total	1,704	1,546
Unearned future finance income	(116)	(107)
Deferred costs incurred on origination	15	12
Present value of minimum payments	1,603	1,451
ECL allowance for uncollectible minimum payments receivable[1]	39	41
Net investment in new business	888	805

[1]Included in ECL allowance on financial assets (note 26).

Notes to the consolidated financial statements

26 ECL allowance on financial assets

The following table shows the movements on the ECL allowance on financial assets. Further information is disclosed in the 'Risk management' section of this report.

	2019 € m	2018 € m
At 1 January	**2,039**	3,617
Exchange translation adjustments	**9**	(1)
Transfer in	**–**	14
Net re-measurement of ECL allowance – banks	**–**	(1)
Net re-measurement of ECL allowance – customers	**117**	(89)
Changes in ECL allowance due to write-offs	**(362)**	(1,029)
Changes in ECL allowance due to disposals	**(565)**	(472)
At 31 December	**1,238**	2,039
Amounts include ECL allowance on:		
Loans and advances to banks measured at amortised cost	**–**	–
Loans and advances to customers measured at amortised cost	**1,238**	2,039
	1,238	2,039

27 Investment securities

The following table analyses the carrying value of investment securities by major classification together with the unrealised gains and losses for those securities measured at FVOCI and FVTPL at 31 December 2019 and 2018.

						2019
	Carrying value	Unrealised gross gains	Unrealised gross losses	Net unrealised gains/ (losses)	Tax effect	Net after tax
	€ m	€ m	€ m	€ m	€ m	€ m
Debt securities at FVOCI						
Irish Government securities	5,296	381	(1)	380	(47)	333
Euro government securities	1,538	63	–	63	(8)	55
Non Euro government securities	212	4	–	4	(1)	3
Supranational banks and government agencies	1,034	22	(1)	21	(3)	18
Collateralised mortgage obligations	222	1	(2)	(1)	–	(1)
Other asset backed securities	106	–	–	–	–	–
Euro bank securities	5,343	77	(3)	74	(9)	65
Non Euro bank securities	1,654	12	(2)	10	(1)	9
Euro corporate securities	375	12	(1)	11	(1)	10
Non Euro corporate securities	101	5	–	5	(1)	4
Total debt securities at FVOCI	15,881	577	(10)	567	(71)	496
Debt securities at amortised cost						
Asset back securities	591					
Euro corporate securities	14					
Non Euro corporate securities	30					
Total debt securities at amortised cost	635					
Equity securities						
Equity investments at FVOCI	458	414	–	414	(52)	362
Equity investments at FVTPL	357	147	(4)	143	(46)	97
Total equity securities	815	561	(4)	557	(98)	459
Total investment securities	17,331					

						2018
	Carrying value	Unrealised gross gains	Unrealised gross losses	Net unrealised gains/ (losses)	Tax effect	Net after tax
	€ m	€ m	€ m	€ m	€ m	€ m
Debt securities at FVOCI						
Irish Government securities	6,282	401	(6)	395	(49)	346
Euro government securities	1,921	78	(4)	74	(9)	65
Non Euro government securities	158	3	(2)	1	–	1
Supranational banks and government agencies	1,132	26	(7)	19	(3)	16
Collateralised mortgage obligations	264	–	(11)	(11)	5	(6)
Other asset backed securities	103	–	–	–	–	–
Euro bank securities	5,007	46	(11)	35	(4)	31
Non Euro bank securities	815	1	(6)	(5)	1	(4)
Euro corporate securities	216	–	(2)	(2)	–	(2)
Non Euro corporate securities	48	–	–	–	–	–
Total debt securities at FVOCI	15,946	555	(49)	506	(59)	447
Debt securities at amortised cost						
Asset back securities	187					
Total debt securities at amortised cost	187					
Equity securities						
Equity investments at FVOCI	468	425	–	425	(53)	372
Equity investments at FVTPL	260	84	(3)	81	(24)	57
Total equity securities	728	509	(3)	506	(77)	429
Total investment securities	16,861					

Notes to the consolidated financial statements

27 Investment securities *(continued)*

The Group has designated its investment in NAMA subordinated bonds as measured at FVOCI since this investment was held for strategic purposes. Dividends received during the year amounted to € 23 million (2018: € 23 million) (note 7).

All equity investments apart from the NAMA subordinated bonds above are classified and measured at FVTPL.

Credit impairment losses recognised in the income statement at 31 December 2019 amounted to Nil (31 December 2018: Nil).

The following table sets out an analysis of movements in investment securities:

					2019
	Debt securities at FVOCI	Debt securities at amortised cost	Equity investments measured at FVOCI	Equity investments measured at FVTPL	Total
	€ m	€ m	€ m	€ m	€ m
At 1 January	15,946	187	468	260	16,861
Exchange translation adjustments	68	–	–	–	68
Purchases/acquisitions	4,441	449	–	47	4,937
Sales/disposals	(2,192)	–	–	(24)	(2,216)
Maturities	(2,472)	(1)	–	–	(2,473)
Amortisation of discounts net of premiums	(62)	–	–	–	(62)
Movement in unrealised gains/(losses)	152	–	(10)	74	216
At 31 December	15,881	635	458	357	17,331
Of which:					
Listed	15,881	635	–	46	16,562
Unlisted	–	–	458	311	769
	15,881	635	458	357	17,331

					2018
	Debt securities at FVOCI	Debt securities at amortised cost	Equity investments measured at FVOCI	Equity investments measured at FVTPL	Total
	€ m	€ m	€ m	€ m	€ m
At 1 January	15,642	–	466	213	16,321
Exchange translation adjustments	25	–	–	–	25
Purchases/acquisitions	3,061	187	–	28	3,276
Sales/disposals	(1,425)	–	–	(22)	(1,447)
Maturities	(945)	–	–	–	(945)
Amortisation of discounts net of premiums	(71)	–	–	–	(71)
Movement in unrealised (losses)/gains	(341)	–	2	41	(298)
At 31 December	15,946	187	468	260	16,861
Of which:					
Listed	15,946	187	–	23	16,156
Unlisted	–	–	468	237	705
	15,946	187	468	260	16,861

27 Investment securities *(continued)*

The following table sets out at 31 December 2019 and 2018, 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:

						2019
	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 at FVOCI						
Irish Government securities	56	–	56	(1)	–	(1)
Euro government securities	93	–	93	–	–	–
Supranational banks and government agencies	144	123	267	(1)	–	(1)
Collateralised mortgage obligations	–	160	160	–	(2)	(2)
Euro bank securities	412	73	485	(3)	–	(3)
Non Euro bank securities	268	350	618	(1)	(1)	(2)
Euro corporate securities	48	–	48	(1)	–	(1)
Non Euro corporate securities	11	–	11	–	–	–
Total debt securities at FVOCI	1,032	706	1,738	(7)	(3)	(10)
Equity securities						
Equity securities at FVTPL	14	22	36	(2)	(2)	(4)
Total	1,046	728	1,774	(9)	(5)	(14)

						2018
	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 at FVOCI						
Irish Government securities	91	147	238	–	(6)	(6)
Euro government securities	174	49	223	(2)	(2)	(4)
Non Euro government securities	–	44	44	–	(2)	(2)
Supranational banks and government agencies	49	247	296	–	(7)	(7)
Collateralised mortgage obligations	–	272	272	–	(11)	(11)
Euro bank securities	740	101	841	(11)	–	(11)
Non Euro bank securities	662	22	684	(6)	–	(6)
Euro corporate securities	208	8	216	(2)	–	(2)
Total debt securities at FVOCI	1,924	890	2,814	(21)	(28)	(49)
Equity securities						
Equity securities at FVTPL	5	30	35	(1)	(2)	(3)
Total	1,929	920	2,849	(22)	(30)	(52)

For details of the credit quality of the investment securities portfolio, see the 'Risk management' section of this report.

Notes to the consolidated financial statements

28 Interests in associated undertakings

Included in the income statement is the contribution net of tax from investments in associated undertakings as follows:

Income statement	2019 € m	2018 € m
Share of results of associated undertakings	20	12
	20[1]	12[1]

Share of net assets including goodwill	2019 € m	2018 € m
At 1 January	90	80
Income for the year	20	12
Dividends received from associated undertakings[2]	(27)	(10)
Investments in associated undertakings	–	10[3]
Disposals	–	(2)[4]
At 31 December[5]	83	90
Of which listed on a recognised stock exchange	–	–

[1]Includes AIB Merchant Services € 19 million (2018: € 12 million).
[2]Dividends received from AIB Merchant Services € 27 million (2018: € 10 million).
[3]During 2018, the Group invested € 10 million in Fulfil Holdings Limited (25% equity interest).
[4]In 2018, the Group realised its investment amounting to € 2 million in Aviva Undershaft Five Limited which was liquidated.
[5]Comprises the Group's investment in AIB Merchant Services and Fulfil Holdings Limited.

The following is the principal associate company of the Group at 31 December 2019 and 2018:

Name of associate	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			2019 %	2018 %
Zolter Services d.a.c. 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 associates are accounted for using the equity method in these consolidated financial statements.

Banking transactions between the Group and its associated undertakings are entered into in the normal course of business. For further information see notes 25 and 36.

In accordance with Sections 316 and 348 of the Companies Act 2014 and the European Communities (Credit Institutions: Financial Statements) Regulations 2015, AIB Group plc 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 at 31 December 2019 or 2018.

Change in the Group's ownership interest in associates

During 2019, the ownership interest in Fulfil Holdings Limited changed from 25% to 23.8%. There was no other 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.

29 Intangible assets and goodwill

	Software externally purchased € m	Software internally generated € m	Software under construction € m	Goodwill € m	Other € m	2019 Total € m
Cost						
At 1 January	329	957	226	–	3	1,515
Additions	7	132	120	–	–	259
Acquisition of subsidiary	–	13[1]	–	70[2]	37[3]	120
Transfers in/(out)	–	167	(167)	–	–	–
Amounts written-off[4]	(40)	(117)	(10)	–	–	(167)
Exchange translation adjustments	–	1	1	–	–	2
At 31 December	296	1,153	170	70	40	1,729
Amortisation/impairment						
At 1 January	307	523	–	–	3	833
Amortisation for the year	11	122	–	–	1	134
Impairment for the year[5]	1	1	10	–	–	12
Amounts written-off[4]	(40)	(117)	(10)	–	–	(167)
At 31 December	279	529	–	–	4	812
Carrying value at 31 December	17	624	170	70	36	917

	Software externally purchased € m	Software internally generated € m	Software under construction € m	Other € m	2018 Total € m
Cost					
At 1 January	323	794	183	3	1,303
Additions	6	40	177	–	223
Transfers in/(out)	–	123	(123)	–	–
Amounts written-off[4]	–	–	(11)	–	(11)
Exchange translation adjustments	–	–	–	–	–
At 31 December	329	957	226	3	1,515
Amortisation/impairment					
At 1 January	293	428	10	3	734
Amortisation for the year	14	91	–	–	105
Impairment for the year[5]	–	4	1	–	5
Amounts written-off[4]	–	–	(11)	–	(11)
At 31 December	307	523	–	3	833
Carrying value at 31 December	22	434	226	–	682

[1]Relates to the fair value of software acquired on the acquisition of subsidiary (note 31).
[2]Relates to the acquisition of subsidiary (note 31). The goodwill was tested for impairment at 31 December 2019 and no impairment was identified.
[3]Relates to the customer contracts and related customer relationships acquired on the acquisition of subsidiary (note 31).
[4]Relates to assets which are no longer in use with a Nil carrying value.
[5]Included in 'Impairment and amortisation of intangible assets' in the consolidated income statement.

Future capital expenditure in relation to both intangible assets and property, plant and equipment is set out in note 30.

Notes to the consolidated financial statements

30 Property, plant and equipment

								2019
	Owned assets					Leased assets		
	Property			Equipment	Assets under construction	Right-of-use assets		Total
	Freehold	Long leasehold	Leasehold under 50 years			Property	Other	
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Cost								
At 31 December 2018	213	84	139	530	57	–	–	1,023
Impact of adopting IFRS 16[1]	–	–	–	–	–	473	6	479
Restated balance at 1 January 2019	213	84	139	530	57	473	6	1,502
Transfers in/(out)	2	–	26	11	(39)	–	–	–
Additions	–	–	28	15	26	25	–	94
Acquisition of subsidiary *(note 31)*	–	–	–	2	–	–	–	2
Re-measurement	–	–	–	–	–	1	(4)	(3)
Transferred to held for sale	–	(5)	(3)	(10)	–	–	–	(18)
Amounts written-off[2]	(49)	(36)	(69)	(183)	–	–	–	(337)
Exchange translation adjustments	1	–	1	2	–	2	–	6
At 31 December	167	43	122	367	44	501	2	1,246
Depreciation/impairment								
At 31 December 2018	84	51	101	457	–	–	–	693
Impact of adopting IFRS 16[1]	–	–	–	–	–	–	–	–
Restated balance at 1 January 2019	84	51	101	457	–	–	–	693
Depreciation charge for the year	5	1	9	21	–	57	1	94
Impairment charge for the year[3]	1	1	1	1	2	–	–	6
Amounts written-off[2]	(49)	(36)	(69)	(183)	–	–	–	(337)
Transferred to held for sale	–	(4)	(2)	(9)	–	–	–	(15)
Exchange translation adjustments	1	–	–	1	–	–	–	2
At 31 December	42	13	40	288	2	57	1	443
Carrying value at 31 December	125	30	82	79	42	444	1	803

[1]For details of the impact of adopting IFRS 16, see note 3.

[2]Relates to assets which are no longer in use with a Nil carrying value.

[3]Included in 'Impairment and depreciation of property, plant and equipment' in the consolidated income statement.

30 Property, plant and equipment *(continued)*

	Property			Equipment	Assets under construction	2018 Total
	Freehold	Long leasehold	Leasehold under 50 years			
	€ m	€ m	€ m	€ m	€ m	€ m
Cost						
At 1 January	215	88	137	539	21	1,000
Transfers in/(out)	1	–	5	4	(10)	–
Additions	1	1	3	14	46	65
Transferred to held for sale	(3)	(1)	–	–	–	(4)
Amounts written-off[1]	(1)	(4)	(6)	(27)	–	(38)
Exchange translation adjustments	–	–	–	–	–	–
At 31 December	213	84	139	530	57	1,023
Depreciation/impairment						
At 1 January	74	52	95	458	–	679
Depreciation charge for the year	5	1	8	23	–	37
Impairment charge for the year[2]	10	2	4	3	–	19
Reversal of impairment charge for the year[2]	(4)	–	–	–	–	(4)
Amounts written-off[1]	(1)	(4)	(6)	(27)	–	(38)
Exchange translation adjustments	–	–	–	–	–	–
At 31 December	84	51	101	457	–	693
Carrying value at 31 December	129	33	38	73	57	330

[1]Relates to assets which are no longer in use with a Nil carrying value.
[2]Included in 'impairment and depreciation of property, plant and equipment' in the consolidated income statement.

The carrying value of property occupied by the Group for its own activities was € 236 million (2018: € 199 million) in relation to owned assets and € 444 million in relation to right-of-use assets, excluding those held as disposal groups and non-current assets held for sale. Property leased to others by the Group had a carrying value of € 1 million (2018: € 1 million).

Future capital expenditure

The table below shows future capital expenditure in relation to both property, plant and equipment and intangible assets (excluding right-of-use assets).

	2019 € m	2018 € m
Estimated outstanding commitments for capital expenditure not provided for in the financial statements	**2**	5
Capital expenditure authorised but not yet contracted for	**44**	80

Notes to the consolidated financial statements

30 Property, plant and equipment *(continued)*

Leased assets

Property

The Group leases property for its offices and retail branch outlets. The property lease portfolio consists of 197 leases, made up of 8 head office locations and 189 branch outlets. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Both head office properties and retail branch lease terms are typically for periods of 10 to 20 years. Most of these leases carry statutory renewal rights, or include an option to renew the lease for an additional period after the end of the contract term. Where the Group is likely to exercise these options, this has been taken into account in determining the lease liability and likewise, the right-of-use asset.

The minimum lease terms remaining on the most significant leases range from 7 years to 13 years. The average lease term until a break clause in the lease arrangements is approximately 10 years with the final contractual remaining terms ranging from 5 years to 8 years.

The most significant lease entered into in 2019 was for Heuston South Quarter in Dublin 8 with a lease term of 14 years.

Other leases

Motor vehicles

The Group leases motor vehicles, mainly for its sales staff throughout the branch network. The average lease term for motor vehicles is 3 years.

ATM offsite locations

These relate to leases for locations to house ATMs held offsite (outside of the branch network), in both the Republic of Ireland and Northern Ireland.

Lease liabilities

A maturity analysis of lease liabilities is shown in note 37.

Amounts recognised in income statement	2019 € m
Depreciation expense on right-of-use assets	58
Interest on lease liabilities (note 6)	14
Expense relating to short term leases	2
Income from sub-leasing right-of-use assets	2

Amounts recognised in statement of cash flows	2019 € m
Total cash outflow for leases during the year[1]	72

[1]Includes interest expense on lease liabilities of € 13 million and principal repayments on lease liabilities of € 59 million.

31 Acquisition of subsidiary

The accounting policy for the acquisition of subsidiaries is set out in note 1 (d) to the financial statements in 'Basis of consolidation'.

On 31 October 2019, Augmentum Limited ('Augmentum'), of which 75% is owned by AIB and 25% by a non-controlling interest, First Data Global Services Limited (part of First Data Corporation which is owned by Fiserv Inc.), acquired 96.77% of the equity share capital and voting rights of Semeral Limited ('Semeral'), the holding company for Payzone Ireland Limited ('Payzone'). Total consideration paid to 31 December 2019 amounted to € 68.9 million (excluding contingent consideration). Accordingly, Semeral is now controlled by Augmentum which, in turn, is controlled by AIB Group.

In addition to the consideration paid/payable to Semeral shareholders, Semeral issued 407,104 ordinary shares of € 1 each to Augmentum in October 2019 for a subscription price of € 22 million, the proceeds of which were used to repay long term debt in Semeral. This transaction was not part of the business combination, however, it was accounted for as an investment in subsidiary undertakings by Augmentum and consolidated accordingly.

Payzone owns a nationwide branded terminal network that distributes a wide variety of electronic products and services. It distributes such products and services on behalf of a broad range of clients which include government agencies, local authorities, utility companies and mobile network operators.

Payzone is the parent company of Feepay Limited ('Feepay') acquired in 2017 in which it holds 100% of the equity share capital. Feepay operates on an online payment platform, under the brands of Easy Payments Plus and MyEasyPay, offering online payment solutions to schools and sports clubs.

The acquisition of Semeral/Payzone is consistent with the Group's strategy to make selective investments to evolve its customer service and product proposition in its core market. It will bring significant fintech capability to AIB and will further strengthen its digital agenda in a post PSD2/Open Banking economy.

Semeral's consolidated financial statements are prepared for accounting periods beginning 1 October 2019 and ending 30 September 2020, accordingly, the Group has consolidated its share of results from the date of acquisition, 1 November 2019 to 31 December 2019. In due course, the financial period of Semeral will be aligned with that of AIB.

For the two months to 31 December 2019, Semeral contributed gross revenue amounting to € 27 million (net revenue € 2 million) and a profit of Nil million to the Group's results. If the acquisition had occurred on 1 January 2019, Management estimates that consolidated gross revenue would have been € 158 million (net revenue € 14 million), and consolidated profit for the year would have been Nil million. In determining these amounts, Management has assumed that the fair value adjustments, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019.

Semeral/Payzone was reported in the Retail Banking segment for the 2 months to 31 December 2019.

Consideration transferred

Augmentum's investment to 31 December 2019 amounted to € 68.9 million which was funded by way of long term loans from its two shareholders at a rate of 7.5% per annum.

Contingent consideration

Deferred consideration amounting to c. € 10 million has been agreed by Augmentum with the selling shareholders of Semeral, subject to certain conditions. At 31 December 2019, this amount is expected to be paid in full.

Acquisition related costs

The Group incurred acquisition-related costs amounting to € 2 million on legal fees and due diligence costs of which € 0.8 million was expensed in 2019 (2018: € 1.2 million). These are included in 'Operating expenses' (note 13) within 'General and administrative expenses'.

Notes to the consolidated financial statements

31 Acquisition of subsidiary *(continued)*

Identifiable assets acquired and liabilities assumed

The following table summarises the amounts recognised at the acquisition date of assets acquired and liabilities assumed in Semeral/Payzone:

	Note	€ m
Intangible assets	29	**50**
Property, plant and equipment	30	**2**
Other assets		**14**
Cash/restricted cash		**9**
Borrowings		**(23)**
Other liabilities		**(25)**
Deferred tax liabilities	33	**(5)**
Accruals and deferred income		**(12)**
Total identifiable net assets assumed		**10**

Trade receivables with gross contractual amounts receivable of € 10 million have a fair value of € 10 million. At acquisition date, it was estimated that all contractual cash flows were expected to be collected.

Measurement of fair values

The acquisition date fair value of the identifiable net assets of Semeral/Payzone acquired amounted to € 10 million and comprised of:

- intangible assets – € 50 million;
- property, plant and equipment and other assets – € 16 million;
- cash – € 9 million;
- borrowings and other liabilities – € 48 million; and
- accruals, deferred income and deferred tax – € 17 million.

Assets less liabilities (other than intangible assets)

The fair value of the acquired net assets on acquisition date, apart from intangible assets, was considered to be their carrying value since these assets and liabilities were materially short term in nature.

Intangible assets

Intangible assets acquired consisted of (i) customer contracts and customer relationships; and (ii) internally generated software. In Semeral's financial statements, these had not been attributed a value apart from certain software. However, as required by IFRS 3 *Business Combinations*, all identifiable assets acquired and liabilities assumed must be measured at fair value.

(a) Customer contracts and customer relationships (fair value € 37 million)

In order to measure the fair value of customer contracts and customer relationships, the Group used, as a valuation technique, the income approach given the unique nature the intangible assets acquired. The income approach is a valuation technique used to convert future amounts to a single present value. The measurement is based on the value indicated by current management expectations about those future amounts.

Payzone acts as the payments processor for end users on behalf of customers. 70% of Payzone revenue is earned through customer relationships which are either contracted or with a customer with whom it had a relationship for over 10 years. A further 20% of revenues are with customers that have been with Payzone for over 5 years. Access to the customer relationships was acquired through the transaction.

The valuation of customer contracts and customer relationships was principally based on the planned EBITDA cash flows as provided by Payzone management. A customer annual drain rate was then applied, given the nature of the customer, which gave an average 10 year life to customers acquired. This adjustment was to cover the natural attrition of customers currently in place. In addition, tax was deducted from the cash flows at the effective tax rate. The net cash flows were discounted at the Group's weighted average cost of capital of 8.8%.

31 Acquisition of subsidiary *(continued)*

Intangible assets *(continued)*

(b) Internally generated software (fair value € 13 million)

The Group used the 'relief-from-royalty' method to value internally generated software. This method considers the discounted estimated royalty payments that are expected to be avoided as a result of the patents or trademarks being owned. A royalty rate of 15% was assumed which was based on the actual 2019 IT value divided by actual revenues. The royalty rate of 15% was applied to planned revenue as provided by Payzone management.

Measurement of non-controlling interests

Augmentum, as the immediate parent company of Semeral/Payzone, has measured the existing non-controlling interests on the basis of their proportionate share in the recognised amounts of Semeral/Payzone's identifiable net assets (€ 1 million).

Allied Irish Banks, p.l.c. has measured the non-controlling interests in Augmentum on the basis of their proportionate share of the acquisition date fair value of the identifiable net assets of Augmentum (Nil).

Goodwill arising from the acquisition has been recognised as follows:

	€ m
Consideration transferred, including contingent consideration	79
Non-controlling interest, based on their proportionate interest in the recognised amounts of assets and liabilities of Semeral/Payzone	1
Fair value of identifiable net assets acquired	(10)
Goodwill	**70**

The goodwill is mainly attributable to Payzone's fintech capability and its substantial payments footprint in Ireland. The Group believes that the skills and technical talent of Payzone's work force will complement the Group's existing relevant workforce and that synergies will be achieved through the combined talents of both.

The goodwill recognised is not expected to be deductible for tax purposes.

32 Other assets

	2019 € m	2018 € m
Proceeds due from disposal of loan portfolio[1]	427	13
Other[2]	228	343
Total	**655**	356

[1]ECL – Nil.

[2]Includes items in transit € 75 million and sundry debtors € 67 million (2018: Items in transit € 124 million and sundry debtors € 80 million).

Notes to the consolidated financial statements

33 Deferred taxation

	2019 € m	2018 € m
Deferred tax assets:		
Transition to IFRS 9	33	43
Assets used in the business	7	9
Retirement benefits	10	12
Assets leased to customers	12	10
Unutilised tax losses	2,771	2,808
Other	11	14
Total gross deferred tax assets	**2,844**	2,896
Deferred tax liabilities:		
Transition to IFRS 9	(4)	(10)
Transition to IFRS 15	(1)	(1)
Cash flow hedges	(67)	(40)
Retirement benefits	(7)	(58)
Amortised income on loans	(1)	(3)
Assets used in the business	(21)	(21)
Investment securities	(93)	(101)
Acquisition of subsidiary (note 31)	(5)	–
Other	(88)	(67)
Total gross deferred tax liabilities	**(287)**	(301)
Net deferred tax assets	**2,557**	2,595
Represented on the statement of financial position:		
Deferred tax assets	2,666	2,702
Deferred tax liabilities	(109)	(107)
	2,557	2,595

For each of the years ended 31 December 2019 and 2018, full provision has been made for capital allowances and other temporary differences.

Analysis of movements in deferred taxation	2019 € m	2018 € m
At 1 January	2,595	2,678
Exchange translation and other adjustments	(1)	–
Deferred tax through other comprehensive income	44	28
Income statement *(note 19)*	(81)	(111)
At 31 December	**2,557**	2,595

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 273 and 274. Information on the regulatory capital treatment of deferred tax assets is included in 'Principal risks' on page 40 to 43.

At 31 December 2019, recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled € 2,557 million (31 December 2018: € 2,595 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 financial assets at FVOCI, cash flow hedges and actuarial gains/losses on retirement benefit schemes. Temporary differences recognised in the income statement consist of provisions for expected credit losses on financial instruments, amortised income, assets leased to customers, and assets used in the course of the business.

Net deferred tax assets at 31 December 2019 of € 2,504 million (31 December 2018: € 2,489 million) are expected to be recovered after more than 12 months.

33 Deferred taxation *(continued)*

For the Group'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.

The Group has not recognised deferred tax assets in respect of: Irish tax on unused tax losses at 31 December 2019 of € 122 million (31 December 2018: € 122 million); overseas tax (UK and USA) on unused tax losses of € 3,309 million (31 December 2018: € 3,015 million); and foreign tax credits for Irish tax purposes of € 13 million (31 December 2018: € 13 million). Of these tax losses totalling € 3,431 million for which no deferred tax is recognised: € 19 million expires in 2032; € 39 million in 2033; € 26 million in 2034; and € 5 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 (31 December 2018: Nil).

Deferred tax recognised directly in equity amounted to Nil (31 December 2018: Nil).

Analysis of income tax relating to other comprehensive income

					2019
	Gross	Tax	Net of tax	Non-controlling interests net of tax	Net amount attributable to equity holders of the parent
	€ m	€ m	€ m	€ m	€ m
Profit for the year	499	(135)	364	37	327
Exchange translation adjustments	66	–	66	–	66
Net change in cash flow hedging reserves	211	(27)	184	–	184
Net change in fair value of investment securities at FVOCI	(61)	8	(53)	–	(53)
Net actuarial (losses) in retirement benefit schemes	(251)	63	(188)	–	(188)
Total comprehensive income for the year	464	(91)	373	37	336
Attributable to:					
Equity holders of the parent	427	(91)	336	–	336
Non-controlling interests	37	–	37	37	–

				2018
	Gross	Tax	Net of tax	Net amount attributable to equity holders of the parent
	€ m	€ m	€ m	€ m
Profit for the year	1,247	(155)	1,092	1,092
Exchange translation adjustments	10	–	10	10
Net change in cash flow hedging reserves	32	(4)	28	28
Net change in fair value of investment securities at FVOCI	(330)	41	(289)	(289)
Net actuarial gains in retirement benefit schemes	35	(9)	26	26
Total comprehensive income for the year	994	(127)	867	867
Attributable to:				
Equity holders of the parent	994	(127)	867	867

Notes to the consolidated financial statements

34 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 accrue future pension benefits on a defined contribution ("DC") basis with a standard employer contribution of 10%. An additional matched employer contribution, subject to limits based on age bands of 2%, 5% or 8% is also paid into the schemes.

The amount included in operating expenses in respect of DC schemes is € 80 million (2018: € 75 million) (note 13).

Defined benefit schemes

All defined benefit schemes operated by the Group closed to future accrual no later than 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.

In the main Irish Scheme, there are 16,038 members comprising 4,121 pensioners and 11,917 deferred members at 31 December 2019. 7,903 members have benefits accrued from 2007 to 2013 under a hybrid arrangement. In addition, there are 990 members comprising 120 pensioners and 870 deferred members at 31 December 2019 in EBS Defined Benefit Schemes.

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 are set out in the Risk section on page 162 of this report.

Valuations

Independent actuarial valuations for the AIB Group Irish Pension Scheme ('Irish scheme') and the AIB Group UK Pension Scheme ('UK scheme') are carried out on a triennial basis by the Schemes' actuary, Mercer. The most recent valuation of the Irish scheme was carried out at 30 June 2018 and reported the scheme to be in surplus. No deficit funding is required at this time as the Irish scheme meets the minimum funding standard. The most recent valuation of the UK scheme was carried out at 31 December 2017. The Group and the Trustee of the UK scheme have agreed funding payments under a new arrangement agreed in December 2019 which is described in detail below.

De-risking of the UK scheme

During the second half of 2019, the Group and the Trustee undertook a substantial de-risking of the UK scheme which significantly impacted the reported IAS 19 surplus of the scheme. The reported IAS 19 surplus of the UK scheme reduced from € 232 million at 31 December 2018 to € 32 million at 31 December 2019. A transaction entered into involved the acquisition of two insurance contracts from Legal and General Assurance Society ("LGAS") using all of the assets of the UK scheme. These insurance contracts are: a pensioner buy-in contract in respect of the pensioner members and an assured payment policy ("APP") in respect of deferred members. The ultimate obligation to pay the members benefits still remains with the scheme.

The pensioner buy-in contract removes financial and demographic risk attaching to the current UK pensioners. This pensioner buy-in contract is effectively a qualifying insurance contract, and exactly matches the amount and timing of the benefits covered. Accordingly, the fair value of the pensioner buy-in contract is set equal to the corresponding value of the liabilities, using the same assumptions with the difference of c. £ 0.2 billion reported in net actuarial losses in retirement benefit schemes in the statement of comprehensive income.

The APP significantly reduces the inflation and interest rate risk attaching to UK deferred members although demographic risks remain. The APP can (at the UK Trustee's election) be partially surrendered on an annual basis for the purpose of wholly or partially funding buy-in of further tranches of deferred members over a defined period of time. This will remove exposure to the risks not covered by the APP over time. The fair value of the APP is measured as the estimated cost of purchasing the contract on the open market.

The Group agreed with the Scheme Trustee a revised funding arrangement for the UK scheme to support the purchase of the pensioner buy-in contract and the APP. A contribution of £ 10 million was made in December 2019 and an additional one-off £ 12 million contribution will also be made in 2020. Under the revised funding arrangement, the Group expects to make annual payments of £ 18.5 million each year during 2020 to 2023, with a final balancing payment in 2024 which is currently expected to be c. £ 50 million.

34 Retirement benefits *(continued)*

Contributions

Total contributions to all defined benefit pension schemes operated by the Group in 2019 amounted to € 43 million (2018: € 72 million). A contribution of € 12 million was made to the Irish scheme (2018: € 9 million) to fund a discretionary increase in pensions in payment. Contributions of £ 27 million were made to the UK scheme (2018: £ 19.1 million) as a combination of the pre-existing asset backed funding plan and the revised funding arrangement described above which was implemented in December 2019.

Total contributions to all defined benefit pension schemes operated by the Group for the year to 31 December 2020 are estimated to be € 37 million.

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 2019 and 2018. The assumptions have been set based upon the advice of the Group's actuary.

Financial assumptions	2019 %	2018 %
Irish scheme		
Rate of increase of pensions in payment[1]	**0.00**	0.00
Discount rate	**1.42**	2.14
Inflation assumptions[2]	**1.05**	1.25
UK scheme		
Rate of increase of pensions in payment	**2.90**	3.20
Discount rate	**2.10**	2.90
Inflation assumptions (RPI)	**2.90**	3.20
Other schemes		
Rate of increase of pensions in payment	**0.00 – 2.90**	0.00 – 3.20
Discount rate	**1.40 – 3.15**	2.14 – 4.20
Inflation assumptions	**1.05 – 2.90**	1.25 – 3.20

[1]Having taken actuarial and external legal advice, the Board determined that the funding of discretionary increases in pensions in payment is a decision to be made by the Board annually. Accordingly, the long term rate of increases of pensions in payment is Nil. This does not reflect the ability of the Trustee to grant increases at any point in the future when the financial position of the scheme would enable such an increase at that point in time.

[2]The inflation assumption applies to the revaluation of deferred members' benefits up to their retirement date.

Notes to the consolidated financial statements

34 Retirement benefits *(continued)*

Funding of increases in pensions in payment for the Irish defined benefit schemes

The Board has determined that the funding of discretionary increases to pensions in payment is a decision to be made by the Board each year. A process, taking account of all relevant interests and factors has been implemented by the Board. These interests and factors include: the advice of the Actuary; the interests of the members of the scheme; the interests of the employees; the Group's financial circumstances and ability to pay; the views of the Trustees; the Group's commercial interests and any competing obligations to the State.

The Group completed this process early in 2020 taking account of all relevant factors and decided that the funding of discretionary increases was not appropriate for 2020.

In 2019, under this process, the Group agreed to provide a level of funding for discretionary increases in pensions in payment for 2019 for certain schemes. The Trustees of these schemes awarded an increase in the range of 0.5% to 0.6% in respect of pensions eligible for discretionary pension increases. This resulted in a past service cost of € 12 million in 2019.

As the decision to fund discretionary increases to pensions in payment is an annual process, the Board will go through this process again in early 2021 for 2021.

Mortality assumptions

The life expectancies underlying the value of the scheme liabilities for the Irish and UK schemes at 31 December 2019 and 2018 are shown in the following table:

		Life expectancy – years			
		Irish scheme		UK scheme	
		2019	2018	**2019**	2018
Retiring today age 63					
	Males	**25.2**	25.2	**25.0**	25.0
	Females	**27.1**	27.1	**26.7**	27.0
Retiring in 10 years at age 63					
	Males	**26.0**	26.0	**25.4**	25.8
	Females	**28.1**	28.1	**27.7**	27.9

The mortality assumptions for the Irish and UK schemes were updated in 2017 and 2019 respectively, to reflect emerging market experience. The table shows that a member of the Irish scheme retiring at age 63 on 31 December 2019 is assumed to live on average for 25.2 years for a male (25.0 years for the UK scheme) and 27.1 years for a female (26.7 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 2019 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.

34 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 2019 and 2018:

	2019				2018			
	Defined benefit obligation	Fair value of scheme assets	Asset ceiling/ minimum funding[1]	Net defined benefit (liabilities) assets	Defined benefit obligation	Fair value of scheme assets	Asset ceiling/ minimum funding[1]	Net defined benefit (liabilities) assets
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January	(5,323)	6,136	(621)	192	(5,694)	6,328	(538)	96
Included in profit or loss								
Past service cost	(12)	–		(12)	(12)	–		(12)
Settlement	3	(5)		(2)	–	–		–
Interest (cost) income	(119)	139	(14)	6	(120)	136	(11)	5
Administration costs	–	(3)		(3)	–	(1)		(1)
	(128)	131	(14)	(11)	(132)	135	(11)	(8)
Included in other comprehensive income								
Re-measurements gain/(loss):								
– Actuarial gain/(loss) arising from:								
– Experience adjustments	(9)	–		(9)	105	–		105
– Changes in demographic assumptions	2	–		2	6	–		6
– Changes in financial assumptions	(620)	–		(620)	145	–		145
– Return on scheme assets excluding interest income	–	332		332	–	(149)		(149)
– Asset ceiling/minimum funding adjustments			44	44			(72)	(72)
				(251)[2]				35[2]
Translation adjustment on non-euro schemes	(52)	58		6	6	(9)		(3)
	(679)	390	44	(245)	262	(158)	(72)	32
Other								
Contributions by employer	–	43		43	–	72		72
Benefits paid	226	(226)		–	241	(241)		–
	226	(183)		43	241	(169)		72
At 31 December	(5,904)	6,474	(591)	(21)	(5,323)	6,136	(621)	192

	31 December 2019 € m	31 December 2018 € m
Recognised on the statement of financial position as:		
Retirement benefit assets		
UK scheme	32	232
Other schemes	7	9
Total retirement benefit assets	39	241
Retirement benefit liabilities		
Irish scheme	–	–
EBS scheme	(35)	(29)
Other schemes	(25)	(20)
Total retirement benefit liabilities	(60)	(49)
Net pension (deficit)/surplus	(21)	192

[1] In recognising the net surplus or deficit on a pension scheme, the funded status of each scheme is adjusted to reflect any minimum funding requirement and any ceiling on the amount that the sponsor has a right to recover from a scheme.

[2] After tax € 188 million (2018: € 26 million), see page 290.

Notes to the consolidated financial statements

34 Retirement benefits *(continued)*

Scheme assets

The following table sets out an analysis of the scheme assets:

	2019 € m	2018 € m
Cash and cash equivalents	74	133
Equity instruments		
Quoted equity instruments:		
Basic materials	78	66
Consumer goods	134	115
Consumer services	151	134
Energy	125	129
Financials	294	253
Healthcare	179	162
Industrials	166	147
Technology	222	167
Telecoms	121	98
Utilities	58	42
Total quoted equity instruments	1,528	1,313
Unquoted equity instruments	13	12
Total equity instruments	1,541	1,325
Debt instruments		
Quoted debt instruments		
Corporate bonds	624	1,117
Government bonds	1,589	1,430
Total quoted debt instruments	2,213	2,547
Real estate[(1)(2)]	278	202
Derivatives	(28)	20
Investment funds		
Quoted investment funds		
Alternatives	25	24
Bonds	375	387
Cash	7	1
Equity	248	214
Fixed interest	114	103
Forestry	38	37
Liability driven	111	594
Multi-asset	122	215
Property	1	1
Total quoted investment funds	1,041	1,576
Total investment funds	1,041	1,576
Mortgage backed securities[(2)]	297	333
Insurance contracts	1,058[(3)]	–
Fair value of scheme assets at 31 December	**6,474**	6,136

[(1)]Located in Europe.
[(2)]A quoted market price in an active market is not available.
[(3)]For valuation see page 318.

34 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 2019.

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)	(190)	203	(46)	49
Inflation (0.25% movement)	51	(47)	46	(43)
Future mortality (1 year change in life expectancy)	118	(118)	40	41

Maturity of the defined benefit obligation

The weighted average duration of the Irish scheme at 31 December 2019 is 17 years and of the UK scheme at 31 December 2019 is 18 years.

Asset-liability matching strategies

The investment strategy of de-risking the Irish scheme continued during 2019 as there was a further increase in the level of bonds and liability matching assets. The scheme maintained its level of equities in a range of c. 30 to 32% (with an equity protection strategy in place).

The investment strategy of de-risking the UK scheme continued in 2019 when the Scheme entered into two insurance contracts with LGAS as described above (a pensioner buy-in contract in respect of the pensioner members and an APP contract in respect of the deferred members).

Other long term employee benefits

Includes additional benefits which the Group provides to employees who suffer prolonged periods of sickness, subject to the qualifying terms of the insurer. It provides for the partial replacement of income in event of illness or injury resulting in the employee's long term absence from work.

Furthermore, on the death of an employee before their normal retirement date, the Group has in place insurance policies to cover the additional financial costs to the Group under the terms of the defined benefit/defined contribution schemes.

In 2019, the Group contributed € 9 million (2018: € 9 million) towards insuring these benefits which are included in Operating expenses (note 13).

Notes to the consolidated financial statements

35 Deposits by central banks and banks

	2019 € m	2018 € m
Central Banks		
Borrowings – secured	294	279
– unsecured	178	175
	472	454
Banks		
Securities sold under agreements to repurchase	–	145
Other borrowings – unsecured	351	245
	351	390
	823	844
Amounts include:		
Due to associated undertakings	–	–

Securities sold under agreements to repurchase mature within six months and are secured by Irish Government bonds, other marketable securities and eligible assets. These agreements are completed under market standard Global Master Repurchase Agreements. There were no repurchase agreements outstanding at 31 December 2019 (2018: € 145 million).

Deposits by central banks and banks include cash collateral at 31 December 2019 of € 285 million (2018: € 177 million) received from derivative counterparties in relation to net derivative positions (note 46) and also from repurchase agreement counterparties.

Financial assets pledged

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:

	2019			2018		
	Central banks € m	Banks € m	Total € m	Central banks € m	Banks € m	Total € m
Total carrying value of financial assets pledged	1,452	17	1,469	1,689	200	1,889
Of which:						
Government securities	–	17	17	–	107	107
Other securities[1]	1,452	–	1,452	1,689	93	1,782

[1]The Group has issued covered bonds secured on pools of residential mortgages, through its subsidiaries, AIB Mortgage Bank and EBS Mortgage Finance. Securities, other than those issued to external investors, have been pledged as collateral in addition to other securities held by the Group.

36 Customer accounts

	2019 € m	2018 € m
Current accounts	40,283	36,853
Demand deposits	17,742	15,728
Time deposits	13,755	15,117
Securities sold under agreements to repurchase[1]	–	1
Other – non-controlling interests (note 44)	23	–
	71,803	67,699
Of which:		
Non-interest bearing current accounts	32,544	29,635
Interest bearing deposits, current accounts and short term borrowings	39,259	38,064
	71,803	67,699
Amounts include:		
Due to associated undertakings	208	253

[1]At 31 December 2018, the Group had pledged government investment securities with a fair value of € 1 million as collateral for these facilities (see note 46 for further information).

Customer accounts include cash collateral of € 89 million (2018: € 113 million) received from derivative counterparties in relation to net derivative positions (note 46).

At 31 December 2019, the Group's five largest customer deposits amounted to 1% (2018: 1%) of total customer accounts.

37 Lease liabilities

	2019 € m	2018 € m
At 31 December	429	–
Maturity analysis – contractual undiscounted cash flows:		
Not later than one year	61	–
Later than one year and not later than five years	193	–
Later than five years	281	–
Total undiscounted lease liabilities at end of year	535	–

Analysis of movements in lease liabilities	2019 € m
At 1 January (note 3)	465
Lease payments[1]	(72)
Interest expense[1]	13
Additions	23
Re-measurement	(2)
Foreign exchange translation adjustments	2
At 31 December	429

[1]Repayment of lease liabilities amount to € 59 million, i.e. lease payments net of interest expense.

Notes to the consolidated financial statements

37 Lease liabilities *(continued)*

On 1 January 2019, the Group implemented the requirements of IFRS 16 *Leases*, a new accounting standard which replaced IAS 17. Under IFRS 16, the lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at a rate based on the cost of funding. Under IAS 17, leases classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. The total of future minimum lease payments under non-cancellable operating leases at 31 December 2018 is set out in the following table:

	2018 € m
One year	65
One to two years	58
Two to three years	47
Three to four years	41
Four to five years	38
Over five years	156
Total	**405**

See note 3 for a reconciliation of the Group's operating lease obligations at 31 December 2018 to the lease obligations recognised on initial application of IFRS 16 at 1 January 2019.

38 Debt securities in issue

	2019 € m	2018 € m
Issued by AIB Group plc[1]		
Euro Medium Term Note Programme	1,750	1,000
Global Medium Term Note Programme	1,556	655
	3,306	1,655
Issued by subsidiaries		
Bonds and medium term notes:		
Euro Medium Term Note Programme	500	1,000
Bonds and other medium term notes	3,025	3,090
	3,525	4,090
	6,831	5,745

Analysis of movements in debt securities in issue

	2019 € m	2018 € m
At 1 January	5,745	4,590
Issued during the year[1]	1,640	1,651
Matured	(565)	(500)
Amortisation of discounts net of premiums	–	–
Exchange translation adjustments	11	4
At 31 December	6,831	5,745

[1]MREL

In April 2019, AIB Group plc issued US $ 1 billion Fixed-to-Floating Rate Notes maturing on 10 April 2025. The notes bear interest on the outstanding nominal amount as follows:

- Fixed rate period from (and including) the issue date 10 April 2019 to (but excluding) the optional redemption date 10 April 2024, at an interest rate of 4.263% per annum payable semi-annually on 10 April and 10 October each year;
- Floating rate period from (and including) the optional redemption date to (but excluding) the maturity date, at an interest rate of three month U.S. dollar LIBOR plus 187.4 bps per annum payable 10 July 2024, 10 October 2024, 10 January 2025 and the maturity date.

In May 2019, AIB Group plc issued € 750 million Senior Unsecured 1.250% Notes maturing on 28 May 2024. The notes bear interest on the outstanding nominal amount, payable annually in arrears on 28 May each year.

All issuances above by AIB Group plc are eligible to meet the Group's MREL requirements. These instruments are redeemable for tax or for regulatory reasons, subject to the permission of the relevant resolution authority.

39 Other liabilities

	2019 € m	2018 € m
Notes in circulation	213	313
Items in transit	94	65
Creditors	46	17
Fair value of hedged liability positions	113	64
Other[1]	403	428
	869	887

[1]Includes bank drafts € 153 million (2018: € 154 million), items in course of collection € 14 million (2018: € 79 million), the purchase of debt securities awaiting settlement € 38 million (2018: € 13 million).

40 Provisions for liabilities and commitments

	Onerous contracts € m	Legal claims € m	ROU[1] commit-ments € m	Other provisions € m	ECLs on loan commit-ments € m	ECLs on financial guarantee contracts € m	2019 Total € m
At 31 December 2018	65	39	–	57	25	33	219
Impact of adopting IFRS 16 at 1 January 2019 (note 3)	(3)	–	12	–	–	–	9
Restated balance at 1 January 2019	62	39	12	57	25	33	228
Transfers in	–	(1)	–	1	–	–	–
Charged to income statement	1[2]	6[2]	–	430[2]	13[3]	6[3]	456
Released to income statement	(1)[2]	(3)[2]	–	(8)[2]	(19)[3]	(16)[3]	(47)
Dilapidation provisions	–	–	2	–	–	–	2
Provisions utilised	(52)	(4)	–	(81)	–	–	(137)
Unwind of discount	–	–	1	–	–	–	1
At 31 December 2019	10	37	15	399	19	23	503[4]

	Liabilities and charges € m	Onerous contracts € m	Legal claims € m	Other provisions € m	ECLs on loan commit-ments € m	ECLs on financial guarantee contracts € m	2018 Total € m
At 31 December 2017	31	59	37	104	–	–	231
Impact of adopting IFRS 9 at 1 January 2018							
Reclassification	(31)	–	–	(1)	–	32	–
Re-measurement	–	–	–	–	16	20	36
Restated balance at 1 January 2018	–	59	37	103	16	52	267
Transfers out	–	–	–	–	–	(14)	(14)
Charged to income statement	–	89[2]	8[2]	85[2]	19[3]	6[3]	207
Released to income statement	–	(54)[2]	(4)[2]	(7)[2]	(10)[3]	(11)[3]	(86)
Provisions utilised	–	(29)	(2)	(124)	–	–	(155)
At 31 December 2018	–	65	39	57	25	33	219[4]

[1]Provisions for dilapidations included in measurement of right-of-use assets ('ROU').
[2]Included in 'Operating expenses' (note 13) within 'General and administrative expenses'.
[3]Included in 'Net credit impairment (charge)/writeback' (note 15), other than a credit of € 5 million (2018: a credit of € 2 million) which is included in 'Net (loss)/gain on derecognition of financial assets measured at amortised cost' (note 11).
[4]Excluding ECLs on loan commitments and financial guarantee contracts, the total provisions for liabilities and commitments expected to be settled within one year amount to € 380 million (31 December 2018: € 71 million).

Notes to the consolidated financial statements

40 Provisions for liabilities and commitments *(continued)*

(a) Other provisions

Includes the provisions for customer redress and related matters, other restitution provisions, and miscellaneous provisions.

Tracker Mortgage Examination

The provisions at 31 December 2019 for 'Customer redress and compensation', including payments arising on appeals, amounted to a) € 265 million in respect of tracker mortgage customers - the '06-09 who never had a tracker' cohort; and b) € 6 million (31 December 2018: € 10 million) for previously identified impacted accounts.

Following a complaint to the Financial Services and Pensions Ombudsman ("FSPO") by a customer from the '06-09 Ts & Cs who never had a tracker' cohort, the Group received a preliminary decision in January 2020 which upheld a claim for further redress due to this impacted customer.

The Group has considered this preliminary decision and recorded a provision of € 265 million based on an initial assessment of the likelihood that additional redress may be due to all customers in this cohort. The Group is continuing to engage and consider its position with regard to the impact of this preliminary decision and the methodology applied by the FSPO. There are a number of issues that need to be resolved. For further information see 'Critical accounting judgements and estimates' (note 2).

The provision of € 6 million for previously identified impacted accounts reflects the practical conclusion of impacted accounts and the ongoing appeals process. Provisions amounting to € 181 million were created in the period 2015 to 31 December 2019 (€ 11 million in the year to 31 December 2019). Over € 175 million of these provisions have now been utilised (€ 15 million in the year to 31 December 2019).

The provision at 31 December 2019 for 'Other costs' amounted to € 5 million (31 December 2018: € 5 million). Provisions amounting to € 94 million were created in the period 2015 to 31 December 2019 (€ 1 million in the year to 31 December 2019). Over € 89 million of these provisions have now been utilised (€ 1 million in the year to 31 December 2019).

In March 2018, AIB and EBS were advised by the CBI of the commencement of investigations as part of an administrative sanctions procedure in connection with the Tracker Mortgage Examination. The investigations relate to alleged breaches of the relevant consumer protection legislation, principally, regarding inadequate controls or instances where AIB or EBS acted with a lack of transparency, unfairly or without due skill and care. The investigations are ongoing and AIB and EBS are co-operating with the CBI.

In this regard, the Group created a provision of € 70 million for the impact of potential monetary penalties that is expected to be imposed on the Group by the CBI being its best estimate at this time. However, this matter is ongoing and the amount provided for is subject to uncertainty with a range of outcomes possible with the final outcome being higher or lower depending on finalisation of all matters associated with the investigation.

Further disclosures in relation to the wider impact of Tracker Mortgage Examination are contained in note 47: Memorandum items: contingent liabilities and commitments, contingent assets in the section 'Legal Proceedings'.

(b) Onerous contracts

Provisions for onerous contracts at 31 December 2019 amount to € 10 million and include the unavoidable cost of leases that the Group will exit in the short term.

At 31 December 2018, provisions for onerous contracts amounted to € 65 million. On initial application of IFRS 16 on 1 January 2019, € 3 million of this provision was transferred as an impairment provision against the right-of-use assets where the lease term was greater than 12 months (note 3).

41 Subordinated liabilities and other capital instruments

		2019 € m	2018 € m
Dated loan capital – European Medium Term Note Programmes:			
Issued by AIB Group plc			
€ 500 million Subordinated Tier 2 Notes due 2029, Callable 2024	(a)	**500**	–
Issued by subsidiaries			
€ 750 million Subordinated Tier 2 Notes due 2025, Callable 2020	(b)	**750**	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)	(c)	**10**	10
£ 368m 12.5% Subordinated Notes due June 2019			
– nominal value £ 79 million (maturity extended to 2035 as a result of the SLO)	(c)	**38**	34
£ 500m Callable Fixed/Floating Rate Notes due March 2025			
– nominal value £ 1 million (maturity extended to 2035 as a result of the SLO)	(c)	**1**	1
		799	795
		1,299	795

Maturity of dated loan capital	2019 € m	2018 € m
Dated loan capital outstanding is repayable as follows:		
5 years or more	**1,299**	795

Dated loan capital

The dated loan capital in this section is subordinated in right of payment to senior creditors, including depositors, of the respective issuing entities. Following the implementation in Ireland of the EU (Bank Recovery and Resolution) Regulations 2015, these notes are loss absorbing at the point of non-viability.

(a) € 500 million Subordinated Tier 2 Notes due 2029, Callable 2024

On 19 November 2019, AIB Group p.l.c. issued € 500 million Subordinated Tier 2 Notes due 2029, Callable 2024.

These notes mature on 19 November 2029 but may be redeemed in whole, but not in part, at the option of AIB Group p.l.c. on the optional redemption date on 19 November 2024, subject to the approval of the regulatory authorities, with approval being conditional on meeting the requirements of the EU Capital Requirements Regulation.

The notes bear interest on the outstanding nominal amount at a fixed rate of 1.875%, payable annually in arrears on 19 November each year. The interest rate will be reset on 19 November 2024 to Eur 5 year Mid Swap rate plus the initial margin of 215 basis points.

(b) € 750 million Subordinated Tier 2 Notes due 2025, Callable 2020

On 26 November 2015, Allied Irish Banks, p.l.c. issued € 750 million Subordinated Tier 2 Notes due 2025, Callable 2020.

These notes mature on 26 November 2025 but may be redeemed in whole, but not in part, at the option of Allied Irish Banks, p.l.c. on the optional redemption date on 26 November 2020, subject to the approval of the regulatory authorities, with approval being conditional on meeting the requirements of the EU Capital Requirements Regulation.

The notes 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.

(c) Other dated subordinated loan capital

Following the liability management exercises and the Subordinated Liabilities Order ("SLO") in 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 capital instruments. The original liabilities were derecognised and new liabilities were recognised, with their initial measurement based on the fair value at the SLO effective date. The contractual maturity date changed to 2035 as a result of the SLO, and payment of coupons became optional at the discretion of the Group. The Board of Allied Irish Banks, p.l.c. has considered the matter and as at the date of this report, the Group's position is that coupons are not paid on these instruments. These instruments will amortise to their nominal value in the period to their maturity in 2035.

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42 Share capital

	31 December 2019		31 December 2018	
	Number of shares	€	Number of shares	€
Authorised				
Ordinary share capital				
Subscriber Shares of € 0.625 each	–	–	40,000	25,000
Ordinary shares of € 0.625 each	4,000,000,000	2,500,000,000	4,000,000,000	2,500,000,000
Total	4,000,000,000	2,500,000,000	4,000,040,000	2,500,025,000
Issued and fully paid				
Ordinary share capital				
At 1 January	2,714,381,237	1,696,488,273	2,714,421,237	1,696,513,273
Redemption of Subscriber Shares of € 0.625 each	–	–	(40,000)	(25,000)
At 31 December	2,714,381,237	1,696,488,273	2,714,381,237	1,696,488,273

The table above is summarised as follows:

	31 December 2019		31 December 2018	
	Number of shares m	€ m	Number of shares m	€ m
Authorised				
Ordinary share capital				
Ordinary shares of € 0.625 each	4,000.0	2,500	4,000.0	2,500
Issued and fully paid				
Ordinary share capital				
Ordinary shares of € 0.625 each	2,714.4	1,696	2,714.4	1,696

2018

In November 2018, the Subscriber Shares were cancelled and redeemed at par.

2019

There were no movements in issued share capital during 2019.

Warrants

In 2017, AIB issued warrants to the Minister for Finance to subscribe for 271,166,685 ordinary shares of AIB representing 9.99% of the issued share capital. The exercise price for the warrants is 200% of the Offer Price of € 4.40 per ordinary share, the Offer Price being the price in euro per ordinary share which was payable under the IPO. This price may be adjusted in accordance with the terms of the Warrant Instrument and the warrants will be capable of exercise by the holder of the warrants during the period commencing on 27 June 2018 and ending on 27 June 2027.

In accordance with the terms of the Warrant Agreement, no cash consideration was payable by the Minister to AIB in respect of the issue of the warrants.

Structure of the Company's share capital

The following table shows the structure of the Company's share capital:

	31 December 2019		31 December 2018	
	Authorised share capital %	Issued share capital %	Authorised share capital %	Issued share capital %
Class of share				
Ordinary share capital	100	100	100	100

42 Share capital *(continued)*

Capital resources

The following table shows the Group's capital resources:

	31 December	
	2019 € m	2018 € m
Equity	**14,230**	13,858
Dated capital notes *(note 41)*	**1,299**	795
Total capital resources	**15,529**	14,653

43 Other equity interests

	2019 € m	2018 € m
At 1 January	**494**	494
Transferred to non-controlling interests	**(494)**	–
Additional Tier 1 Securities issued during year	**500**	–
Transaction costs	**(4)**	–
	496	–
At 31 December	**496**	494

AT1 securities (carrying value € 494 million) issued by Allied Irish Banks, p.l.c. in 2015 were classified as 'other equity interests' in the consolidated financial statements of the overall Group both before and after the corporate restructure in 2017.

During 2019, it was determined that these securities should more correctly be classified as 'non-controlling interests' in the AIB Group plc consolidated financial statements since they were issued by a subsidiary of AIB Group plc and are no longer attributable to the owners of the parent in the Group. This reclassification is considered not to be a material presentation error.

Additional Tier 1 Perpetual Contingent Temporary Write Down Securities

In 2019, AIB Group plc ('the Company') 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 the Group's capital base.

Interest on the securities, at a fixed rate of 5.250% per annum, is payable semi-annually in arrears on 9 April and 9 October, commencing on 9 April 2020. On the first reset date on 9 April 2025, in the event that the securities are not redeemed, interest will be reset to the relevant 5 year fixed rate plus a margin of 570.2 bps per annum. The interest payment is fully discretionary and non-cumulative and conditional upon the Company being solvent at the time of payment, having sufficient distributable reserves and not being required by the regulatory authorities to cancel an interest payment.

The securities are perpetual securities with no fixed redemption date. The Company may, in its sole and full discretion, subject to regulatory approval, redeem all (but not some only) of the securities on any day falling in the period commencing on (and including) 9 October 2024 and ending on (and including) the first reset date or on any interest payment date thereafter at the prevailing principal amount together with accrued but unpaid interest. In addition, the securities are redeemable at the option of the Company for certain regulatory or tax reasons, subject to regulatory approval.

The securities, which do not carry voting rights, rank pari passu with holders of other tier 1 instruments (excluding the Company's ordinary shares). They rank ahead of the holders of ordinary share capital of the Company but junior to the claims of senior creditors and to Tier 2 capital of the Company.

Following the implementation in Ireland of the EU (Bank Recovery and Resolution) Regulations 2015, these securities are loss absorbing at the point of non-viability.

Furthermore, if the CET1 ratio of the Group at any time falls below 7%, subject to certain conditions, the Company shall write down the AT1s by the write-down amount and irrevocably cancel any accrued and unpaid interest up to (but excluding) the write-down date. To the extent permitted, in order to comply with regulatory capital and other requirements, the Company may reinstate any previously written down amount.

Notes to the consolidated financial statements

44 Non-controlling interests in subsidiaries	2019 € m	2018 € m
At 1 January	–	–
Transferred from other equity interests – Additional Tier 1 Securities	494	–
Acquisition of subsidiary	1	–
Non-controlling interests share of net profit	37	–
Distributions paid on Additional Tier 1 Securities issued by subsidiary	(37)	–
At 31 December	495	–
Of which:		
Equity interests in subsidiary	1	–
Additional Tier 1 Securities	494	–

Additional Tier T 1 securities (carrying value € 494 million) issued by Allied Irish Banks, p.l.c. in 2015 were classified as 'other equity interests' in the consolidated financial statements of Group both before and after the corporate restructure in 2017 (note 43).

During 2019, it was determined that these securities should more correctly be classified as 'non-controlling interests' in the AIB Group plc consolidated financial statements since they were issued by a subsidiary of AIB Group plc and are no longer attributable to the owners of the parent in the Group. This reclassification is considered not to be a material presentation error.

(a) Additional Tier 1 Perpetual Contingent Temporary Write-down Securities

In 2015, Allied Irish Banks, p.l.c. issued € 500 million nominal value of Additional Tier 1 Perpetual Contingent Temporary Write-down Securities ('AT1s'). The securities, which are accounted for as non-controlling interests in the statement of financial position, are included in the Group's capital base.

Interest is payable semi-annually in arrears on 3 June and 3 December at a fixed rate of 7.375% per annum. 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%. The interest payment is fully discretionary and non-cumulative and conditional upon Allied Irish Banks, p.l.c. being solvent at the time of payment, having sufficient distributable reserves and not being required by the regulatory authorities to cancel an interest payment.

The securities are perpetual securities with no fixed redemption date. Allied Irish Banks, p.l.c. may, in its sole and full discretion, subject to regulatory approval, 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. In addition, the securities are redeemable at the option of Allied Irish Banks, p.l.c. 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 Allied Irish Banks, p.l.c. ordinary shares). They rank ahead of the holders of ordinary share capital of Allied Irish Banks, p.l.c. but junior to the claims of senior creditors and Tier 2 capital of Allied Irish Banks, p.l.c.

Following the implementation in Ireland of the EU (Bank Recovery and Resolution) Regulations 2015, these securities are loss absorbing at the point of non-viability.

Furthermore, if the CET1 ratio of Allied Irish Banks, p.l.c. or of the Group at any time falls below 7% (a Trigger Event) and is not in winding-up, subject to certain conditions AIB will 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, Allied Irish Banks, p.l.c. may reinstate any previously written down amount.

(b) Non-controlling interests in subsidiary undertaking

Augmentum Limited with issued share capital of 619,761 ordinary shares of € 1.25 each, is 75% owned by AIB and 25% owned by First Data Global Services Limited. Augmentum Limited, in turn, holds 96.77% of the equity share capital of Semeral Limited with non-controlling interests holding the residual (note 31).

Semeral/Payzone place of business: 4 Heather Road, Sandyford Industrial Estate, Dublin 18.

For details, see note 31.

45 Capital reserves, merger reserve and capital redemption reserves

	2019			2018		
Capital reserves	**Capital contribution reserves € m**	**Other capital reserves € m**	**Total € m**	Capital contribution reserves € m	Other capital reserves € m	Total € m
At beginning and end of year	**955**[1]	**178**	**1,133**	955[1]	178	1,133

[1]Relates to the acquisition of EBS d.a.c.

For details regarding the capital contribution reserves, refer to accounting policy (aa) in note 1.

Merger reserve	**2019 € m**	2018 € m
At beginning and end of year	**(3,622)**	(3,622)

For details regarding merger reserve, refer to accounting policy (aa) in note 1.

Capital redemption reserve	**2019 € m**	2018 € m
At beginning and end of year	**14**	14

46 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 advances 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 € 575 million at 31 December 2019 (2018: € 325 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 CSAs in place provide collateral for derivative contracts. At 31 December 2019, € 643 million (2018: € 609 million) of CSAs are included within financial assets and € 347 million (2018: € 266 million) of CSAs are included within financial liabilities.

Notes to the consolidated financial statements

46 Offsetting financial assets and financial liabilities *(continued)*

The following table shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements at 31 December 2019 and 2018:

							2019
					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	23	1,131	–	1,131	(575)	(268)	288
Loans and advances to banks –							
Reverse repurchase agreements	24	5,116	(4,965)	151	(151)	(21)	(21)
Loans and advances to customers –							
Reverse repurchase agreements	25	87	–	87	(86)	–	1
Total		6,334	(4,965)	1,369	(812)	(289)	268

							2019
					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	4,965	(4,965)	–	–	–	–
Customer accounts –							
Securities sold under agreements to repurchase	36	–	–	–	–	–	–
Derivative financial instruments	23	1,181	–	1,181	(575)	(564)	42
Total		6,146	(4,965)	1,181	(575)	(564)	42

46 Offsetting financial assets and financial liabilities *(continued)*

2018

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	Related amounts not offset in the statement of financial position: Financial instruments € m	Related amounts not offset in the statement of financial position: Financial collateral (including cash collateral) received € m	Net amount € m
Derivative financial instruments	23	586	–	586	(325)	(201)	60
Loans and advances to banks –							
Reverse repurchase agreements	24	3,500	(3,500)	–	–	–	–
Total		4,086	(3,500)	586	(325)	(201)	60

2018

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	Related amounts not offset in the statement of financial position: Financial instruments € m	Related amounts not offset in the statement of financial position: Financial collateral (including cash collateral) pledged € m	Net amount € m
Deposits by central banks and banks –							
Securities sold under agreements to repurchase	35	3,645	(3,500)	145	(157)	(16)	(28)
Customer accounts –							
Securities sold under agreements to repurchase	36	1	–	1	(1)	–	–
Derivative financial Instruments	23	875	–	875	(325)	(544)	6
Total		4,521	(3,500)	1,021	(483)	(560)	(22)

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 advances to banks – amortised cost;
- loans and advances to customers – amortised cost;
- deposits by central banks and banks – amortised cost; and
- customer accounts – amortised cost.

Notes to the consolidated financial statements

46 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 2019 and 2018:

				2019
Financial assets	**Net amounts of financial assets presented in the statement of financial position € m**	**Line item in statement of financial position**	**Carrying amounts in statement of financial position € m**	**Financial assets not in scope of offsetting disclosures € m**
Derivative financial instruments	**1,131**	Derivative financial instruments	**1,271**	**140**
Loans and advances to banks –				
Reverse repurchase agreements	**151**	Loans and advances to banks	**1,478**	**1,327**
Loans and advances to customers –				
Reverse repurchase agreements	**87**	Loans and advances to customers	**60,888**	**60,801**

				2019
Financial liabilities	**Net amounts of financial liabilities presented in the statement of financial position € m**	**Line item in statement of financial position**	**Carrying amounts in statement of financial position € m**	**Financial liabilities not in scope of offsetting disclosures € m**
Deposits by central banks and banks –				
Securities sold under agreement to repurchase	**–**	Deposits by central banks and banks	**823**	**823**
Customer accounts –				
Securities sold under agreement to repurchase	**–**	Customer accounts	**71,803**	**71,803**
Derivative financial instruments	**1,181**	Derivative financial instruments	**1,197**	**16**

				2018
Financial assets	Net amounts of financial assets presented in the statement of financial position € m	Line item in statement of financial position	Carrying amounts in statement of financial position € m	Financial assets not in scope of offsetting disclosures € m
Derivative financial instruments	586	Derivative financial instruments	900	314
Loans and advances to banks –				
Reverse repurchase agreements	–	Loans and advances to banks	1,443	1,443
Loans and advances to customers –				
Reverse repurchase agreements	–	Loans and advances to customers	60,868	60,868

				2018
Financial liabilities	Net amounts of financial liabilities presented in the statement of financial position € m	Line item in statement of financial position	Carrying amounts in statement of financial position € m	Financial liabilities not in scope of offsetting disclosures € m
Deposits by central banks and banks –				
Securities sold under agreement to repurchase	145	Deposits by central banks and banks	844	699
Customer accounts –				
Securities sold under agreement to repurchase	1	Customer accounts	67,699	67,698
Derivative financial instruments	875	Derivative financial instruments	934	59

47 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 table gives the nominal or contract amounts of contingent liabilities and commitments:

	Contract amount	
	2019 € m	2018 € m
Contingent liabilities[1] – credit related		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	**596**	627
Other contingent liabilities	**115**	153
	711	780
Commitments[2]		
Documentary credits and short term trade-related transactions	**84**	91
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year[3]	**8,129**	7,932
1 year and over[4]	**3,326**	3,084
	11,539	11,107
	12,250	11,887

[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]An original maturity of more than 1 year.

For details of the internal credit ratings and geographic concentration of contingent liabilities and commitments, see pages 120 and 129 in the 'Risk management' section of this report.

Provisions for ECLs on loan commitments and financial guarantee contracts are set out in note 40.

Notes to the consolidated financial statements

47 Memorandum items: contingent liabilities and commitments, and contingent assets *(continued)*

Legal proceedings

The 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 Group is aware, (other than as set out in the following paragraphs), pending or threatened by or against the 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 the Group.

Specifically, litigation has been served on the Group by customers that are pursuing claims in relation to tracker mortgages. Customers have also lodged complaints to the Financial Services and Pensions Ombudsman ("FSPO") in relation to tracker mortgages issues. In relation to one of these complaints, the FSPO has recently issued a preliminary decision which upheld a claim by a customer for further redress – see 'Critical accounting judgements and estimates' (note 2).

Further claims may also be served in the future in relation to tracker mortgages. The Group will also receive further decisions by the FSPO in relation to complaints concerning tracker mortgages.

Based on the facts currently known and the current stages that the litigation and the FSPO's complaints process are at, it is not practicable at this time to predict the final outcome of this litigation/FSPO complaints, nor the timing and possible impact on the Group.

Contingent liability/contingent asset – NAMA

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.

Participation in TARGET 2 – Ireland

AIB participates in the TARGET 2 – Ireland system, the Irish component of TARGET 2, which is the real time gross settlement system for large volume interbank payments in euro. The following disclosures relate to charges provided by AIB to secure its payment obligations arising from participation in TARGET 2.

On 15 February 2008, AIB executed a deed of charge pursuant to which it created a first floating charge in favour of the Central Bank of Ireland (Central Bank) over all of its right, title, interest and benefit, present and future, in and to the balances then or at any time standing to the accounts held by AIB with any Eurosystem central bank for the purpose of participation in TARGET 2.

In addition, AIB and the Central Bank entered into a Framework Agreement in respect of Eurosystem Operations (dated 7 April 2014), which include the credit line facility for intra-day credit in TARGET 2-Ireland. In order to secure its obligations under the Framework Agreement, AIB executed a deed of charge (dated 7 April 2014). Pursuant to the deed, AIB created a first fixed charge in favour of the Central Bank over all of its right, title, interest and benefit, present and future, in and to eligible assets (as identified as such by the Central Bank) which are held in a designated collateral account.

Both deeds of charge contain provisions that 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 property subject to the floating charge 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.

In addition, under the 2014 charge, AIB undertakes not to sell, transfer, lend or otherwise dispose of or deal in the assets subject to the fixed charge or any part thereof or, in each case, 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 Subsidiaries and consolidated structured entities

The material Group subsidiary companies at 31 December 2019 and 2018 are:

Name of company	Principal activity	Place of incorporation	Registered Office
Allied Irish Banks, p.l.c.	A direct subsidiary of AIB Group plc and the principal operating company of the Group and holds the majority of the subsidiaries within the Group. Its activities include banking and financial services – a licensed bank	Ireland	Bankcentre, Ballsbridge, Dublin 4, Ireland.
AIB Mortgage Bank	Issue of mortgage covered securities – a licensed bank	Ireland	Bankcentre, Ballsbridge, Dublin 4, Ireland.
EBS d.a.c.	Mortgages and savings – a licensed bank	Ireland	The EBS Building, 2 Burlington Road, Dublin 4, Ireland.
AIB Group (UK) p.l.c. trading as Allied Irish Bank (GB) in Great Britain and AIB (NI) in Northern Ireland	Banking and financial services – a licensed bank	Northern Ireland	92 Ann Street, Belfast BT1 3HH.

The proportion of ownership interest and voting power held by AIB Group plc in Allied Irish Banks, p.l.c. is 100%. All subsidiaries of Allied Irish Banks, p.l.c., being the immediate subsidiary of AIB Group plc, are wholly owned apart from Augmentum Limited in which there are non-controlling interests (note 44). Practically all subsidiaries in the Group are involved in the provision of financial services or ancillary services.

Significant restrictions

Each of the subsidiaries listed above which is a licensed bank is required by its respective financial regulator to maintain capital ratios above a certain minimum level. These minimum ratios restrict the payment of dividend by the subsidiary and, where the ratios fall below the minimum requirement, will require the parent company to inject capital to make up the shortfall.

Consolidated structured entities

The Group has acted as sponsor and invested in a number of special purpose entities ("SPEs") 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 SPEs are consolidated by the Group:

- Emerald Mortgages No. 5 d.a.c. (liquidator appointed in 2019);
- Mespil 1 RMBS d.a.c (liquidator appointed in 2019);
- AIB PFP Scottish Limited Partnership.

The liquidation of Emerald Mortgages No. 4 Public Limited Company was completed in 2019.

Further details on these SPEs are set out in note 49.

There are no contractual arrangements that could require AIB Group plc or its subsidiaries to provide financial support to the consolidated structured entities listed above. During the year, neither AIB Group plc 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 interests in unconsolidated structured entities.

Notes to the consolidated financial statements

49 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 principal forms of SPE utilised by the Group are securitisations and employee compensation trusts.

Securitisations

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

- as an investor, the Group has primarily been an investor in securitisations issued by other credit institutions as part of the management of its interest rate and liquidity risks through the Treasury function;
- 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.

The Group controls certain special purpose entities which were set up to support its funding activities. Details of these special purpose entities are set out below under the heading 'Special purpose entities'. The Group 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 is included in trading income.

Employee compensation trusts

The Group 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. All outstanding shares held by Trustees were disposed of during 2018.

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 IFRS 9 *Financial Instruments:*

(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 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 transaction. A fee is generated for the Group under this transaction.

49 Off-balance sheet arrangements and transferred financial assets *(continued)*

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 held by external investors 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 € 11.9 billion, internal Group companies hold € 8.9 billion which are eliminated on consolidation.

Special purpose entities

Securitisations are transactions in which the Group sells loans and advances to customers (mainly mortgages) to special purpose entities ("SPEs"), which, in turn, issue notes to external investors. The notes issued by the SPEs are on terms which result in the Group retaining the majority of ownership risks and rewards and therefore, the loans continue to be recognised in 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). 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.

Arising from the acquisition of EBS on 1 July 2011, the Group took control of three special purpose entities which had previously been set up by EBS: Emerald Mortgages No. 4 Public Limited Company; Emerald Mortgages No. 5 d.a.c.; and Mespil 1 RMBS d.a.c.

Emerald Mortgages No. 4 Public Limited Company

The liquidation of this company was completed in 2019.

Emerald Mortgages No. 5 d.a.c.

The total carrying amount of original residential mortgages transferred by EBS d.a.c. to Emerald Mortgages No.5 d.a.c. ('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 2019 is Nil (2018: € 967 million). Bonds were issued by Emerald 5 to EBS d.a.c. but these were not shown in the Group's financial statements as they were eliminated on consolidation. The Emerald 5 mortgage portfolio was repurchased on 31 July 2019 and outstanding bonds were redeemed on 15 August 2019. A liquidator was appointed to the company on 11 December 2019.

Mespil 1 RMBS d.a.c.

The total carrying amount of secured loans that the Group has recognised at 31 December 2019 is Nil (2018: € 636 million) in relation to the transfers from EBS d.a.c. and Haven Mortgages Limited to Mespil 1 RMBS d.a.c. The bonds issued by Mespil 1 RMBS d.a.c. to EBS d.a.c. are not shown in the Group's financial statements, as these bonds were eliminated on consolidation. The Mespil mortgage portfolio was repurchased on 31 October 2019 and the bonds were redeemed on 22 November 2019. A liquidator was appointed to the company on 5 December 2019.

Notes to the consolidated financial statements

49 Off-balance sheet arrangements and transferred financial assets *(continued)*

The following table summarises as at 31 December 2019 and 2018, the carrying value and fair value of financial assets which did not qualify for derecognition together with their associated financial liabilities:

					2019
	Carrying amount of transferred assets € m	Carrying amount of associated liabilities € m	Fair value of transferred assets € m	Fair value of associated liabilities € m	Net fair value position € m
Sale and repurchase agreements/similar products	5,222[1][2]	–[1]	5,222	–	5,222
Covered bond programmes					
Residential mortgage backed	4,599[3]	3,025[4]	4,698	3,104	1,594

					2018
	Carrying amount of transferred assets € m	Carrying amount of associated liabilities € m	Fair value of transferred assets € m	Fair value of associated liabilities € m	Net fair value position € m
Sale and repurchase agreements/similar products	3,285[1][2]	146[1]	3,285	146	3,139
Covered bond programmes					
Residential mortgage backed	4,298[3]	3,090[4]	4,234	3,183	1,051

[1]See notes 35 and 36.
[2]Includes € 5,205 million of assets pledged in relation to securities lending arrangements (2018: € 3,084 million).
[3]The asset pools of € 18 billion (2018: € 18 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 the Group companies. The € 4,599 million (2018: € 4,298 million) above refers to those assets apportioned to external investors.
[4]Included in 'Bonds and other medium term notes' issued by subsidiaries (note 38).

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 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 per annum from 2016 until 2032, with a potential termination payment in 2032 of up to £ 60 million. Following the approval of the 2017 triennial valuation in May 2019, the annual payments were set at £ 15 million per annum, commencing 1 January 2019. However, this funding plan was replaced in December 2019, as part of the de-risking of the UK Scheme (note 34), with annual payments set at £ 18.5 million for five years from 1 January 2020 to 31 December 2024, and a final additional payment of £ 31 million expected in 2024.

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 the 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 the 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 the Group.

49 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 advances previously transferred at fair value from the Group. The loans and advances 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 advances transferred. Under the servicing agreement, the Group subsidiary company collects the cash flows on the transferred loans and advances 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 advances 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 2019, the Group recognised € 0.7 million (cumulative € 7.6 million) (2018: € 0.8 million (cumulative € 6.9 million)) in the income statement for the servicing of the loans and advances 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 exposure to loss, if any, 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 advances 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 2019, the Group recognised € 3 million (cumulative € 94 million) (2018: € 3 million (cumulative € 91 million)) in the income statement for the servicing of financial assets transferred to NAMA.

Notes to the consolidated financial statements

50 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 in note 1 (l) and financial liabilities in note 1 (m), 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 measurement category and by statement of financial position heading at 31 December 2019 and 2018.

							2019
	At fair value through profit or loss	At fair value through other comprehensive income			At amortised cost		Total
	Mandatorily	Debt investments	Equity investments	Cash flow hedge derivatives	Loans and advances	Other	
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets							
Cash and balances at central banks	–	–	–	–	11,323	659[1]	11,982
Items in course of collection	–	–	–	–	57	–	57
Derivative financial instruments	783[2]	–	–	488	–	–	1,271
Loans and advances to banks	–	–	–	–	1,478	–	1,478
Loans and advances to customers	77	–	–	–	60,811	–	60,888
Investment securities	357	15,881	458	–	–	635	17,331
Other financial assets	–	–	–	–	–	890	890
	1,217	15,881	458	488	73,669	2,184	93,897
Financial liabilities							
Deposits by central banks and banks	–	–	–	–	–	823	823
Customer accounts	–	–	–	–	–	71,803	71,803
Derivative financial instruments	1,074[3]	–	–	123	–	–	1,197
Debt securities in issue	–	–	–	–	–	6,831	6,831
Subordinated liabilities and other capital instruments	–	–	–	–	–	1,299	1,299
Other financial liabilities	–	–	–	–	–	1,004	1,004
	1,074	–	–	123	–	81,760	82,957

							2018
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets							
Cash and balances at central banks	–	–	–	–	5,908	608[1]	6,516
Items in course of collection	–	–	–	–	73	–	73
Derivative financial instruments	656[2]	–	–	244	–	–	900
Loans and advances to banks	–	–	–	–	1,443	–	1,443
Loans and advances to customers	147	–	–	–	60,721	–	60,868
Investment securities	260	15,946	468	–	–	187	16,861
Other financial assets	–	–	–	–	–	640	640
	1,063	15,946	468	244	68,145	1,435	87,301
Financial liabilities							
Deposits by central banks and banks	–	–	–	–	–	844	844
Customer accounts	–	–	–	–	–	67,699	67,699
Derivative financial instruments	738[3]	–	–	196	–	–	934
Debt securities in issue	–	–	–	–	–	5,745	5,745
Subordinated liabilities and other capital instruments	–	–	–	–	–	795	795
Other financial liabilities	–	–	–	–	–	1,075	1,075
	738	–	–	196	–	76,158	77,092

[1]Comprises cash on hand.

[2]Held for trading € 592 million (2018: € 517 million) and fair value hedges € 191 million (2018: € 139 million).

[3]Held for trading € 771 million (2018: € 534 million) and fair value hedges € 303 million (2018: € 204 million).

51 Fair value of financial instruments

The term 'financial instruments' includes both financial assets and financial liabilities. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The Group's accounting policy for the 'determination of fair value of financial instruments' is set out in accounting policy number 1 (o).

The valuation of financial instruments, including loans and advances, involves the application of judgement and estimation. Market and credit risks are key assumptions in the estimation of the fair value of loans and advances. The Group 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; and

Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable market inputs.

All financial instruments are initially recognised at fair value. Financial instruments held for trading, those whose contractual terms do not give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI"), and financial instruments in fair value hedge relationships are subsequently measured at fair value through profit or loss. Financial assets in a held-to-collect-and-sell business model which pass the SPPI test and cash flow hedge derivatives are subsequently measured at fair value through other comprehensive income ('FVOCI').

All valuations are carried out within the Finance function and valuation methodologies are validated by the independent Risk function within the Group.

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 2019.

The methods used for calculation of fair value in 2019 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. The combination of CVA and FVA is referred to as XVA.

CVA is calculated as: Expected positive exposure ("EPE") multiplied by probability of default ("PD") multiplied by loss given default ("LGD"). EPE profiles are generated at a counterparty netting set through simulation. PDs are derived from market based credit default swaps ("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 the valuation of offsetting security, where applicable. For unsecured counterparties, an LGD of 60% is applied (2018: 60%).

Notes to the consolidated financial statements

51 Fair value of financial instruments *(continued)*

FVA is calculated as: Expected exposure ("EE") multiplied by funding spread ("SF") multiplied by counterparty survival probability (1-PD). EE profiles (net of expected positive and negative exposures) are generated at a counterparty netting set through simulation. Funding spreads used are an average implied by CDSs for the Group's most active external derivative counterparties. The rationale in applying these spreads 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 352. 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 a downgrade in the CDS of the reference entities used to derive funding spreads.

Investment securities

The fair value of investment securities 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.

Loans and advances 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 and taking credit risk into account.

In addition to the assumptions set out above under valuation techniques regarding cash flows and discount rates, a key assumption for loans and advances 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.

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.

The majority of loans and advances to customers are held at amortised cost, however, the Group has a small number of loans and advances which are required to be measured at fair value through profit or loss ('FVTPL') having failed the SPPI test. The valuation techniques used apply equally to those held at FVTPL and those held at amortised cost.

Financial instruments not measured at fair value but with fair value information presented separately in the notes to the financial statements

Loans and advances to banks

The fair value of loans and advances 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 advances to customers at amortised cost

See methodology above under the heading 'Loans and advances to customers'.

51 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.

Subordinated liabilities and 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 (including amounts awaiting settlement and accounts payable). 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 47. 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 table on the following pages sets out the carrying amount and fair value of financial instruments across the three levels of the fair value hierarchy at 31 December 2019 and 2018:

Notes to the consolidated financial statements

51 Fair value of financial instruments *(continued)*

					2019
	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					
Derivative financial instruments:					
Interest rate derivatives	1,230	–	783	447	1,230
Exchange rate derivatives	36	–	36	–	36
Equity derivatives	5	–	5	–	5
Loans and advances to customers at FVTPL	77	–	–	77	77
Investment debt securities at FVOCI:					
Government securities	7,046	7,046	–	–	7,046
Supranational banks and government agencies	1,034	1,034	–	–	1,034
Asset backed securities	328	237	91	–	328
Bank securities	6,997	6,997	–	–	6,997
Corporate securities	476	476	–	–	476
Equity investments at FVOCI	458	–	–	458	458
Equity investments at FVTPL	357	46	–	311	357
	18,044	15,836	915	1,293	18,044
Financial assets not measured at fair value					
Cash and balances at central banks	11,982	659[1]	11,323	–	11,982
Items in the course of collection	57	–	–	57	57
Loans and advances to banks	1,478	–	468	1,010	1,478
Loans and advances to customers:					
Mortgages[2]	30,972	–	–	30,890	30,890
Non-mortgages	29,839	–	–	29,943	29,943
Total loans and advances to customers	60,811	–	–	60,833	60,833
Investment debt securities measured at amortised cost	635	45	–	590	635
Other financial assets	890	–	–	890	890
	75,853	704	11,791	63,380	75,875
Financial liabilities measured at fair value					
Derivative financial instruments:					
Interest rate derivatives	998	–	892	106	998
Exchange rate derivatives	180	–	180	–	180
Equity derivatives	6	–	6	–	6
Credit derivatives	13	–	12	1	13
	1,197	–	1,090	107	1,197
Financial liabilities not measured at fair value					
Deposits by central banks and banks:					
Other borrowings	529	–	178	351	529
Secured borrowings	294	–	294	–	294
Customer accounts:					
Current accounts	40,283	–	–	40,283	40,283
Demand deposits	17,742	–	–	17,742	17,742
Time deposits	13,778	–	–	13,813	13,813
Debt securities in issue	6,831	7,060	36	–	7,096
Subordinated liabilities and other capital instruments	1,299	1,281	84	–	1,365
Other financial liabilities	1,004	–	–	1,004	1,004
	81,760	8,341	592	73,193	82,126

[1]Comprises cash on hand.

[2]Includes residential and commercial mortgages.

51 Fair value of financial instruments *(continued)*

					2018
	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					
Derivative financial instruments:					
Interest rate derivatives	848	–	489	359	848
Exchange rate derivatives	38	–	38	–	38
Equity derivatives	14	–	14	–	14
Loans and advances to customers at FVTPL	147	–	–	147	147
Investment debt securities at FVOCI:					
Government securities	8,361	8,361	–	–	8,361
Supranational banks and government agencies	1,132	1,132	–	–	1,132
Asset backed securities	367	284	83	–	367
Bank securities	5,822	5,755	67	–	5,822
Corporate securities	264	224	31	9	264
Equity investments at FVOCI	468	–	–	468	468
Equity investments at FVTPL	260	23	1	236	260
	17,721	15,779	723	1,219	17,721
Financial assets not measured at fair value					
Cash and balances at central banks	6,516	608[1]	5,908	–	6,516
Items in the course of collection	73	–	–	73	73
Loans and advances to banks	1,443	–	589	854	1,443
Loans and advances to customers:					
Mortgages[2]	31,715	–	–	30,656	30,656
Non-mortgages	29,006	–	–	29,095	29,095
Total loans and advances to customers	60,721	–	–	59,751	59,751
Investment debt securities measured at amortised cost	187	–	–	184	184
Other financial assets	640	–	–	640	640
	69,580	608	6,497	61,502	68,607
Financial liabilities measured at fair value					
Derivative financial instruments:					
Interest rate derivatives	901	–	779	122	901
Exchange rate derivatives	24	–	24	–	24
Equity derivatives	5	–	5	–	5
Credit derivatives	4	–	4	–	4
	934	–	812	122	934
Financial liabilities not measured at fair value					
Deposits by central banks and banks:					
Other borrowings	420	–	175	245	420
Secured borrowings	424	–	274	145	419
Customer accounts:					
Current accounts	36,853	–	–	36,853	36,853
Demand deposits	15,728	–	–	15,728	15,728
Time deposits	15,117	–	–	15,146	15,146
Securities sold under agreements to repurchase	1	–	–	1	1
Debt securities in issue	5,745	5,717	101	–	5,818
Subordinated liabilities and other capital instruments	795	762	76	–	838
Other financial liabilities	1,075	–	–	1,075	1,075
	76,158	6,479	626	69,193	76,298

[1]Comprises cash on hand.
[2]Includes residential and commercial mortgages.

Notes to the consolidated financial statements

51 Fair value of financial instruments *(continued)*

Significant transfers between Level 1 and Level 2 of the fair value hierarchy

There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy for the years ended 31 December 2019 and 2018.

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:

								2019
	Financial assets						Financial liabilities	
	Derivatives	Investment securities		Loans and advances at FVTPL	Equities at FVTPL	Total	Derivatives	Total
		Debt	Equities at FVOCI					
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2019	359	9	468	147	236	1,219	122	122
Transfers into/out of level 3[1]	–	(9)	–	–	1	(8)	–	–
Total gains or (losses) in:								
Profit or loss:								
Net trading income	88	–	–	–	–	88	(15)	(15)
Net change in FVTPL	–	–	–	66	72	138	–	–
	88	–	–	66	72	226	(15)	(15)
Other comprehensive income:								
Net change in fair value of investment securities	–	–	(10)	–	–	(10)	–	–
Net change in fair value of cash flow hedges	–	–	–	–	–	–	–	–
	–	–	(10)	–	–	(10)	–	–
Purchases/additions	–	–	–	5	26	31	–	–
Sales/disposals	–	–	–	(54)	(24)	(78)	–	–
Cash received:								
Principal	–	–	–	(87)	–	(87)	–	–
At 31 December 2019	447	–	458	77	311	1,293	107	107
								2018
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 31 December 2017	427	–	662	–	–	1,089	119	119
IFRS 9 transition adjustments at 1 January 2018	–	–	(196)	156	196	156	–	–
Total gains or (losses) in:								
Profit or loss:								
Net trading income	(68)	–	–	–	–	(68)	3	3
Net change in FVTPL	–	–	–	105	41	146	–	–
	(68)	–	–	105	41	78	3	3
Other comprehensive income:								
Net change in fair value of investment securities	–	–	2	–	–	2	–	–
Net change in fair value of cash flow hedges	–	–	–	–	–	–	–	–
	–	–	2	–	–	2	–	–
Purchases/additions	–	9	–	32	21	62	–	–
Sales/disposals	–	–	–	(53)	(22)	(75)	–	–
Cash received:								
Principal	–	–	–	(93)	–	(93)	–	–
At 31 December 2018	359	9	468	147	236	1,219	122	122

[1]Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred. There were no transfers into/out of Level 3 during 2018.

51 Fair value of financial instruments *(continued)*

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 2019 and 2018:

	2019 € m	2018 € m
Net trading income – gains	155	40
Gains on equity investments at FVTPL	70	41
Gains on loans and advances at FVTPL	1	22
	226	103

Significant unobservable inputs

The table below sets out information about significant unobservable inputs used in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

	Fair value					Range of estimates	
Financial instrument		2019 € m	2018 € m	Valuation technique	Significant unobservable input	31 December 2019	31 December 2018
Uncollateralised customer derivatives	Asset	447	359	CVA	LGD	43% – 63% (Base 53%)	43% – 67% (Base 54%)
	Liability	107	122				
					PD	0.2% – 0.7% (Base 0.4%, 1 year PD)	0.4% – 1.1% (Base 0.7%, 1 year PD)
				FVA	Funding spreads	(0.2%) to 0.3%	(0.3%) to 0.6%
NAMA subordinated bonds	Asset	458	468	Discounted cash flows	Discount rate	1% – 4% (Base 1.94%)	1% – 5% (Base 2.49%)
Visa Inc. Series B Preferred Stock	Asset	171	109	Quoted market price (to which a discount has been applied)	Final conversion rate	0% – 75%	0% – 80%
Loans and advances to customers measured at FVTPL	Asset	77	147	Discounted cash flows*	Discount on market value	(1%) – 7%	0% – 6%
				Collateral values	Collateral changes	n/a	(3%) – 12%

*Expected cash flows discounted at market rates, taking into consideration the fair value of collateral where relevant.

Uncollateralised customer derivatives

The fair value measurement sensitivity to unobservable inputs at 31 December 2019 ranges from (i) negative € 29 million to positive € 14 million for CVA (31 December 2018: negative € 35 million to positive € 19 million) and (ii) negative € 7 million to positive € 5 million for FVA (31 December 2018: negative € 10 million to positive € 5 million).

A number of other derivatives are subject to valuation methodologies which use unobservable inputs. As the variability of the valuation is not greater than € 1 million in any individual case or collectively, the detail is not disclosed here.

NAMA subordinated bonds

The fair value measurement sensitivity to unobservable discount rates ranges from negative € 2 million to positive € 1 million at 31 December 2019 (31 December 2018: negative € 14 million to positive € 9 million).

Visa Inc. Series B Preferred Stock

In June 2016, the Group received Series B Preferred Stock in Visa Inc. with a fair value of € 65 million as part consideration for its holding of shares in Visa Europe. 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. In addition, the stock, being denominated in US dollars, is subject to foreign exchange risk.

- **Valuation technique:** Quoted market price of Visa Inc. Class A Common Stock to which a discount has been applied for the illiquidity and the conversion rate variability of the preferred stock of Visa Inc. 41% haircut (2018: 45%). This was converted at the year end exchange rate.
- **Unobservable input:** Final conversion rate of Visa Inc. Series B Preferred Stock into Visa Inc. Class A Common Stock.
- **Range of estimates:** Estimates range from (a) no discount for conversion rate variability with a discount for illiquidity only; to (b) 75% discount for conversion rate variability.

Notes to the consolidated financial statements

51 Fair value of financial instruments *(continued)*

Loans and advances to customers measured at FVTPL

The fair value measurement sensitivity to unobservable collateral values and interest rates ranges from negative € 1 million to positive € 5 million at 31 December 2019 (31 December 2018: negative € 2 million to positive € 13 million).

Fair value is applied in respect of secondary facilities arising on restructured loans subject to forbearance measures, on the likelihood that additional cash flows, in excess of their primary facilitates, will be received from customers. Given the significant uncertainty with regard to such cash flows, the Group does not attribute a fair value unless it is reasonably certain that this value will be realised.

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 at 31 December 2019 and 2018:

	2019			
	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	19	(37)	–	–
Investment securities – equity	46[1]	(99)[1]	1	(2)
Loans and advances to customers measured at FVTPL	5	(1)	–	–
Total	70	(137)	1	(2)
Classes of financial liabilities				
Derivative financial liabilities	–	–	–	–
Total	–	–	–	–

	2018			
	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	22	(43)	–	–
Investment securities – equity	40[1]	(60)[1]	9	(14)
Loans and advances to customers measured at FVTPL	13	(2)	–	–
Total	75	(105)	9	(14)
Classes of financial liabilities				
Derivative financial liabilities	1	(2)	–	–
Total	1	(2)	–	–

[1]Relates to the largest equity investment, the carrying value of which was € 171 million at 31 December 2019 (2018: € 109 million). Sensitivity information has not been provided for other equities as the portfolio comprises several investments, none of which is individually material.

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.

52 Statement of cash flows

Non-cash and other items included in profit before taxation

Non-cash items	2019 € m	2018 € m
Profit on disposal of property	(21)	(2)
Loss on disposal of business	–	22
Net (loss)/gain on derecognition of financial assets measured at amortised cost	48	(121)
Dividends received from equity investments	(26)	(26)
Dividends received from associated undertakings	(27)	(10)
Associated undertakings	(20)	(12)
Net credit impairment charge/(writeback)	106	(84)
Change in other provisions	425	117
Retirement benefits – defined benefit expense	11	8
Depreciation, amortisation and impairment	246	162
Interest on subordinated liabilities and other capital instruments	33	32
Interest on debt securities – MREL	84	18
Gain on disposal of investment securities	(93)	(24)
Loss on termination of hedging swaps	48	9
Amortisation of premiums and discounts	62	71
Net gain on equity investments measured at FVTPL	(70)	(41)
Net gain on loans and advances to customers at FVTPL	(1)	(22)
Change in prepayments and accrued income	93	5
Change in accruals and deferred income	(17)	(44)
Effect of exchange translation and other adjustments[1]	(84)	(16)
Total non-cash items	**797**	**42**
Contributions to defined benefit pension schemes	(43)	(72)
Dividends received from equity investments	26	26
Total other items	**(17)**	**(46)**
Non-cash and other items for the year ended 31 December	**780**	**(4)**

[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.

Notes to the consolidated financial statements

52 Statement of cash flows *(continued)*

Change in operating assets[1]	2019 € m	2018 € m
Change in items in course of collection	**17**	30
Change in trading portfolio financial assets	**–**	33
Change in derivative financial instruments	**(63)**	94
Change in loans and advances to banks	**219**	(98)
Change in loans and advances to customers	**(72)**	(884)
Change in other assets	**146**	85
	247	(740)

Change in operating liabilities[1]	2019 € m	2018 € m
Change in deposits by central banks and banks	**(65)**	(2,831)
Change in customer accounts	**3,504**	3,140
Change in trading portfolio financial liabilities	**–**	(30)
Change in debt securities in issue	**(565)**	(500)
Change in notes in circulation	**(100)**	(20)
Change in other liabilities	**(193)**	(104)
	2,581	(345)

[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.

Acquisition of subsidiary

During 2019, the Group obtained control of Semeral/Payzone (note 31). The fair values of the assets acquired and liabilities assumed were as follows:

	Note	€ m
Intangible assets	29	**50**
Goodwill	29	**70**
Property, plant and equipment	30	**2**
Other assets		**14**
Cash/restricted cash		**9**
Borrowings		**(23)**
Other liabilities		**(25)**
Deferred tax liabilities	33	**(5)**
Accruals and deferred income		**(12)**
Non-controlling interests	44	**(1)**
		79
Consideration transferred, including deferred consideration	31	**79**
Less: Deferred consideration		**(10)**
Cash acquired in subsidiary		**(9)**
Cash paid at 31 December 2019 to obtain control net of cash acquired		**60**

52 Statement of cash flows *(continued)*

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:

	2019 € m	2018 € m
Cash and balances at central banks	11,982	6,516
Loans and advances to banks[1]	941[2]	730
	12,923	7,246

[1]Included in 'Loans and advances to banks' total of € 1,478 million (2018: € 1,443 million) set out in note 24.
[2]Includes € 4 million relating to restricted balances held in trust in respect of certain payables which are included in 'other liabilities' (note 39).

The Group is required by law to maintain reserve balances with the Bank of England. At 31 December 2019, these amounted to € 468 million (31 December 2018: € 589 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.

53 Related party transactions

Related parties in the Group include the parent company, AIB Group plc, subsidiary undertakings including their non-controlling interests, associated undertakings, 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. The immediate holding company and controlling party is AIB Group plc with its Registered Office at Bankcentre, Ballsbridge, Dublin 4.

(a) Transactions with subsidiary undertakings

AIB Group plc is the ultimate parent company of the Group. Banking transactions between the parent company and its subsidiaries and between subsidiaries are entered into in the normal course of business. These include loans, deposits, provision of derivative contracts, foreign currency contracts and the provision of guarantees on an 'arm's length basis'. In 2017, a review was completed of pricing arrangements between Allied Irish Banks, p.l.c. and certain Irish subsidiaries. Arising from this review, new pricing agreements were signed and implemented during 2017. The new agreements reflect OECD guidelines on transfer pricing which are the internationally accepted principles in this area, and take account of the functions, risks and assets involved. Details of related party transactions and balances between AIB Group plc and its subsidiaries are set out in note k to AIB Group plc Company financial statements.
In accordance with IFRS 10, *'Consolidated Financial Statements'*, transactions between the parent company and its subsidiaries and between 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 25 to the consolidated financial statements, while deposits from associates are set out in note 35.

(c) Non-controlling interests

The Group has accepted a deposit from the non-controlling interests in a subsidiary which is detailed in note 44.

(d) 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 Allied Irish Banks, p.l.c. 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 49).

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 advances previously transferred at fair value from the Group. A subsidiary of AIB was appointed as a service provider for the loans and advances transferred in return for a servicing fee at a market rate (note 49).

Notes to the consolidated financial statements

53 Related party transactions *(continued)*

(e) IAS 24 Related Party Disclosures

The following disclosures are made in accordance with the provisions of IAS 24 *Related Party Disclosures*. Under IAS 24, Key Management Personnel ("KMP") are defined as comprising Executive and Non-Executive Directors together with Senior Executive Officers, namely, the members of the Executive Committee (see pages 44 to 47). As at 31 December 2019, the Group had 20 KMP (2018: 19 KMP).

(i) Compensation of Key Management Personnel

Details of compensation paid to KMP are provided below. The figures shown include the figures separately reported in respect of Directors' remuneration on pages 216 to 218.

	2019 € m	2018 € m
Short term compensation[1]	**6.1**	6.8
Post-employment benefits[2]	**0.7**	0.9
Termination benefits	**–**	–
Total	**6.8**	7.7

[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 Group.

[2]Comprises payments to defined benefit or defined contribution pension schemes, in accordance with actuarial advice, to provide post-retirement pensions. The Group's defined benefit pension schemes closed to future accrual with effect from 31 December 2013 and all employee pension benefits have accrued on the basis of defined contributions since that date.

(ii) Transactions with Key Management Personnel

Loans to KMP and their close family members 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 Directors and Senior Executive Officers are made 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 amounts outstanding, in respect of all loans, quasi loans and credit transactions between the Group and KMP, as defined above, together with members of their close families and entities controlled by them are shown in the following table:

Loans outstanding	**2019 € m**	2018 € m
At 1 January	**4.58**	4.69
Loans issued during the year	**0.16**	0.57
Loan repayments during the year/change of KMP/other	**(1.74)**	(0.68)
At 31 December	**3.00**	4.58

Total commitments outstanding refer to the total of any undrawn amounts on credit cards and/or overdraft facilities provided to KMP. Total commitments outstanding as at 31 December 2019 were € 0.16 million (2018: € 0.20 million).

Deposit and other credit balances held by KMP and their close family members as at 31 December 2019 amounted to € 3.37 million (2018: € 6.88 million).

53 Related party transactions *(continued)*

(f) Companies Act 2014 disclosures

(i) Loans to Directors

The following information is presented in accordance with the Companies Act 2014. For the purposes of the Companies Act disclosures, Director means the Board of Directors and any past Directors who are Directors during the relevant period.

There were 18 Directors in office during the year, 11 of whom availed of credit facilities (2018: 8). Of the Directors who availed of credit facilities, 7 had balances outstanding at 31 December 2019 (2018: 4 of 8).

Details of transactions with Directors for the year ended 31 December 2019 are as follows:

	Balance at 31 December 2018 € 000	Amounts advanced during 2019 € 000	Amounts repaid during 2019 € 000	Balance at 31 December 2019 € 000
Mark Bourke:				
Loans	416	–	33	383
Overdraft/credit card*	–	–	–	–
Total	416	–	33	383
Interest charged during the year				4
Maximum debit balance during the year**				416
Simon Ball:				
Loans	–	–	–	–
Overdraft/credit card*	–	–	–	1
Total	–	–	–	1
Interest charged during the year				–
Maximum debit balance during the year**				1
Colin Hunt				
Loans	839	–	49	790
Overdraft/credit card*	16	–	–	10
Total	855	–	49	800
Interest charged during the year				3
Maximum debit balance during the year**				860
Carolan Lennon:				
Loans	–	–	–	–
Overdraft/credit card*	5	–	–	4
Total	5	–	–	4
Interest charged during the year				–
Maximum debit balance during the year**				15
Ann O'Brien:				
Loans	–	–	–	–
Overdraft/credit card*	–	–	–	–
Total	–	–	–	–
Interest charged during the year				–
Maximum debit balance during the year**				2

Notes to the consolidated financial statements

53 Related party transactions *(continued)*

(f) Companies Act 2014 disclosures

(i) Loans to Directors *(continued)*

	Balance at 31 December 2018 € 000	Amounts advanced during 2019 € 000	Amounts repaid during 2019 € 000	Balance at 31 December 2019 € 000
Tomás O'Midheach:				
Loans	402	–	41	361
Overdraft/credit card*	8	–	–	7
Total	410	–	41	368
Interest charged during the year				5
Maximum debit balance during the year**				417
Catherine Woods:				
Loans	40	–	10	30
Overdraft/credit card*	–	–	–	–
Total	40	–	10	30
Interest charged during the year				–
Maximum debit balance during the year**				40

*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.

Mr Richard Pym had a credit card facility which was not used during the year. Ms Helen Normoyle and Mr Jim O'Hara also held overdraft facilities which were not used during the year. Mr Tom Foley held a credit card facility with the Group, which held an opening and closing balance of less than € 500 at the beginning and end of the reporting period. Ms Ann O'Brien held a credit card facility with the Group, which had a closing balance of less than € 500, and a maximum debit balance as represented in the preceding table.

Mr Bernard Byrne, Mr Peter Hagan, Mr Brendan McDonagh, Mr Raj Singh, Ms Sandy Kinney Pritchard, Mr Basil Geoghegan and Ms Elaine MacLean had no credit facilities with the Group in 2019.

An expected credit loss allowance is held for all loans and advances. Accordingly, an ECL allowance of c. € 164,000 is held on the above facilities at 31 December 2019.

53 Related party transactions *(continued)*

(f) Companies Act 2014 disclosures

(i) Loans to Directors *(continued)*

Details of transactions with Directors for the year ended 31 December 2018 are as follows:

	Balance at 31 December 2017 € 000	Amounts advanced during 2018 € 000	Amounts repaid during 2018 € 000	Balance at 31 December 2018 € 000
Mark Bourke:				
Loans	466	–	50	416
Overdraft/credit card*	–	–	–	–
Total	466	–	50	416
Interest charged during the year				5
Maximum debit balance during the year**				466
Tom Foley:				
Loans	–	–	–	–
Overdraft/credit card*	–	–	–	–
Total	–	–	–	–
Interest charged during the year				–
Maximum debit balance during the year**				2
Carolan Lennon:				
Loans	–	–	–	–
Overdraft/credit card*	3	2	–	5
Total	3	2	–	5
Interest charged during the year				–
Maximum debit balance during the year**				11
Catherine Woods:				
Loans	50	–	10	40
Overdraft/credit card*	–	–	–	–
Total	50	–	10	40
Interest charged during the year				–
Maximum debit balance during the year**				50

*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.

Richard Pym had a credit card facility which was not used during the year. Helen Normoyle and Jim O'Hara also held overdraft facilities which were not used during the year. Simon Ball had a credit card facility which held an opening and closing balance of under € 500 at the beginning and end of the reporting period. Tom Foley had a Nil balance at 31 December 2018 and a maximum debit balance as represented in the preceding table.

Bernard Byrne, Peter Hagan and Brendan McDonagh had no facilities with the Group during 2018.

As required on transition to IFRS 9, an expected credit loss allowance was created for all loans and advances. Accordingly, an ECL allowance of c. € 21,000 was created on 1 January 2018 and is held on the above facilities at 31 December 2018. All facilities are performing to their terms and conditions.

Notes to the consolidated financial statements

53 Related party transactions *(continued)*

(f) Companies Act 2014 disclosures

(ii) Connected persons

The aggregate of loans to connected persons of Directors, in office during the year, at 31 December, as defined in Section 220 of the Companies Act 2014, are as follows (aggregate of 22 persons; 2018: 17 persons):

	Balance at 31 December 2019 € 000	Balance at 31 December 2018 € 000
Loans	**2,015**	2,013
Overdraft/credit card*	**47**	51
Total	**2,062**	2,064
Interest charged during the year	**49**	41
Maximum debit balance during the year**	**3,238**	2,216

An expected credit loss allowance is held for all loans and advances. Accordingly, an ECL allowance of c. € 26,000 was held on the above facilities at 31 December 2019.

*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.

(iii) Aggregate balance of loans and guarantees held by Directors and their connected persons

The aggregate balance of loans and guarantees held by Directors and their connected persons as at 31 December 2019 represents less than 0.02% of the net assets of the Group (2018: 0.02%).

(g) Summary of relationship with the Irish Government

The Irish Government, as a result of both its investments in AIB and AIB's participation in Government guarantee schemes became a related party of AIB in 2009. 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.

The Irish Government holds 71.12% of the issued ordinary share capital of AIB, accordingly, AIB is under the control of the Irish Government. During 2019, the Irish Government received dividends amounting to € 328 million on its shareholding.

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.

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 stabilisation measures included the Credit Institutions (Eligible Institutions Guarantee) Scheme 2009, and whilst the Group no longer has any guaranteed liabilities, certain of the covenants of the scheme continue to apply.

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 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.
- 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.

53 Related party transactions *(continued)*

(g) Summary of relationship with the Irish Government

The relationship of the Irish Government with AIB is outlined under the following headings:

- Capital investments;
- Guarantee schemes;
- NAMA; and
- Relationship Framework.

There were no significant changes to the various aspects of the relationship in the year to 31 December 2019.

- ***Capital investments***

  In the years since 2008, the Irish Government implemented a number of recapitalisation measures to support the Irish banking system including AIB Group. Certain of this capital invested in AIB Group has since been repaid, restructured or reorganised. There were no capital transactions during 2019 or 2018.

  Equity holdings

  The Irish Government holds 1,930,436,543 ordinary shares in AIB Group plc (71.12% of total). These shares are traded on the Euronext Dublin and London Stock Exchanges.

  Capital contributions

  In 2011, capital contributions totalling € 6.054 billion were made by the Irish State to AIB for Nil consideration.

  Issue of warrants to the Minister for Finance

  As part of the 2015 Capital Reorganisation, AIB entered into a Warrant Agreement with the Minister and granted the Minister the right to receive warrants to subscribe for additional ordinary shares.

  Following the admission to listing on the Irish Stock Exchange (now trading as Euronext Dublin) and the London Stock Exchange, AIB issued warrants to the Minister on 4 July 2017 to subscribe for 271,166,685 ordinary shares of AIB representing 9.99% of the issued share capital. The exercise price for the warrants is 200% of the Offer Price of € 4.40 per ordinary share, the Offer Price being the price in euro per ordinary share which was payable under the Initial Public Offering ("IPO"). This price may be adjusted in accordance with the terms of the Warrant Instrument and the warrants will be capable of exercise by the holder of the warrants during the period commencing on 27 June 2018 and ending on 27 June 2027.

  In accordance with the terms of the Warrant Agreement, no cash consideration was payable by the Minister to AIB in respect of the issue of the warrants.

- ***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.

- ***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 which were fully repaid during 2017 and NAMA subordinated bonds which are detailed in note 27.

  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.

Notes to the consolidated financial statements

53 Related party transactions (continued)

(g) Summary of relationship with the Irish Government

Investment in National Asset Management Agency Investment d.a.c. ("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 2019: € 13 million; 31 December 2018: € 12 million), with the remainder invested on behalf of clients.

– ***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. The Relationship Framework was amended and restated on 12 June 2017. Furthermore, the AIB Group plc Relationship Framework was put in place on 8 December 2017 in substitution for the Relationship Framework dated 12 June 2017. Under the relationship frameworks, 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 and AIB's management team.

Balances held with the Irish Government and related entities

The following table outlines the balances held at 31 December 2019 and 2018 with Irish Government entities[1] together with the highest balances held at any point during the year.

		2019		2018	
		Balance € m	**Highest[2] balance held € m**	Balance € m	Highest[2] balance held € m
Assets					
Cash and balances at central banks	a	**6,953**	**7,934**	1,303	5,360
Trading portfolio financial assets		**–**	**43**	–	68
Derivative financial instruments		**–**	**5**	2	2
Loans and advances to customers		**6**	**6**	6	7
Investment securities	b	**5,754**	**7,327**	6,750	7,506
Total assets		**12,713**		8,061	

		2019		2018	
		Balance € m	**Highest[2] balance held € m**	Balance € m	Highest[2] balance held € m
Liabilities					
Deposits by central banks and banks		**–**	**–**	–	1,900
Customer accounts	c	**336**	**1,050**	454	1,057
Trading portfolio financial liabilities		**–**	**34**	–	66
Derivative financial instruments		**–**	**4**	–	11
Total liabilities		**336**		454	

[1]Includes all departments of the Irish Government located in the State and embassies, consulates and other institutions of the Irish Government located outside the State. The Post Office Savings Bank ("POSB") and the National Treasury Management Agency ("NTMA") are included.

[2]The highest balance during the period, 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.

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 2019 was € 622 million (2018: € 596 million).

b Investment securities at FVOCI at 31 December 2019 comprise € 5,296 million (2018: € 6,282 million) in Irish Government securities held in the normal course of business and NAMA subordinated bonds of € 458 million (2018: € 468 million).

c Includes € 215 million (2018: € 295 million) borrowed from the Strategic Banking Corporation of Ireland ("SBCI"), the ordinary share capital of which is owned by the Minister for Finance.

All other balances, both assets and liabilities are carried out in the ordinary course of banking business on normal terms and conditions.

53 Related party transactions *(continued)*

(g) Summary of relationship with the Irish Government

Local government[1]

During 2019 and 2018, 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.

[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.

Commercial semi-state bodies[1]

During 2019 and 2018, 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 and clearing transactions.

[1]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 debt securities and repurchase agreements.

The following balances were outstanding in total to these financial institutions at 31 December 2019 and 2018:

	2019 € m	2018 € m
Assets		
Derivative financial instruments	**1**	6
Loans and advances to banks[1]	**2**	2
Investment securities	**284**	339
Liabilities		
Deposits by central banks and banks[2]	**–**	–
Derivative financial instruments	**–**	–

[1]The highest balance in loans and advances to banks amounted to € 43 million in respect of funds placed during the year (2018: € 2 million).
[2]The highest balance in deposits by central banks and banks by these financial institutions amounted to € 48 million in respect of funds received during the year (2018: € 30 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). AIB Group is currently engaging with the Joint Special Liquidators in relation to the claim. Given AIB’s aggregate liability to IBRC at the date of Special Liquidation exceeded these claims, no financial loss is expected to occur.

Notes to the consolidated financial statements

53 Related party transactions *(continued)*

(g) Summary of relationship with the Irish Government

Irish bank levy

The bank levy, introduced on certain Irish financial institutions in 2014, is calculated based on each financial institution's Deposit Interest Retention Tax ("DIRT") payment in a base year. This base year changes every two years with 2017 being the base year for 2019 and 2020. The annual levy paid by the Group for 2019 and reflected in operating expenses (note 13) in the income statement amounted to € 35 million (2018: € 49 million).

(h) Indemnities

The Group has indemnified the Directors of Allied Irish Banks Pensions Limited and AIB DC Pensions (Ireland) Limited, the trustees of the Group's 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.

54 Employees

The following table shows the geographical analysis of average employees for 2019 and 2018:

Average number of staff (Full time equivalents)	2019	2018
Ireland	8,770	8,681
United Kingdom	1,026	1,066
United States of America	59	54
Total	**9,855**	9,801

A new operating structure was implemented in 2019, with staff numbers reported under the new segments. Prior period numbers have not been restated under the new segment structure. The following tables show the segmental analysis of average employees for 2019 and 2018:

	2019
Retail Banking	4,686
CIB	610
AIB UK	792
Group[1]	3,767
Total	**9,855**

	2018
RCB	5,268
WIB	332
AIB UK	820
Group	3,381
Total	9,801

[1]Group comprises wholesale treasury activities and Group control and support functions. Treasury manages the Group's liquidity and funding positions and provides customer treasury services and economic research. The Group control and support functions include business and customer services, risk, audit, finance, legal and corporate governance, human resources and corporate affairs.

The average number of employees for 2019 and 2018 set out above excludes employees on career breaks and other unpaid long term leaves.

Actual full time equivalent numbers at 31 December 2019 were 9,520 (2018: 9,831).

55 Regulatory compliance

During the years ended 31 December 2019 and 2018, the Group and its regulated subsidiaries complied with their externally imposed capital ratios.

56 Financial and other information

Operating ratios	2019 %	2018 %
Operating expenses/operating income	**82.1**	63.4
Other income/operating income	**21.8**	26.9

Rates of exchange	2019	2018
€/$*		
Closing	**1.1234**	1.1450
Average	**1.1194**	1.1808
€/£*		
Closing	**0.8508**	0.8945
Average	**0.8777**	0.8847

*Throughout this report, US dollar is denoted by $ and Pound sterling is denoted by £.

	Assets		Liabilities and equity	
Currency Information	2019 € m	2018 € m	2019 € m	2018 € m
Euro	**77,213**	70,756	**77,824**	70,888
Other	**21,349**	20,780	**20,738**	20,648
	98,562	91,536	**98,562**	91,536

57 Dividends

On 3 May 2019, following approval by the shareholders at the Annual General Meeting held on 24 April 2019, AIB Group plc paid a final dividend of € 0.17 per ordinary share amounting in total to € 461 million. The financial statements for the year ended 31 December 2019 reflect this in shareholders' equity as an appropriation of distributable reserves.

On 4 May 2018, AIB Group plc, paid a final dividend to its shareholders of € 0.12 per ordinary share amounting in total to € 326 million.

The Board is recommending that a final dividend of € 0.08 per ordinary share, amounting in total to € 217 million, be paid on 7 May 2020. The financial statements for the year ended 31 December 2019 do not reflect this dividend which will be accounted for in shareholders' equity as an appropriation of distributable reserves in 2020.

58 Non-adjusting events after the reporting period

No significant non-adjusting events have taken place since 31 December 2019.

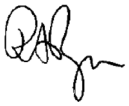
59 Approval of financial statements

The financial statements were approved by the Board of Directors on 5 March 2020.

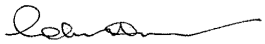
AIB Group plc company statement of financial position

as at 31 December 2019

	Notes	2019 € m	2018 € m
Assets			
Loans and advances to banks – subsidiary	d	**3,811**	1,653
Investment in subsidiary undertaking	e	**9,996**	12,940
Current taxation		**–**	1
Prepayments and accrued income		**35**	19
Total assets		**13,842**	14,613
Liabilities			
Debt securities in issue	f	**3,306**	1,655
Subordinated liabilities and other capital instruments	g	**500**	–
Accruals and deferred income		**49**	25
Total liabilities		**3,855**	1,680
Equity			
Share capital	h	**1,696**	1,696
Merger reserve	i	**2,791**	6,235
Revenue reserves		**5,000**	5,002
Total shareholders' equity		**9,487**	12,933
Other equity interests		**500**	–
Total equity		**9,987**	12,933
Total liabilities and equity		**13,842**	14,613



Richard Pym
Chairman



Colin Hunt
Chief Executive Officer

5 March 2020

AIB Group plc company statement of cash flows

for the financial year ended 31 December 2019

	2019 € m	2018 € m
Cash flows from operating activities		
(Loss)/profit before taxation for the year	(2,985)	319
Adjustments for:		
– Non-cash and other items		
Dividend income	(461)	(326)
Net credit impairment charge	1	1
Interest on subordinated liabilities and other capital instruments	1	–
Interest on debt securities – MREL	84	18
Change in prepayments and accrued income	(16)	(19)
Change in accruals and deferred income	10	7
Impairment of subsidiary undertaking (note e)	3,444	–
	3,063	(319)
– Change in operating assets		
Change in loans and advances to banks	(2,145)	(1,651)
– Taxation refund	1	–
Net cash (outflow) from operating activities	(2,066)	(1,651)
Cash flows from investing activities		
Dividends received from subsidiary	461	326
Investment in subsidiary undertaking (note e)	(500)	–
Net cash (outflow)/inflow from investing activities	(39)	326
Cash flows from financing activities		
Net proceeds on issue of Additional Tier 1 Securities (note j)	500	–
Net proceeds on issue of € 500 million Tier 2 Notes due 2029 (note g)	500	–
Proceeds on issue of debt securities – MREL (note f)[1]	1,640	1,651
Dividends paid on ordinary shares	(461)	(326)
Interest paid on debt securities – MREL	(70)	–
Interest paid on subordinated liabilities and other capital instruments	–	–
Net cash inflow from financing activities	2,109	1,325
Change in cash and cash equivalents	4	–
Opening cash and cash equivalents	–	–
Effect of exchange translation adjustments	–	–
Closing cash and cash equivalents	4	–

[1]2018 has been re-presented to align the balance sheet classification. MREL was previously presented in operating activities and is now presented in financing activities.

The impact of foreign exchange translation for relevant lines in the statement of financial position is removed in order to show the underlying cash impact.

AIB Group plc company statement of changes in equity

for the financial year ended 31 December 2019

	2019				
	Attributable to equity holders of the parent				
	Share capital € m	Other equity interests € m	Merger reserve € m	Revenue reserves € m	Total € m
At 1 January 2019	**1,696**	**–**	**6,235**	**5,002**	**12,933**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**
Loss after tax	**–**	**–**	**–**	**(2,985)**	**(2,985)**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**(2,985)**	**(2,985)**
Transactions with owners, recorded directly in equity					
Issue of Additional Tier 1 Securities (note j)	**–**	**500**	**–**	**–**	**500**
Dividends paid on ordinary shares (note 21 to the consolidated financial statements)	**–**	**–**	**–**	**(461)**	**(461)**
Transfer between merger and revenue reserves (note i)	**–**	**–**	**(3,444)**	**3,444**	**–**
Total contributions by and distribution to owners	**–**	**500**	**(3,444)**	**2,983**	**39**
At 31 December 2019	**1,696**	**500**	**2,791**	**5,000**	**9,987**

	2018			
	Attributable to equity holders of the parent			
	Share Capital € m	Merger reserve € m	Revenue reserves € m	Total € m
At 1 January 2018	1,697	6,235	5,008	12,940
Total comprehensive income for the year	–	–	–	–
Profit after tax	–	–	320	320
Other comprehensive income	–	–	–	–
Total comprehensive income for the year	–	–	320	320
Transactions with owners, recorded directly in equity				
Dividends paid on ordinary shares	–	–	(326)	(326)
Redemption of Subscriber Shares[1]	–	–	–	–
Other movements	(1)	–	–	(1)
Total contributions by and distributions to owners	(1)	–	(326)	(327)
At 31 December 2018	1,696	6,235	5,002	12,933

[1]Redemption of 40,000 Subscriber Shares of € 0.625 each at par.

Notes to AIB Group plc company financial statements

Background

AIB Group plc is a company domiciled in Ireland with its Registered Office address at Bankcentre, Ballsbridge, Dublin 4, Ireland. AIB Group plc is registered under the Companies Act 2014 as a public limited company under the company number 594283 and is the holding company of the Group.

a Accounting policies

Where applicable, the accounting policies adopted by AIB Group plc ('the parent company' or 'the Company') are the same as those of the Group as set out in note 1 to the consolidated financial statements on pages 244 to 272.

The parent company financial statements and related notes set out on pages 366 to 374 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 2019. They also comply with those parts of the Companies Act 2014 and with the European Union (Credit Institutions: Financial Statements) Regulations 2015 applicable to companies reporting under IFRS.

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 273 to 277.

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 Company's loss after taxation for the financial year ended 31 December 2019 is € 2,985 million (2018: profit € 320 million).

b Operating expenses	2019 € m	2018 € m
Amounts payable to subsidiary under Master Service Agreement	**6**	7
	6	7

c 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 Auditor only (Deloitte Ireland LLP) for services relating to the audit of the Group and relevant subsidiary financial statements. No audit fees were paid/payable to the Group Auditor (Deloitte Ireland LLP) for services relating to the audit of the financial statements of AIB Group plc during the year to 31 December 2019.

d Loans and advances to banks	2019 € m	2018 € m
At amortised cost		
Funds placed with subsidiary, Allied Irish Banks, p.l.c.	**3,813**	1,654
ECL allowance	**(2)**	(1)
	3,811	1,653

The following transactions occurred between AIB Group plc and its subsidiary, Allied Irish Banks, p.l.c. during 2019:

(i) In April 2019, AIB Group plc lent US $ 1 billion to Allied Irish Banks, p.l.c.

(ii) In May 2019, AIB Group plc lent € 750 million to Allied Irish Banks, p.l.c.

(iii) In November 2019, AIB Group plc lent € 500 million to Allied Irish Banks, p.l.c.

These borrowings are unsecured and subordinated.

Notes to AIB Group plc company financial statements

e Investment in subsidiary undertaking	2019 € m	2018 € m
At 1 January	**12,940**	12,940
Additions – Additional Tier 1 Securities	**500**	–
Impairment of equity shares	**(3,444)**	–
At 31 December	**9,996**	12,940

AIB Group plc ('the Company') holds the entire ordinary share capital of Allied Irish Banks, p.l.c. ('the subsidiary') which it acquired in 2017 (2,714,381,237 ordinary shares of nominal value € 0.625 each) and which had a book value at acquisition of € 12,940 million.

Allied Irish Banks, p.l.c. is a financial services company incorporated and registered in Ireland with a Registered Office at Bankcentre, Ballsbridge, Dublin 4. It is the parent company of a number of subsidiaries, both credit institutions and others, all of which are 100% owned. It operates predominantly in Ireland, providing a comprehensive range of services to retail customers, as well as business and corporate customers. Allied Irish Banks, p.l.c. and its subsidiaries offer a full suite of products for retail customers, including mortgages, personal loans, credit cards, current accounts, insurance, pensions, financial planning, investments, savings and deposits. Its products for business and corporate customers include finance and loans, business current accounts, deposits, foreign exchange and interest rate risk management products, trade finance products, invoice discounting, leasing, credit cards, merchant services, payments and corporate finance.

Allied Irish Banks, p.l.c. together with its principal subsidiaries in Ireland, AIB Mortgage Bank, EBS d.a.c. and EBS Mortgage Finance, are regulated by the Central Bank of Ireland/Single Supervisory Mechanism. Its principal subsidiary outside the Republic of Ireland, AIB Group (UK) p.l.c., is regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Additions

In October 2019, the Company invested € 500 million in Additional Tier 1 Securities ("AT1") issued by Allied Irish Banks, p.l.c. (note j).

Impairment of equity shares

The Company reviews its equity investment for impairment at the end of each reporting period if there are indications that impairment may have occurred.

The testing for possible impairment involves comparing the estimated recoverable amount of an investment with its carrying amount. Where the recoverable amount is less than the carrying amount, the difference is recognised as an impairment provision in the Company's financial statements. The recoverable amount is the higher of fair value less costs to sell and value-in-use ("VIU").

The subsidiary's fair value is largely that of the Company since the net assets of the subsidiary are, in effect, the same as those of the Company. Accordingly, AIB Group plc's market capitalisation is a proxy for the fair value of Allied Irish Banks, p.l.c.

At 31 December 2019, the market capitalisation of AIB Group plc was € 8.5 billion. This was below the carrying amount of its equity investment in the subsidiary and had been below that carrying amount throughout 2019. Accordingly, AIB Group plc considered that this was an indication of impairment and performed an impairment test which compared the carrying amount with the estimated recoverable amount as determined by a VIU calculation.

The Company uses a discounted cash flow to equity model to derive a VIU, in line with industry practice. Under this approach, recoverable value is determined by the present value of future distributable items which takes into consideration the requirement to retain earnings in line with relevant target capital ratios and risk-weighted assets. Accordingly, the principal inputs to the model are (a) future profitability; (b) risk-weighted asset levels; (c) the discount rate used; and (d) target capital ratios.

The VIU was determined at € 9,496 million which was lower than the carrying amount but higher than the fair value, accordingly, the Company recognised an impairment loss provision amounting to € 3,444 million.

e Investment in subsidiary undertaking *(continued)*

Basis used to calculate recoverable amount

In determining VIU, the Company used discounted cash flow projections attributable to equity shareholders. These projections were the output arising from the recent three year Strategic Plan (2020 to 2022) approved by the Board. This output from the Plan will be used by the Company on an on going basis during the three year planning cycle. The Strategic Plan involved significant judgements which were subject to review and validation at a number of levels of governance and is the current best estimate of the expected cash flows over the planning period. For cash flows beyond the planning period, the Company extrapolated into perpetuity the year 3 expected cash flows as a base, using a long term growth rate to derive a terminal value. Risk-weighted assets are assumed to grow at the same rate as that for long term profit growth.

The Company used the following key assumptions in the VIU calculation:

- Long term profit/risk-weighted asset growth rate after 2022: 3%;
- Discount rate: 9%; and
- Common equity Tier 1 target: 14%.

Future profitability and growth rates are dependent on several factors, including the economic environment both local and international, the impact of Brexit and the United Kingdom's future relationship with Ireland and the EU, the impact of regulatory requirements on the banking industry and the continuing developments in the financial services sector. Accordingly, there are significant uncertainties and a high level of subjectivity involved in the estimation process. Profitability and growth were reassessed in the annual planning exercise covering the period 2020 to 2022 undertaken by the Group in the second half of 2019. Growth assumptions and profitability levels underpinning the plan have been revised downwards compared to previous years reflecting the 'lower for longer' interest rate environment in particular, however, these are within current market norms.

The discount rate to be used in future periods may increase/decrease due to changes to the risk free rate or to the risk premium.

Changes to these inputs may increase or decrease the impairment loss provision in future periods.

The following table sets out the sensitivity of the VIU calculation to key input variables. The table reflects the impact of the variables individually and not any interrelationships. It is possible that more than one favourable and/or unfavourable change will occur at the same time.

				31 December 2019
	Favourable change		Unfavourable change	
	bps	Increase in VIU € m	bps	Decrease in VIU € m
Long term profit/risk-weighted assets growth rate	100	286	(100)	(239)
Discount rate	(100)	1,678	100	(1,218)

In addition, if year 3 expected cash flows that are used as a base to derive a terminal value were increased/decreased by € 100 million, the VIU calculation would increase/decrease by c. € 1,260 million.

Given the interrelationship of changes set out in the sensitivity table above, the Company estimates that the reasonable possible range of estimates for VIU is € 8,280 million to € 11,171 million.

Notes to AIB Group plc company financial statements

f Debt securities in issue	2019 € m	2018 € m
Euro Medium Term Note Programme	1,750	1,000
Global Medium Term Note Programme	1,556	655
	3,306	1,655

Analysis of movements in debt securities in issue

	2019 € m	2018 € m
At 1 January	1,655	–
Issued during the year[1]	1,640	1,651
Exchange translation adjustments	11	4
At 31 December	3,306	1,655

[1]MRELs

For details of debt securities issued by the Company during 2019, refer to note 38 to the consolidated financial statements.

The instruments issued by AIB Group plc were issued for the purpose of meeting Group MREL requirements.

g Subordinated liabilities and other capital instruments	2019 € m	2018 € m
Dated loan capital – European Medium Term Note Programme:		
€ 500 million Subordinated Tier 2 Notes due 2029, Callable 2024	500	–
	500	–

The dated loan capital above issued under the European Medium Term Note Programme, is subordinated in right of payment to the ordinary creditors, including depositors, of the Group.

For details of the above issuance, refer to note 41 to the consolidated financial statements.

h Share capital

The ordinary share capital of AIB Group plc is detailed in note 42 to the consolidated financial statements.

i Merger reserve	2019 € m	2018 € m
At 1 January	6,235	6,235
Transfer to revenue reserves	(3,444)	–
At 31 December	2,791	6,235

Under the Scheme of Arrangement ("the Scheme") approved by the Irish High Court on 6 December 2017 which became effective on 8 December 2017, a new company, AIB Group plc ('the Company'), was introduced as the holding company of AIB Group. The share capital of Allied Irish Banks, p.l.c., other than a single share owned by AIB Group plc, was cancelled and an equal number of new shares were issued by the Company to the shareholders of Allied Irish Banks, p.l.c. The difference between the carrying value of the net assets of Allied Irish Banks, p.l.c. entity on acquisition by the Company and the nominal value of the shares issued on implementation of the Scheme amounting to € 6,235 million was accounted for as a merger reserve.

In the Company's financial statements, impairment losses which arise from the Company's investment in Allied Irish Banks, p.l.c. will be charged to the profit or loss account and transferred to the merger reserve in so far as a credit balance remains in the merger reserve.

At 31 December 2019, an impairment loss provision of € 3,444 million was recognised (note e). Accordingly, this resulted in a transfer of € 3,444 million between merger reserve and revenue reserves.

j Other equity interests	2019 € m	2018 € m
At 1 January	**–**	–
Issued during year	**500**	–
At 31 December	**500**	–

Additional Tier 1 Perpetual Contingent Temporary Write-down Securities

In 2019, AIB Group plc issued € 500 million nominal value of Additional Tier 1 Perpetual Contingent Temporary Write-down Securities ('AT1s'). For further details in relation to AT1s issued by the Company, see note 43 to the consolidated financial statements.

k Related party transactions

Related parties of AIB Group plc include subsidiary undertakings including their non-controlling interests, associated undertakings, joint undertakings, post-employment benefit schemes, Key Management Personnel and connected parties. The Irish Government is also considered a related party by virtue of its effective control of AIB Group plc.

Under a Master Service Agreement, Allied Irish Banks, p.l.c. provides various services which include accounting, taxation and administrative services to AIB Group plc (note b);

The following were the principal transactions during 2019 between AIB Group plc (the parent company) and Allied Irish Banks, p.l.c. (the subsidiary company):

Amounts included in AIB Group plc company's income statement in relation to transactions with its immediate subsidiary, Allied Irish Banks, p.l.c. are as follows:

	Notes	2019 € m	2018 € m
Interest income		**90**	19
Operating expenses	b	**6**	7
Dividend received		**461**	326

Amounts included in AIB Group plc company's statement of financial position in relation to balances with its immediate subsidiary, Allied Irish Banks, p.l.c. are as follows:

	Notes	2019 € m	2018 € m
Investment in subsidiary undertaking	e	**9,996**	12,940
Loans and advances to banks	d	**3,811**	1,653
Prepayments and accrued income		**35**	19
Accruals and deferred income		**13**	7

The following transactions occurred between AIB Group plc and its subsidiary, Allied Irish Banks, p.l.c. during 2019.

(a) AIB Group plc invested € 500 million in AT1 Securities (note j).

(b) AIB Group plc lent € 2,145 million to Allied Irish Banks, p.l.c. (note d).

Notes to AIB Group plc company financial statements

l Credit risk information

The following table sets out the maximum exposure to credit risk for financial assets all of which are carried at amortised cost[1] at 31 December 2019 and 2018:

Maximum exposure to credit risk	2019 Total € m	2018 Total € m
Loans and advances to banks	3,811	1,653
Included elsewhere:		
Accrued interest	35	19
Total	3,846	1,672

[1]All amortised cost items are loans and advances which are in a 'held to collect' business model.

m Funding and liquidity risk

Financial assets and financial liabilities by contractual residual maturity

The following table analyses financial assets and financial liabilities by contractual residual maturity at 31 December 2019 and 2018:

	On demand € m	<3 months but not on demand € m	3 months to 1 year € m	1–5 years € m	Over 5 years € m	2019 Total € m
Financial assets						
Loans and advances to banks[1]	4	–	–	1,919	1,890	3,813
Other financial assets	–	35	–	–	–	35
	4	35	–	1,919	1,890	3,848
Financial liabilities						
Debt securities in issue	–	–	–	1,917	1,389	3,306
Subordinated liabilities and other capital instruments	–	–	–	–	500	500
Other financial liabilities	49	–	–	–	–	49
	49	–	–	1,917	1,889	3,855

	On demand € m	<3 months but not on demand € m	3 months to 1 year € m	1–5 years € m	Over 5 years € m	2018 Total € m
Financial assets						
Loans and advances to banks[1]	–	–	–	1,154	500	1,654
Other financial assets	–	19	–	–	–	19
	–	19	–	1,154	500	1,673
Financial liabilities						
Debt securities in issue	–	–	–	1,155	500	1,655
Other financial liabilities	25	–	–	–	–	25
	25	–	–	1,155	500	1,680

[1]Shown gross of expected credit losses.

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 your address and view your shareholding by signing into Investor Centre on www.computershare.com/ie/InvestorCentre. You will need your unique user ID and password which you created during registration, or register at www.computershare.com/ie/investor/register to become an Investor Centre member.
  To register you will be required to enter the name of the company in which you hold shares, your Shareholder Reference Number ("SRN"), your family or company name and security code (provided on screen); and
- download standard forms required to initiate changes in details held by the Registrar on the Investor Centre accessed above or via the Investor Relations section of AIB's website at www.aib.ie/investorrelations, clicking on the Shareholder Information and Personal Shareholder Information option, and following the on-screen instructions.

Shareholders may also use AIB's website to access the Company's Annual Financial Report.

Stock Exchange Listings

AIB Group plc is an Irish registered company. Its ordinary shares are traded on the primary listing segment of the official list of the Irish Stock Exchange/Euronext Dublin and the premium listing segment of the Official List of the London Stock Exchange.

Migration of Securities

The Irish Stock Exchange (now trading as Euronext Dublin) has to date relied on a Central Securities Depository ("CSD") based in the United Kingdom. This CSD is operated by Euroclear UK and Ireland and utilises a system called CREST to settle on-market trades of shares in Irish listed companies like AIB.

Post Brexit, Euroclear UK and Ireland are considered a third country based CSD and therefore, not covered by the European regulatory regime. A temporary and conditional equivalence was granted in December 2018, however, the Irish market may only continue using the current settlement system until March 2021. Following a series of consultations with the Irish market, Euronext Dublin announced that it will transfer the settlement of trades in Irish equities from CREST to Euroclear Bank, which is a CSD based in Belgium, before March 2021. This issue affects all companies listed on Euronext Dublin, not just AIB.

To facilitate the migration to Euroclear Bank, the Irish Government passed the Migration of Participating Securities Act in December 2019. This legislation requires the passing of certain resolutions at an Extraordinary General Meeting ("EGM") of the Company. At the time of date of this Annual Financial Report a number of key issues relating to the migration remain outstanding. AIB intends to convene an EGM to consider the migration resolutions at an appropriate time during 2020, once certainty around those key issues has been established.

Registrar

The Company's Registrar is:

Computershare Investor Services (Ireland) Ltd.,
3100 Lake Dr, Citywest Business Campus, Dublin 24,
Telephone: +353-1-247 5411. Facsimile: +353-1-216 3151.
Website: **www.computershare.com** or **www.investorcentre.com/ie/contactus**

Major shareholdings

The issued share capital of the AIB Group plc is 2,714,381,237 ordinary shares of € 0.625 each.

The Minister for Finance of Ireland holds 1,930,436,543 ordinary shares representing 71.12% of the total voting rights attached to issued share capital.

Financial calendar

Annual General Meeting: 29 April 2020, at the Ballsbridge Hotel, Ballsbridge, Dublin 4.

Interim results

The unaudited Half-Yearly Financial Report 2020 will be announced on 29 July 2020 and will be available on the Company's website – **www.aib.ie.**

Shareholder's enquiries regarding Ordinary Shares should be addressed to:

Computershare Investor Services (Ireland) Ltd.,
3100 Lake Dr, Citywest Business Campus, Dublin 24, Ireland.
Telephone: +353 1 247 5411
Facsimile: +353 1 216 3151
Website: **www.computershare.com**

General information

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 Principal risks on pages 40 to 43 in the 2019 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 40 to 43 of the 2019 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.

Glossary of terms

Additional Tier 1 Capital

Additional Tier 1 Capital ("AT1") are securities issued by AIB and included in its capital base as fully CRD IV compliant additional tier 1 capital on a fully loaded basis.

Arrears

Arrears relates to 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.

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 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 a hold to collect and sell basis.

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) 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.

Capital Requirements Directive

Capital Requirements Directive ("CRD"): Capital adequacy legislation implemented by the European Union and adopted by Member States 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 Capital Requirements Directive and a 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).

Commercial paper

Commercial paper is similar to a deposit and is a relatively low-risk, short term, unsecured promissory note traded on money markets and 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) Office projects;
c) Retail projects;
d) Hotels; and
e) Selective mixed-use projects and special purpose properties.

Common equity tier 1 capital ("CET1")

The highest quality form of regulatory capital under Basel III that comprises ordinary shares issued and related share premium, retained earnings and other reserves excluding cash flow hedging reserves, and deducting specified regulatory adjustments.

Common equity tier 1 ratio

Common equity tier 1 ratio – A measurement of a bank's common equity tier 1 capital expressed as a percentage of 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.

Glossary of terms

Contractual maturity The period when a scheduled payment is due and payable in accordance with the terms of a financial instrument.

Contractual residual maturity The time remaining until the expiration or repayment of a financial instrument in accordance with its contractual terms.

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 inherent in a financial asset such as a loan or might be a generic credit risk such as the bankruptcy risk of an entity.

Credit impaired Under IFRS 9, these are Stage 3 financial assets where there is objective evidence of impairment and, therefore, considered to be in default. A lifetime ECL is recognised for such assets.

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 used by lenders 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 Accounts of lower quality and considered as less than satisfactory are referred to as criticised and include the following;

Criticised watch: The credit is exhibiting weakness and is deteriorating in terms of credit quality and may need additional attention.

Criticised recovery: Includes forborne cases that are classified as performing having transitioned from default, but still requires additional management attention to monitor for re-default and continuing improvement in terms of credit quality.

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 an equity stake in the counterparty.

Debt securities Assets on the Group's balance sheet representing certificates of indebtedness of credit institutions, public bodies and other undertakings.

Debt securities in issue Liabilities of the Group which are represented by transferable certificates of indebtedness of the Group to the bearer of the certificates.

Default Default is considered to have occurred with regard to a credit obligor when either or both of the following events have taken place:

i. a credit obligor is past due 90 days or more on any material credit obligation to the Group; and/or
ii. the Group considers that the credit obligor is unlikely to pay their credit obligations, without recourse by the Group to actions such as realising collateral (if held), or if for any other reason, the Group determines that the credit obligor is unlikely to pay their credit obligations in full.

Derecognition The removal of a previously recognised financial asset or financial liability from the Group's statement of financial position.

EBITDA Earnings before interest, tax, depreciation and amortisation.

ECB refinancing rate The main refinancing rate or minimum bid rate is the interest rate which banks have to pay when they borrow from the ECB under its main refinancing operations.

ECLs Expected credit loss ("ECLs") – The weighted average of credit losses with the respective risks of a default occurring as the weights.

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 The expected or actual amount of exposure to the borrower at the time of default.

Exposure value For on balance sheet exposures, it is the amount outstanding less provisions and collateral held taking into account relevant netting agreements. For off-balance sheet exposures, including commitments and guarantees, it is the amount outstanding less provisions and collateral held taking into account relevant netting agreements and credit conversion factors.

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 used when repayment terms of a loan contract have been renegotiated in order to make these terms more manageable for borrowers. Standard 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.

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 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.

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 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.

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.

Glossary of terms

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 exceeds 100% on 1 January 2018.

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 advances expressed as a percentage of customer accounts, as presented in the statement of financial position.

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.

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'.

Medium term notes

Medium term notes ("MTNs") are notes issued by the Group across a range of maturities under the European Medium Term Notes ("EMTN") 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.

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.

New transaction lendings

New transaction lending is defined as incremental increase in drawn balances against facilities granted for a specific period of time whereby the borrower can draw down or repay amounts as required to manage cash flow. It includes revolving credit facilities, overdrafts and invoice discounting facilities.

Non-performing exposures

Non-performing exposures are defined by the European Banking Authority to include material exposures which are more than 90 days past due (regardless of whether they are credit impaired) and/or exposures in respect of which the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or the number of days the exposure is past due.

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.

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, people risk and legal risk.

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.

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.

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 "demeaned"; 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 shift, twist and bow). 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.

Probability of Default Probability of Default ("PD") is the likelihood that a borrower will default on an obligation to repay.

Regulatory capital Regulatory capital is 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.

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.

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.

Securitisation Securitisation is the process of aggregation and repackaging of non-tradable financial instruments such as loans and advances, or company cash flows 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. 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).

Stage allocation: Under IFRS 9, loans and advances to customers are classified into one of three stages:

Stage 1 Includes newly originated loans and loans that have not had a significant increase in credit risk since initial recognition.

Stage 2 Includes loans that have had a significant increase in credit risk since initial recognition but do not have objective evidence of being credit impaired.

Stage 3 Includes loans that are defaulted or are otherwise considered to be credit impaired.

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.

Glossary of terms

Structured securities

This involves non-standard lending arrangements through the structuring of assets or debt issues in accordance with customer and/or market requirements. The requirements may be concerned with funding, liquidity, risk transfer or other needs that cannot be met by an existing off the shelf product or instrument. To meet this requirement, existing products and techniques must be engineered into a tailor-made product or process.

Syndicated and international lending

Syndicated and international 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. Syndicated and international lending is extended typically to non-investment grade borrowers and carries commensurate rates of return.

Tier 1 capital

A measure of a bank's financial strength defined by the Basel Accord. It captures common equity tier 1 capital and other instruments in issue that meet the criteria for inclusion as additional tier 1 capital. These are subject to certain regulatory deductions.

Tier 2 capital

Broadly includes qualifying subordinated debt and other tier 2 securities in issue. It is subject to adjustments relating to the excess of expected loss on the IRBA portfolios over the accounting expected credit losses 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.

Trade date and settlement date accounting

1. Trade date accounting records the transaction on the date on which an agreement has been entered (the trade date), instead of on the date the transaction has been finalised (the settlement date).
2. Under the settlement date accounting approach, the asset is recognised on the date on which it is received by the Group, on disposal, the asset is not derecognised until the asset is delivered to the buyer.

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).

Wholesale funding

Wholesale funding refers to funds raised from wholesale market sources. Examples of wholesale funding include senior unsecured bonds, covered bonds, securitisations, repurchase transactions, interbank deposits and deposits raised from non-bank financial institutions.

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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