



AIB Mortgage Bank Unlimited Company

Directors' Report and Annual Financial Statements
for the financial year ended 31 December 2021

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This copy of the statutory annual report of AIB Mortgage Bank Unlimited Company for the year ended 31 December 2021 is not presented in the ESEF-format as specified in the Regulatory Technical Standards on ESEF (Delegated Regulation (EU) 2019/815).

Directors and other information

Directors	Mr. Chris Curley Mr. Gerry Gaffney Ms. Yvonne Hill Mr. Conor McGrath Mr. James Murphy Mr. Paul Owens	Executive Director and Interim Deputy Chair Executive Director Independent Non-Executive Director Managing Director AIB Group Non-Executive Director Independent Non-Executive Director
Company secretary	Ms. Diane Lumsden	
Registered office	10 Molesworth Street Dublin 2 Ireland	
Registered number	404926	
Registered auditor	Deloitte Ireland LLP Chartered Accountants & Statutory Audit Firm Deloitte & Touche House Earlsfort Terrace Dublin 2	
Banker	Allied Irish Banks, p.l.c. 10 Molesworth Street Dublin 2 Ireland	
Solicitor	Ms. Helen Dooley Group General Counsel Allied Irish Banks, p.l.c. 10 Molesworth Street Dublin 2 Ireland	
Covered-asset monitor	Mazars Harcourt Centre Block 3 Harcourt Road Dublin 2 Ireland	

Directors' report

The Directors of AIB Mortgage Bank Unlimited Company ('the Bank') present their Directors' Report (the 'Report') and audited financial statements for the financial year ended 31 December 2021. The Statement of Directors' responsibilities in relation to the financial statements is on page 51.

Principal activities

The Bank, a public unlimited company, obtained an Irish banking licence under the Irish Central Bank Act, 1971 (as amended) and was registered as a designated mortgage credit institution under the Asset Covered Securities Act, 2001 on 8 February 2006.

The Bank is a wholly owned subsidiary of Allied Irish Banks, p.l.c. ('AIB'). The ultimate parent company of the Bank and AIB is AIB Group plc ('AIB Group').

The Bank's principal objective is to issue mortgage covered securities for the purpose of financing mortgage loans secured on residential property in accordance with the Asset Covered Securities Act, 2001 and the Asset Covered Securities (Amendment) Act 2007 ('the Asset Covered Securities Acts'). Such mortgage loans may be made directly by the Bank or may be purchased from AIB and other subsidiary undertakings of AIB or third parties. The Bank's debt securities are listed on the main securities market of Euronext Dublin.

The Bank's business activities are restricted, under the Asset Covered Securities Acts, to dealing in, and holding, mortgage credit assets and limited classes of other assets, engaging in activities connected with the financing and refinancing of such assets, entering into certain hedging contracts and engaging in other activities which are incidental to, or ancillary to, the above activities. In accordance with the Asset Covered Securities Acts, the Cover-Assets Monitor, Mazars, monitors compliance with the Asset Covered Securities Acts and reports independently to the Central Bank of Ireland ('CBI' or the 'Central Bank').

The Bank's activities are financed through the issuance of mortgage covered securities with the balance of funding being provided by AIB.

The majority of the Bank's activities are outsourced to AIB under an Outsourcing and Agency Agreement. AIB, as Service Agent for the Bank, originates residential mortgage loans through its retail branch network and other distribution channels in Ireland, services the mortgage loans, and provides treasury services in connection with financing as well as a range of other support services, including but not limited to Finance, Operations, IT, Risk and Compliance.

Results for the financial year

The profit before taxation ('PBT') for 2021 amounted to €23m (2020: €23m), as set out in the income statement page 62.

The reported PBT reflects the application of a transfer pricing agreement between the Bank and AIB ('the Agreement'), based on the Transactional Net Margin Method, in accordance with the OECD guidelines on transfer pricing, which are the internationally accepted principles in this area, and which take account of the functions, risks and assets involved. For 2021 this required a net payment of €246m by the Bank to AIB (2020: net payment by the Bank to AIB of €74m). The increase was driven by an expected credit loss writeback of €30m in 2021 compared to a €113m charge in 2020 reflecting a more favourable economic environment with improved credit quality and updated macroeconomic assumptions, together with an increase in net trading income €48m (2020: nil) being the change in fair value of derivatives which do not qualify for hedge accounting treatment.

Net interest income decreased to €352m for 2021, from €360m in 2020. The reduction is driven by reduction in loan balances and migration of the loan book to lower fixed rate products, offset by lower funding costs.

Other income increased to €46m in 2021 from €9m in 2020, an increase of €37m. This increase is principally due to €48m net trading income (2020: nil), being the increase in mark to market value of derivatives which hedge interest rate risk on loans and advances to customers which do not qualify for hedge accounting treatment, mainly due to increased volatility in longer term interest rates at 31 December 2021, together with a loss on the sale of non-performing loan portfolios of €5m (2020: €3m gain).

Operating expenses increased to €405m in 2021, from €233m in 2020, an increase of €172m, driven by an increase of €169m in amounts payable to AIB as determined by the Agreement.

Net credit impairment writeback was €30m in 2021 compared to a €113m charge in 2020, a decrease of €143m. The net credit impairment writeback of €30m in 2021 is due to a more favourable economic environment with improved credit quality and updated macroeconomic assumptions partially offset by new and enhanced post model adjustments. The net credit impairment write-back for 2021 reflected a net remeasurement of expected credit loss ('ECL') allowance writeback of €16m, together with recoveries of amounts previously written-off of €14m. For further information see pages 12 to 41 in the risk management section.

Directors' report

Business review

The global economy rebounded strongly in 2021 following the large contraction in output seen in 2020 as a result of the COVID-19 pandemic. The strong rebound was very much aided by the rollout of vaccines that proved quite effective in countering the coronavirus and allowing economies to reopen – many economies went back into lockdown in the early part of the year before vaccines become widely available. The vaccines, though, have not proved fully effective in reducing the transmissibility of the virus, and a number of countries re-imposed some restrictions late in the year as COVID-19 case numbers rose again.

The Irish economy also recovered well in 2021, despite being in lockdown for the first four months of the year, with both exports and the domestic economy performing strongly. GDP growth, though, continued to be inflated by trade related flows in the multi-national sector.

The recession in the domestic economy in 2020 saw employment contract and unemployment rise, but the labour market recovered strongly in 2021. By the end of 2021, the level of employment had recovered to 6.3% its pre-pandemic levels. Meanwhile, the unemployment rate fell sharply over the course of the year. By the end of 2021, the pandemic adjusted jobless rate had fallen to 7.4%, having stood at 27% earlier in the year when the economy was back in lockdown.

House prices in Ireland, as elsewhere, rose very strongly in 2021. The latest Central Statistics Office ('CSO') data show prices rose by 14.4% year-on-year in December. House building activity held up in 2021, despite the lockdown earlier in the year, with CSO data putting house completions at 20,500, broadly unchanged on the levels in 2020 and 2019.

Meanwhile, official government data show housing commencements picked up sharply during 2021, rising to over 30,700. This points to a likely rise in housing completions over the next couple of years.

Mortgage lending rebounded in 2021, increasing by 25% having fallen to €8.4bn in 2020.

The impact of the above factors on the Bank's financial performance, together with disposal of non-performing loan portfolios, resulted in a significant decrease in the Bank's expected credit loss estimates to €144m (2020: €320m), reflecting a more favourable economic environment and improved credit quality partially offset by post model adjustments.

All the main official international and domestic forecasters are projecting a continuation of the strong global economic recovery in 2022, helped by an ongoing supportive stance to macroeconomic policy and with scope for a rundown of the large build-up of private sector savings seen during 2020-2021. Both these factors are very much in evidence in Ireland and should be supportive of continuing strong growth in activity here during 2022. However, forecasters also warn of risks to the economic outlook, with more downside than upside risks, in particular with regard to the future path of the coronavirus, impact of the withdrawal of government Covid supports, ongoing disruptions and bottlenecks in supply chains, geopolitical tensions as well as elevated inflationary pressures.

The Bank continues to provide competitive home loans in the Irish market, offering a range of fixed and variable rates including Green 5 Year Fixed and High Value Fixed and through channel options including Branch and Digital. In addition the Bank offers a Switcher - legal fee support of €2,000 on all new loans switching to the bank from another lender. The Bank's main focus is to support viable owner-occupier customers, including first time buyers, home movers, home improvements and those switching their mortgage. During 2021, the Bank's priorities have been to continue to support customers, maintain strong capital position and improve operational resilience.

Asset Quality

The Bank's loan portfolio before loss allowance decreased by 2.3% during 2021 to €17,080m as at 31 December 2021, (2020: €17,485m) as non-performing loan portfolios sales, repayments, loan restructures, including write-offs exceeded loans granted by €405m during the year (2020: decrease of 1.5%).

The Bank's residential mortgage portfolio comprises €15,641m owner-occupier (2020: €15,725m) and €1,439m buy-to-let mortgages (2020: €1,760m).

Non-performing loans reduced from €919m at 31 December 2020 to €367m at 31 December 2021. This reduction was achieved through the sale of non-performing loan portfolios of €456m together with redemptions and repayments from customers of €96m. Non-performing loans as a percentage of gross loans and advances to customers decreased from 5.2% at 31 December 2020 to 2.1% at 31 December 2021, principally driven by loan sale transactions, further information is included in note 7, Net Gain/(Loss) on Derecognition of Financial Assets Measured at Amortised Cost, to the financial statements.

Expected credit loss provisions are €144m (2020: €320m). The significant reduction in the Bank's ECL level in 2021 is due to the disposal of non-performing loan portfolios, together with an improved economic environment and underlying credit quality resulting in ECL write-back in 2021.

Directors' report

Asset Quality (continued)

The Bank has outsourced the management and servicing of its mortgage portfolio to AIB. AIB has credit policies and strategies, implementation guidelines and monitoring structures in place to manage the Bank's mortgage portfolio, including restructured loans. AIB regularly reviews the performance of these restructured loans and has a dedicated team to focus on asset sales within the restructured portfolio.

AIB will continue to implement sustainable solutions for customers who engage with the Bank, where feasible. AIB continues to review all options in relation to reducing impaired loans including sales and strategic initiatives.

Funding activities

At 31 December 2021, the total amount of principal outstanding in respect of mortgage covered securities issued was €9,525m (31 December 2020: €10,675m), of which €1,775m was held by external debt investors (31 December 2020: €2,275m) and €7,750m by AIB (31 December 2020: €8,400m).

In 2021, the Bank did not issue covered bonds (2020: €2,000m purchased by AIB). In 2021 covered bonds with a nominal value of €1,150m were redeemed on maturity (€500m: Mar 21 External Investors and €650m: Sep 21 Internal Issuance).

There was a favourable technical market backdrop for covered bonds in 2021. The European Central Bank ('ECB') continued buying bonds in both the primary and secondary markets during the year via a combination of purchase programmes. The covered bond specific programme, third covered bond purchase programme ('CBPP3'), is aimed at enhancing the functioning of the monetary policy transmission mechanism, supporting financing conditions in the euro area, and facilitating credit provision to the real economy. On 31 December 2021, the holdings under CBPP3 were c. €298bn (2020: c. €288bn). The ECB deposit rate stands at a negative 0.5% at 31 December 2021. Recent ECB commentary indicates that the council is keeping under review the timing and extent of potential official interest rate increases with scope for change in 2022.

At its December 2021 meeting the ECB gave details of how it intends scaling back some of its asset purchase schemes in 2022, commencing with the pandemic related scheme ('PEPP'). However it did say that asset purchases will continue up to and beyond the point when it commences increasing interest rates. This will underpin continued liquidity support in covered bond markets in the medium term.

Covered bond spreads remained low over the course of 2021, as the overall technical backdrop remained supportive and with large amounts of excess liquidity in the financial system there was an appetite for assets across the credit curve. The Bank did not issue covered bonds to external market investors in 2021 in line with AIB's overall funding priorities and plan.

The AIB Group plc Green Bond Framework which facilitates the issue of green bonds on an unsecured use of proceeds basis, includes a green residential property category. The Bank's Green Mortgage loans which meet minimum Building Energy Rating ('BER') rating eligibility criteria can be included as eligible loans for green bond issuance purposes.

The ratings as at 31 December 2021 for the Bank's Covered Bond Programme, AIB and Ireland are shown below:

Rating Agency	Covered Bond Programme	AIB Issuer default rating	Ireland (Sovereign)
Moody's	Aaa	Baa2 (negative outlook)	A2
Standard & Poor's	AAA	BBB (negative outlook)	AA-

In addition to covered bonds the Bank is funded by borrowings from its parent AIB. The balance at December 2021 was €6,047m (2020: €4,914m) an increase of €1,133m. The increase is primarily driven by the net redemption of bonds in issue of €1,150m.

Share Capital

Information of the Bank's share capital is set out in note 26 to the financial statements.

Capital resources and regulatory capital ratios

The objectives of the Bank's capital management policy are to at all times comply with regulatory capital requirements and to ensure that the Bank 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 on page 44.

The Bank's capital requirement at 31 December 2021 and 31 December 2020 were a minimum Common Equity Tier 1 ('CET1') of 10.5%, comprised of a Pillar 1 requirement of 8.0%, Capital Conservation Buffer ('CCB') of 2.5%. The CBI is the authority responsible for setting the Irish Countercyclical Capital Buffer ('CCyB') in Ireland. No change to the current 0% CCyB has been announced by the CBI and this position is reviewed every 3 months. It is anticipated that a phase-in period will be provided to any re-introduction of the buffer.

Directors' report

Capital resources and regulatory capital ratios (continued)

At 31 December 2021, the fully loaded CET1 ratio was 21.8% (2020: 21.3%). The fully loaded total capital ratio was 26.9% (2020: 26.3%). The increase is driven by lower Risk Weighted Assets ('RWAs').

At 31 December 2021, the transitional CET1 ratio was 22.0% (2020: 21.7%), the transitional total capital ratio was 27.2% (2020: 26.6%).

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

At 31 December 2021, the Bank has an MREL ratio of 27.2% based on the Total Risk Exposure Amount requirement basis (2020: 26.6%).

The Single Resolution Board ('SRB') has set the Bank's intermediate binding MREL target under the Bank Recovery and Resolution Directive ('BRRD II') legislative framework to be complied with by 1 January 2022. The intermediate binding target is 18.2% of RWAs.

Leverage ratio

The leverage ratio at 31 December 2021, was 7.16% (2020: 7.20%) on a fully loaded basis and 7.25% (2020: 7.33%) on a transitional basis. The regulatory requirement at 31 December 2021 is 3%.

Risk management

The Bank adopts the same risk management framework and risk mitigation initiatives as AIB. The risk management framework provides a Group-wide definition of risk and lays down principles of how risk is to be identified, assessed, measured, monitored and controlled/mitigated, and the associated allocation of capital against same. The Bank has adapted its credit risk management operating model, including its underlying credit processes, in response to COVID-19. Further information in relation to risk management, including the principal risks and uncertainties facing the Bank, as required under the terms of the European accounts Modernisation Directive (2003/51/EEC) (implemented in Ireland by the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005) is set out in the risk management report on pages 12 to 50.

- Credit risk;
- Liquidity and funding risk;
- Capital adequacy risk;
- Market risk;
- Operational risk;
- Regulatory compliance risk
- Conduct risk;
- People and culture risk;
- Business model risk; and
- Model risk.

Outlook for 2022

Though COVID-related restrictions remained in place for much of the year, it is a measure of the underlying strength of the Irish economy that it could rebound so strongly in 2021 across all sectors including manufacturing, services, construction, and retail. Housing starts picked up sharply during 2021, with the strongest level of commencement activity seen since 2007.

Forecasters are projecting another year of strong economic growth, with the global economy expected to perform well and scope for a rundown of the large build-up of private sector savings seen during the pandemic. However, there are still risks to the economic recovery, including how well businesses will cope with a withdrawal of government COVID-19 supports as well as the marked rise in inflationary pressures over the past year, which is expected to see central banks move onto a policy-tightening path in 2022. The crisis in Ukraine adds further uncertainty to the economic outlook, but any impact on growth in the Irish market is expected to be modest at this point.

In the rapidly changing banking environment, the Bank continues to invest in its digital capability, distribution network and customer proposition in order to support a growing number of customers seeking to buy a home.

Further sales of portfolios of non-performing loans in 2022 are expected to improve the overall credit quality of the Bank's loan book.

The European Commission introduced a covered Bond Directive which has been transposed into Irish national law and is effective from 8 July 2022. On 3 November 2021, the Minister for Finance published S.I. No. 576/2021 European Union (Covered Bonds) Regulations 2021 to transpose into Irish law Directive (EU) 2019/2162. In accordance with the EU Covered Bonds Directive, the Irish Covered Bonds Regulations will come into operation on 8 July 2022 and will, with effect from 8 July 2022, introduce a number of amendments to the 2001 Act which are required to implement the EU Covered Bonds Directive into Irish law. The Bank will comply with the requirements of the new regulations as they apply to the issue and ongoing management of covered bonds and their related security.

Directors' report

Sustainability and Climate Change

The Bank recognises that climate change risk continues to evolve rapidly. At 31 December 2021 Climate change risk remains under ongoing consideration. The Bank as a subsidiary of AIB has committed to being a leader in the necessary transition to a low-carbon economy and continues to integrate climate risk into its overall risk management approach and broader sustainability strategy. AIB maintains oversight of climate-related metrics on the AIB Group Scorecard and is committed to ensuring operations will be carbon neutral by 2030. In support of AIB's sustainability strategy the Bank offers a Green 5 year fixed rate mortgage available to new and existing owner occupier customers. This offering is available to new and existing customers whose property has a Building Energy Rating (BER) of between A1-B3 inclusively. The Bank's Green Mortgage balance at 31 December 2021: €2,073m (2020: €1,064m.) The Bank is committed to continue supporting customers' transition to a low carbon economy with enhanced green products, propositions and support.

Going concern

The financial statements for the financial year ended 31 December 2021 have been prepared on a going concern basis as the Directors are satisfied, having considered the principal risks & uncertainties impacting the Bank, 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.

The Bank is dependent on AIB for continued funding and is therefore dependent on the going concern status of the parent. The financial statements of AIB have been prepared on a going concern basis.

In making their assessment, the Directors of AIB have considered a wide range of information relating to present and future conditions. These include capital forecasts and internally generated stress scenarios with additional scenarios to take account of the inorganic initiatives that AIB Group has committed to. The scenarios include the potential prolonged impacts of COVID-19 and the continuing impacts of Brexit.

In addition, the Directors of the Bank considered the principal risks and uncertainties which could materially affect the Bank's future business performance and profitability and which are outlined on pages 12 to 50.

There is no intention to liquidate the company or cease trading and the Bank is not aware of any material uncertainties related to conditions or events that may cast significant doubt upon the Bank's ability to continue as a going concern. In addition, the Bank's parent AIB has provided a letter of financial support to the Bank.

On the basis of the continued availability of funding from AIB to the Bank, the Board approved financial plans 2022 - 2024 in base and stress scenarios, the Directors of the Bank believe that it is appropriate to prepare the financial statements on a going concern basis.

Directors' and Secretary interests in shares

The Directors and Company Secretary did not hold any interests in the Bank's shares or debentures at the beginning of the year, during the year or at the year end, pursuant to Section 267 and 329 of the Companies Act 2014.

Shares held in the ultimate parent company AIB Group plc were below 1% of the issued share capital and not disclosable pursuant to Section 260 of the Companies Act 2014.

Share options

Share options were not granted or exercised during the year. Independent Non-Executive Directors do not participate in share option schemes.

Long term incentive plans

There were no conditional grants of awards of ordinary shares outstanding to Executive Directors or the Bank Secretary at 31 December 2021. Independent Non-Executive Directors do not participate in long term incentive plans.

Accounting policies

The principal accounting policies, together with the basis of preparation of the financial statements, are set out in note 1 to the financial statements.

Political donations

The Directors have satisfied themselves that there were no political contributions during the year that require disclosure under the Electoral Act 1997.

Corporate Governance

The Corporate Governance Statement on pages 9 to 11 forms part of the Directors' report.

Branches outside the State

The Bank has not established any branches outside the State.

Directors' report

Disclosure notice under section 33AK of the Central Bank Act 1942

The Bank did not receive a Disclosure Notice under Section 33AK of the Central Bank Act 1942 during 2021.

Adequate accounting records

The Directors have complied with the requirements of Sections 281 to 285 of the Companies Act 2014 with regard to adequate accounting records by ensuring that AIB allocate adequate resources with appropriate expertise to the financial function under the Outsourcing and Agency Agreement, for the provision of accounting and other financial services to the Bank. The Directors monitor AIB's performance against agreed service levels through receipt of regular reports covering the services provided. The accounting records of the Bank are maintained at the registered office of its ultimate parent at AIB Group plc, 10 Molesworth Street, Dublin 2, Ireland.

Non-adjusting events after the reporting period

There have been no significant events affecting the Bank since the reporting date which require amendment to or disclosure in the financial statements.

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 Bank's Auditor is unaware; and
- (b) the Director has taken all steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Bank'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.

Independent auditor

Deloitte Ireland LLP Chartered Accountants & Statutory Audit Firm was appointed as auditor on 28 June 2013 and has expressed their willingness to continue in office under Section 383(2) of the Companies Act, 2014, their continued appointment is subject to approval by the shareholder. Subject to this approval by the shareholder, Deloitte will step down as auditor following the conclusion of the 2022 financial year end process, having at that point served as statutory auditor for the maximum legally permitted unbroken tenure in office as the Bank's statutory auditor of 10 years.

On behalf of the Board,



Chris Curley

Interim Deputy Chair



Yvonne Hill

Independent Non-Executive Director

Date: 2 March 2022

Corporate governance report

Corporate Governance

A key objective of the Bank's governance framework is to ensure compliance with applicable legal and regulatory requirements.

Corporate Governance Requirements

The Bank's corporate governance practices are designed to ensure compliance with applicable legal and regulatory requirements including, Irish company law and the Listing Rules applicable to debt listings of the Main Securities Market of Euronext Dublin.

The Bank is subject to the provisions of the Central Bank of Ireland Corporate Governance Requirements for Credit Institutions 2015 ("the Requirements"), which imposes minimum core standards upon all credit institutions licensed or authorised by the CBI. The Bank is designated as a "high impact institution" for the purposes of the Requirements. The Bank sought and received derogations from a number of the obligations imposed on high impact institutions, namely:

- Derogation granted from the requirement for the Board to have seven directors on the basis that it continues to be of sufficient size and expertise to oversee adequately the operations of the credit institution.
- Derogation granted from the requirement for the Board to have at least three independent non-executive directors ('INEDs') on the basis that the Board continues to have at least 2 independent INEDs.
- Derogation granted from the requirement to have an external evaluation of Board effectiveness carried out every three years, on the basis that the Bank continues to conduct an internal review of its own performance and that of its individual directors annually and that this exercise is led by the Chairman.
- Derogation granted from the requirement for the Board to meet at least six times per calendar year, on the basis that the Board will continue to meet at least four times per calendar year and at least once every quarter.
- Derogation granted to rely on the following AIB Committees: AIB Board Risk Committee, AIB Remuneration Committee and AIB Nomination and Corporate Governance Committee.
- Derogation granted from the requirement for cross committee membership on the basis that the Bank has only one sub-committee.
- The Bank has received approval from the CBI that the Chief Risk Officer ('CRO') of AIB Group acts as the CRO of the Bank on an outsourced basis and a Designated Risk Representative ('DRR') has been appointed for the Bank for maintaining and monitoring the effectiveness of the credit institution's risk management system. The appointed DRR has a direct reporting line to the CRO.

Compliance with the Requirements

- Following the resignation of Mr. Dave Keenan on 25 June 2020, the Bank is non-compliant with Requirement 8.1 of the Requirements, as it does not have a Chairman in place. On 25 June 2020, Mr. Simon Ball was appointed Deputy Chairman for the interim, until such time as the Chairman's successor was appointed. Mr. Ball resigned from the Board on 3 December 2021 and subsequently Mr. Chris Curley was appointed to act as the Interim Deputy Chair, until such time as a successor Chair is appointed to the Board. The Board has approved the appointment of a suitable candidate as Chair and an application has been submitted through the regulatory Fitness & Probity approval process with the Joint Supervisory Team of the Central Bank of Ireland and European Central Bank. While the Bank's operations were not impacted by the above mentioned instances of non-compliance with the Requirements, it commits to and is actively engaged in ensuring compliance with the CBI's licence requirements.
- The Bank notified the CBI of all instances of non-compliance with the Requirements, within the required timeframe. Interim governance arrangements for the Chair were put in place, there was no known negative impact on the governance and financial position of the Bank, nor was there deemed to be any poor outcomes for its customers as a result.
- Following a robust review and challenge in regards to the adequateness of the mitigants established in respect of non-compliance with Requirement 8.1, which included advice provided from Corporate Governance, Compliance and Legal, the Board collectively deemed the Bank to be materially compliant with the provisions of the Requirements throughout 2021.

The Board of Directors

Governance is exercised through a Board of Directors ("the Board") and a senior management team. The Board is responsible for corporate governance encompassing leadership, direction and control of the Bank and is responsible for financial performance to its shareholder and ultimate parent AIB Group plc.

The Board is responsible for ensuring that appropriate systems of internal controls and risk management are maintained, specifically the Board sets the Risk Appetite Statement ('RAS') and the Bank's annual financial plans. The Bank benefits as a subsidiary of AIB from the wider AIB governance and operating structure, such as oversight of audit and risk related activities. AIB provides services to the Bank through an Outsourcing and Agency Agreement, updates in respect of the performance against agreed service levels which are provided to the Board regularly.

In the event that material failings or weaknesses in the systems of risk management or internal control are identified, an explanation of the issue and an assessment of its impact is presented to the Board together with a proposed remediation plan. Agreed remediation plans are tracked to conclusion, with status updates provided to the Board.

Corporate governance report

The Board of Directors (continued)

Given the work of the Board and representations made by the Management Team during the year, the Board is satisfied with the risk management and internal control framework and that the appropriate action would be taken to address any material failings or weaknesses identified through its operation.

The Bank has robust governance arrangements, which include a clear organisational structure with well defined, transparent, and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks to which it is or might be exposed, and adequate internal controls, including sound administrative and accounting procedures, IT systems and controls. The Board receives regular updates on the Bank's risk profile through the Bank's quarterly risk report and additionally through the attendance by the DRR at the Bank's quarterly Board meetings. The Board receives updates in respect of the outcomes of internal and external audit activities, via reporting at the Audit Committee and Board, respectively.

Financial reporting processes

The Board, supported by the Audit Committee, rely on AIB's internal control and risk management systems in relation to the financial reporting process. Such systems are designed to manage rather than eliminate the risk of failure to achieve the Bank's financial reporting objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board, through AIB's established processes regarding internal control and risk management systems ensures effective oversight of the financial reporting process. The Bank's overall control system around the financial reporting process includes:

- clearly defined organisation structure and authority levels with reporting mechanisms to the Board;
- a comprehensive set of policies and procedures, in line with AIB, relating to the controls around financial reporting and the process of preparing the financial statements; and
- ensuring the integrity of the financial statements and the accounting policies therein.

The Board evaluates and discusses significant accounting and reporting issues as the need arises.

Audit Committee

In accordance with section 1551 of the Companies Act 2014 and Requirement 19.1 of the Requirements, the Directors confirm that an Audit Committee ("the Committee") is established. The Board is assisted in the discharge of its duties by this Committee which was composed of four Non-Executive Directors for the majority of 2021 and which operates under Terms of Reference approved by the Board.

Ms. Hill (Chair) and Mr. Owens are INEDs and Mr. Ball prior to his resignation from the Board was an INED and they each possess/possessed the requisite degree of independence so as to be able to contribute effectively to the Committee's functions. Mr. Ball ceased to be a Member of the Committee following his resignation from the Board on 3 December 2021. Mr. Murphy is deemed to be a Non-Executive Director by virtue of the role he fulfils in an area of AIB unrelated to the Bank's operations.

During 2021, the Committee, had oversight responsibility for audit matters including, inter alia:

- the quality and integrity of the Bank's accounting policies, financial and narrative reports and disclosure practices;
- the independence and performance of the External Auditor ("the Auditor") and Internal Audit, duly liaising with the AIB Group Board Audit Committee on matters in relation to the Auditor and Internal Audit, as necessary; and
- the adequacy of arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and the effectiveness of the Bank's internal control, risk management, and accounting and financial reporting systems.

These responsibilities are discharged through its meetings with and receipt of reports from management including Group Finance, Group Internal Audit, Group Risk and Group Compliance. During 2021, the Committee met formally on four occasions and, amongst other activities, the Committee reviewed the Bank's annual financial statements and related accounting policies, key judgements and practices; reports on compliance; the effectiveness of internal controls; including the effectiveness of controls operated under the Outsourcing and Agency Agreement; and the findings, conclusions and recommendations of the Auditor and Internal Auditor. The Committee satisfied itself through regular reports from the Internal Auditor, Risk, Compliance and the Auditor that the system of internal controls was effective.

The Committee ensures that appropriate measures are taken into consideration and addresses control issues identified by Internal Audit and the Auditor.

The Audit Committee Chair engaged with the AIB Group Board Audit Committee, and attended the July 2021 Group Board Audit Committee meeting, and provided an update on the key themes and discussions at the Audit Committee meetings for the period December 2020 to June 2021.

Corporate governance report

Attendance at Board and Audit Committee Meetings during 2021

Directors' Attendance at Board Meetings During 2021		
	Eligible to attend	Attended
Simon Ball - Independent Non-Executive Director <i>Resigned – 3 December 2021</i>	5	5
Ken Burke <i>Resigned – 12 February 2021</i>	1	1
Chris Curley - Executive Director	5	5
Gerry Gaffney - Executive Director	5	5
Yvonne Hill - Independent Non-Executive Director	5	5
Conor McGrath - Managing Director Appointed- 12 February 2021	4	4
James Murphy - AIB Group Non-Executive Director	5	5
Paul Owens - Independent Non-Executive Director	5	5

Members' Attendance at Audit Committee Meetings During 2021		
	Eligible to attend	Attended
Simon Ball	4	4
Yvonne Hill	4	4
James Murphy	4	4
Paul Owens	4	4

During the year, the Committee participated in the AIB Group process for the selection of a new external Auditor. Following a competitive and transparent tender process, the Committee recommended to the Board the appointment of PwC as Auditor, in 2023. This appointment will be subject to approval by the shareholder in due course. The Committee look forward to working with the current Auditor, Deloitte, and PwC on the smooth and effective transition of the audit ahead of the 2023 year end.

Risk management report

1. Introduction

All of the Bank's activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risks which are assessed across AIB Group. Certain risks can be mitigated by the use of safeguards and appropriate systems and actions which form part of AIB Group's Risk Management Framework. The Bank experiences similar risks and uncertainties facing AIB Group and adopts the same risk mitigation initiatives as AIB Group.

AIB Group is monitoring closely the rapidly developing situation in Ukraine and the potential impact it may have on all its business. AIB Mortgage Bank has no direct credit exposure to Ukraine, Russia or Belarus and is closely monitoring events. An initial risk assessment of the key impacts on AIB Group has identified the key risks as being operationalising complex sanctions regime, potential for increase in cyberattacks and financial and market risks arising from volatility in asset values, interest rates or foreign exchange markets. Regular updates on the changing situation will be provided to the AIB Mortgage Bank Board as appropriate.

2. Risk management framework

The Bank relies on AIB Group's framework and its supporting policies, processes and governance. For more information on the operation of the Board of the Bank see pages [9](#) to 11 of this Report.

3. Individual risk types

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

- 3.1 Credit risk;
- 3.2 Liquidity and funding risk;
- 3.3 Capital adequacy risk;
- 3.4 Market risk;
- 3.5 Operational risk;
- 3.6 Regulatory compliance risk;
- 3.7 Conduct risk;
- 3.8 People and culture risk;
- 3.9 Business model risk; and
- 3.10 Model risk.

Risk management report

3.1 Credit risk

Credit risk is the risk that the Bank 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 can be categorised into the following three 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 counterparties failure to meet the terms of any contract with the Bank; and
- iii. Concentration risk: The risk of excessive credit concentration including to an individual, counterparty, group of connected counterparties, a type of collateral or a type of credit facility.

The most significant credit risks assumed by the Bank arise from mortgage lending activities to customers in the Republic of Ireland. Credit risk also arises on funds placed with other banks, derivatives relating to interest rate risk management and 'off-balance sheet' commitments.

Credit risk management

The activities which govern the management of credit risk within the Bank 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 Bank's approved RAS 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 Bank's goals and enables business growth, provides constructive challenge and avoids risks that cannot be adequately measured;
- 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 Bank'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 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 credit risk profile of the Bank including any changes in credit risk profile and emerging or horizon risks; and
- Mitigate potential credit risk arising from new or amended products or activities.

Credit risk management response to COVID-19

The Bank continued to adapt its credit risk management operating model, including its underlying credit processes, in response to COVID-19 to ensure proactive and appropriate management of the heightened credit risk in the portfolio, particularly for those sectors believed to be most impacted by COVID-19. In adapting its credit operating model, the Bank also enabled the introduction and implementation of a number of customer support measures in a streamlined, agile and risk appropriate manner.

In 2021, the Bank's focus continued to be on supporting its existing customers and ensuring they were provided with appropriate measures taking account of the expected financial impact and recovery outlook. As part of the Bank's credit risk management response to COVID-19, a range of actions were taken to ensure the appropriate measurement, classification, and reporting of its credit risk exposures during the year. These included:

- The continued use of additional guidance documents to support credit risk assessment and management activities, such as credit grading, staging, unlikely-to-pay testing, and taking account of COVID-19 sector risk and expected recovery outlook. This guidance supplements the Bank's existing credit risk policies and frameworks.
- Enhanced scope and frequency of mortgage portfolio asset quality monitoring as a result of COVID-19.

Moving forward as the economy reopens, the Bank will continue to proactively review borrowers particularly where reliefs such as government supports are withdrawn. This has been considered as part of the Governance process and was an explicit consideration as part of year end and ECL appropriateness. Where an appropriate ECL has been taken to reflect any potential latent risk this is outlined in the Management adjustments section "COVID-19 government supports post model adjustment".

Risk management report

3.1 Credit risk

Credit risk management consideration of ESG risks

The Bank continues to adapt its credit risk management processes and policies to capture environmental, social, and governance ('ESG') risks. Key additional steps taken during the year included:

- The property valuation process was updated to obtain BER ratings where applicable, which will be captured in collateral valuations and recorded on AIB Group's systems going forward.
- A new Sustainable Lending Framework was introduced which categorises relevant lending activities as green/transition for internal tracking and external disclosure purposes.

These enhancements are important building blocks in achieving our sustainability ambition of 70% of AIB Group's new lending to be green/transition lending by 2030, and also in increasingly understanding AIB Group's exposure to ESG risk.

Bank Risk Appetite Statement ('RAS')

The Bank's RAS process defines the amount and types of risks that the Bank is willing to take, accept, or tolerate in pursuit of its business objectives and strategy as set by AIB Group Board. As part of the overall framework for risk governance, it forms a boundary condition to strategy and guides the Bank in its risk-taking and related business activities. Credit risk appetite is set at AIB Group 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 Bank. The Bank's risk appetite for credit risk is reviewed and approved at least annually.

Credit risk principles and policy*

The Bank implements and operates policies to govern the identification, assessment, approval, monitoring and reporting of credit risk. The Bank relies on AIB Group credit risk framework and its supporting policies, processes and governance. The AIB Group Credit Risk Framework and AIB Group Credit Risk Policy are overarching AIB Group Board approved documents which set out the principles of how AIB Group identifies, assesses, approves, monitors and reports credit risk to ensure robust credit risk management is in place. These documents contain the minimum standards and principles that are applied across AIB Group to provide a common, robust and consistent approach to the management of credit risk. AIB 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 Bank, if required, to take early and proactive mitigating actions for any potential areas of concern.

Credit approval overview

The Bank operates credit approval criteria which:

- Include a clear indication of the Bank's target market(s), in line with its RAS;
- 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 standards and facility structuring standards.

Credit risk approval is undertaken by professionals operating within a defined delegated authority framework. AIB Group Board is the ultimate credit approval authority. AIB Group 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 AIB Group on a risk appropriate basis. Credit limits are approved in accordance with the Bank's written risk policies and guidelines. All exposures above certain levels require approval by the AIB Group Credit Committee ('GCC') and/or AIB Group 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 report

3.1 Credit risk

Credit risk organisation and structure

The Bank's credit risk management systems operate through a hierarchy of lending authorities. The Bank relies on the AIB Group credit risk framework and its supporting policies, processes and governance. All customer mortgage applications are subject to a credit assessment process. The role of AIB Group Credit Risk function is to provide direction, independent oversight and challenge of credit risk-taking.

Internal credit ratings*

One of the objectives of credit risk management is to accurately quantify the level of credit risk to which the Bank is exposed through the initial credit approval and ongoing review process. All relevant exposures are assigned to a rating model and within that to an internal risk grade (rating). A grade is assigned on the basis of rating criteria within each rating model from which estimates of probability of default ('PD') are derived.

Internal credit grades are fundamental in assessing the credit quality of loan exposures, and for assessing capital requirements for, portfolios where prior Regulatory approval has been received. Internal credit grades are key to management reporting, credit portfolio analysis, credit quality monitoring and in determining the level and nature of management attention applied to exposures. Changes in the objective information are reflected in the credit grade of the borrower/loan with the resultant grade influencing the management of individual loans. In line with the Bank'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 Bank has designed and implemented a credit grading masterscale that gives it the ability to categorise and contrast 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 Bank's Forbearance and Definition of Default ('DoD') and Credit Impairment policies.

Masterscale grades are driven by grading model appropriate PDs combined with other asset quality indicators such as default, forbearance and arrears in order to provide the Bank 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.

In addition to the internal credit ratings, 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 Bank has set out its methodologies and judgements exercised in determining its ECL under IFRS 9 on pages 19 to 30.

Strong/satisfactory

Accounts are considered strong/satisfactory if they have no current or recent credit distress and the PD 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 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.

Non-performing/default

The Bank's definition of default is 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 Bank 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) which are no longer classified as credit impaired but continue to be classified as non-performing and in default. This alignment ensures consistency with the Bank's internal credit risk management and assessment practices.

* Forms an integral part of the audited financial statements

Risk management report

3.1 Credit risk

Internal credit ratings* (continued)

Non-performing/default (continued)

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 Bank considers a borrower to be unlikely to pay their loans in full without realisation of collateral, regardless of the existence of any past-due amount, or
- The borrower is 90 days or more past due on any material loan. Day count starts when any material amount of principal, interest or fee has not been paid by a borrower on the due date.

The Bank's definition of financial distress and forbearance are included in AIB Group's Forbearance policy. Identification of non-performing exposures and unlikelihood to pay are included in AIB Group's DoD and Credit Impairment policy.

Credit risk monitoring*

The Bank 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 Bank'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 of the Bank and at AIB Group Board Risk Committee. Credit managers proactively manage 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 commentary on loan book, quality of the loan book by Stage and expected credit loss P&L drivers.

The Bank 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.

Borrowers are subject to an 'unlikely to pay' test in conjunction with any forbearance assessment, or on identification of any material adverse change or event in their credit risk profile.

Through a range of forbearance solutions, the Bank 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. Further details on forbearance are set out on page 40 and 41.

Credit Exposure

Credit risk mitigants*

The perceived strength of a borrower's repayment capacity is the primary factor in granting a loan. However, the Bank 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.

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

Collateral

Credit risk mitigation may include a requirement to obtain collateral as set out in AIB 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. AIB Group maintains policies which detail the acceptability of specific classes of collateral.

The principal collateral types for loans and advances are mortgage / legal charge over residential real estate.

* Forms an integral part of the audited financial statements

Risk management report

3.1 Credit risk

Credit Exposure

Credit risk mitigants*

Collateral (continued)

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.

Methodologies for valuing collateral

Details on the methodologies applied and processes used to assess the value of property assets taken as collateral are described in AIB Group's Property Valuation Policy and Property Valuation Guidance. Both documents were reviewed and updated in 2021 due to changes required under the EBA Guidelines on Loan Origination and Monitoring which came into effect on 1 July 2021. Due to the COVID-19 pandemic AIB Group has updated property valuation guidance policies to assist case managers in determining market values given current COVID-19 related market uncertainty on impacted sectors.

As mortgage loans comprise of all of the Bank's loans and advances portfolio, some key principles have been applied in respect of the valuation of property collateral held by the Bank.

In accordance with AIB Group's Property Valuation Policy and Guidelines, the Bank employs 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 AIB Group's Property Valuation Policy. Available market indices for relevant assets, e.g. residential property are also used in valuation assessments, where appropriate.

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

Collateral and ECLs

Applying one or a combination of the above methodologies, in line with AIB Group's Property Valuation Policy, has resulted in an appropriate 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 within 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. buy-to-let, residential and also its location. The valuation arrived at is therefore, a function of the nature of the asset.

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 report

3.1 Credit risk -Credit Exposure

Credit risk mitigants*

Collateral (continued)

Summary of risk mitigants by selected portfolios

Set out below are details of risk mitigants used by the Bank in relation to financial assets detailed in the maximum exposure to credit risk table on page 31.

Loans and advances to customers - residential mortgages

The following tables show the estimated fair value of collateral held for residential mortgages at 31 December 2021 and 2020:

	2021				
	Measured at amortised cost				
	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
Fully collateralised⁽¹⁾					
Loan-to-value ratio:					
Less than 50%	8,271	429	202	9	8,911
50% - 70%	4,807	244	82	7	5,140
71% - 80%	2,171	78	27	—	2,276
81% - 90%	563	16	16	—	595
91% - 100%	64	6	8	—	78
	15,876	773	335	16	17,000
Partially collateralised					
Collateral value relating to loans over 100% loan-to-value	26	8	12	—	46
Total collateral value	15,902	781	347	16	17,046
Gross residential mortgages	15,917	787	356	20	17,080
ECL allowance	(17)	(18)	(102)	(7)	(144)
Carrying value residential mortgages	15,900	769	254	13	16,936

⁽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.

	2020				
	Measured at amortised cost				
	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
Fully collateralised⁽¹⁾					
Loan-to-value ratio:					
Less than 50%	6,850	509	419	9	7,787
50% - 70%	4,512	338	206	18	5,074
71% - 80%	1,891	149	75	5	2,120
81% - 90%	1,776	115	49	2	1,942
91% - 100%	283	32	29	1	345
	15,312	1,143	778	35	17,268
Partially collateralised					
Collateral value relating to loans over 100% loan-to-value	56	22	61	1	140
Total collateral value	15,368	1,165	839	36	17,408
Gross residential mortgages	15,390	1,175	879	41	17,485
ECL allowance	(20)	(34)	(251)	(15)	(320)
Carrying value residential mortgages	15,370	1,141	628	26	17,165

⁽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 the financial year end.

* Forms an integral part of the audited financial statements

Risk management report

3.1 Credit risk - Credit Exposure

Credit risk mitigants* (continued)

Loans and advances to customers - residential mortgages

For residential mortgages, the Bank 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 2021 and 2020 is estimated based on property values at origination or date of latest valuation and applying the CSO Residential Property Price Index to these values to take account of price movements in the interim.

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 2021 amounted to €75m (2020: €52m) and those with a negative fair value are reported as liabilities which at 31 December 2021 amounted to nil (2020: nil).

Loans and advances to banks

Interbank placings, including central banks, are largely carried out on an unsecured basis apart from reverse repurchase agreements. However, there were no repurchase agreements outstanding at 31 December 2021 (2020: nil).

Measurement, methodologies and judgements*

Introduction

The Bank has set out the methodologies used and judgements exercised in determining its ECL allowance for the year to 31 December 2021.

The Bank, in estimating its ECL allowance does so in line with the expected credit loss impairment model as set out by the International Financial Reporting Standard 9 Financial Instruments. This model requires a timely recognition of ECL across AIB Group. The standard does not prescribe specific approaches to be used in estimating ECL allowance, 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 and forward looking – recognising economic conditions;
- The ECL must reflect the time value of money;
- A lifetime ECL is calculated for financial assets in Stage 2 and 3 and Purchased and Originated Credit Impaired ('POCI'); and
- 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 the standard as the weighted average of credit losses across multiple macroeconomic scenarios, with weights assigned based on the probability of each scenario occurring 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 loan commitments 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 impact on credit risk parameters.

Bases of measurement

Under the standard, there are two bases of measurement:

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.

* Forms an integral part of the audited financial statements

Risk management report

3.1 Credit risk

Measurement, methodologies and judgements*

Credit risk at origination ('CRAO')

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 Bank became irrevocably committed to the contractual obligation and the account was first graded on an appropriate model.

For undrawn credit facilities, the Bank uses the date of origination as the date when it becomes party to the irrevocably contractual arrangements or irrevocable commitment.

The Bank uses best available information for facilities which originated prior to 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.

Stage 1 characteristics

Obligations are classified Stage 1 at origination, unless POCL, 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 Bank 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

AIB 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 Bank compares each obligation's annualised average probability weighted residual origination lifetime probability of default ('LTPD') (see 'Credit risk at origination') to its current estimated annualised average probability weighted residual LTPD at the reporting date. If the difference between these two LTPDs meets the quantitative definition of SICR, the Bank 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. The Bank has determined that an account had met the quantitative measure if the average residual LTPD at the reporting date was at least double the average residual LTPD at origination, and the difference between the LTPDs was at least 85bps. The appropriateness of this threshold is kept under review by the Bank.

Qualitative measure: This measure reflects the assessment of the change in credit risk based on the Bank'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. As a result of COVID-19 a suite of additional guidance documents to support identification of significant increase in credit risk have been applied by the Bank. This guidance supplements AIB's existing credit risk policies and frameworks.

The qualitative 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 Bank has adopted the rebuttable presumption within IFRS 9 that loans 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.

* Forms an integral part of the audited financial statements

Risk management report

3.1 Credit risk

Measurement, methodologies and judgements* (continued)

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 borrower exits Stage 3 subject to probation period in line with regulatory requirements.

The key criteria resulting in a classification of default are:

- Where the Bank considers a borrower to be unlikely to pay their loans in full without realisation of collateral, regardless of the existence of any past-due amount; or
- The borrower is 90 days or more past due on any material loan (count starts when any amount of principal, interest or fee has not been paid by a borrower at the date it was due).

Identification of non-performing exposures and unlikelihood to pay are included in AIB's Definition of Default and Credit Impairment policy.

Purchased or originated credit impaired ('POCI')

POCIs are assets originated credit impaired that have a discount of more than or equal to 5% of the contractual value when measured at fair value. The Bank 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 change 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. The Bank's IFRS 9 models have been developed and approved through AIB's Model Risk Management Framework.
- ii. **Simplified approach:** For portfolios not on the standard approach, the Bank 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. **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 any relevant over collateralization (headroom) and should not result in a zero overall ECL unless there is sufficient headroom to support this. The key judgements in the 2021 year end ECL estimates are outlined on page 28 and 29.

Effective interest rate ('EIR')

The ECL must incorporate the time value of money discounted to the reporting date using the EIR determined at initial recognition or an approximation thereof:

- The Bank 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 proxies remain appropriate and do not result in a material misstatement of the ECL.
- The Bank 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

Risk management report

3.1 Credit risk

Measurement, methodologies and judgements* (continued)

Policy elections and simplifications

Low credit risk exemption

The Bank 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 Bank 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 Bank 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 debt securities investment 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 allocated to as Stage 2.

Credit risk models

Probability of default ('PD')

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 33, along with key factors such as 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 ('LGD')

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 Bank (i.e. the exposure) and the net present value of future cash flows less any relevant costs expected to be incurred in the recovery process. If an account returns to performing from default (excluding 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 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.

Exposure at default ('EAD')

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.

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 pre-payment.

* Forms an integral part of the audited financial statements

Risk management report

3.1 Credit risk

Measurement, methodologies and judgements* (continued)

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 may 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 Bank determines, based on specific criteria, the point at which, there is no reasonable expectation of recovery. When the following criteria exist, the loan can be subject to a partial or full write-off:

- A decision has been taken to enforce on a loan, due to no agreement with the Customer for a restructure / settlement, all Customer engagement with the Bank regarding their loan agreement has ceased.
- Inception of formal insolvency proceedings or receivership/other formal recovery action.
- Receivership or other formal recovery action (e.g. where expectation of recovery of collateral is expected through enforcement activity but no additional recoveries above the collateral value are anticipated) has commenced or is about to commence; and
- A loan is substantially provided for or no material repayments have been received for a period of time (minimum 12 months) and all Customer engagement with the Bank regarding their loan agreement has ceased.

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). Refer to page 40 for details of forbearance.

The contractual amount outstanding of loans written off during the year that are still subject to enforcement activity are outlined on page 39 and relate to non-contracted write-offs, both full and partial.

The Bank 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.

Macroeconomic scenarios and weightings

The macroeconomic scenarios used by the Bank for the ECL calculation have been subject to the Bank's established governance process covering the development and approval of macroeconomic scenarios used for planning and internal stress testing purposes. The macroeconomic scenarios and attached probabilities are reviewed by the Asset and Liability Committee ('ALCo') regularly, and such reviews took place frequently during 2021 in response to economic developments. The macroeconomic scenarios and attached probabilities are reviewed by the Asset and Liability Committee ('ALCo') regularly, and such reviews took place frequently during 2021 in response to economic developments. The scenarios are then reviewed and approved by the AIB Mortgage Bank's Board and approved for use by the AIB Board. The scenario probabilities are approved by the AIB Mortgage Bank Audit Committee and by AIB Board Audit Committee ('BAC'). The parameters used within the Bank's ECL models include macroeconomic factors which have been established as drivers of the default risk and loss estimates. Therefore, a different credit loss estimate is produced for each scenario based on a combination of these identified macroeconomic factors. The credit loss estimates for each scenario are then weighted by the assessed likelihood of occurrence of the respective scenarios to yield the ECL outcome.

Macroeconomic scenarios:

The Covid-19 pandemic is the main risk to the short-term economic outlook during the reporting period. The Irish economy was more robust than expected in 2021, supported by a strong vaccine roll-out campaign. However, the emergence of new variants of the virus during 2021 continue to have negative impacts on economic activity and employment levels. As part of the process of preparing the ECL calculation, a number of plausible scenarios were considered, as at the reporting date, which reflected a reasonable range of prevailing risks and uncertainties including inter alia possible trajectories for the public health crisis as well as for inflation that might trigger a future economic downturn. In total, four scenarios have been used in the ECL calculation. These four scenarios consist of a Base case scenario, along with three alternative scenarios (comprising one upside, one relatively mild downside scenario that considers unexpected prevalence of the virus and a more severe downside arising from persistently high inflation) with the consequent economic impacts. Non-linear effects are captured in the development of risk parameters as well as through the inclusion of both the single upside and two downside scenarios.

The Bank's Economic Research Unit ('ERU') provide the scenario forecasts over five years. These are then independently reviewed and challenged, on both a quantitative and qualitative basis, by the Bank's Risk function. The base case is benchmarked against the outlook available from official sources (e.g. Central Bank of Ireland, Department of Finance, ESRI, etc.) to ensure it is appropriate.

* Forms an integral part of the audited financial statements

Risk management report

3.1 Credit risk

Measurement, methodologies and judgements* (continued)

Macroeconomic scenarios and weightings (continued)

Upside and downside scenarios, relative to the base case, are provided to ensure a reasonable range of possible outcomes is available for the IFRS 9 process. These scenarios are benchmarked to alternative scenarios from official sources, where possible. The longer term economic projections (beyond five years) are sourced from a reputable external provider with the internal 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 kept under review by the Bank's ALCo and approved by the AIB Board.

The scenarios used for the year-end ECL process are described below and reflect the views of the Bank as at the reporting date.

Base case: The scenario assumes that, with the rapid and successful roll-out of COVID-19 vaccines and the supportive role of fiscal and monetary policies, the outlook for the global economy improves.

Very strong growth in economic activity is anticipated in most economies, including Ireland, during 2022. The surge in GDP growth in Ireland reverts to a more normal pace from 2023 onwards. In this scenario, Irish economic activity (as measured by modified domestic demand) returns to pre-pandemic levels of activity by the second half of 2021.

The rise in unemployment has been mitigated by government income supports and furlough arrangements (i.e. the Pandemic Unemployment Payments and Employment Wage Subsidy Scheme). Our projection for the unemployment rate estimates what this rate would be in the absence of such support measures. This estimate is conservative relative to the range provided by the traditional unemployment rate and the COVID-19-adjusted unemployment rate (which includes recipients of temporary pandemic unemployment payments) published by the Central Statistics Office. In this scenario, unemployment remains relatively high only reverting to a pre-pandemic 'norm' by the first quarter of 2024.

House prices performed much better than expected in 2021 in Ireland with supply shortages in the housing market exacerbated by the pandemic. Prices are forecast to rise by an average 8% in 2021 and 2022.

Downside 1 ('Lower growth in 2022'): This scenario assumes that the speed of vaccine production and deployment does not prove fast enough to stop transmission of the virus and emergence of new vaccine resistant variants. Economic activity is slower to recover as a result of the re-introduction of some containment measures during 2022 with business and consumer confidence impacted as uncertainty remains high. Economic growth, as measured by GDP, is two percentage points lower in 2022 and the additional scarring effects from this results in economic activity being 2.3% lower relative to the Base case over the 2022-2026 period.

Irish unemployment rises from 9% at end 2021 to 12% in the first quarter of 2023, before starting to decline. The average rate of unemployment, however, is assumed to be 2.5 percentage points higher than in the Base case in 2026.

House prices in Ireland are c.7% lower than in the base case by end 2026.

Downside 2 ('Persistent high inflation'): In this scenario, we assume that the rise in inflation in 2021 does not prove temporary with wage inflation picking up sharply, the rate of increase in the consumer price index remains elevated in 2022, with growing risks to price stability over the medium-term. Central banks are required to tighten policy aggressively during 2022, ending Quantitative Easing and hiking official rates significantly. This has very negative consequences for financial markets and the global economy. The policy stance begins to loosen in 2023 as inflation eases somewhat. This results in a marked deceleration in Irish GDP growth over 2022-2024, with cumulative growth over 2022-2026 being c. 5.7% lower than in the Base case.

Irish unemployment rises sharply to 14.5% by Q1 2023 and remains high over the forecast period, still averaging in excess of 11% in 2025 and 9.5% in 2026. The average rate of unemployment over the 2022 to 2026 scenario horizon is 6.2 percentage points higher than in the Base case.

With the Irish economy in recession, there is a very large fall in residential property prices (by c.18%) between 2022 to 2024 and values are 23% lower than the base by end 2026.

Upside ('Quick economic recovery'): This scenario reflects a much quicker economic recovery than outlined in the Base case. The key trigger for this are advances in therapeutic measures against the virus, including a rapid and successful roll out of a vaccine. While unemployment remains elevated relative to pre-COVID-19 levels in the short term, in 2024 it averages 4.4% (well below the pre-pandemic 2019 average of 5%). Under this scenario, house prices also return more quickly as demand continues to be robust. By end-2026, house prices are c.10.5% higher than in the Base case.

* Forms an integral part of the audited financial statements

Risk management report

3.1 Credit risk

Measurement, methodologies and judgements* (continued)

Macroeconomic scenarios and weightings (continued)

The table below sets out the 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 1, (iii) Downside 2 and (iv) Upside scenarios at 31 December 2021 (average over 2022 - 2026) and at 31 December 2020 (average over 2021-2025).

Macroeconomic factor (%)	December 2021 5 year (2022-2026) average forecast				December 2020 5 year average forecast			
	Base	Downside ('Lower growth in 2022')	Downside ('Persistent high inflation')	Upside ('Quick economic recovery')	Base	Downside ('Lower growth in 2021')	Downside ('Extended high unemployment')	Upside ('Quick economic recovery')
Republic of Ireland								
GDP growth	3.8	3.4	2.6	4.5	3.7	3.0	2.0	4.4
Residential property price growth	2.9	1.4	(2.1)	5.0	1.7	0.8	(3.6)	3.4
Unemployment rate	5.7	9.7	11.9	4.8	7.2	8.9	11.9	6.6
Employment growth	2.6	2.0	1.4	2.9	2.3	1.9	1.0	2.5
Average disposable income growth	3.5	2.6	1.8	3.8	1.8	1.4	1.3	2.5
Inflation	1.7	1.3	2.4	2.2	1.1	1.0	0.9	1.4

Additional information is provided in the table below which details the individual macroeconomic factor forecast for each year across the four scenarios, as at 31 December 2021. This is because, due to the increased variability as a result of COVID-19, the average for the five years 2022 -2026 above does not provide additional insight for each factor across the impacted years.

Macroeconomic factor	Estimate	Base					Downside 1 ('Lower growth in 2022')				
	2021 %	2022 %	2023 %	2024 %	2025 %	2026 %	2022 %	2023 %	2024 %	2025 %	2026 %
Republic of Ireland											
GDP growth	14.0	6.0	4.0	3.4	3.0	2.8	4.0	2.3	3.0	3.5	4.0
Residential property price growth	12.0	4.0	3.0	3.0	2.5	2.0	(3.5)	—	5.0	3.0	2.5
Unemployment rate	10.4	7.2	6.0	5.3	5.0	4.8	11.2	11.4	9.8	8.6	7.3
Employment growth	1.1	4.9	2.6	2.2	1.8	1.7	1.0	1.0	2.9	2.6	2.7
Average disposable income growth	2.5	2.0	3.5	4.0	4.0	4.0	—	2.5	3.0	3.5	4.0
Inflation	2.2	2.7	1.5	1.5	1.5	1.5	1.5	1.2	1.2	1.3	1.4

* Forms an integral part of the audited financial statements

Risk management report

3.1 Credit risk

Measurement, methodologies and judgements* (continued)

Macroeconomic scenarios and weightings (continued)

Macroeconomic factor	Downside 2 (‘Persistent high inflation’)					Upside 1 (‘Quick economic recovery’)				
	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026
	%	%	%	%	%	%	%	%	%	%
Republic of Ireland										
GDP growth	2.5	1.0	2.4	3.3	4.0	7.5	5.0	4.0	3.0	2.8
Residential property price growth	(6.0)	(12.5)	—	4.0	4.0	7.0	6.0	5.0	4.0	3.0
Unemployment rate	12.5	14.0	12.6	11.1	9.5	6.7	5.2	4.4	4.0	3.9
Employment growth	(0.7)	(0.8)	2.7	2.8	3.0	5.4	3.0	2.4	2.0	1.8
Average disposable income growth	1.0	(0.5)	2.0	2.8	3.5	2.7	3.7	4.1	4.3	4.1
Inflation	4.0	3.2	2.0	1.4	1.2	3.2	2.0	2.0	2.0	2.0

The key changes to the scenario forecasts in the reporting period are driven by the COVID-19 pandemic. The extent of contagion and the wider economic impact of COVID-19 gave rise to elevated uncertainty regarding the outlook and possible outcomes at the previous reporting period (31 December 2020). The series of shocks brought about by a series of lockdowns, and recoveries following the subsequent lifting of restrictions, in many economies has resulted in a significant re-assessment of the forecasts.

The four scenarios detailed above are used to reflect a representative sample of possible outcomes. 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 the AIB Group Risk function. These are reviewed regularly at AIB ALCo and are subject to approval at AIB BAC. The probabilities described below reflect the views of the Bank at the reporting date.

The weights for the scenarios are derived based on the expert judgement, with reference to external market information where possible. Given the unprecedented nature and impact of COVID-19, the standard quantitative approaches (such as statistical distribution analysis of Irish GDP growth over different time horizons informed by historic patterns in the economic data) used to assess scenario likelihoods are less useful than normal in this environment. As a result, they have not been a key driver of the weightings at the reporting date.

These weightings are reviewed regularly by AIB ALCo and adjusted where required. The key drivers of the weightings at the reporting date are:

- The higher weighting on the downside scenarios (versus the upside scenario) reflects AIB's view that risks remain skewed to the downside due to rising Covid cases and the spread of a new variant which was a cause for concern; rising inflationary pressures, continuing disruptions to supply chains and labour shortages that impede the pace of activity and raise the potential for greater than expected economic scarring. Additionally, other risks remain which also support AIB's view that risks have become somewhat tilted to the downside. These include the risk that government supports to businesses and households may be delaying, but not preventing, future defaults and bankruptcies. There are also rising tensions between the UK and the EU relating to Brexit and the Northern Ireland protocol. In addition, excess savings built up during the pandemic may be retained for precautionary motives, rather than spent, impacting on economic growth.
- The weightings also consider the fact that unemployment is trending lower than expected in many economies, with little evidence yet of major scarring in labour markets from the pandemic. House prices are performing better than anticipated. Meanwhile, a much greater than expected rundown of private sector savings in the next couple of years could fuel stronger than anticipated growth, especially given the extent of pent-up consumer demand.
- Risks were adjudged to be evenly balanced at June 2021 (the weighting assigned to downside risks was 25% while the upside scenario weight was also 25%). In the final quarter of 2021, however, the AIB view was that the balance of risks had tilted more to the downside due to the above mentioned developments.

* Forms an integral part of the audited financial statements

Risk management report

3.1 Credit risk

Measurement, methodologies and judgements* (continued)

Macroeconomic scenarios and weightings (continued)

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

Scenario	Weighting 31 December 2021		Weighting 31 December 2020
Base	50%	Base	50%
Downside ('Lower growth in 2022')	25%	Downside 1 ('Lower growth in 2021')	25%
Downside ('Persistent high inflation')	5%	Downside 2 ('Extended high unemployment')	5%
Upside ('Quick economic recovery')	20%	Upside ('Quick economic recovery')	20%

In assessing the adequacy of the ECL allowance, the Bank has considered all available forward-looking information as of the balance sheet date in order to estimate the future expected credit losses. The Bank, 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 Bank's expectation, the Bank's estimate of ECL would increase accordingly.

Sensitivities

The Bank'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 that include changes in model parameters and quantitative 'significant increase in credit risk' ('SICR') staging assignment.

Relative to the base scenario, in the 100% downside 'Lower growth in 2022' and 'Persistent high inflation' scenario, the ECL allowance increases by 6% and 21% respectively. In the 100% upside scenario, the ECL allowance declines by 1%, showing that the ECL impact of the two downside scenarios is greater than that of the upside scenario. For 31 December 2021, a 100% downside 'Lower growth in 2022' and 'Persistent high inflation' scenarios sees a higher ECL allowance sensitivity of €8m and €30m respectively compared to base (€5m and €28m respectively compared to reported). This compares to an ECL allowance sensitivity, relative to the base scenario of €17m and €75m respectively compared to base, (€11m and €69m reported) for 31 December 2020.

	ECL allowance at 31 December 2021				
	Reported	100% Base	100% Downside 1 (Lower growth in 2022')	100% Downside 2 (Persistent high inflation')	100% Upside (Quick economic recovery')
	Total	Total	Total	Total	Total
Loans and advances to customers	€m	€m	€m	€m	€m
Residential mortgages	144	141	149	172	139
Total	144	141	149	172	139
Off-balance sheet loan commitments	—	—	—	—	—
	144	142	149	172	139

* Forms an integral part of the audited financial statements

Risk management report

3.1 Credit risk

Measurement, methodologies and judgements* (continued) Sensitivities (continued)

	ECL allowance at 31 December 2020				
	Reported	100% Base	100% downside (‘Lower growth in 2021’)	100% downside (‘Extended high unemployment’)	100% upside (‘Quick economic recovery’)
	Total	Total	Total	Total	Total
Loans and advances to customers	€m	€m	€m	€m	€m
Residential mortgages	320	314	331	389	303
Total	320	314	331	389	303
Off-balance sheet loan commitments	—	—	—	—	—
	320	314	331	389	303

Management judgements

Post model adjustments (PMAs) are applied where management believe that they are necessary to ensure an adequate level of overall ECL provision and to address known model limitations and/or emerging trends. All PMAs are approved under the ECL governance process through which, the completeness and accuracy of post model adjustments are considered against the backdrop of the risk profile of the loan book, recent loss history, changes in underlying resolution strategies not captured in the models, and where key uncertainties exist such as COVID-19.

The PMAs approved for year end 2021 (and 2020 comparison), are set out below and categorised as follows:

- NPE resolution strategy – ECL adjustments where the model does not take into account alternative strategies such as portfolio sales.
- Uncertainty due to the impact of COVID-19 – ECL adjustments are required as the modelled probability of default did not reflect the uncertainties associated with the impact of COVID-19. Management determined that increased ECL was required, until further information on the impact of COVID-19 became known, particularly in relation to the withdrawal of government support programmes.
- Macroeconomic factors – ECL adjustments reflecting the changed impact of certain macroeconomic factors primarily as a result of the alternative recovery strategies now being adopted.
- Other – ECL adjustments where it was judged that amendment to the modelled ECL was required.

* Forms an integral part of the audited financial statements

Risk management report

3.1 Credit risk

Measurement, methodologies and judgements* (continued)

Management judgements (continued)

Post Model Adjustments (continued)

	2021	2020
	Residential mortgages	Residential mortgages
	€m	€m
Management judgements		
NPE resolution strategy	81	161
Uncertainty due to the impact of COVID-19	9	12
Macroeconomic factors	13	—
Other	—	4
PMA total	103	177

NPE resolution strategy

Similar to 2020, an ECL adjustment exists where it is expected that a portfolio sale or other alternative strategies may be adopted which are not included within the current IFRS 9 models. LGD models are based on empirical internal data assuming business as usual resolution. Given that the models do not account for portfolio sale outcomes, post model adjustments have been applied to reflect the potential outcomes, pending model redevelopment.

This post model adjustment relates to mortgages which have been classified as non-performing for a considerable length of time. In the second half of 2021, an additional cohort of unresolved longer-dated non-performing mortgages have also been included in scope for potential portfolio sales.

The ECL PMA stock has reduced from €161m at 31 December 2020 to €81m at 31 December 2021 primarily reflecting portfolio sales during 2021, however a new ECL PMA of €24m for additional exposures identified in the second half of 2021 as requiring increases to the LGD component of the modelled outcome to reflect the expected resolution strategy. The PMA is underpinned by an independent external benchmark exercise and a range of outcomes specific to collateral values underpinning the loans, market conditions and prior loan sale outcomes.

Uncertainty due to the impact of COVID-19

Similar to 2020, an €9m ECL adjustment has been taken in 2021 to reflect the risk of COVID-19 particularly where the borrower is either in receipt of ongoing government supports or the supports have been withdrawn for less than 3 months. The post model adjustment ensures a Stage 2 ECL cover is applied for these Stage 1 borrowers in recognition of the increased risk.

Macroeconomic factors

An ECL adjustment has been applied to reflect limitations within the mortgage model relating to two parameters, the house price index (HPI) growth and employment growth. This is to ensure that the ECL remains appropriate for the underlying portfolio acknowledging the limitations within the model.

The HPI index parameter, which assumes growth over the long term, has reduced the LGD arising in business as usual resolution strategies impacting ECL cover on Stage 1, Stage 2 and Stage 3 loans (not covered by NPE resolution strategy adjustment above). An adjustment has been made to reflect AIB Group's potential alternative recovery strategies for the impacted loans that are or become credit impaired.

Furthermore, due to the impact COVID-19, the employment growth rate parameter within the model had a temporary spike resulting in a reduction of the ECL allowance. This is expected to be a temporary event due to COVID-19 and the ECL was adjusted to reflect a more appropriate level of expected loss outcome. These adjustments amount to €13m (Stage 1 €5m, Stage 2 €4m and Stage 3 €4m).

Other

This relates to a cohort of non-defaulted lifetime interest only mortgages which were identified for individual assessment to confirm likelihood to pay. At 31 December 2021, the assessment for € 27 million of this cohort is pending and as a result these have been allocated to Stage 2 reflecting management's qualitative judgement of a significant increase in credit risk given the additional end of term risk not fully incorporated into the modelled outcomes. This adjustment amounted to €0.3m.

* Forms an integral part of the audited financial statements

Risk management report

3.1 Credit risk

Measurement, methodologies and judgements* (continued)

ECL governance

The Board of AIB Group 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 AIB Group.

The key governance points in the ECL approval process during 2021 were:

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

For ECL governance, the Bank's management employs its expert judgement on the adequacy of ECL. 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 Bank 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 and subsidiaries is initially informed by the output of the quantitative analytical models but may be subject to management adjustments. This ECL output is then subject to approval at individual business unit level (ECL Committee), which also includes subsidiaries, prior to onward submission to the GCC. GCC reviews and challenges ECL levels prior to recommendation to the Board Audit Committee as the final approval authority.

In addition, the Bank's ECL levels are also subject to review by the Bank's Audit Committee and Board prior to final approval by AIB Group's Board Audit Committee.

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 Bank 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.

* Forms an integral part of the audited financial statements

Risk management report

3.1 Credit risk - Credit exposure overview

Maximum exposure to credit risk*

The following table sets out the maximum exposure to credit risk that arises within the Bank 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 2021 and 2020:

	2021			2020		
	Amortised Cost ⁽¹⁾	Fair Value ⁽²⁾	Total	Amortised Cost ⁽¹⁾	Fair Value ⁽²⁾	Total
	€m	€m	€m	€m	€m	€m
Derivative financial instruments	—	75	75	—	52	52
Loans and advances to banks	83	—	83	70	—	70
Loans and advances to customers	16,936	—	16,936	17,165	—	17,165
<i>Included elsewhere:</i>						
Accrued interest	—	—	—	29	—	29
Other assets	15	—	15	—	—	—
	17,034	75	17,109	17,264	52	17,316
Off balance sheet loan commitments	843	—	843	559	—	559
Maximum exposure to credit risk	17,877	75	17,952	17,823	52	17,875

⁽¹⁾All amortised cost items are loans and advances 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⁾ 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.

Credit risk exposure derives from standard on-balance sheet products such as mortgages. In addition, credit risk arises from other products and activities including "off-balance sheet" commitments.

The following table summarises financial instruments in the statement of financial position at 31 December 2021 and 2020:

	2021*				2020*			
	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
Loans and advances to banks	83	—	83	—	70	—	70	—
Loans and advances to customers:	17,080	(144)	16,936	30	17,485	(320)	17,165	(113)
Loan commitments	843	—	843	—	559	—	559	—
Total				30				(113)

There was a €30m net credit impairment writeback in the year to 31 December 2021 (2020: credit impairment charge of €113m). This comprised of a €16m writeback on loans and advances to customers (net re-measurement of ECL allowance writeback of €16m (2020: gross charge of €128m) in addition to recoveries of amounts previously written-off of €14m (2020: €15m) and a nil charge for off-balance sheet exposures.

Further details on the net credit impairment charge in the year to 31 December 2021 are set out on page 87.

* Forms an integral part of the audited financial statements

Risk management report

3.1 Credit risk - Credit profile of the loan portfolio

The following table analyses the loan portfolio by ECL staging at 31 December 2021 and 2020:

Amortised cost	2021			2020		
	Owner occupier	Buy-to-let	Total	Owner occupier	Buy-to-let	Total
Gross loans and advances to customers						
	€m	€m	€m	€m	€m	€m
Total gross carrying amount	15,641	1,439	17,080	15,725	1,760	17,485
Analysed as to ECL staging						
Stage 1	14,725	1,192	15,917	14,058	1,332	15,390
Stage 2	639	148	787	943	232	1,175
Stage 3	260	96	356	687	192	879
POCI	17	3	20	37	4	41
Total	15,641	1,439	17,080	15,725	1,760	17,485
ECL allowance - statement of financial position	€m	€m	€m	€m	€m	€m
Stage 1	(15)	(2)	(17)	(15)	(5)	(20)
Stage 2	(14)	(4)	(18)	(19)	(15)	(34)
Stage 3	(65)	(37)	(102)	(200)	(51)	(251)
POCI	(6)	(1)	(7)	(13)	(2)	(15)
Total ECL allowance	(100)	(44)	(144)	(247)	(73)	(320)
Carrying amount loans and advances	15,541	1,395	16,936	15,478	1,687	17,165
ECL allowance cover percentage	%	%	%	%	%	%
Stage 1	0.10	0.10	0.11	0.11	0.38	0.13
Stage 2	2	3	2	2	6	3
Stage 3	25	39	29	29	27	29
POCI	32	46	34	35	50	37
Income statement	€m	€m	€m	€m	€m	€m
Net remeasurement of ECL allowance	(8)	(8)	(16)	104	24	128
Recoveries of amounts previously written-off	(8)	(6)	(14)	(11)	(4)	(15)
Net credit impairment (writeback)/charge	(16)	(14)	(30)	93	20	113
	%	%	%	%	%	%
Net credit impairment (writeback)/charge on average loans	(0.11)	(0.84)	(0.18)	0.59	1.06	0.64

Gross loans and advances to customers

Gross loans and advances to customers reduced by €405m in the year to 31 December 2021. The reduction was driven by disposals €456m, redemptions net of interest credited and other miscellaneous movements of €1,932m and write-offs / restructures of €11m. These reductions were offset against new lending activity of €1,994m in 2021 which was €408m higher than 2020. Stage 3 loans decreased by €523m to €355m.

The Stage 3 reduction was primarily as a result of disposals of €436m following the sales of non-performing mortgage portfolios completed in the year. In addition, repayments net of interest credited and write-offs accounted for €76m and €11m respectively. These reduction were offset by net stage transfers to Stage 3 of €11m and other movements of €11m.

Risk management report

3.1 Credit risk - Credit profile of the loan portfolio

ECL allowance

The ECL allowance on loans and advances to customers reduced by €176m to €144m in the 12 months to 31 December 2021. The reduction was predominately due the sale of non-performing mortgage portfolios coupled with the impact of post model adjustments and improving macroeconomic scenarios. The ECL cover rate has reduced from 1.8% at 31 December 2020 to 0.8% at 31 December 2021.

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 2021 and 2020:

Amortised cost					2021
	Stage 1	Stage 2	Stage 3	POCI	Total
Total	€m	€m	€m	€m	€m
Strong	12,572	242	—	—	12,814
Satisfactory	3,143	108	—	3	3,254
Total	15,715	350	—	3	16,068
Criticised watch	199	255	—	1	455
Criticised recovery	3	182	—	5	190
Total	202	437	—	6	645
Non performing	—	—	356	11	367
Gross carrying amount	15,917	787	356	20	17,080
ECL allowance	(17)	(18)	(102)	(7)	(144)
Total carrying amount	15,900	769	254	13	16,936

Amortised cost					2020
	Stage 1	Stage 2	Stage 3	POCI	Total
Total	€m	€m	€m	€m	€m
Strong	13,899	254	—	2	14,155
Satisfactory	1,338	465	—	1	1,804
Total	15,237	719	—	3	15,959
Criticised watch	148	226	—	1	375
Criticised recovery	2	230	—	—	232
Total	150	456	—	1	607
Non performing	3	—	879	37	919
Gross carrying amount	15,390	1,175	879	41	17,485
ECL allowance	(20)	(34)	(251)	(15)	(320)
Total carrying amount	15,370	1,141	628	26	17,165

Of the total loans to customers of €17,080m, €16,068m or 94% are rated as either 'strong' or 'satisfactory' which is an increase of €109m (2020: €15,959m or 91%). The 'criticised' classification includes 'criticised watch' of €455m and 'criticised recovery' of €190m, the total of which has increased by €38m. The reduction in loans classified as Strong and increased volume of Criticised watch is primarily driven by reclassifications arising from the deployment of a new Internal Ratings Based (IRB) scorecard for grading purposes, rather than any underlying credit quality deteriorations. Overall, the total performing book has increased by €147m to €16,713m or 98% of gross loans and advances to customers (2020: €16,566m and 95%).

Risk management report

3.1 Credit risk - Credit profile of the loan portfolio Internal credit grade profile by ECL staging (continued) Non-performing exposures ('NPE') to customers

Non-performing loans are aligned to the Bank's definition of default and Stage 3 credit impaired with the exception of those originating in Stage 1 (€0m) and POCI (€11m). Non-performing loans have reduced by €552m to €367m or 2% of gross loans and advances to customers (2020: €919m and 5%). This reduction reflects net underlying flow to non-performing loans of €76m during the year which was offset by €99m in net repayments.

The table below sets out the Bank's non-performing loans and advances to customers by asset class and by time in default at 31 December 2021:

	2021
	Total
	€m
Non-performing loans	
At amortised cost	367
At FVTPL	—
Total non-performing loans and advances to customers	367
Non-performing loans as a % of total loans and advances to customers	2.1 %
	—
ECL allowance as a % of total loans and advances to customers carried at amortised cost	0.6 %
	—
Split of non-performing loans and advances by time in default	—
<i>Legacy / Pre 31 December 2018</i>	177
<i>Non Legacy / Post 31 December 2018</i>	190
	367
	2020
	Total
	€m
Non-performing loans	
Loans and advances to customers at amortised cost	919
Non-performing loans as % of total loans and advances to customers	5.18
	—
ECL allowance as a % of total loans and advances to customers carried at amortised cost	1.4

3.1 Credit risk - Credit profile of the loan portfolio - Asset class analysis Income statement

There was a net credit impairment writeback of €30m to the income statement for the year to 31 December 2021 compared to a net credit impairment charge of €113m for 2020. Net remeasurement of ECL allowance writeback of €16m in addition to recoveries of amounts previously written-off of €14m.

There were three components which contributed to the net remeasurement of ECL allowance writeback of €16m.

There was a €19m writeback comprising of a €17m ECL writeback occurring within stage driven by improvements in credit quality and an additional combined writeback of €2m from favourable staging transfers and full redemptions/repayments.

Updated macroeconomic scenarios and weightings applied during 2021 resulted in a €33m writeback, which was due to improvements in the macroeconomic outlook.

Post model adjustments resulted in a net €36 million ECL charge. The updated post model adjustments take into consideration the broadening of the portfolio in scope as part of AIB Group's NPE reduction strategy which may form part of future loan sales. In addition, an ECL adjustment has been applied to reflect limitations within the mortgage model relating to two parameters, the house price index (HPI) growth and employment growth. Further details are outlined under the management judgements section on pages 28 to 29. The ECL allowance movements are outlined on page 38.

Recoveries of amounts previously written-off amounted to €14m in 2021 (2020: €15m).

Risk management report

3.1 Credit risk - Credit profile of the loan portfolio - Asset class analysis

Residential mortgage arrears

Total loans in arrears (including non-performing loans) by value decreased by 64% during the year to 31 December 2021, a decrease of 70% in the owner-occupier portfolio and a decrease of 43% in the buy-to-let portfolio. The decrease in the buy-to-let arrears was driven by the portfolio sale of distressed loans.

Loans and advances to customers - residential mortgages

Actual and weighted average indexed loan to value ratios of Republic of Ireland residential mortgages

The following table profiles the residential mortgage portfolio by the indexed loan-to-value ratios and the weighted average loan-to-value ratios at 31 December 2021 and 2020:

	2021					2020				
	At amortised cost				Overall Total	At amortised cost				Overall Total
	Stage 1	Stage 2	Stage 3	POCI		Stage 1	Stage 2	Stage 3	POCI	
€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	
Less than 80%	15,248	750	311	17	16,326	13,253	996	699	33	14,982
81% - 100%	627	23	24	—	674	2,059	147	78	3	2,287
100% - 120%	17	3	9	—	29	39	15	36	—	90
Greater than 120%	17	8	7	—	32	31	16	41	1	89
Total LTVs	15,909	784	351	17	17,061	15,382	1,174	854	37	17,448
Unsecured	8	3	5	3	19	8	1	25	4	37
Total	15,917	787	356	20	17,080	15,390	1,175	879	41	17,485
Of which:										
Owner occupier										
Less than 80%	14,090	619	237	16	14,962	12,006	802	562	32	13,402
81-100%	607	15	14	—	636	2,002	127	57	3	2,189
100-120%	13	1	5	—	19	27	8	26	—	61
Greater than 120%	9	4	2	—	15	18	5	26	1	50
Total LTVs	14,719	639	258	16	15,632	14,053	942	671	36	15,702
Unsecured	6	—	2	1	9	5	1	16	2	24
Total	14,725	639	260	17	15,641	14,058	943	687	38	15,726

The weighted average indexed loan-to-value of the stock of residential mortgages at 31 December 2021 was 49%, new residential mortgages issued during the year was 67% and Stage 3 residential mortgages was 49%.

The weighted average indexed loan-to-value of the stock of residential mortgages at 31 December 2020 was 55%, new residential mortgages issued during the year was 69% and Stage 3 residential mortgages was 57%.

Risk management report

3.1 Credit risk - Credit profile of the loan portfolio - Asset class analysis

Residential mortgages – properties in possession

The Bank seeks to avoid repossession through working with customers, but where agreement cannot be reached, it proceeds to repossession of the property or the appointment of a receiver. The Bank uses external agents to realise the maximum value as soon as is practicable. Where the Bank 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 2021 and 2020 is set out below:

	2021		2020	
	Stock	Balance outstanding €m	Stock	Balance outstanding €m
Owner-occupier	32	5	100	19
Buy-to-let	10	2	12	2
Total	42	7	112	21

The stock of residential properties in possession decreased by 70 properties in 2021 (2020: decreased by 23 properties). This decrease relates to the disposal of 27 properties (2020: 27 properties) which were offset by the addition of 9 properties (2020: 12 properties), the majority of which were voluntary surrenders or abandonments. In addition, a further 52 properties (2020: 8 properties) were removed from the stock in 2021, mainly due to the sale of a portfolio of loans.

The disposal of 27 residential properties in the Republic of Ireland resulted in no impact on the income statement for the year ended 31 December 2021 (before ECL allowance) and compares to 31 December 2020 when 27 residential properties were disposed of resulting in a profit on disposal of €1m. COVID-19 impacted the closing of sales in 2021. Losses on the sale of such properties are recognised in the income statement as part of the net credit impairment charge.

Residential mortgages – repossessions disposed of

The following table analyses the disposals of repossessed properties for the years ended 31 December 2021 and 2020:

	2021				
	Number of disposals	Outstanding balance at repossession date	Gross sales proceeds on disposal	Costs to sell	Loss on sale ⁽¹⁾
		€m	€m	€m	€m
Owner-occupier	24	4	4	—	—
Buy-to-let	3	—	—	—	—
Total residential	27	4	4	—	—

	2020				
	Number of disposals	Outstanding balance at repossession date	Gross sales proceeds on disposal	Costs to sell	Loss on sale ⁽¹⁾
		€m	€m	€m	€m
Owner-occupier	24	5	6	—	(1)
Buy-to-let	3	1	1	—	—
Total residential	27	6	7	—	(1)

⁽¹⁾Before ECL allowance.

Risk management report

3.1 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 allowances for loans and advances to customers by ECL staging for the years to 31 December 2021 and 2020.

Amounts that triggered movements between Stage 1 and Stage 2 as a result of failing/curing a quantitative measure only (as disclosed on page 20) 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 Bank believes this presentation aids the understanding of underlying credit migration.

Gross carrying amount movements

	2021				
	Stage 1 €m	Stage 2 €m	Stage 3 €m	POCI €m	Total €m
At 1 January	15,390	1,175	879	41	17,485
Transferred from Stage 1 to Stage 2	(628)	628	—	—	—
Transferred from Stage 2 to Stage 1	915	(915)	—	—	—
Transferred to Stage 3	(20)	(75)	95	—	—
Transferred from Stage 3	—	84	(84)	—	—
New loans originated/top-ups	1,994	—	—	—	1,994
Redemptions/repayments	(2,110)	(137)	(84)	(4)	(2,335)
Interest credited	369	15	8	1	393
Write-offs	—	—	(11)	—	(11)
Derecognised due to disposals	—	(2)	(436)	(18)	(456)
Impact of model, parameter and overlay changes	(1)	1	—	—	—
Other movements	8	13	(11)	—	10
At 31 December	15,917	787	356	20	17,080

⁽¹⁾Movements on the gross loans table have been prepared on a 'sum of the months' basis.

	2020				
	Stage 1 €m	Stage 2 €m	Stage 3 €m	POCI €m	Total €m
At 1 January	15,539	1,194	966	45	17,744
Transferred from Stage 1 to Stage 2	(980)	980	—	—	—
Transferred from Stage 2 to Stage 1	837	(837)	—	—	—
Transferred to Stage 3	(18)	(103)	121	—	—
Transferred from Stage 3	9	94	(103)	—	—
New loans originated/top-ups	1,586	—	—	—	1,586
Redemptions/repayments	(1,969)	(166)	(126)	(6)	(2,267)
Interest credited	370	27	14	2	413
Write-offs	—	—	(17)	(1)	(18)
Other movements	16	(14)	24	1	27
At 31 December	15,390	1,175	879	41	17,485

⁽¹⁾Movements on the gross loans table have been prepared on a 'sum of the months' basis.

Risk management report

3.1 Credit risk - Credit profile of the loan portfolio Gross loans⁽¹⁾ and ECL movements (continued)

ECL allowance movements

	2021				
	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
At 1 January	20	34	251	15	320
Transferred from Stage 1 to Stage 2	(3)	9	—	—	6
Transferred from Stage 2 to Stage 1	7	(14)	—	—	(7)
Transferred to Stage 3	—	(6)	11	—	5
Transferred from Stage 3	—	7	(12)	—	(5)
Net re-measurement	(2)	3	(17)	(1)	(17)
New loans originated/top-ups	2	—	—	—	2
Redemptions/repayments	(1)	(2)	—	—	(3)
Impact of model and overlay changes	7	(4)	36	(3)	36
Impact of credit or economic risk parameters	(13)	(8)	(12)	—	(33)
Income statement credit impairment (credit)/charge	(3)	(15)	6	(4)	(16)
Other movements with no P/L impact					
Write-offs	—	—	(11)	—	(11)
Derecognised due to disposals	—	—	(145)	(4)	(149)
Exchange translation adjustments	—	—	—	—	—
Other movements	—	(1)	1	—	—
At 31 December	17	18	102	7	144

	2020				
	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
At 1 January	5	20	178	7	210
Transferred from Stage 1 to Stage 2	(7)	17	—	—	10
Transferred from Stage 2 to Stage 1	10	(17)	—	—	(7)
Transferred to Stage 3	—	(7)	17	—	10
Transferred from Stage 3	2	5	(13)	—	(6)
Net re-measurement	(8)	(10)	(10)	1	(27)
New loans originated/top-ups	3	—	—	—	3
Redemptions/repayments	(1)	(1)	—	—	(2)
Impact of model and overlay changes	2	12	81	8	103
Impact of credit or economic risk parameters	14	15	15	—	44
Adjustments not embedded in models	—	—	—	—	—
Income statement net credit impairment charge	15	14	90	9	128
Write-offs	—	—	(17)	(1)	(18)
Other movements	—	—	—	—	—
At 31 December 2020	20	34	251	15	320

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 €628m 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 85bps.

Risk management report

3.1 Credit risk - Credit profile of the loan portfolio Gross loans⁽¹⁾ and ECL movements (continued)

Similarly, transfers from Stage 2 to Stage 1 of €915m 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.

Transfers to Stage 3 of €75m 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.

Transfers from Stage 3 to Stage 2 of €84m 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 €0.4m primarily reflect curing events from default where no forbearance measure was required.

Reductions due to write-offs continues to reflect the utilisation of ECL stock as a result of the restructure of customer debt in line with the Bank's strategy.

The contractual amount outstanding of loans written-off during the year that are subject to enforcement activity amounted to €2m (2020: €8m) which includes both full and partial write-offs. Total cumulative non-contracted loans written-off at 31 December 2021 amounted to €99m (2020: €295m).

In summary, the staging movements of the overall portfolio were as follows:

Stage 1 loans increased by €527m in 2021 with an ECL of €17m and resulting cover of 0.11%. This increase in Stage 1 loans was primarily due to new lending activity exceeding the impact of repayments/redemptions net of interest charged and the impact of net favourable Stage transfers from Stage 2 to Stage 1.

Stage 2 loans decreased by €388m in 2021 with an ECL of €18m and resulting cover of 2%. This was driven by repayments or 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 €523m in 2021 with the ECL cover increasing from 28.56% to 28.61%. The reduction in Stage 3 loans is primarily due to disposals of €436m following the sales of non-performing mortgage portfolios completed in the year.

⁽¹⁾ Movements on the gross loans table have been prepared on a 'sum of the months' basis.

Risk management report

3.1 Credit risk - additional credit quality and forbearance disclosures on loans and advances to customers

Forbearance*

Overview

Forbearance occurs when a customer 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 customer. This also includes a total or partial refinancing of existing debt due to a customer availing of an embedded forbearance clause(s) in their contract. A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable to meet their credit obligations to the Bank in compliance with the existing agreed contracted terms and conditions. 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 Bank uses a range of initiatives to support its customers. The Bank considers requests from customers who are experiencing cash flow difficulties on a case by case basis in line with AIB'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 customer's willingness to resolve such difficulties, and all relevant legal and regulatory obligations to ensure sustainable measures are put in place as appropriate.

AIB's Credit Policies, supported by relevant processes and procedures, are in place which set out the policy rules and principles underpinning the Bank's approach to forbearance, ensuring the forbearance measure(s) provided to customers are affordable and sustainable, and in line with relevant regulatory requirements. Key principles include providing support to enable customers remain in their family home, whenever possible. The Bank 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 Bank 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 an appropriate probation period has passed. 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.

The effectiveness of forbearance measures over the lifetime of the arrangements are subject to ongoing management review and monitoring of forbearance. A forbearance measure is deemed to be effective if the customer meets the revised or original terms of the contract over a sustained period of time resulting in an improved outcome for the Bank and the customer.

Irish residential mortgages subject to forbearance measures decreased by €514m from €985m at 31 December 2020 to €471m at 31 December 2021, compared to a decrease of €231m in the 12 months to 31 December 2020. The decrease in the forbearance portfolio was due to the sales of non-performing mortgage portfolios completed during the year. The Bank continues to closely monitor the residential mortgage portfolio for potential latent risk as the expiry of government support measures to support customers during COVID-19, may be delaying the realisation of forbearance and affordability issues.

Mortgage portfolio

Under the mandate of the Central Bank's Code of Conduct on Mortgage Arrears ('CCMA'), the Bank introduced a four-step process called the Mortgage Arrears Resolution Process ('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 finances;
- Assessment – Using the financial information to assess the customer's situation; and
- Resolution – We work with the customer to find a 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 temporary measures (such as interest only and capital and interest moratorium), this includes permanent forbearance measures which have been devised to assist existing Republic of Ireland primary residential mortgage customers in financial difficulty. This process may result in debt write-off, where appropriate. The types of existing permanent forbearance solutions currently include; arrears capitalisation, term extension, split mortgages, negative equity trade down and voluntary sale for loss.

* Forms an integral part of the audited financial statements

Risk management report

3.1 Credit risk - additional credit quality and forbearance disclosures on loans and advances to customers Forbearance* (continued)

The following table sets out the internal credit ratings and ECL staging of forborne loans and advances to customers at 31 December 2021 and 2020:

	2021	2020
	Total	Total
	€m	€m
Analysed by Forbearance type		
Temporary forbearance(1)	273	519
Permanent forbearance(2)	198	467
Total	471	985
Strong	—	—
Satisfactory	—	—
Total	—	—
Criticised Watch	—	—
Criticised Recovery	191	232
Total	191	232
Non-performing	280	753
Gross carrying amount	471	985
Analysed by ECL staging		
Stage 1	3	4
Stage 2	182	230
Stage 3	269	714
POCI	17	37
Total	471	985
Total gross carrying amount of loans and advances to customers	17,080	17,485

⁽¹⁾Of which: interest only €123m, payment moratorium €89m, reduced payment €59m. (2020: interest only €249m, payment moratorium €157m, reduced payment €110m).

⁽²⁾Of which: arrears capitalisation and term extension €129m, split loan €24m. (2020: arrears capitalisation and term extension €262m, split loan €34m).

* Forms an integral part of the audited financial statements

Risk management report

3.2 Liquidity and funding risk

Liquidity risk is the risk that the Bank 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, 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 Bank's liquidity risk is managed as part of the overall AIB Group liquidity management. In accordance with the Capital Requirements Regulation ('CRR'), the Bank has appointed AIB as its liquidity manager to fulfil daily cash flow management, oversee any changes required in liquidity management or reporting and manage the Bank's liquidity risk as part of the overall AIB Group liquidity risk management process. Under this centralised approach the management of liquidity and related activities for the Bank is integrated with its parent AIB which is a wholly owned subsidiary of AIB Group.

The means by which these liquidity management activities are performed, and the procedures by which AIB ensures the Bank complies with AIB Group's Funding and Liquidity Risk Policy are managed through a Service Level Agreement ('SLA').

The Bank is authorised to fund the assets it holds through the following forms of funding:

- the issuance of Mortgage Covered Securities in accordance with the Asset Covered Securities Act, as amended by the Asset Covered Securities Amendment Act, 2007 (the "Act");
- borrowing funds from the parent AIB;
- borrowing from the Central Bank under a Mortgage-Backed Promissory Note (short term) facility ('MBPN Facility') and other funding from the Central Bank under facilities which may be available to the Bank from time to time; and
- capital funding to ensure at a minimum compliance with the capital adequacy requirements of the Single Supervisory Mechanism ('SSM').

If utilised, the MBPN Facility would be secured by a floating charge over a pool of the Bank's home loans and related security which would be separate to the Pool (that secures the Mortgage Covered Securities) maintained by the Issuer in accordance with the Act.

Identification and assessment

Liquidity and funding risk is identified and assessed by the Bank's Material Risk Assessment ('MRA') process in support of AIB Group Internal Liquidity Adequacy Assessment Process ('ILAAP'). The MRA process is a 'Top-Down' Assessment performed on at least an annual basis and identifies the key material risks to the Bank, taking into account its strategic objectives, in addition to internal and external risk information.

The ILAAP is fully integrated and embedded in the strategic, financial and risk management processes of AIB Group. Embedding of the ILAAP groupwide is facilitated through the setting of risk appetite, liquidity and funding planning and the dynamic review thereof in light key strategic decisions.

The Bank adheres to AIB Group's comprehensive ILAAP Framework for managing liquidity risk and complying with AIB Group and Bank's Board risk appetite as well as evolving regulatory standards. This is delivered through a combination of policy formation, governance, analysis, stress testing and limit setting and monitoring, and is part of the wider Risk Management Framework.

Management and measurement*

The objective of liquidity management is to ensure that, at all times, the Bank holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties at an economic price. The ILAAP framework and supporting Funding and Liquidity risk policy set out the key requirements for managing the risk across AIB Group. These include:

- Adherence to both internal limits and regulatory defined liquidity ratios.
- Performing a multiyear projection of AIB Group's funding sources taking into account its baseline scenario, strategy and operational plans as outlined in the AIB Group Funding and Liquidity Plan. The purpose of this Plan is to set out a comprehensive, forward looking liquidity and funding strategy for AIB Group including subsidiary companies;
- Assessing the Funding and Liquidity plan under a range of adverse scenarios, the outcomes of which should ensure sufficient liquidity to implement a sustainable strategy even in a stressed environment;
- Maintaining a Contingency Funding Plan that identifies and quantifies actions that are available to AIB Group in deteriorating liquidity conditions and emerge from a temporary liquidity crisis as a credit worthy institution;
- Including a further set of triggers and liquidity options outlined in the AIB Group Recovery Plan, which presents the actions available to AIB Group to restore viability in the event of extreme stress.

* Forms an integral part of the audited financial statements

Risk management report

3.2 Liquidity and funding risk (continued)

Monitoring, escalating and reporting

The Bank's liquidity and funding position is reported on a regular basis to the Bank's management team and Board. In addition it is reported as part of the overall AIB Group position to the AIB Group Asset and Liability Committee ('ALCo'), the AIB Group Risk Committee ('GRC'), the AIB Group Executive Committee ('ExCo'), the AIB Group Board Risk Committee ('BRC'), and the AIB Group Board.

On an annual basis, the AIB Group Board attests to the AIB Group's liquidity adequacy via the liquidity adequacy statement as part of ILAAP. The AIB Group ILAAP encompasses all aspects of liquidity and funding management, including planning, analysis, stress testing, control, governance, policy and contingency planning. This document is submitted to the Joint Supervisory Team and forms the basis of their supervisory review and evaluation process.

Liquidity risk stress testing

Stress testing is a key component of AIB Group's ILAAP framework. The Bank, as part of AIB Group, undertakes liquidity risk 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 AIB Group's liquidity buffer and liquidity risk drivers. This estimates the potential impact of a range of stress scenarios on AIB Group's liquidity position including its available liquid assets and contingent liquidity. The purpose of these tests is to ensure the continued stability of AIB Group's liquidity position within pre-defined liquidity risk tolerance levels. Liquidity stress test results are reported to the AIB Group ALCo, AIB Group ExCo and AIB Group Board.

Encumbrance

An asset is defined as encumbered if it has been pledged as collateral and as a result is no longer available to the Bank to secure funding, satisfy collateral needs or to be sold. As part of managing its funding requirements, the Bank encumbers assets as collateral to support its wholesale funding initiatives which are predominantly covered bonds secured over customer loans. The Bank's encumbrance ratio reduced to 67% at 31 December 2021 (2020: 71%) in line with covered bond contractual maturities. The encumbrance level is based on the amount of assets that are required in order to meet regulatory and contractual commitments.

Financial liabilities by undiscounted contractual maturity*

The following table analyses, on an undiscounted basis, financial liabilities by remaining contractual maturity at 31 December 2021 and 2020:

						2021
	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
Deposits by banks	6,047	—	—	—	—	6,047
Debt securities in issue	—	750	500	5,250	3,025	9,525
Subordinated liabilities	—	—	300	—	—	300
Other liabilities	19	—	—	—	—	19
Total	6,066	750	800	5,250	3,025	15,891
Off-balance sheet loan commitments	843	—	—	—	—	843

* Forms an integral part of the audited financial statements

Risk management report

3.2 Liquidity and funding risk (continued)

Financial liabilities by undiscounted contractual maturity*

						2020
	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
Deposits by banks	4,914	—	—	—	—	4,914
Customer accounts	1	—	—	—	—	1
Debt securities in issue	—	—	1,150	5,750	3,775	10,675
Subordinated liabilities	—	—	—	—	300	300
Other liabilities	—	22	3	18	9	52
Total	4,915	22	1,153	5,768	4,084	15,942
Off-balance sheet loan commitments	559	—	—	—	—	559

3.3 Capital adequacy risk*

Capital adequacy risk is the risk that the Bank breaches or may breach regulatory capital ratios and internal targets, measured on a forward looking basis across a range of scenarios, including a severe but plausible stress.

An annual material risk assessment is undertaken to determine the significant risks to which the Bank is exposed, and ensure that these risks are being appropriately managed.

Capital adequacy risk for the Bank is evaluated through the annual financial planning and internal capital adequacy assessment process ('ICAAP') processes where the level of capital required to support growth plans and meet regulatory requirements is assessed over the three year planning horizon. The ICAAP is fully integrated and embedded in the strategic, financial and risk management processes of AIB Group. Plans are assessed across a range of scenarios ranging from base case and moderate downside scenarios to a severe but plausible stress using AIB Group's stress testing methodologies. The impact of changing regulatory requirements, changes in the risk profile of the Bank'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 Financial Plan and Strategy.

The Bank Board reviews and approves the Bank Financial Plan and the supporting stress tests on an annual basis, confirming it is satisfied with the capital adequacy of the Bank. Quarterly reporting of the risk profile including performance against risk appetite is also presented to the Bank's Board.

3.4 Market risk

The Bank is exposed to interest rate risk resulting from positions held in the banking book - the Bank does not operate a trading book. Interest rate risk is the current or prospective risk to both the earnings and capital of the Bank as a result of adverse movements in interest rates. Changes in interest rates impact the underlying value of the assets, liabilities and off-balance sheet instruments and, hence, its economic value (or capital position). Similarly, interest rate changes will impact the Bank's net interest income through interest-sensitive income and expense effects.

The Bank is exposed to interest rate risk arising from mortgage lending activities and the issuance of Mortgage Covered Securities. Interest rate swaps, as explained in the paragraphs below, are used to manage this exposure. The Bank is not allowed to engage in proprietary trading under the conditions of the Asset Covered Securities Act and its license. As per the Asset Covered Securities Act, the Bank is required to ensure its sensitivity to interest rate earnings changes under a number of specified scenarios (+/- 100bps parallel and twist shocks) stays below 10% of equity.

The Bank manages this requirement by converting all liability and asset interest rate sensitivity to short term floating rates i.e. it ensures the timing of asset and liability repricing schedules are matched. On the liability side, Internally Issued ACS are issued at spreads to Euribor, which re-price monthly and inter-company funding is also re-priced monthly in reference to Euribor. External ACS issuance is issued at fixed rates in line with market practice and interest rate swaps with AIB are used to convert the interest rate re-pricing profile for this issuance to short term floating Euribor. Fair value hedge accounting is applied to ensure no volatility in earnings. There are no contracts which reference Libor, therefore there is no impact on the Bank from AIB Group's IBOR transition.

* Forms an integral part of the audited financial statements

Risk management report

3.4 Market risk (continued)

The interest rate exposure of the Bank relating to its residential lending is managed using interest rate swaps with AIB, one of which, the Pool Hedge, relates only to the Pool and the other of which (the Non-Pool Hedge) relates only to Irish residential loans which are not included in the Pool. This split is required by the Asset Covered Securities Acts.

The Pool Hedge and the Non-Pool Hedge contracts entail the monthly payment of the average customer rate on these mortgages and in return, the receipt of 1 month Euribor plus the current margin being achieved on the mortgage portfolio. The contract is reset each month to reflect the outstanding mortgage balances at that time and to reflect updated customer rates, Euribor and margin levels. Settlements are made between the Bank and AIB to reflect the net amount payable/receivable in each month.

The Pool and Non-Pool Hedge swaps are fair-valued to P&L whereas the mortgage interest rate profile is accrual accounted. The key driver of the volatility in valuation of the Pool and Non-Pool swap structures are changes in fixed term Euro rates and changes in the volume of fixed rate mortgage business. AIB and the Bank amended the Pool and the Non-Pool Hedge structure in December 2013 to include a one-sided free option for the Bank to terminate the swaps without cost on any reset date. In recent times, interest rates have begun to rise as have fixed rate mortgage volumes, the combined effect of which has increased the value of the Pool and Non-Pool swaps. The swaptions have not fallen in value to the same extent. The Swaptions represent a right but not an obligation to cancel the swaps and therefore they can never have a negative valuation. Market volatility, an input into the valuation of the swaption, has increased contributing to the swaption holding a positive value. The hedge structure continues to work effectively from an economic and market risk perspective.

There is some residual interest rate risk in the Bank. This interest rate risk is transferred centrally to Treasury and Group ALM for management, subject to review and oversight by Group ALCo. Treasury proactively manages the market risk on AIB's balance sheet, Market risk is managed against a range of limits approved at Group ALCo, which incorporate forward-looking measures such as VaR limits and stress test limits and financial measures such as embedded value limits. AIB Treasury and Group ALM document an annual Risk Strategy and Appetite Statement as part of the annual financial planning cycle which ensures AIB's market risk aligns with AIB's strategic business plan. The total nominal values of the swaps are set out in note 14 to the financial statements. The Bank is not exposed to any other market risks, i.e. foreign exchange rates or equity prices.

* Forms an integral part of the audited financial statements

Risk management report

3.4 Market risk (continued)

Interest Rate Exposure and Sensitivity*

The net interest rate exposure of the Bank at 31 December 2021 analysed by the earlier of the repricing and the contractual maturity date is illustrated in the following table:

	0≤1mth	1≤3mths	3≤12mths	1≤2yrs	2≤3yrs	3≤4yrs	4≤5yrs	5yrs+	Non-interest bearing	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Assets										
Loans and advances to banks	83	—	—	—	—	—	—	—	—	83
Loans and advances to customers	11,271	68	435	876	1,119	1,677	1,569	65	(144)	16,936
Derivatives and other financial instruments	—	—	—	—	—	—	—	—	75	75
Other assets	—	—	—	—	—	—	—	—	204	204
Total assets	11,354	68	435	876	1,119	1,677	1,569	65	135	17,298
Liabilities										
Deposits by banks	6,047	—	—	—	—	—	—	—	—	6,047
Debt securities in issue	7,750	750	—	1,000	—	—	—	25	—	9,525
Subordinated liabilities	300	—	—	—	—	—	—	—	—	300
Other liabilities	—	—	—	—	—	—	—	—	108	108
Shareholders' equity	—	—	—	—	—	—	—	—	1,318	1,318
Total liabilities	14,097	750	—	1,000	—	—	—	25	1,426	17,298
Derivatives affecting interest rate sensitivity	(5,042)	327	435	(124)	1,119	1,677	1,569	39	—	—
Interest sensitivity gap	2,299	(1,009)	—	—	—	—	—	1	(1,291)	—
Cumulative interest sensitivity gap	2,299	1,290	1,290	1,290	1,290	1,290	1,290	1,291	—	—

The impact on net interest income over a twelve month period of a 100 bps downward/upward movement in interest rates on 31 December 2021 would be circa -€5m/€17m respectively.

*Forms an integral part of the audited financial statements.

Risk management report

3.4 Market risk

Interest Rate Exposure and Sensitivity* (continued)

The net interest rate exposure of the Bank at 31 December 2020 analysed by the earlier of the repricing and the contractual maturity date is illustrated in the following table:

	0≤1mth	1≤3mths	3≤12mths	1≤2yrs	2≤3yrs	3≤4yrs	4≤5yrs	5yrs+	Non-interest bearing	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Assets										
Loans and advances to customers	13,688	51	194	368	815	575	1,702	92	(320)	17,165
Loans and advances to banks	70	—	—	—	—	—	—	—	—	70
Derivatives and other financial instruments	—	—	—	—	—	—	—	—	52	52
Other assets	—	—	—	—	—	—	—	—	37	37
Total assets	13,758	51	194	368	815	575	1,702	92	(231)	17,324
Liabilities										
Deposits by banks	4,914	—	—	—	—	—	—	—	—	4,914
Customer accounts	—	—	—	—	—	—	—	—	1	1
Debt securities in issue	8,400	500	—	750	1,000	—	—	25	—	10,675
Subordinated liabilities	300	—	—	—	—	—	—	—	—	300
Other liabilities	—	—	—	—	—	—	—	—	136	136
Shareholders' equity	—	—	—	—	—	—	—	—	1,298	1,298
Total liabilities and equity	13,614	500	—	750	1,000	—	—	25	1,435	17,324
Derivatives affecting interest rate sensitivity	(1,530)	(440)	194	(383)	(185)	575	1,702	67		
Interest sensitivity gap	1,674	(9)	—	1	—	—	—	—	(1,666)	—
Cumulative interest sensitivity gap	1,674	1,665	1,665	1,666	1,666	1,666	1,666	1,666	—	—

The impact on net interest income over a twelve month period of a 100 bps downward/upward movement in interest rates on 31 December 2020 would be circa -€7m/€13m respectively.

*Forms an integral part of the audited financial statements.

Risk management report

3.5 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.

Operational risk is identified and assessed by the Bank's material risk assessment which is a comprehensive annual top down process undertaken to determine the significant risks to which the Bank is exposed to and ensure that these risks are being appropriately managed. Operational risk is also identified by AIB Group's bottom up risk and control assessment, this process serves to ensure that key risks are proactively identified, evaluated, monitored and reported, and appropriate action is taken.

The Bank undertakes an operational risk self-assessment which focuses on activities specific to the Bank, e.g. Bank's funding activities and its compliance with the ACS Act. This process includes periodic assessments of relevant operational risks and the effectiveness of the related controls to address these risks. It complements the risk-based audit approach applied by internal audit in its role as independent assessor of management's control and risk management processes.

The key people, systems and processes are provided by AIB and this relationship is governed by an Outsourcing and Agency Agreement. AIB Group's operational risk framework applies across all areas of AIB Group. A key focus of operational risk management in AIB Group is the oversight of outsourced service activities, in particular activities related to the requirements of the ACS Act, as well as the end-to-end mortgage origination and servicing processes.

Operational risk is measured through the approved Bank's risk appetite metrics and key risk indicators reported quarterly to the Board.

Operational risk events are identified and captured in the AIB Group's SHIELD system. These are escalated through a defined process depending on impact and severity. Root causes of events are determined, and action plans are implemented to ensure there are enhanced controls in place to keep customers and the business safe.

3.6 Regulatory compliance risk

Regulatory compliance risk is defined the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with principal laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its banking activities as outlined in its regulatory compliance universe. This includes the suite of Conduct of Business, Prudential, Data Protection and Financial Crime laws, codes and regulations.

The Bank's material risk assessment and AIB Group's risk and control assessment forms the basis for identifying the key elements of regulatory compliance risk. AIB Group's Regulatory Compliance Risk Management Framework sets out the principles, roles and responsibilities, and governance arrangements and is supported by a number of key policies.

The upstream regulation team identifies and communicates new and/or amended regulations, within the regulatory compliance universe, to the relevant business area for impact assessment.

The key steps in upstream regulation risk management are:

- Upstream regulation team identifies regulatory compliance change through horizon scanning;
- Impact assessment is performed by the relevant business unit or stakeholder area to establish high level change, potential impact and timeframe for completion;
- Stakeholder engagement in the consultation process, including identification of business sponsors and communication of same to the relevant compliance relationship managers;
- If required, such as in the event of a policy or framework update as a result of impacting regulations, the regulatory gap analysis is performed and documented by the business unit;
- If required as a result of impacting regulations, a regulatory change project is established by the business unit with relevant impacted stakeholders. Impacted areas are required to review their procedures, policies and processes to ensure compliance with regulations by the implementation date;
- Regulatory compliance universe is updated as required as new regulation is launched which sits in the regulatory compliance universe. The horizon is monitored to capture any updates required; and
- Regulatory interpretations are drafted and managed by the regulation/article owner, with second line review and challenge completed by the compliance advisory team.

The Regulatory and Conduct Risk Committee (RCR) is the forum that provides risk oversight of regulatory and conduct risks. AIB Group Compliance Advisory establish written guidance to staff on the appropriate implementation of relevant laws, rules and standards through relevant regulatory compliance policies and supports the business units in understanding and implementing their regulatory compliance obligations. Compliance Advisory assist the business in maintaining a positive and transparent relationship with the Regulators in respect of regulatory compliance and conduct matters. The Bank's Risk Appetite is also reported to the Board quarterly.

Risk management report

3.7 Conduct risk

Conduct risk is defined as the risk that inappropriate actions or inactions by the Bank cause poor and unfair customer outcomes or negatively impact market integrity.

Conduct risk is identified and assessed by the Bank's material risk assessment and by the AIB Group's risk and control assessment. The risk and control assessment process provides documentary evidence of risk assessments. It determines the risk profile of the business, drives risk management and actions plans including key risk indicator development and reporting. The risk and control assessment has identified a number of key conduct risks relating to customer satisfaction, employee behaviour and clients, business and product practice.

The Bank uses various approaches to help mitigate risks relating to conduct risk including a Conduct Risk Framework and a Conduct Risk Policy, aligned with AIB Group's strategy, which is embedded in the organisation and provides oversight of conduct risks at Executive Committee and Board level.

AIB Group Conduct Committee provides oversight of conduct through promoting and supporting a 'Customer First' culture. AIB Group Product and Proposition Committee focus is exclusively in product oversight and management, including overseeing a rolling programme of product reviews. The Bank's conduct risk is managed in line with the processes, procedures and organisational structures for the management of Conduct risk within AIB Group.

Conduct risks are assessed and monitored across in line with AIB Group's risk management procedures. Significant conduct events are assessed and remedial actions implemented where necessary. These are escalated based on a materiality assessment, in line with the Conduct Risk Framework and Conduct Risk Policy.

The Regulatory and Conduct Risk Committee ('RCR') is the forum that provides risk oversight of regulatory and conduct risks. The RCR was established by, and is accountable to, the AIB Group Risk Committee to oversee regulatory and conduct risks across AIB Group.

3.8 People and culture risk

People and Culture Risk is the risk to achieving the Bank's strategic objectives as a result of an inability to recruit, retain or develop resources, or the inability to evolve the culture aligned to the Bank's values and behaviours. The majority of business activities of the Bank are outsourced to AIB under a MSA.

People and Culture Risk was identified and assessed as part of the Bank's material risk assessment and as part of the AIB Group's bottom up risk and control process, which serves to ensure that key risks are proactively identified, evaluated, monitored and reported, and that appropriate action is taken. The AIB Group's risk and control assessment in 2021 has identified the key People and Culture risks to be capacity, resourcing, recruitment and retention.

AIB Group have implemented the People and Culture Risk Framework which is supported by various HR policies to drive the consistent management of this risk. Key management actions include:

- 2021 has seen an acceleration in the competition for talent with expectations that the external environment is going to remain strong in terms of demand for talent. AIB Group has responded with a very strong focus on senior talent identification and has in particular generated increased internal talent mobility.
- There has been significant investment in terms of developing capabilities across AIB Group including running a number of Leadership Development and Talent Management programs during the year. Efforts are also underway to develop an internal talent repository capturing the existing skills, capabilities, knowledge and experience of the workforce enabling to scenario plan for the future.
- Enhancement of AIB Group's wellbeing, engagement, inclusion and diversity strategies which has been one of the Group's key response strategies and mitigants to the unprecedented challenges of COVID-19.
- Continuing the AIB Group's Culture development journey with progress being made throughout the year. AIB Group continues to be an active member of the Irish Banking Culture Board.
- Continued embedding of the AIB 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'. AIB Group has a disciplinary policy which clearly lays out the consequences of inappropriate behaviours.
- Further re-iteration of AIB Group's 'Speak up' policy through the "Speak Your Mind" week held in 2021 that encouraged employees to speak their mind, and in particular the importance of reporting wrongdoing.

As AIB Group deals with the extended uncertainty of COVID-19, phased based approach of AIB Group's return-to-work program in line with Government requirements, a number of challenges remain in the AIB Group's efforts to support the workforce to remain connected, engaged and address the mental, physical, social and financial challenges.

3.9 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.

Business model risk was identified as part of the annual Bank's material risk assessment process. The Bank also identifies and assesses this risk as part of its Financial Planning process, which encapsulates strategic, business and financial planning. Every year, the Bank prepares three-year business plans based on macroeconomic and market forecasts across a range of 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 targets. The plan is subject to robust review and challenge through the governance process including an independent review and challenge by the AIB Group Risk function.

The Bank's Financial Plan is aligned to its strategy and risk appetite. The business plan typically describes external market conditions, competitor dynamics, business strategy, financial assumptions underpinning the strategy, actions/investment required to achieve financial outcomes and any risks/opportunities to the strategy.

The Bank manages business model risk via its RAS, 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 regular periodic monitoring of actual performance versus plan. Where performance against plan is outside agreed tolerances or risk appetite metrics, proposed mitigating actions are presented and evaluated, and tracked thereafter.

Performance against plan is monitored at Bank level by executive management and Board on a quarterly basis. Risk profile against risk appetite measures, some of which reference performance against plan, is monitored monthly by the AIB Group Risk Function, with breaches of Risk Appetite relating to the Bank reported on a monthly basis to the AIB Group Risk Committee. The Bank's Risk Appetite is also reported to the Bank's Executive Management and Board.

3.10 Model risk

Model risk is defined as the potential loss the Bank 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.

Model risk is identified and assessed as part of the Bank's top down material risk assessment and also by the bottom-up process of the risk and control assessment which includes a requirement to perform a self-assessment of the risks.

AIB Group mitigates model risk by having an AIB Group Model Risk Framework and supporting policies in place to drive the consistent management of this risk. This sets out the key controls required to mitigate model risk across the model lifecycle, from initiation of a model build through to implementation, use and ongoing monitoring. Models are built by suitably qualified analytical personnel, informed by relevant business and finance functions. Models are built using the best available data, both internal and external must be used, and any data weaknesses are appropriately mitigated through the model build. The use of industry standard techniques are applied for stages in the model lifecycle, where appropriate. All models are validated by an appropriately qualified team, which is independent of the model build process. Where issues are identified, appropriate mitigants are applied. Model Risk is measured using a composite assessment of model outcomes across the lifecycle for all models.

The Model Risk Committee acts as a subcommittee of the Risk Measurement Committee, reviews and approves the use, or recommends to a higher governance authority, the use of credit, operational and financial risk models. It also monitors and maintains oversight of the performance of these models.

The Board of AIB has ultimate accountability for ensuring that the models used by the Bank are fit for purpose and meet all jurisdictional regulatory and accounting standards. Operating to the principles outlined in the Model Risk Framework supports the Bank's strategic objectives and provides comfort to the Board on the integrity and completeness of the model risk governance.

Statement of Directors' responsibilities

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 the respective responsibilities of the Directors and of the Auditor in relation to the financial statements.

The Directors are responsible for preparing the Directors' report and the annual financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the Bank's financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2014.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies for the Bank's financial statements 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 Bank 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 Bank 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 Bank 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Bank's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board,



Chris Curley
Interim Deputy Chair



Yvonne Hill
Independent Non-Executive Director

Date: 2 March 2022

Independent Auditor's report to the members of AIB Mortgage Bank Unlimited Company

Report on the audit of the European Single Electronic Format financial statements (the 'financial statements')

Opinion on the financial statements of AIB Mortgage Bank Unlimited Company (the 'Company')

In our opinion, the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2021 and of the profit of the Company 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.

The financial statements we have audited comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in shareholders' equity;
- the statement of cash flows; and
- the related notes 1 to 36, including a summary of significant accounting policies as set out in note 1.



The relevant financial reporting framework that has been applied in the preparation of the 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 of 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 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	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> • Expected credit losses on loans and advances to customers; • Provision for FSPO decision and tracker mortgage examination; and • IT systems and controls. <p>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 .</p>
Materiality	We determined materiality to be € 13 million which is approximately 1% of total shareholders' equity of the Company.
Significant changes in our approach	There were no significant changes in our approach.

Independent auditor's report to the members of AIB Mortgage Bank Unlimited Company

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included consideration of the inherent risks to the Company's business model and an analysis of how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- availability of funding and liquidity in the event of a market wide stress scenario including the potential prolonged impacts of COVID-19 and the continuing impact of Brexit on the economy; and
- the impact on regulatory capital requirements in the event of an economic slowdown or recession.

As these were risks that could potentially cast significant doubt on the Company's ability to continue as a going concern, our evaluation of the Directors' assessment included:

- evaluating the design and determining the implementation of key controls over the preparation of financial plans and budgets;
- understanding the Company's Capital and Liquidity process including under stressed scenarios;
- obtaining the updated financial planning exercise covering the period 2022 to 2024 undertaken in the second half of 2021;
- assessing whether the level of forecasted profits in the updated financial plan were appropriate by challenging the growth, profitability and economic assumptions;
- testing the accuracy of Management's forecasting process by reviewing previous forecasts and comparing to actual results;
- challenging the key assumptions used in the Directors assessment of the Company's ability to continue as a going concern;
- considering the letter of support provided by Allied Irish Banks, p.l.c. to the Company; and
- evaluating the adequacy of the relevant disclosures made in the financial statements.




Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 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.

Independent auditor's report to the members of AIB Mortgage Bank Unlimited Company

Expected credit losses on loans and advances to customers 	
<p>Key audit matter description</p> 	<p>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.</p> <p>Expected credit loss allowances on loans and advances to customers were €144 million at 31 December 2021 (2020: € 320 million).</p> <p>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:</p> <ul style="list-style-type: none"> – Determining the criteria for a significant increase in credit risk ("SICR"), and for being classified as credit impaired; – The definition of default; – 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 ('DCF's') 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 potential prolonged impacts of COVID-19 and the continuing impact of Brexit on the economy. This results in a wide range of possible outcomes. <p>Please also refer to: page 76 - Accounting Policy (1.13) - Impairment of financial assets, note 2 - Critical accounting judgements and estimates, note 11 - Net credit impairment writeback/ (charge), and note 16 - Loans and advances to customers.</p>
<p>How the scope of our audit responded to the key audit matter</p> 	<p>We tested the operating effectiveness of key controls supporting the calculation of ECLs on loan and advances to customers focusing on:</p> <ul style="list-style-type: none"> – 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. <p>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 AIB Board Risk Committee and AIB Group Credit Committee meetings.</p> <p>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.</p>

Independent auditor's report to the members of AIB Mortgage Bank Unlimited Company

Expected credit losses on loans and advances to customers (continued)

How the scope of our audit responded to the key audit matter



We critically assessed the ECL models employed by the Company. 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.

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 the potential prolonged impacts of COVID-19 and the continuing impact of Brexit on the economy.

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.

Independent auditor's report to the members of AIB Mortgage Bank Unlimited Company

Provisions for FSPO decision and tracker mortgage examination 	
<p>Key audit matter description</p> 	<p>The calculation of provisions for the Financial Services Pension Ombudsman ('FSPO') decision and 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.</p> <p>Included in note 24 - Provisions for liabilities and commitments, the Company has recorded a provision of € 74 million (2020: € 76 million) for customer redress and compensation including the FSPO Decision.</p> <p>Please refer to: page 79 - Accounting Policy (1.16) - Non-credit risk provisions, note 2 - Critical accounting judgements and estimates, note 24 - Provisions for liabilities and commitments, and note 28 - Contingent liabilities and commitments.</p>
<p>How the scope of our audit responded to the key audit matter</p> 	<p>We have evaluated the design and determined the implementation of the Company's relevant controls over the identification, measurement and the disclosure of the provision. We also assessed Management review and governance controls.</p> <p>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 challenged the reasonableness of assumptions used by Management and tested the underlying data and assumptions used in the determination of the provisions recorded. We reviewed the basis for recording and retaining a provision, taking into consideration the information available and the requirements of IAS 37.</p> <p>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.</p> <p>Based on the evidence obtained, we found that the assumptions used by Management in measurement of the provision for the FSPO decision and tracker mortgage examinations are within a range we consider to be reasonable.</p>

Independent auditor's report to the members of AIB Mortgage Bank Unlimited Company

IT systems and controls 	
<p>Key audit matter description</p> 	<p>The Company'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 Company 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.</p> <p>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.</p> <p>We regard this area as a key audit matter owing to the high level of IT dependency within the Company, as well as the associated complexity and the risk that automated controls are not designed and operating effectively.</p>
<p>How the scope of our audit responded to the key audit matter</p> 	<p>We examined the design of the governance framework associated with the Company'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.</p> <p>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.</p> <p>We assessed the relevant 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.</p> <p>We tested user access by assessing the controls in place for in-scope applications and verifying the addition and removal of users.</p> <p>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.</p>

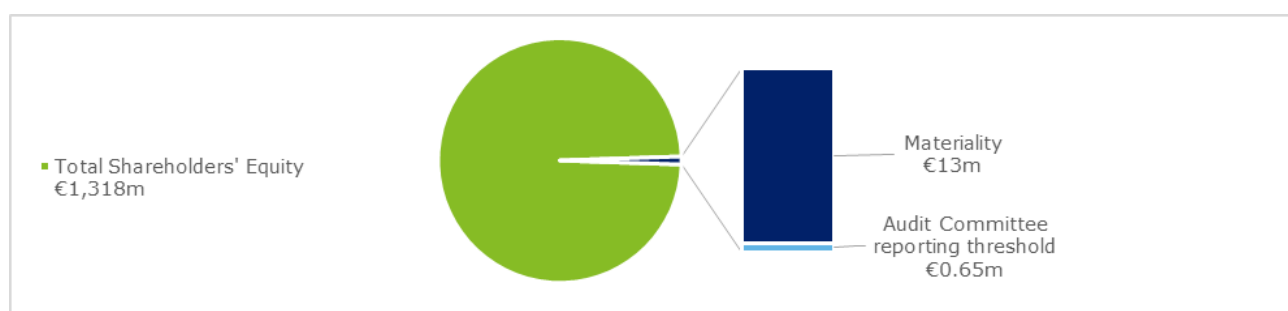
Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Independent auditor's report to the members of AIB Mortgage Bank Unlimited Company

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 Company to be €13m which is approximately 1% of Total Shareholders' Equity. We have considered total shareholders' equity to be the critical component for determining materiality. We used this benchmark taking into consideration the nature of the Company's operations as being primarily for funding purposes. We have considered quantitative and qualitative factors such as our understanding of the entity and its environment, its history of misstatements, the complexity of the Company and the reliability of the control environment.



We agreed with the Audit Committee that we would report to them any audit differences in excess of €0.65m, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

We determined the scope of our audit by obtaining an understanding of the Company and its environment, including the controls operating within the Company, and assessing the risks of material misstatement related to the financial statements of the Company.

The risks of material misstatement that had the greatest effect on our audit are identified as key audit matters in the table above.

Other information

The other information comprises the information included in the Directors' Report and Annual Financial Statements other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Directors' Report and Annual Financial Statements.

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.

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.

Independent auditor's report to the members of AIB Mortgage Bank Unlimited Company

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 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 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 judgment 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 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 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 entity (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.

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 be reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

Independent auditor's report to the members of AIB Mortgage Bank Unlimited Company

Auditor's responsibilities for the audit of the financial statements (continued)

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.

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 financial statements are in agreement with the accounting records.
- In our opinion the information given in the Directors' Report is consistent with the financial statements and the Directors' report has been prepared in accordance with the Companies Act 2014.

Corporate Governance Statement

We report, in relation to information given in the Corporate Governance Statement on pages 9 to 11 that:

- In our opinion, based on the work undertaken during the course of the audit, the information given in the Corporate Governance Statement pursuant to subsections 2(c) of section 1373 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 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 information required pursuant to section 1373(2)(a),(b),(e) and (f) of the Companies Act 2014 is contained in the Corporate Governance Statement.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the the Directors' Report.

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.

Other matters which we are required to address

Following the recommendation of the Audit Committee of AIB Mortgage Bank, we were appointed at the Annual General Meeting on 28 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 9 years, covering the years ending 2013 to 2021.

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 audit committee we are required to provide in accordance with ISA (Ireland) 260.

Independent auditor's report to the members of AIB Mortgage Bank Unlimited Company

Use of our report

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.



Sinead Moore
For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House, Earlsfort Terrace, Dublin 2

02 March 2022

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.

Income statement

for the financial year ended 31 December 2021

	Note	2021 €m	2020 €m
Interest and similar income	3	432	451
Interest and similar expense	4	(80)	(91)
Net interest income		352	360
Net trading income	5	48	—
Net gain on other financial assets measured at FVTPL	6	2	4
Net (loss)/gain on derecognition of financial assets measured at amortised cost	7	(5)	3
Other operating income	8	1	2
Other Income		46	9
Total operating income		398	369
Operating expenses	9	(405)	(233)
Operating (loss)/profit before credit impairment writeback/(charge) and taxation		(7)	136
Net credit impairment writeback/(charge)	11	30	(113)
Operating profit before taxation		23	23
Income tax charge	12	(3)	(3)
Profit for the year		20	20

Statement of comprehensive income

for the financial year ended 31 December 2021.

	2021 €m	2020 €m
Profit for the financial year	20	20
Other comprehensive income for the year, net of tax	—	—
Total comprehensive income for the year	20	20

Statement of financial position

as at 31 December 2021

	Note	2021 €m	2020 €m
Assets			
Non-current assets held for sale	13	1	2
Derivative financial instruments	14	75	52
Loans and advances to banks	15	83	70
Loans and advances to customers	16	16,936	17,165
Other assets	17	202	29
Current taxation		—	4
Deferred tax assets	18	1	2
Total assets		17,298	17,324
Liabilities			
Deposits by banks	19	6,047	4,914
Customer accounts	20	—	1
Debt securities in issue	21	9,525	10,675
Current taxation		2	—
Other liabilities	22	14	32
Accruals and deferred income	23	18	28
Provisions for liabilities and commitments	24	74	76
Subordinated liabilities	25	300	300
Total liabilities		15,980	16,026
Shareholders' equity			
Issued share capital presented as equity	26	436	436
Capital reserves	27	580	580
Revenue reserves		302	282
Total shareholders' equity		1,318	1,298
Total liabilities and shareholders' equity		17,298	17,324



Chris Curley
Interim Deputy Chair



Yvonne Hill
Independent Non-Executive Director

Date: 2 March 2022

Statement of changes in shareholders' equity

for the financial year ended 31 December 2021

	Share capital	Capital reserves	Revenue reserves	Total shareholders' equity
	€m	€m	€m	€m
At 1 January 2021	436	580	282	1,298
<i>Total comprehensive income for the year</i>				
Profit for the year	—	—	20	20
At 31 December 2021	436	580	302	1,318
<hr/>				
At 1 January 2020	436	580	262	1,278
<i>Total comprehensive income for the year</i>				
Profit for the year	—	—	20	20
At 31 December 2020	436	580	282	1,298

Statement of cash flows

for the financial year ended 31 December 2021

	Note	2021 €m	2020 €m
Cash flows from operating activities			
Profit before taxation for the year		23	23
<i>Adjustments for:</i>			
Net credit impairment (writeback)/charge ⁽¹⁾	11	(16)	128
Change in provisions for liabilities and commitments	24	(2)	(160)
		5	(9)
Changes in operating assets and liabilities			
Change in non-current assets held for sale		1	1
Change in derivative financial instruments		(23)	11
Change in loans and advances to customers ⁽¹⁾		245	241
Change in other assets		(173)	84
Change in customer accounts		(1)	—
Change in other liabilities		(18)	(9)
Change in accruals and deferred income		(10)	—
Net cash flows from operating activities before taxation		26	319
Taxation refund/(paid)		4	(6)
Net cash flows from operating activities		30	313
Cash flows from investing activities			
Net cash flows from investing activities		—	—
Cash flows from financing activities			
Change in debt securities in issue	21	(1,150)	1,250
Change in deposits by banks	19	1,133	(1,578)
Net cash flows from financing activities		(17)	(328)
Change in cash and cash equivalents			
Cash and cash equivalents at 1 January		70	85
Cash and cash equivalents at 31 December⁽²⁾	31	83	70

⁽¹⁾Represented. The 2020 'Net credit impairment charge' is increased by €15m and the 'Change in loans and advances to customers' is reduced by €15m, to align with the 2021 presentation of 'Recoveries of bad debts previously written-off'.

⁽²⁾Cash and cash equivalent balances include funds held as collateral for derivatives with AIB of €63m in 2021 (2020: €50m) and Cash Substitution Pool Assets with Barclays Bank Ireland p.l.c. of €20m in 2021 (2020: €20m). See note 15. Loans and advances to banks.

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Notes to the financial statements

1. ACCOUNTING POLICIES

The accounting policies applied in the preparation of the financial statements for the financial year ended 31 December 2021 are set out below.

1.1. Reporting entity

AIB Mortgage Bank Unlimited Company ('the Bank') is a public unlimited company operating under the Irish Central Bank Act, 1971 (as amended) and as a designated mortgage credit institution under the Asset Covered Securities Acts 2001 and 2007. The Bank's registered office is 10 Molesworth Street, Dublin 2, Ireland it is registered under the company number 404926. It is a wholly owned subsidiary of Allied Irish Banks, p.l.c. ('AIB') which is a wholly owned subsidiary of AIB Group plc, and is regulated by the Single Supervisory Mechanism ('SSM'). Its principal purpose is to issue Mortgage Covered Securities for the purpose of financing loans secured on residential property in accordance with the Asset Covered Securities Acts. Such loans may be made directly by the Bank to customers through the AIB branch network in the Republic of Ireland or may be purchased from AIB and other members of AIB or third parties.

1.2. Statement of compliance

The 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 2021. The financial statements also comply with the Companies Act 2014 applicable to companies reporting under IFRS and the European Communities (Credit Institutions: Financial Statements) Regulations, 2015, and the Asset Covered Securities Acts 2001 and 2007. The accounting policies have been consistently applied by the Bank and are consistent with the previous year, unless otherwise described.

1.3. Basis of preparation

Functional and presentation currency

The financial statements are presented in euro, which is the functional currency of the Bank, 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.

The financial statements comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in shareholders' equity and the statement of cash flows together with the related notes. These notes also include financial instrument related disclosures which are required by IFRS 7 *Financial Instruments: Disclosures* and IAS 1 *Presentation of Financials Statements* contained in the Risk Management section of the annual financial statements. The relevant information on those pages is identified as forming an integral part of the audited financial statements.

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management's judgement may involve 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 judgements 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, of fair value of financial instruments, and provisions for liabilities and commitments.

A description of these judgements and estimates is set out in note 2: 'Critical accounting judgements and estimates' on pages 81 to 83.

Going concern

The financial statements for the year ended 31 December 2021 have been prepared on a going concern basis as the Directors are satisfied, having considered the principal risks and uncertainties impacting the Bank, 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.

The Bank is dependent on AIB for continued funding and is therefore dependent on the going concern status of the parent. The financial statements of AIB have been prepared on a going concern basis.

Notes to the financial statements

1. ACCOUNTING POLICIES

1.3. Basis of preparation (continued)

Going concern (continued)

In making this assessment, the Directors have considered a wide range of information relating to present and future conditions. This includes capital forecasts and internally generated stress scenarios with additional scenarios to take account of the inorganic initiatives that the Bank has committed to. The scenarios include the potential prolonged impacts of COVID-19 and the continuing impacts of Brexit.

These included financial plans covering the period 2022 to 2024, 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 Bank's future business performance and profitability and which are outlined on pages 12 to 50.

There is no intention to liquidate the company or cease trading and the Bank is not aware of any material uncertainties related to conditions or events that may cast significant doubt upon the company's ability to continue as a going concern. In addition, the Bank's parent AIB has provided a letter of financial support to the Directors.

Conclusion

On the basis of the continued availability of funding from AIB to the Bank, the Board approved financial plans in base and alternative scenarios, including the ongoing impact of COVID-19 and Brexit, the Directors of the Bank believe that it is appropriate to prepare the financial statements on a going concern basis.

Adoption of new accounting standards/amendments to standards

During the financial year to 31 December 2021, the Bank applied for the first time certain standards and amendments which are effective for annual periods beginning on or after 1 January 2021 (unless otherwise stated). The following are amendments to standards and interpretations had an insignificant impact on these annual financial statements:

- Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 4 Interest Rate Benchmark Reform - Phase 2.

Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 4

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate ('IBOR') is replaced with an alternative nearly risk-free interest rate ('RFR'). The amendments include a number of practical expedients. These amendments had no material impact on the financial statements of the Bank.

1.4. Interest income and expense recognition

Interest income and expense is recognised in the income statement using the effective interest rate 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 Bank 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 rate 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.

Notes to the financial statements

1. ACCOUNTING POLICIES

1.4. Interest income and expense recognition (continued)

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 Bank presents previously unrecognised interest income as a reversal of credit impairment/recovery of amounts previously written-off.

Presentation

Interest income and expense presented in the income statement include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate 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.

1.5. Net fee income

The measurement and timing of recognition of fee 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 Bank satisfies its performance obligations.

Fee income is recognised when the performance obligation in the contract has been performed, either at a '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.

1.6. Net trading income

Net trading income comprises gains less losses relating to trading assets and liabilities, and includes all realised and unrealised fair value changes. Interest and dividend income on trading assets are shown in 'interest income' and 'dividend income' respectively.

1.7. Income tax, including deferred tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income. Income tax relating to items in equity is recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the financial year using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous financial years.

Deferred income tax is provided, using the balance sheet 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 it is probable that sufficient taxable profits will be available to allow the asset to be recovered.

Notes to the financial statements

1. ACCOUNTING POLICIES

1.7. Income tax, including deferred tax (continued)

The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle the current tax assets and liabilities on a net basis or to realise the asset and settle the liability simultaneously.

Deferred income tax is provided on temporary differences arising from the transition to IFRS 9. In addition, temporary differences are not provided for 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, is recognised as an expense in the period in which the profits arise.

1.8. Financial assets

Recognition and initial measurement

The Bank initially recognises financial instruments on the trade date, being the date on which the Bank commits to purchase the assets. Loan assets are recognised when cash is advanced to borrowers. In a situation where the Bank commits to purchase financial assets under a contract which is not considered a regular-way transaction, the assets to be acquired are not recognised until the acquisition contract is settled. In this case, the contract to acquire the financial asset is a derivative that is measured at FVTPL in the period between the trade date and the settlement date.

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 Bank'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 Bank 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 ('SPPI'). The carrying amount of these assets is calculated using the effective interest rate method and is adjusted on each measurement date by the ECL 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 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.

Notes to the financial statements

1. ACCOUNTING POLICIES

1.8. Financial assets (continued)

Classification and subsequent measurement (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 on-going basis.

In addition, the Bank 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 derivative and a non-derivative component, an 'embedded derivative'. Under IFRS 9, there is no bifurcation of embedded derivatives from the host financial asset. As a result, financial assets with embedded derivatives 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 Bank 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, 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 Bank 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 Bank'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.

Reclassifications

Reclassifications of financial assets to alternative asset categories, (e.g. from amortised cost to FVOCI), should be very infrequent, and will only occur when, and only when, the Bank changes its business model for managing a specific portfolio of financial assets.

Notes to the financial statements

1. ACCOUNTING POLICIES

1.9. Financial liabilities

The Bank categorises financial liabilities as at amortised cost or as at fair value through profit or loss. The Bank recognises a financial liability when it becomes party to the contractual provisions of the contract.

Issued financial instruments and their components are classified as liabilities where the substance of the contractual arrangement results in the Bank 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 the 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 rate method.

The Bank 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 the income statement. See accounting policy note 1.12. Derecognition.

1.10. 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 Bank has access at that date. The Bank 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 Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is determined by a quoted price in an active market for the same financial instrument, or by a valuation technique which uses only observable market inputs, the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss. If the fair value is calculated by a valuation technique that features significant market inputs that are not observable, the difference between the fair value at initial recognition and the transaction price is deferred. Subsequently, the difference is recognised in the income statement on an appropriate basis over the life of the financial instrument, but no later than when the valuation is supported by wholly observable inputs; the transaction matures; or is closed out.

Subsequent to initial recognition, the methods used to determine the fair value of financial instruments include quoted prices in active markets where those prices are considered to represent actual and regularly occurring market transactions. Where quoted prices are not available or are unreliable because of market inactivity, fair values are determined using valuation techniques.

Quoted prices in active markets

Quoted market prices in active markets 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 Bank'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. 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.

Notes to the financial statements

1. ACCOUNTING POLICIES

1.10. Determination of fair value of financial instruments (continued)

Valuation techniques (continued)

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.

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 Bank considers the impact of own credit risk and counterparty risk when valuing its derivative liabilities.

The valuation methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. The assumptions involved in these valuation techniques include:

- The likelihood and expected timing of future cash flows of the instrument. These cash flows are generally governed by the terms of the instrument, although management judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. In addition, future cash flows may also be sensitive to the occurrence of future events, including changes in market rates; and
- Selecting an appropriate discount rate for the instrument, based on the interest rate yield curves including the determination of an appropriate spread for the instrument over the risk-free rate. The spread is adjusted to take into account the specific credit risk profile of the exposure.

All adjustments in the calculation of the present value of future cash flows are based on factors market participants would take into account in pricing the financial instrument.

Certain financial instruments (both assets and liabilities) may be valued on the basis of valuation techniques that feature one or more significant market inputs that are not observable. When applying a valuation technique with unobservable data, estimates are made to reflect uncertainties in fair values resulting from a lack of market data, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on non-observable data are inherently uncertain because there is little or no current market data available from which to determine the price at which an orderly transaction between market participants would occur under current market conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments will be based on some market observable inputs even where the non-observable inputs are significant. All unobservable inputs used in valuation techniques reflect the assumptions market participants would use when fair valuing the financial instrument.

The Bank 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 Bank recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

1.11. Derivatives and hedge accounting

Derivatives, such as interest rate swaps are used for risk management purposes.

Derivatives

Derivatives are measured initially at fair value on the date on which the derivative contract is entered into and subsequently remeasured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and from valuation techniques using discounted cash flow models and option pricing models as appropriate. Derivatives are included in assets when their fair value is positive and in liabilities when their fair value is negative, unless there is the legal ability and intention to settle an asset and liability on a net basis. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Notes to the financial statements

1. ACCOUNTING POLICIES

1.11. Derivatives and hedge accounting (continued)

Derivatives (continued)

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.

Hedging

The Bank 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 *Financial Instruments*.

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 Bank 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').

When a financial instrument is designated as a hedge, the Bank 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 Bank 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 Bank 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 Bank 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.

The Bank applies the IBOR reform Phase 1 reliefs to hedging relationships directly affected by IBOR reform during the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ('RFR'). A hedging relationship is affected if IBOR reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The reliefs require that for the purpose of determining whether a forecast transaction is highly probable, it is assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform.

IBOR reform Phase 1 requires that for hedging relationships affected by IBOR reform, the Bank must assume that for the purpose of assessing expected future hedge effectiveness, the interest rate is not altered as a result of IBOR reform. Also, the Bank is not required to discontinue the hedging relationship if the results of the assessment of retrospective hedge effectiveness fall outside the range of 80% to 125%, although any hedge ineffectiveness must be recognised in profit or loss, as normal.

The reliefs cease to apply once certain conditions are met. These include when the uncertainty arising from IBOR reform is no longer present with respect to the timing and amount of the benchmark-based cash flows of the hedged item, if the hedging relationship is discontinued or once amounts in the cash flow hedge reserve have been released.

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 rate method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

Notes to the financial statements

1. ACCOUNTING POLICIES

1.11. Derivatives and hedge accounting (continued)

Fair value hedge accounting (continued)

Derivatives used to manage interest rate risk arising on mortgage covered securities have been designated as fair value hedges.

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.

Derivatives used to manage interest rate risk arising on mortgage loans to customers do not qualify for hedge accounting. Changes in their fair value are recognised immediately in the income statement.

1.12. Derecognition

Financial assets

The Bank 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 Bank 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.

The Bank 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 Bank 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 Bank 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 where the Bank 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.

1.13. Impairment of financial assets

The Bank 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; and
- Loan commitments issued.

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 Bank 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.

Notes to the financial statements

1. ACCOUNTING POLICIES

1.13. Impairment of financial assets (continued)

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 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 Bank's LGD models.

Purchased or originated credit impaired

POCI financial assets are those that are credit-impaired on initial recognition. The Bank 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 financial 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 Bank 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 Bank 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.

Modification

From time to time, the Bank 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 and a modification gain or loss is 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 Bank 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 forbore assets are derecognised. The modified/restructured asset (derecognised forbore 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.

Notes to the financial statements

1. ACCOUNTING POLICIES

1.13. Impairment of financial assets (continued)

Modification

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 Bank may repossess collateral previously pledged as security in order to achieve an orderly realisation of the loan. The Bank will then offer this repossessed collateral for sale. However, if the Bank 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 Bank 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.

Write-offs and debt forgiveness

The Bank 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 Bank 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.

1.14. Collateral

The Bank 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 Bank 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.

1.15. Non-current assets held for sale

A non-current asset 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.

On initial classification as held for sale, generally, non-current assets are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to the income statement. The same applies to gains and losses on subsequent remeasurement. However, financial assets within the scope of 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.

Non-current assets held for sale are presented separately on the statement of financial position. Prior periods are not reclassified.

Notes to the financial statements

1. ACCOUNTING POLICIES

1.16. 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 rate method. Changes in the present value of the liability as a result of movements in interest rates are included in other income. These are reported within Provisions for liabilities and commitments in the statement of financial position.

Legal claims and other contingencies

Provisions are made for legal claims where the Bank 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 Bank with little realistic alternative but to settle the obligation and the Bank has created a valid expectation in other parties that it will discharge the obligation.

1.17. Shareholders' equity

Issued financial instruments, or their components, are classified as equity where they meet the definition of equity and confer on the holder a residual interest in the assets of the Bank.

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 of the entity.

Share issue costs

Incremental costs directly attributable to the issue of new shares are charged, net of tax, to equity.

Dividends and distributions

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank'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.

Capital reserves

Capital reserves represent cash contribution from AIB.

Revenue reserves

Revenue reserves represent retained earnings of the Bank. They also include amounts arising from the capital reduction undertaken by the Bank in June 2019.

1.18. Cash and cash equivalents

For the purposes of the cash flow statements, cash comprises cash on hand and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value and with a maturity of less than three months from the date of acquisition.

1.19. Prospective accounting changes

The following amendments to existing standards which have been approved by the IASB, but not early adopted by the Bank, will impact the Bank's financial reporting in future periods. The Bank will consider the impact of these amendments as the situation requires. The amendments which are more relevant to the Bank are detailed below.

Notes to the financial statements

1. ACCOUNTING POLICIES

1.19. Prospective accounting changes (continued)

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current*

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- what is meant by a right to defer settlement;
- that a right to defer must exist at the end of the reporting period;
- that classification is unaffected by the likelihood that an entity will exercise its deferral right; and;
- that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

Effective date: Annual reporting periods beginning on or after 1 January 2023.

Amendments to IAS 1 *Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies*

The amendments to IAS 1 and IFRS Practice Statement 2 regarding disclosure of accounting policies which were issued in February 2021, amends IAS 1 in the following way:

- Disclosure of material accounting policy information is now required instead of significant accounting policies.
- Amendments have been included to clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial and if users of an entity's financial statements would need it to understand other material information in the financial statements.

Effective date: Annual reporting periods beginning on or after 1 January 2023.

Amendments to IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates*

The amendments to IAS 8 regarding accounting policies, changes in accounting estimates and errors were issued in February 2021 to help entities to distinguish between accounting policies and accounting estimates. The changes relate entirely to accounting estimates and clarify the following:

- The definition of a change in accounting estimates is replaced with a definition of accounting estimates.
- Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.
- A change in accounting estimate that result from new information or new developments is not the correction of an error.
- A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods.

Effective date: Annual reporting periods beginning on or after 1 January 2023.

Amendments to IAS 12 *Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments to IAS 12 regarding deferred taxes related to assets and liabilities arising from a single transaction which were issued in May 2021, require the following change:

- an exemption from the initial recognition exemption provided in IAS 12.15(b) and IAS 12.24.
- Accordingly, the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

Effective date: Annual reporting periods beginning on or after 1 January 2023.

Other

The IASB has published a number of minor amendments to IFRSs through standalone amendments. None of the other amendments are expected to have a significant impact on reported results or disclosures.

Notes to the financial statements

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 judgements that are deemed critical to the Bank's results and financial position, in terms of the materiality of the items to which the judgements are applied and the estimates that have a significant risk of material adjustment in the next year are also discussed.

Significant judgments

The significant judgements made by the Bank in applying its accounting policies are set out below. The application of these judgements also necessarily involves estimations which are discussed separately.

- Impairment of financial assets; and
- Provisions for liabilities and commitments;

Impairment of financial assets

The Bank's accounting policy for impairment of financial assets is set out in accounting policy 1.13 in note 1. Details of the Bank's ECL allowance are set out in note 16.

The calculation of the ECL allowance is complex and requires the use of a number of accounting judgements.

The most significant judgements applied by the Bank 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;*
- *applying the definition of default policy for classifying financial assets as credit impaired;*
- *choosing the appropriate models for measuring ECL; and*
- *determining an appropriate methodology for post-model adjustments.*

The significant management judgements and the governance process, relating to ECL, are set out on page 28 to 30 in the Risk Management section.

Provisions for liabilities and commitments

The Bank's accounting policy for provisions for liabilities and commitments is set out in accounting policy 1.16 'Non-credit risk provisions' in note 1. Details of the Bank's liabilities and commitments are shown in note 24.

Significant management judgement is required to determine whether the Bank has a present obligation as a result of a past event and whether it is probable an outflow of resources will be required to settle the obligation.

The Bank 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.

Judgement is required in determining whether the Bank has a present obligation and whether it is probable that an outflow of economic benefits will be required to settle this obligation. This judgement is applied to information available at the time of determining the provision including, but not limited to, judgements around interpretations of legislation, regulations and case law depending on the nature of the provision.

Notes to the financial statements

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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:

- Impairment of financial assets; and
- Provisions for liabilities and commitments;

Impairment of financial assets

The Bank's accounting policy for impairment of financial assets is set out in accounting policy 1.13 in note 1. Details of the Bank's ECL allowance are set out in note 16.

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 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.

ECL allowance for Loans and advances to customers at 31 December 2021 amounted to €144m (2020: €320m). The ECL for financial assets represents management's best estimate of the expected credit losses on the various portfolios at the respective reporting dates.

The most significant sources of estimation uncertainty in relation to ECL allowances are as follows:

- *Discounted cash-flows ('DCFs') for certain Stage 3 credit impaired obligors;*
- *Establishing the number and relative weightings for forward looking scenarios;*
- *The assumptions for measuring ECL (e.g. PD, LGD and EAD and the parameters to be included within the models); and*
- *The estimation of post model adjustments where required.*

Certain of these estimates may have a significant risk of material adjustment to carrying amounts of assets within the next financial year.

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 \geq €1 million. 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 against a backdrop of the COVID-19 pandemic and the economic landscape which are continuously evolving. Accordingly, developments with regard to the pandemic and changes in local and international factors could have a material bearing on the ECL allowance within the next financial year. The Bank's sensitivity to a range of macroeconomic factors under (i) base forecast; (ii) upside; and (iii) downside scenarios is set out on pages 23 to 27 of the Risk Management section of this report.

The Bank has developed a standard approach for the measurement of ECL for the majority of the Bank's exposures where each ECL input parameter (e.g. PD, LGD and EAD) is developed in line with standard modelling methodology. These are discussed further on pages 21 and 23 of the Risk Management section. In addition, 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 may consider it appropriate for an adjustment to ECL. These are referred to as post model adjustments and are set out in detail on pages 28 to 29.

On an ongoing basis, the various 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 management process for the calculation of ECL allowance is underpinned by second-line levels of review. The ECL allowance is, in turn, reviewed and approved by AIB Group Credit Committee on a quarterly basis with the final AIB Mortgage Bank levels being approved by AIB Group Board Audit Committee and AIB Mortgage Bank Audit Committee. Further detail on the ECL governance process is set out on page 30.

Notes to the financial statements

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical accounting estimates

Provisions for liabilities and commitments

The Bank's accounting policy for provisions for liabilities and commitments is set out in note 1.16 'Non-credit risk provisions' in note 1. Details of the Bank's liabilities and commitments are shown in note 24.

The most significant source of estimation uncertainty, in relation to provisions, is the assumptions that the Bank makes about future events affecting different classes of provisions including the future outcome of litigation and regulatory proceedings as well as the outcome of restitution activities.

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 estimated potential losses will change over time and the actual losses may vary significantly.

The overall provision amounting to €74m comprising: €67m in respect of the Financial Services and Pensions Ombudsman ('FSPO') decision relating to tracker mortgage customers and the other provisions are not individually significant and do not have a significant risk of a material adjustment in the next financial year.

Note 24 sets out the background and the current position as regards the FSPO decision regarding a tracker complaint and the level of provisions that were set aside. Notwithstanding the near completion of payments to customers based on the FSPO decision, the level of provision required for other costs, including tax liabilities arising that the Bank will be required to discharge on behalf of impacted customers, has been assessed at €67 million. These issues are subject to uncertainty with a range of outcomes possible with the final outcome being higher or lower depending on finalisation of such issues.

As detailed in note 24, AIB was 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. The Bank has not created a provision for cost arising from this administrative sanction, as the procedure was not initiated against the Bank and any cost will be borne by AIB.

Other than the above, there is no individually significant provision where there is a significant risk of a material adjustment in the next financial year.

Notes to the financial statements

3. INTEREST AND SIMILAR INCOME

	2021	2020
	€m	€m
Interest on loans and advances to customers at amortised cost	393	411
Interest earned from AIB	39	40
Interest income calculated using the effective interest method	432	451

Interest earned from AIB is €39m (2020: €40m) and relates to covered securities hedges (bond swaps).

4. INTEREST AND SIMILAR EXPENSE

	2021	2020
	€m	€m
Interest on debt securities in issue	18	29
Interest payable to AIB	62	62
Interest expense calculated using the effective interest method	80	91

The interest payable to AIB is interest payable on funding provided by AIB €50m (2020: €52m), and also interest payable on loan portfolio swaps of €12m (2020: €10m).

5. NET TRADING INCOME

	2021	2020
	€m	€m
Interest rate contracts and debt securities	48	—
	48	—

The net trading gain of €48m (2020: nil) reflects a movement in the mark to market valuation of derivatives used to manage interest rate risk arising on mortgage loans to customers which do not qualify for hedge accounting. Changes in their fair value are recognised immediately in the income statement. The increase in mark to market value of derivatives, which provides an economic hedge for interest rate risk on loans and advances to customers, is mainly due to increased Euro interest rates at 31 December 2021.

6. NET GAIN ON OTHER FINANCIAL ASSETS MEASURED AT FVTPL

	2021	2020
	€m	€m
Loans and advances to customers	2	4
	2	4

Notes to the financial statements

7. NET (LOSS)/GAIN ON DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

	2021	
	Carrying value of derecognised financial assets measured at amortised cost	Loss from derecognition
Loans and advances to customers	307	(5)
	307	(5)

	2020	
	Carrying value of derecognised financial assets measured at amortised cost	Gain from derecognition
Loans and advances to customers	—	3
	—	3

Derecognition in 2021 arose from the sale of portfolios of non-performing loans from a specific loan portfolio where credit deterioration had occurred. In 2020 a gain on derecognition arose from final settlement relating to loans sold in 2019. The loans were disposed of for credit management purposes after credit deterioration had occurred.

8. OTHER OPERATING INCOME

	2021 €m	2020 €m
Miscellaneous operating income	1	2
	1	2

Other operating income of €1m in 2021 (2020: income €2m) relates to additional income recognised when out of course lodgements are received on loans that required a fair value adjustment on initial recognition.

9. OPERATING EXPENSES

	2021 €m	2020 €m
Amounts payable to AIB	394	225
Other administrative expenses	11	8
	405	233

Amounts payable to AIB are determined by the pricing agreement, based on the Transactional Net Margin Method, which reflects the OECD guidelines on transfer pricing, which are the internationally accepted principles in this area, and which take account of the functions, risks and assets involved. For 2021 this required a net payment of €394m to AIB (2020: €225m payable).

Other administrative expenses consists of professional fees €1m (2020: €1m), statutory payments (regulatory charges/levies) €9m (2020: €9m), and a provisions for liabilities and commitments charge of €1m (2020: €2m release). See note 24 Provisions for liabilities and commitments for further information.

For the financial year ended 31 December 2021 the monthly average number of employees was nil (2020: 2). As at 31 December 2021, the Bank had no employees (2020: 2).

Notes to the financial statements

9. OPERATING EXPENSES (continued)

In addition a small number of AIB employees maintain a parallel employment relationship with the Bank, in order to facilitate delivery of outsourced service activities under the Outsourcing and Agency Agreement with AIB. These parallel employments are unremunerated. These employees of AIB in the Republic of Ireland have a primary employment relationship with AIB, which maintains day-to-day control over them and remains responsible for the payment of their remuneration as well as accounting for tax and other payroll deductions.

Personnel expenses

	2021	2020
	€m	€m
Wages and salaries	—	0.2
	—	0.2

Personnel expenses capitalised during the financial year were nil (2020: nil). Personnel expenses borne by AIB are allocated to the Bank under an Outsourcing and Agency Agreement.

Directors' remuneration

	2021	2020
	€'000	€'000
Directors' fees	93	73
	93	73

The Non-Executive Directors' fees are non-pensionable.

The Directors do not participate in share option plans, therefore there were no gains on exercise of share options during the financial year in accordance with Section 305(1) of the Companies Act 2014.

There were no amounts paid (2020: nil) to persons connected with a Director in accordance with Section 306(1) of the Companies Act 2014.

10. AUDITOR'S REMUNERATION

The disclosure of Auditor's remuneration is in accordance with Section 322 of the Companies Act 2014 which mandates remuneration in particular categories and that remuneration paid to the Bank's Auditor (Deloitte) for services to the Bank only be disclosed in this format. Other assurance services include remuneration for additional assurance issued by the firm outside of the audit of the statutory financial statements. Remuneration include assignments where the auditor provides assurance to third parties.

	2021	2020
	€'000	€'000
<i>Auditor remuneration (excluding VAT)</i>		
Audit of financial statements	134	130
Other assurance services	—	—
Tax advisory services	—	—
Other non-audit services	—	—
	134	130

The Board and Audit Committee reviews, on an on-going basis, the level of remuneration and is satisfied that it has not affected the independence of the Auditor.

All the above amounts were paid to the Bank's Auditor for services provided to the Bank.

Notes to the financial statements

11. NET CREDIT IMPAIRMENT WRITEBACK/(CHARGE)

The following table analyses the income statement net credit impairment writeback/(charge) on financial instruments for the years ended 31 December 2021 and 2020:

	2021		2020	
	Measured at amortised cost	Total	Measured at amortised cost	Total
	€m	€m	€m	€m
Credit impairment writeback/(charge) on financial instruments				
Net measurement of loss allowance:				
Loans and advances to customers	16	16	(128)	(128)
Credit impairment writeback/(charge)	16	16	(128)	(128)
Recoveries of amounts previously written-off	14	14	15	15
Net credit impairment writeback/(charge)	30	30	(113)	(113)

12. TAXATION

	2021	2020
	€m	€m
Current taxation		
Current tax on income for the financial year	(2)	(2)
	(2)	(2)
Deferred taxation		
Origination and reversal of temporary timing differences	(1)	(1)
Total tax charge for the year	(3)	(3)
Effective income tax rate	12.5 %	12.5 %

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:

	2021		2020	
	€m	%	€m	%
Operating profit before taxation	23		23	
Corporation tax charge (12.5%)	(3)	12.5	(3)	12.5
<i>Effects of:</i>				
Income taxed at higher tax rates	—	—	—	—
Tax charge	(3)	12.5	(3)	12.5

13. NON-CURRENT ASSETS HELD FOR SALE

	2021	2020
	€m	€m
Reposessed assets	1	2
	1	2

Reposessed assets are expected to be disposed of within one year.

Notes to the financial statements

14. DERIVATIVE FINANCIAL INSTRUMENTS

Set out below are details on fair values and derivative information for the Bank. The Bank uses two different types of interest rate swaps to hedge interest rate risk. The first type is used to hedge interest rate risk on mortgage loan accounts both within the Cover Assets Pool and outside the Cover Assets Pool, effectively converting interest receivable from a fixed rate basis to a floating rate basis. Although these swaps are considered to be an effective hedge in economic terms, due to their nature, it has not been possible to establish a “fair value” hedging relationship under IAS 39 with the mortgage loan accounts and consequently, they are classified as “Held for Trading”. AIB and the Bank amended the Pool and the Non-Pool Hedge structure in December 2013 to include a one-sided free option for the Bank to terminate the swaps without cost on any reset date.

The Bank also uses interest rate swaps to hedge the mortgage covered securities, converting interest payable from a fixed rate basis to a floating rate basis. Effective fair value hedging relationships have been established between these swaps and the underlying covered bonds and consequently the change in fair value of the swaps is largely offset by fair value movements in the covered bonds themselves.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. AIB is the counterparty to all derivative contracts noted below.

	2021			2020		
	Contract/ Notional Amount	Fair Value Asset	Fair Value Liability	Contract/ Notional Amount	Fair Value Asset	Fair Value Liability
	€m	€m	€m	€m	€m	€m
Derivatives held for trading						
Interest rate swaps	17,278	48	—	17,953	1	—
Derivatives held for hedging						
Interest rate swaps	1,775	27	—	2,275	51	—
Total derivative financial instruments	19,053	75	—	20,228	52	—

The following table analyses the notional principal amount of interest rate derivative contracts by residual maturity together with the positive fair value attaching to these contracts where relevant:

Residual maturity	2021				2020			
	Less than 1 year	1 to 5 years	5 years +	Total	Less than 1 year	1 to 5 years	5 years +	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Notional principal amount	18,028	1,000	25	19,053	18,453	1,750	25	20,228
Positive fair value	5	14	56	75	12	30	10	52

Notes to the financial statements

14. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Nominal values and average interest rates by residual maturity

At 31 December 2021 and 2020, the Bank held the following hedging instruments of interest rate risk in fair value hedges:

	2021					Total
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	5 years +	
Fair value hedges - Interest rate swaps						
Hedges of financial liabilities						
Nominal principal amount (€m)	—	750	—	1,000	25	1,775
Average interest rate (%)	—	0.63	—	0.88	5.12	0.83

	2020					Total
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	5 years +	
Fair value hedges - Interest rate swaps						
Hedges of financial liabilities						
Nominal principal amount (€m)	—	500	—	1,750	25	2,275
Average interest rate (%)	—	2.25	—	0.60	5.12	1.14

Fair value hedges of interest rate risk

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 2021 and 2020:

	2021						
	Nominal amount	Carrying amount			Hedge ineffectiveness		
		Assets	Liabilities	Line item in SOFP* where the hedging instrument is included	Change in fair value of hedging instrument used for calculating hedge ineffectiveness in 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:							
Debt securities in issue	1,775	27	—	Derivative financial instruments	—	—	Net trading income

*Statement of financial position

Notes to the financial statements

14. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Fair value hedges of interest rate risk (continued)

	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 item		Line item in SOFP where hedging instrument is included	Change in 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			
	€m	€m	€m	€m			
(b) Hedged items						€m	€m
Interest rate swaps hedging							
Debt securities in issue	—	(1,788)	—	(13)	Debt securities in issue	—	—

	Nominal amount	Carrying amount			Change in fair value of hedging instrument used for calculating hedge ineffectiveness in the year	Hedge ineffectiveness	
		Assets	Liabilities	Line item in SOFP* where the hedging instrument is included		Hedge ineffectiveness recognised in the income statement	Line item in the income statement that includes hedge ineffectiveness
		€m	€m	€m		€m	€m
(a) Hedging instruments							
Interest rate swaps hedging:							
Debt securities in issue	2,275	51	—	Derivative financial instruments	—	Net trading income ⁽¹⁾	

⁽¹⁾Net trading income is not disclosed in the income statement as it is below €1m.

	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 item		Line item in SOFP where hedging instrument is included	Change in 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			
	€m	€m	€m	€m			
(b) Hedged items						€m	€m
Interest rate swaps hedging							
Debt securities in issue	—	(2,304)	—	(29)	Debt securities in issue	—	—

Notes to the financial statements

15. LOANS AND ADVANCES TO BANKS

	2021 €m	2020 €m
At amortised cost		
Funds placed with banks	20	20
Funds placed with Group undertaking	63	50
	83	70
ECL allowance	—	—
	83	70
Analysed by remaining maturity:		
3 months or less	83	70

The funds placed with banks of €20m (2020: €20m) are held by Barclays Bank Ireland, p.l.c. and represent the Cash substitution pool assets and is a restricted cash balance. Cash substitution pool assets are an Asset Covered Securities Act concept whereby certain non-mortgage assets can be held as part of the Cover Assets Pool in addition to the mortgage credit assets. The funds placed with Group undertaking of €63m (2020: €50m) are placed with AIB as collateral for derivatives (note 14).

The Barclays Bank Ireland, p.l.c. credit rating at 31 December 2021 with Standard & Poor's was A. The Bank's covered bond program credit rating at 31 December 2021 with Standard & Poor's was AAA.

16. LOANS AND ADVANCES TO CUSTOMERS

	2021 €m	2020 €m
Analysed by remaining maturity:		
Repayable on demand	160	451
3 months or less	1	4
1 year or less but over 3 months	19	17
5 years or less but over 1 year	492	496
Over 5 years	16,408	16,517
Gross carrying amount	17,080	17,485
Expected credit loss allowance	(144)	(320)
	16,936	17,165

For details of credit quality of loans and advances to customers, including forbearance, refer to the 'Risk management' section of this report.

Amounts repayable on demand includes instances where customers have failed to meet specified repayment terms, and are therefore classified as repayable on demand, in accordance with their lending conditions. Loans and advances to customers comprise AIB branch and intermediary originated residential mortgages in the Republic of Ireland. This portfolio is well diversified by borrower and by geographical location within the Republic of Ireland.

ECL allowance movement

The following table shows the movements on the ECL allowance on loans and advances to customers. Further information is disclosed in the 'Risk management' section of this report.

	2021 €m	2020 €m
At 1 January	320	210
Net re-measurement of loss allowance - customers	(16)	128
Changes in loss allowance due to write-offs	(11)	(18)
Changes in loss allowance due to disposals	(149)	—
At 31 December	144	320

Notes to the financial statements

17. OTHER ASSETS

	2021 €m	2020 €m
Accrued interest	21	29
Proceeds due from disposal of loan portfolio	181	—
	202	29

18. DEFERRED TAXATION

	2021 €m	2020 €m
Deferred tax assets:		
Transition to IFRS 9	1	2
Total gross deferred tax assets	1	2
Deferred tax liabilities	—	—
Total gross deferred tax liabilities	—	—
Net deferred tax assets	1	2

Analysis of movements in deferred taxation

	2021 €m	2020 €m
At 1 January	2	3
Income statement (note 12)	(1)	(1)
At 31 December	1	2

The movement in deferred taxation of €1m during 2021 represents the amortisation of the deferred tax asset created on transition to IFRS 9 (2020: movement of €1m). Deferred tax asset is expected to be utilised within 1 years (2020: 2 years).

19. DEPOSITS BY BANKS

	2021 €m	2020 €m
Due to Allied Irish Banks, p.l.c.	6,047	4,914
	6,047	4,914

The Bank has a borrowing facility with its parent company, AIB, under which the parent company provides the balance of funding after the Bank has availed of other sources of funds. The movement in Deposits by banks of €1,133m is driven by the redemption of covered bonds with a nominal value of €1,150m in 2021.

20. CUSTOMER ACCOUNTS

	2021 €m	2020 €m
Current accounts	—	1
	—	1

Notes to the financial statements

21. DEBT SECURITIES IN ISSUE

	2021 €m	2020 €m
<i>Mortgage covered securities in issue to external investors and internal issuances at nominal value:</i>		
External investors	1,775	2,275
Allied Irish Banks, p.l.c.	7,750	8,400
	9,525	10,675
Analysed by remaining maturity:		
3 months or less	750	—
1 year or less but over 3 months	500	1,150
5 years or less but over 1 year	5,250	5,750
Greater than 5 years	3,025	3,775
Carrying value of debt securities ⁽¹⁾	9,525	10,675

⁽¹⁾The fair value of hedged liability positions is disclosed in Other liabilities for 2021 and 2020. (See note 22).

The Bank is an issuer of mortgage covered securities under the Asset Covered Securities Act, 2001 as amended by the Asset Covered Securities Amendment Act, 2007 (the "Act"). The Act requires that mortgage covered securities are secured by assets that are included in a Cover Assets Pool maintained by the issuer and that a register of mortgage covered securities business is kept.

At 31 December 2021, the Cover Assets Pool amounted to €15.50bn (2020: €15.34bn), comprising of €15.48bn (2020: €15.32bn) of mortgage credit assets (mortgage loan accounts) and €0.02bn (2020: €0.02bn) of substitution assets (cash on deposit with suitably rated credit institutions). Section 40(2) of the Act requires that the following information be disclosed in respect of mortgage credit assets that are recorded in the register of mortgage covered securities business.

(a) Mortgaged properties and principal loan balances outstanding in the cover assets pool

Total loan balances

From	To	Total loan balances	Number of mortgaged properties	Total loan balances	Number of mortgaged properties
		2021 (1 & 2) €m	2021	2020 (1 & 2) €m	2020
€0	€100,000	2,326	44,302	2,339	44,397
€100,000	€200,000	5,961	40,945	5,959	40,988
€200,000	€500,000	6,373	23,288	6,218	22,870
Over €500,000		822	1,185	808	1,140
		15,482	109,720	15,324	109,395

⁽¹⁾ The total loan balances are categorised by the total loan balance outstanding per mortgaged property, including principal and interest charged to the loan accounts, but excluding interest accrued but not charged to the loan accounts.

⁽²⁾ There could be one or more loan accounts per mortgaged property. The Cover Assets Pool contains 121,945 loan accounts (2020: 121,774) secured on 109,720 properties (2020: 109,395).

(b) Geographical location of mortgaged properties in the cover assets pool

Geographical Area	Number of mortgaged properties		Number of mortgaged properties	
	2021	2021	2020	2020
Dublin	28,856	26 %	29,260	27%
Outside Dublin	80,864	74 %	80,135	73%
	109,720	100 %	109,395	100%

Notes to the financial statements

21. DEBT SECURITIES IN ISSUE (continued)

(c) Mortgage loan accounts in default in the cover assets pool

As at 31 December 2021, there were no mortgage loan accounts (2020: nil) in default in the Cover Assets Pool (in default being defined as impaired mortgage loan accounts).

(d) Mortgage loan accounts in default in the cover assets pool with arrears greater than €1,000

During the financial year ended 31 December 2021, 2 mortgage loan accounts (2020: nil) in the Cover Assets Pool had been in default with arrears greater than €1,000.

(e) Replacement of non-performing mortgage loan accounts from the cover assets pool

During the financial year ended 31 December 2021, 14 non-performing mortgage loan accounts (2020: nil) were removed in total from the Cover Assets Pool (for this purpose, non-performing is defined as credit grade 7 and 8, i.e. has the same meaning as in default). These loan accounts were not replaced with other assets as the Cover Assets Pool continued to meet all regulatory requirements.

(f) Amount of interest in arrears on mortgage loan accounts in the cover assets pool not written off

The total amount in arrears (including principal and interest) in respect of 1,160 accounts (2020: 742) as at 31 December 2021 was €1,271,940 (2020: €819,164), €266,846 (2020: €156,405) of which represented non-payment of interest. None of the accounts in question were written off as at 31 December 2021 as they were in arrears for less than three months.

(g) Total principal and interest payments on mortgage loan accounts

The total amount of repayments (principal and interest) made by customers on mortgage loan accounts in the Cover Assets Pool during the year ended 31 December 2021 was €2,131m (2020: €1,936m), of which €1,779m (2020: €1,569m) represented repayment of principal and €352m (2020: €367m) represented payment of interest. The repayments of principal include the repayment of mortgage loan accounts by customers closing their existing accounts when opening a new account.

(h) Number and amount of mortgage loans in the cover assets pool secured on commercial property

As at 31 December 2021 there were no loan accounts (2020: nil) in the Cover Assets Pool that were secured on commercial properties.

22. OTHER LIABILITIES

	2021	2020
	€m	€m
Sundry creditors	1	—
Fair value of hedged liability positions	13	29
Other liabilities	—	3
	14	32

23. ACCRUALS AND DEFERRED INCOME

	2021	2020
	€m	€m
Accrued interest	14	24
Other accrued expense	4	4
	18	28

Notes to the financial statements

24. PROVISIONS FOR LIABILITIES AND COMMITMENTS

	2021	2020
	€m	€m
At 1 January 2021	76	236
Amounts charged to income statement	1	4
Amounts written back to income statement	—	(6)
Provisions utilised	(3)	(158)
At 31 December	74	76

The total provisions for liabilities and commitments expected to be settled within one year amount to €74m (2020: €76m).

Provisions for customer redress and other costs

The provision at 31 December 2021 for customer redress and compensation and other related costs amounted to €74m, of which €67m is for the 2020 FSPO Decision (further information below) and €7m is for the Tracker Mortgage Examination (31 December 2020: €68m and €8m respectively).

FSPO Decision:

The provision at 31 December 2021 for customer redress and compensation and other related costs amounted to €67m (31 December 2020: €68m) in respect of certain mortgage customers – the '06-09 Terms & Conditions ('Ts&Cs') who never had a tracker' cohort.

In 2020, following a FSPO decision in relation to a complaint by a customer from the '06-09 Ts&Cs who never had a tracker' cohort, which found that the Bank had breached the terms of the customer's mortgage loan contract and directed it to remedy the matter in what the FSPO believed was a fair and proportionate manner, AIB Group decided to accept the decision in full. Furthermore, AIB Group decided to apply the remedy to all other customers within this cohort, and payments to customers were substantially completed by December 2020.

The Bank continued to engage with stakeholders and a number of related issues also exist that have yet to be resolved, including tax liabilities arising that the Bank will be required to discharge on behalf of impacted customers. Notwithstanding the near completion of payments to customers based on the FSPO decision, the level of provision required for these other costs has been assessed at €67m, following utilisations of €1m in the year.

These issues are subject to uncertainty with a range of outcomes possible with the final outcome being higher or lower depending on finalisation of such issues.

Tracker Mortgage Examination:

In respect of customer redress and compensation a provision of €3m is held at 31 December 2021 (31 December 2020: €4m) for the ongoing appeals process and any individual impacted accounts which may be identified under the Tracker Mortgage Examination. The provision at 31 December 2021 for 'Other costs' amounted to €4m (31 December 2020: €4m).

In March 2018, AIB 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 acted with a lack of transparency, unfairly or without due skill and care. The investigations are ongoing and AIB are co-operating with the CBI.

The Bank has not created a provision for costs arising from this administrative sanction, as the procedure was not initiated against the Bank and any cost will be borne by AIB.

Notes to the financial statements

25. SUBORDINATED LIABILITIES

	Notes	2021 €m	2020 €m
Dated capital note	(a)	100	100
Perpetual capital note	(b)	200	200
		300	300

(a) €100,000,000 Dated Subordinated Capital Note – the loan to which this note relates was received from the parent company, AIB on 13 February 2006. The Note has a fixed maturity date of 12 February 2031. Early repayment may occur at the option of the Bank with the prior consent of the Central Bank of Ireland on any interest payment date falling any time after five years and one day from the date of issuing the Note.

Interest on the amount of principle is calculated on a year of 360 days at a rate of 53 basis points over Euribor payable monthly in arrears and is reflected in note 4 'Interest and similar expense'.

(b) €200,000,000 Subordinated Perpetual Capital Note – the loan to which this note relates was received from AIB on 13 February 2006. The Note is undated and has no final maturity date but may be redeemed at the option of the Bank with the prior consent of the Central Bank at any time after the fifth anniversary of its issue.

Interest on the amount of principle is calculated on a year of 360 days at a rate of 100 basis points over Euribor payable monthly in arrears and is reflected in note 4 'Interest and similar expense'.

The two capital notes are unsecured and all rights and claims of AIB shall be subordinated to the claims of all creditors who are depositors or other unsubordinated creditors of the Bank and creditors of the Bank whose claims are subordinated to the claims of depositors and other unsubordinated creditors of the Bank but excluding pari passu Subordinated Creditors and those creditors of the Bank whose claims rank or are expressed to rank junior to the claims of AIB.

26. ISSUED SHARE CAPITAL PRESENTED AS EQUITY

	2021		2020	
	Number of shares m	€m	Number of shares m	€m
Authorised:				
Ordinary share capital				
Ordinary shares of €0.25 each	3,000	750	3,000	750
Issued and fully paid up:				
Ordinary share capital				
Ordinary shares of €0.25 each	1,745	436	1,745	436

	2021 €m	2020 €m
Movements in issued share capital		
At 1 January	436	436
At 31 December	436	436

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares rank equally with regard to the Bank's residual assets.

Notes to the financial statements

27. CAPITAL RESERVES

	2021	2020
	€m	€m
At 1 January	580	580
At 31 December	580	580

Capital reserves represent cash contribution from AIB.

28. CONTINGENT LIABILITIES AND COMMITMENTS

	Contract amount	
	2021	2020
	€m	€m
Contingent liabilities⁽¹⁾ – credit related	—	—
Commitments⁽²⁾		
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year	807	520
1 year and over	36	39
	843	559
	843	559

⁽¹⁾Contingent liabilities are off-balance sheet products and include guarantees, standby letters of credit and other contingent liability products such as performance bonds, contract bonds and custom 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.

Off balance sheet commitments

In the normal course of business, the Bank 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 Bank'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 Bank uses the same credit control and risk management policies in undertaking off-balance sheet commitments as it does for 'on- balance sheet lending'.

At 31 December 2021 the Bank had €843m (2020: €559m) of approved mortgage loan applications that had not been drawn down as at the year end.

Loan commitments are classified and measured in accordance with IFRS 9. The Bank's accounting policy for the recognition of ECL allowances on loan commitments is set out in accounting policy 1.13 Impairment of financial assets.

The loan commitments were assessed for an ECL at 31 December 2021, it was determined that the ECL was immaterial (2020: immaterial).

Legal proceedings

The Bank, 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 Bank is aware, (other than as set out in the following paragraphs), pending or threatened by or against the Bank 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 Bank.

Notes to the financial statements

28. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Legal proceedings (continued)

The Bank, 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 Bank is aware, (other than as set out in the following paragraphs), pending or threatened by or against the Bank 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 Bank.

Specifically, litigation has been served on the Bank by customers that are pursuing claims in relation to tracker mortgages. Customers have also lodged complaints to the FSPO in relation to tracker mortgages issues which are outlined in 'Provisions for liabilities and commitments' (note 24).

Further claims may also be served in the future in relation to tracker mortgages. The Bank may 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 Bank.

29. 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 1.12 and financial liabilities in note 1.13, 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 at 31 December 2021 and 2020 the carrying amounts of the financial assets and financial liabilities by measurement category as defined in IFRS 9 *Financial Instruments* and by statement of financial position heading.

			2021
	At fair value through profit and loss	At amortised cost	Total
	Mandatorily		
	€m	€m	€m
Financial assets			
Derivative financial instruments	75	—	75
Loans and advances to banks	—	83	83
Loans and advances to customers	—	16,936	16,936
Other financial assets	—	202	202
	75	17,221	17,296
Financial liabilities			
Deposits by banks	—	6,047	6,047
Debt securities in issue	—	9,525	9,525
Subordinated liabilities	—	300	300
Other financial liabilities	—	19	19
	—	15,891	15,891

Notes to the financial statements

29. CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

	2020		
	At fair value through profit and loss	At amortised cost	Total
	Mandatorily		
	€m	€m	€m
Financial assets			
Derivative financial instruments	52	—	52
Loans and advances to banks	—	70	70
Loans and advances to customers	—	17,165	17,165
Other financial assets	—	29	29
	<u>52</u>	<u>17,264</u>	<u>17,316</u>
Financial liabilities			
Deposits by banks	—	4,914	4,914
Customer accounts	—	1	1
Debt securities in issue	—	10,675	10,675
Subordinated liabilities	—	300	300
Other financial liabilities	—	31	31
	<u>—</u>	<u>15,921</u>	<u>15,921</u>

30. 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 Bank has access at that date. The Bank's accounting policy for the determination of fair value of financial instruments is set out in accounting policy 1.10.

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 Bank 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:

Level 1 – financial assets and liabilities measured using quoted market prices from an active market (unadjusted).

Level 2 – financial assets and liabilities measured using valuation techniques which use quoted market prices from an active market or measured using quoted market prices unadjusted from an inactive market.

Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable inputs.

All financial instruments are initially recognised at fair value. Financial instruments held for trading and financial instruments in fair value hedge relationships are subsequently measured at fair value through profit or loss.

All valuations are carried out within the Finance function of AIB and valuation methodologies are validated by the Risk function within AIB.

Readers of these financial statements are advised to use caution when using the data in the following tables to evaluate the Bank'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 such as 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 Bank as a going concern at 31 December 2021.

Notes to the financial statements

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The methods used for calculation of fair value are as follows:

Financial instruments measured at fair value in the financial statements

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 within AIB. Where there is uncertainty around the inputs to a derivatives' valuation model, the fair value is estimated using inputs which provide the Bank'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 credit and own credit is an input into the valuation of uncollateralised customer derivatives.

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 practicably available, or rates currently offered by other financial institutions for placements with similar characteristics.

Loans and advances to customers

The Bank provides lending facilities of varying rates and maturities to personal customers. Valuation techniques are used in estimating the fair value of loans, primarily using discounted cash flows and applying market rates where practicable.

The fair value of variable rate mortgage products including tracker mortgages is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in the portfolio. For fixed rate mortgages, the fair value is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in that portfolio. For the overall loan portfolio, an adjustment is made for credit risk which at 31 December 2021 took account of the Bank's expectations on credit losses over the life of the loans.

Deposits by banks

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 Bank.

Debt securities in issue

The estimated fair value of subordinated liabilities and other capital instruments, and debt securities in issue, is based on quoted prices where available, or where these are unavailable, are estimated using valuation techniques using observable market data for similar instruments. Where there is no market data for a directly comparable instrument, management judgement, on an appropriate credit spread to similar or related instruments with market data available, is used within the valuation technique. This is supported by cross referencing other similar or related instruments.

Other financial assets and other financial liabilities

This caption includes accrued interest receivable and payable and the carrying amount is considered representative of fair value.

Notes to the financial statements

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table sets out the carrying value of financial instruments across the three levels of the fair value hierarchy at 31 December 2021 and 2020:

	2021				
	Carrying amount	Fair value			Total
		Fair value hierarchy			
		Level 1	Level 2	Level 3	
€m	€m	€m	€m	€m	
Financial assets measured at fair value					
Derivative financial instruments					
Interest rate swaps	75	—	75	—	75
	75	—	75	—	75
Financial assets not measured at fair value					
Loans and advances to banks	83	—	—	83	83
Loans and advances to customers	16,936	—	—	16,121	16,121
Other financial assets	202	—	—	202	202
	17,221	—	—	16,406	16,406
Financial liabilities not measured at fair value					
Deposits by banks	6,047	—	—	6,047	6,047
Debt securities in issue	9,525	9,804	—	—	9,804
Subordinated liabilities	300	—	202	—	202
Other financial liabilities	19	—	—	19	19
	15,891	9,804	202	6,066	16,072

Notes to the financial statements

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	2020				
	Carrying amount	Fair value			Total
		Fair value hierarchy			
		Level 1	Level 2	Level 3	
€m	€m	€m	€m	€m	
Financial assets measured at fair value					
Derivative financial instruments					
Interest rate swaps	52	—	52	—	52
Financial assets not measured at fair value					
Loans and advances to banks	70	—	—	70	70
Loans and advances to customers	17,165	—	—	17,639	17,639
Other financial assets	29	—	—	29	29
	17,264	—	—	17,738	17,738
Financial liabilities not measured at fair value					
Deposits by banks	4,914	—	—	4,914	4,914
Customer accounts	1	—	—	1	1
Debt securities in issue	10,675	11,210	—	—	11,210
Subordinated liabilities	300	—	194	—	194
Other financial liabilities	31	—	—	31	31
	15,921	11,210	194	4,946	16,350

Significant transfers between Level 1 and Level 2 of the fair value hierarchy

There were no transfers between Level 1 and Level 2 of the fair value hierarchy for the years ended 31 December 2021 and 2020.

31. STATEMENT OF CASH FLOWS

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2021	2020
	€m	€m
Loans and advances to banks (note 15)	83	70
	83	70

Cash and cash equivalents include balances with original maturities of less than 3 months. Restricted cash in the Bank is included in note 15. Loans and advances to banks.

Notes to the financial statements

32. RELATED PARTY TRANSACTIONS

(a) Transactions with AIB

The Bank is a subsidiary of AIB. Banking transactions are entered into between the Bank and AIB in the normal course of business. These include loans, deposits and derivatives on an arm's length basis. Interest paid to AIB and interest received from AIB is disclosed in note 3 and note 4 to the financial statements. Most of the Bank's activities are outsourced to AIB under an Outsourcing and Agency Agreement. AIB as Service Agent for the Bank, originates residential mortgage loans through its retail branch network and digital channels in the Republic of Ireland, services the mortgage loans and provides treasury services in connection with financing as well as a range of support services. The Bank's activities are financed through the issuance of mortgage covered securities with the balance of funding being provided by AIB. In addition, the Bank has a pricing agreement with AIB updated in 2020 to reflect revised OECD guidelines on transfer pricing, which are the internationally accepted principles in this area, and which take account of the functions, risks and assets involved (see note 9: Operating expenses).

	2021	2020
	€m	€m
Included in the statement of financial position		
Loans and advances to banks	63	50
Deposits by central banks and banks	(6,047)	(4,914)
Accruals and deferred income	(1)	(1)
Subordinated liabilities	(300)	(300)
Derivative financial instruments		
<i>Interest rate swaps</i>		
Assets (Fair value)	75	52
Included in the income statement		
Interest income	39	40
Interest expense	(62)	(62)
Net trading income	48	—
Operating expenses	(394)	(225)

(b) 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, Non-Executive Directors and Senior Executive Officers. As at 31 December 2021 the Bank has 7 KMP (2020: 8 KMP).

(i) Compensation of Key Management Personnel ('KMP')

Compensation of KMP, namely Executive and Non-Executive Directors and Senior Executive Officers, in office during the year is paid by AIB and allocated to the Bank under the Outsourcing and Agency Agreement.

Total compensation to KMP is as follows:

	2021	2020
	€'000	€'000
Short-term compensation*	93	73
Post-employment benefits	—	—
Termination benefits	—	—
	93	73

*Non-Executive Directors short-term compensation: comprises Directors' fees and travel and subsistence expenses incurred in the performance of the duties of their office, which are paid by AIB.

The figures shown include the figures separately reported in respect of Directors' remuneration in note 9 Operating expenses.

Notes to the financial statements

32. RELATED PARTY TRANSACTIONS (continued)

(b) IAS 24 Related Party Disclosures (continued)

(ii) Transactions with Key Management Personnel ('KMP')

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 Bank, and do not involve more than the normal risk of collectability or present other unfavourable features. Loans to Executive Directors and Senior Executive Officers are made on terms available to other employees in the Bank 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 Bank and the KMP, as defined above, together with members of their close families and entities influenced by them are shown in the following table:

	2021	2020
	€'000	€'000
Loans outstanding		
At 1 January	188	245
Loans issued during the year	—	—
Loan repayments during the year/change of KMP/other	(34)	(57)
At 31 December	154	188

The balances outlined above include loans, quasi loans and credit transactions held by the connected persons of KMP identified as such during the reporting period.

(c) 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 8 Directors in office during the year, 1 of whom availed of credit facilities (2020: 1). The Director who availed of credit facilities had balances outstanding at 31 December 2021 (2020: 1).

Details of transactions with Directors for the year ended 31 December 2021 are as follows:

	Balance at 31 December 2020	Amounts advanced during 2021	Amounts repaid during 2021	Balance at 31 December 2021
	€'000	€'000	€'000	€'000
Chris Curley				
Loans	188	—	(34)	154
Interest charged during the year	—	—	—	5
Maximum debit balance during the year**	—	—	—	188

**The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

An ECL allowance is recognised for all loans and advances. Accordingly, an insignificant ECL is held on the above facilities at 31 December 2021. All facilities are performing to their terms and conditions.

Simon Ball, Ken Burke, Gerry Gaffney, Yvonne Hill, Conor McGrath, James Murphy and Paul Owens had no facilities with the Bank during 2021.

Notes to the financial statements

32. RELATED PARTY TRANSACTIONS (continued)

c) Companies Act 2014 disclosures

(i) Loans to Directors (continued)

	Balance at 31 December 2019 €'000	Amounts advanced during 2020 €'000	Amounts repaid during 2020 €'000	Balance at 31 December 2020 €'000
Chris Curley				
Loans	215	—	27	188
Interest charged during the year	—	—	—	6
Maximum debit balance during the year**	—	—	—	215

**The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

An ECL allowance is recognised for all loans and advances. Accordingly, an insignificant ECL is held on the above facilities at 31 December 2020. All facilities are performing to their terms and conditions.

Ken Burke, Gerry Gaffney, Yvonne Hill, Dave Keenan, James Murphy and Paul Owens had no facilities with the Bank during 2020.

(ii) Connected persons

The aggregate of loans to connected persons of Directors, in office during the year, at 31 December 2021, as defined in Section 220 of the Companies Act 2014, are as follows (aggregate of 2 persons; 2020: 3 persons)

	Balance at 31 December 2021 €'000	Balance at 31 December 2020 €'000
Loan	326	362
Interest charged during the year	5	5
Maximum debit balance during year**	362	396

**The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

An ECL allowance is recognised for all loans and advances. Accordingly, an insignificant ECL is held on the above facilities at 31 December 2021. All facilities are performing to their terms and conditions.

(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 2021 represents less than 0.04% of the net assets of the Bank. (2020: 0.04%).

(d) Summary of relationship with the Irish Government

The Irish Government is recognised as a related party under IAS 24 *Related Party Disclosures* as it is in a position to exercise control over AIB Group.

Ordinary Shares

At 31 December 2021, the State held 71.12% of the ordinary shares of AIB Group plc (31 December 2020: 71.12%).

Subsequent to the year end, the State's shareholding reduced to 70.97% as at 2 March 2022 as part of a pre-arranged trading plan that was previously announced.

Notes to the financial statements

33. SEGMENTAL INFORMATION

The Bank's income and assets are entirely attributable to mortgage lending activity in the Republic of Ireland.

34. ULTIMATE PARENT COMPANY

The Bank is a wholly owned subsidiary of AIB. The ultimate parent company of the Bank is AIB Group plc., a company registered in the Republic of Ireland.

The ultimate parent company is the largest group of which the Bank is a member, for which consolidated accounts are prepared. The financial statements of AIB and AIB Group plc are available from its registered address at AIB Group plc, 10 Molesworth Street, Dublin 2. Alternatively, information can be viewed by accessing AIB's website at www.aib.ie/investorrelations.

35. NON-ADJUSTING EVENTS AFTER THE REPORTING DATE

There have been no significant events affecting the Bank since the reporting date which require disclosure or amendment to the financial statements.

36. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 2 March 2022.