

BACKING OUR CUSTOMERS



Pillar 3 Report
For the year ended 31 December 2019

AIB Group plc



Forward looking statements

This document contains certain forward looking statements with respect to the financial condition, results of operations and business of AIB Group and certain of the plans and objectives of the Group. These forward looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward looking statements sometimes use words such as 'aim', 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'may', 'could', 'will', 'seek', 'continue', 'should', 'assume', or other words of similar meaning. Examples of forward looking statements include, among others, statements regarding the Group's future financial position, capital structure, Government shareholding in the Group, income growth, loan losses, business strategy, projected costs, capital ratios, estimates of capital expenditures, and plans and objectives for future operations. Because such statements are inherently subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward looking information. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward looking statements. These are set out in Principal risks on pages 40 to 43 in the 2019 Annual Financial Report. In addition to matters relating to the Group's business, future performance will be impacted by Irish, UK and wider European and global economic and financial market considerations. Any forward looking statements made by or on behalf of the Group speak only as of the date they are made. The Group cautions that the list of important factors on pages 40 to 43 of the 2019 Annual Financial Report is not exhaustive. Investors and others should carefully consider the foregoing factors and other uncertainties and events when making an investment decision based on any forward looking statement.

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EBA Templates that are not applicable to AIB Group**Rationale for exclusion**

EU CR10	IRB (specialised lending and equities)	AIB does not use the simple risk weight approach for specialised lending or equity exposures
EU INS1	Non-deducted participations in insurance undertakings	AIB has no insurance undertakings.
EU CCR 7	RWA flow statement of CCR exposures under IMM	AIB does not use the IMM method and instead use the Original Exposure method for derivatives under counterparty credit risk
EU MRB	Qualitative disclosure requirements for institutions using the IMA	All market risk is treated under standardised approach.
EU MR2–A	Market risk under the IMA	All market risk is treated under standardised approach.
EU MR2-B	RWA flow statements of market risk exposures under the IMA	All market risk is treated under standardised approach.
EU MR3	IMA values for trading portfolios	All market risk is treated under standardised approach.
EU MR4	Comparison of VaR estimates with gains/losses	All market risk is treated under standardised approach.

Chapter 1. Introduction and AIB Group key information

Key metrics

The following key metrics reflect the Group's risk profile (as described on pages 28 to 31 of the Risk management section). These key metrics form part of the Group's Risk Appetite Statement and have been calculated as prescribed in CRD IV, on a transitional and fully loaded basis. During 2019, the Group's performance was in compliance with the Group Risk Appetite Framework which underpins the risk profile.

Regulatory capital and capital ratios

Common equity tier 1 capital <i>(transitional)</i>	Total capital <i>(transitional)</i>	Common equity tier 1 <i>(fully loaded)</i>	Total capital <i>(fully loaded)</i>
€10,589 million	€12,140 million	€9,005 million	€10,667 million
(2018: €10,909 million)	(2018: €11,559 million)	(2018: €8,993 million)	(2018: €9,840 million)
Common equity tier 1 ratio <i>(transitional)</i>	Total capital ratio <i>(transitional)</i>	Common equity tier 1 ratio <i>(fully loaded)</i>	Total capital ratio <i>(fully loaded)</i>
20.3%	23.3%	17.3%	20.5%
(2018: 21.1%)	(2018: 22.4%)	(2018: 17.5%)	(2018: 19.1%)

Risk weighted assets ("RWA")

Total RWA <i>(transitional)</i>	Credit risk <i>(transitional)</i>	Total RWA <i>(fully loaded)</i>	Credit risk <i>(fully loaded)</i>
€52,121 million	€46,811 million	€51,999 million	€46,689 million
(2018: €51,596 million)	(2018: €46,209 million)	(2018: €51,439 million)	(2018: €46,052 million)
Market risk <i>(transitional)</i>	Operational risk <i>(transitional)</i>	Market risk <i>(fully loaded)</i>	Operational risk <i>(fully loaded)</i>
€473 million	€4,700 million	€473 million	€4,700 million
(2018: €371 million)	(2018: €4,624 million)	(2018: €371 million)	(2018: €4,624 million)

Liquidity ratios

Liquidity coverage ratio ("LCR")	Net stable funding ratio ("NSFR")
157%	129%
(2018: 128%)	(2018: 125%)

Leverage ratio

Liquidity coverage ratio ("LCR") <i>(transitional)</i>	Net stable funding ratio ("NSFR") <i>(fully loaded)</i>
11.1%	9.7%
(2018: 11.8%)	(2018: 10.1%)

Key movements in capital and RWAs are detailed in Chapter 2. Capital and capital management on pages 15 to 27.

Introduction

This document comprises the required regulatory disclosures under Capital Requirements Directive IV (“CRD IV”), Part 8 – Disclosures by Institutions and gives further insight into how the Group’s capital management relates to its risk profile, in addition to the disclosures in the Annual Financial Report 2019.

Background and context

The Basel Accords were introduced as global regulatory standards on capital adequacy. The Basel III capital adequacy framework builds on the Basel II regulatory base and further underpins how regulatory capital requirements reflect a credit institution’s underlying risks. The Basel framework is based on three pillars:

- Pillar 1 (‘minimum capital requirements’) defines rules for the calculation of credit, market and operational risk;
- Pillar 2 (‘supervisory review’) requires banks to estimate their own internal capital requirements through an Internal Capital Adequacy Assessment Process (“ICAAP”), which is subject to supervisory review and evaluation; and
- Pillar 3 (‘market discipline’) involves the disclosure of a suite of qualitative and quantitative risk management information to the market.

The legal basis for implementing Basel III is the European Union (“EU”) adopted legislative package, known as CRD IV, which came into force on 1 January 2014. CRD IV consists of the Capital Requirements Regulation (“CRR”) which is directly applicable across firms in the EU, and the Capital Requirements Directive (“CRD”), which was implemented by member states of the European Economic Area through national law.

The Single Supervisory Mechanism (“SSM”), comprising the European Central Bank (“ECB”) and the national competent authorities of EU countries (in Ireland this is the Central Bank of Ireland (“Central Bank” or “CBI”)) was established in 2014. The SSM places the ECB as the central prudential supervisor of financial institutions in the Eurozone, including AIB, and in those non-eurozone EU countries that choose to join the SSM. The aims of the SSM are to ensure the safety and soundness of the EU banking system and to increase financial integration and stability in the EU. Although the ECB has been conferred with the task of ensuring financial stability, some functions such as consumer protection, supervision of payment services and the combat of money laundering remain at national level.

Basis of disclosures

AIB Group plc (‘the parent company’) is a company domiciled in Ireland and is the holding company of the Group.

Under Article 4 of the CRR, AIB Group plc is a financial holding company. Under Article 13 (2) of the CRR, disclosure obligations as laid down in Part Eight of the CRR are on the basis of the consolidated situation of the financial holding company i.e. AIB Group plc.

Allied Irish Banks, p.l.c., a direct subsidiary of AIB Group plc, is a credit institution authorised by the Central Bank/SSM. Both Allied Irish Banks, p.l.c. and its subsidiaries: AIB Mortgage Bank, EBS d.a.c. and EBS Mortgage Finance are licenced entities and are required to file regulatory returns with the Central Bank for the purpose of assessing, inter alia, their capital adequacy and their balance sheets. EBS Mortgage Finance is not included in this Pillar 3 report as it is below the threshold to qualify as a significant subsidiary of AIB Group. In addition, AIB Group (UK) p.l.c. also a subsidiary of Allied Irish Banks, p.l.c., is a licenced entity and files regulatory returns with the Prudential Regulatory Authority (“PRA”).

AIB Group plc and its subsidiaries (collectively “AIB Group” or “Group”) prepares consolidated financial statements (“consolidated accounts”) under International Financial Reporting Standards (“IFRS”). Not all subsidiary entities are included in the scope of regulatory consolidation, Table EU LI3 - Differences in scope of consolidation provides information on entities which are treated differently under the accounting and the regulatory scope of consolidation. In October 2019, Allied Irish Banks, p.l.c. acquired a majority stake in Seneral Ltd a holding company for Payzone Ireland.

The Pillar 3 disclosures have been prepared to explain the basis on which the Group has prepared and disclosed capital requirements and information about the management of certain risks as at 31 December 2019 and for no other purpose. They do not constitute any form of financial statement and should not be relied upon exclusively in making any judgement on the Group. They should be read in conjunction with the other information made public by AIB Group and available on the AIB Group website, including the Annual Financial Report 2019.

Coronavirus outbreak

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

Frequency

This report is made on annual basis, with the disclosures based on the financial year end of 31 December 2019. CRD IV and EBA guidelines require the Group to disclose information at a minimum on an annual basis. To ensure the effective communication of the Group's business and risk profile, the Group also pays particular attention to the possible need to provide information more frequently than annually. However, taking account of the comprehensive level of market disclosures (e.g. Interim Report), the Group has decided that it will provide Pillar 3 disclosures at a minimum on an annual basis. Notwithstanding this decision, the assessment is subject to regular review.

Reporting conventions

In this report, comparative data is included, where relevant, and presented as reported under CRD IV.

Disclosure policy

The Group maintains a formal Pillar 3 disclosure policy which is reviewed annually and subject to approval within the Group's internal governance framework.

Media and location

The Pillar 3 report is published on AIB Group's website (<https://group.aib.ie>), alongside the Annual Financial Report 2019. Pillar 3 reports from previous years are also available on this website.

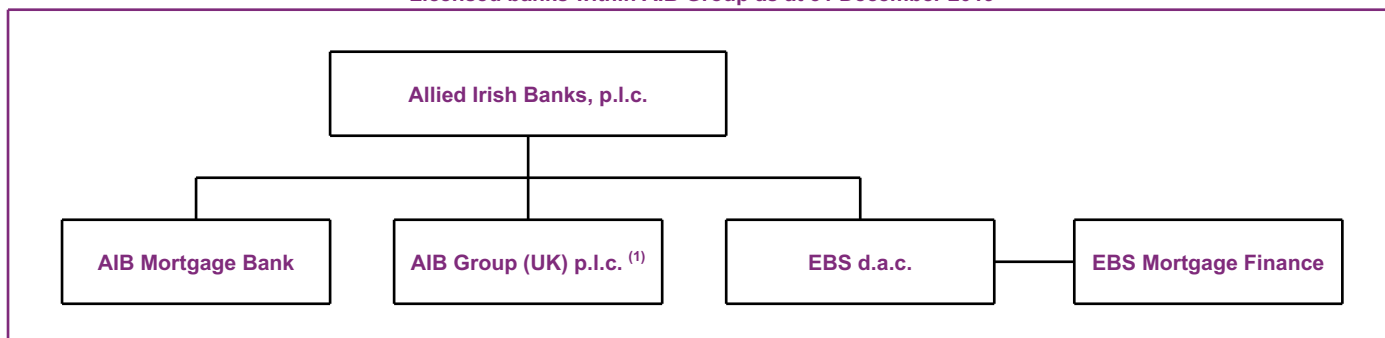
Verification

The Pillar 3 disclosures have been subject to internal review procedures broadly consistent with those undertaken for unaudited information published in the Annual Financial Report 2019 and have not been audited by the Group's external auditors. Any audited information that has been included in these disclosures is included in the Annual Financial Report 2019.

Basis of consolidation for accounting and prudential purposes

Under Article 4 of the CRR, AIB Group plc is a financial holding company. AIB Group prepares consolidated financial statements under IFRS as adopted by the EU for statutory reporting purposes ("the Consolidated Accounts"). Additionally, AIB Group is required to prepare regulatory returns for submission to its supervisor ("the Regulatory Returns") for the purpose of assessing its capital adequacy and monitoring its balance sheet.

Licensed banks within AIB Group as at 31 December 2019



⁽¹⁾ For the purposes of illustration, the intermediate parent company of AIB Group (UK) p.l.c. has been omitted from this diagram.

EBS Mortgage Finance

During 2018, EBS Mortgage Finance (a 100% owned subsidiary of EBS d.a.c. that reports separately to the Regulator) no longer met the requirements to be reported as a significant subsidiary and as a result is not reported separately within these Pillar 3 disclosures.

Significant subsidiaries

The significant subsidiaries in AIB Group at 31 December 2019 were:

- Allied Irish Banks, p.l.c.;
- AIB Mortgage Bank;
- AIB Group (UK) p.l.c.; and
- EBS d.a.c.

Transfer of capital between parent company and its subsidiaries

AIB Group plc is the parent company of a number of licensed subsidiary banks which are subject to individual capital adequacy requirements. Each of the licensed subsidiaries are subject to minimum capital requirements imposed by their individual regulators.

In order to maintain capital and/or liquidity ratios at or above the levels set down by their regulators, the licensed subsidiaries are unable to remit capital to the parent when to do so would result in such ratios being breached.

Solo consolidation

The Central Bank has adopted the national discretion under Article 9 of CRR concerning the ability of institutions to include certain subsidiaries in their individual regulatory returns. This treatment, termed 'solo consolidation', in effect, treats such subsidiaries as if they were branches of the parent rather than separate entities in their own right. There are certain criteria that must be met before the Central Bank will approve the inclusion of non-authorised subsidiaries in the 'solo consolidation'. Allied Irish Banks, p.l.c. and EBS d.a.c. have received approval to prepare their regulatory returns on a solo consolidation basis.

Associated undertakings

Interests in associated undertakings are accounted for under the equity method of accounting for statutory reporting purposes. For regulatory reporting, holdings in associated undertakings in financial sector entities where the carrying value of the investment is less than 10% of Common Equity Tier 1 ("CET1") are risk weighted at 250%. Any investment in financial sector entities where the carrying value is in excess of 10% of CET1 is deducted from CET1 capital. Holdings in non-financial sector entities are risk weighted at 100%.

Table 1: EU LI1 – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

The table below shows both the Group's consolidated balance sheet as at 31 December 2019 on an accounting consolidated basis and the Group's consolidated balance sheet under the regulatory scope of consolidation. The difference between the accounting scope of consolidation and the regulatory scope of consolidation is outlined in table EU LI3.

	31 December 2019						
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				Not subject to capital requirements or subject to deduction from capital
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	
AIB Group	€m	€m	€m	€m	€m	€m	€m
Assets							
Cash and balances at central banks	11,982	11,982	11,982	—	—	—	—
Items in course of collection	57	57	57	—	—	—	—
Disposal groups and non-current assets held for sale	20	20	20	—	—	—	—
Trading portfolio financial assets	—	—	—	—	—	—	—
Derivative financial instruments	1,271	1,271	—	1,271	—	565	—
Loans and receivables to banks	1,478	1,478	893	585	—	—	—
Loans and receivables to customers	60,888	60,888	60,801	87	—	—	—
Investment securities	17,331	17,331	16,409	—	922	—	—
Interests in associated undertakings	83	83	83	—	—	—	—
Shares in group undertakings	—	101	101	—	—	—	—
Intangible assets	917	798	—	—	—	—	798
Property, plant and equipment	803	801	801	—	—	—	—
Other assets	655	637	637	—	—	—	—
Current taxation	8	8	8	—	—	—	—
Deferred tax assets	2,666	2,666	1,379	—	—	—	1,287
Prepayments and accrued income	364	363	363	—	—	—	—
Retirement benefit assets	39	39	—	—	—	—	39
Total assets	98,562	98,523	93,534	1,943	922	565	2,124
Liabilities							
Deposits by central banks and banks	823	823	—	123	—	—	823
Customer accounts	71,803	71,811	—	—	—	—	71,811
Lease liabilities	429	429	—	—	—	—	429
Trading portfolio financial liabilities	—	—	—	—	—	—	—
Derivative financial instruments	1,197	1,197	—	551	—	701	51
Debt securities in issue	6,831	6,831	—	—	—	—	6,831
Current taxation	70	70	—	—	—	—	70
Deferred tax liabilities	109	104	—	—	—	—	104
Retirement benefit liabilities	60	60	—	—	—	—	60
Other liabilities	869	839	—	—	—	—	839
Accruals and deferred income	339	327	—	—	—	—	327
Provisions for liabilities and commitments	503	503	—	—	—	—	503
Subordinated liabilities and other capital instruments	1,299	1,299	—	—	—	—	1,299
Total liabilities	84,332	84,293	—	674	—	701	83,147
Equity							
Share capital	1,696	1,696	—	—	—	—	1,696
Reserves	11,543	11,543	—	—	—	—	11,543
Other equity interests	496	496	—	—	—	—	496
Non-controlling interests	495	495	—	—	—	—	495
Total equity	14,230	14,230	—	—	—	—	14,230
Total liabilities and equity	98,562	98,523	—	674	—	701	97,377

	Carrying values of items						
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	€m	€m	€m	€m	€m	€m	€m
Assets							
Cash and balances at central banks	6,516	6,516	6,516	—	—	—	—
Items in course of collection	73	73	73	—	—	—	—
Disposal groups and non-current assets held for sale	10	10	10	—	—	—	—
Trading portfolio financial assets	—	—	—	—	—	—	—
Derivative financial instruments	900	900	—	900	—	508	—
Loans and receivables to banks	1,443	1,443	1,072	371	—	—	—
Loans and receivables to customers	60,868	60,868	60,868	—	—	—	—
Investment securities	16,861	16,861	16,306	—	555	—	—
Interests in associated undertakings	90	90	90	—	—	—	—
Intangible assets	682	682	—	—	—	—	682
Property, plant and equipment	330	330	330	—	—	—	—
Other assets	356	356	356	—	—	—	—
Current taxation	10	10	10	—	—	—	—
Deferred tax assets	2,702	2,702	1,669	—	—	—	1,033
Prepayments and accrued income	454	454	454	—	—	—	—
Retirement benefit assets	241	241	—	—	—	—	241
Total assets	91,536	91,536	87,754	1,271	555	508	1,956
Liabilities							
Deposits by central banks and banks	844	844	—	120	—	—	844
Customer accounts	67,699	67,699	—	—	—	—	67,699
Trading portfolio financial liabilities	—	—	—	—	—	—	—
Derivative financial instruments	934	934	—	557	—	534	(112)
Debt securities in issue	5,745	5,745	—	—	—	—	5,745
Current taxation	74	74	—	—	—	—	74
Deferred tax liabilities	107	107	—	—	—	—	107
Retirement benefit liabilities	49	49	—	—	—	—	49
Other liabilities	887	887	—	—	—	—	887
Accruals and deferred income	325	325	—	—	—	—	325
Provisions for liabilities and commitments	219	219	—	—	—	—	219
Subordinated liabilities and other capital	795	795	—	—	—	—	795
Total liabilities	77,678	77,678	—	677	—	534	76,632
Equity							
Share capital	1,696	1,696	—	—	—	—	1,696
Reserves	11,668	11,668	—	—	—	—	11,668
Other equity interests	494	494	—	—	—	—	494
Total equity	13,858	13,858	—	—	—	—	13,858
Total liabilities and equity	91,536	91,536	—	677	—	534	90,490

Table 2: EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements

There are fundamental technical differences in the basis of calculation between financial statement information based on International Financial Reporting Standards (IFRS) accounting standards and regulatory information based on CRD IV capital adequacy concepts and rules. This is most relevant for credit risk disclosures. Credit exposure at default (“EAD”) under the CRD IV, is defined as the expected amount of EAD and is estimated under specified regulatory rules.

There are two different types of tables included in this document, those compiled based on accounting standards (sourced from the Group’s Annual Financial Report 2019) and those compiled using CRD IV methodologies. The specific methodology used is indicated where applicable.

Many tables throughout the Group’s Pillar 3 disclosures are based on net value under the regulatory scope of consolidation. Net value is the gross carrying value of on and off balance sheet exposures, less allowances / impairments.

The table below provides information on the main sources of differences between the financial statements’ carrying value amounts and the exposure amounts used for credit risk regulatory framework purposes.

	31 December 2019				31 December 2018				
	Total	Items subject to			Total	Items subject to			
		Credit risk framework	CCR framework	Securitisation framework		Credit risk framework	CCR framework	Securitisation framework	
		€m	€m	€m		€m	€m	€m	
1	Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	96,399	93,534	1,943	922	89,580	87,754	1,271	555
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	(674)	—	(674)	—	(677)	—	(677)	—
3	Total net amount under the regulatory scope of consolidation	95,725	93,534	1,269	922	88,903	87,754	594	555
4	Off-balance-sheet amounts after credit conversion factor	3,434	3,434	—	—	3,287	3,287	—	—
6	Difference due to different netting rules other than those already in row 2	1,242	—	1,242	—	1,551	—	1,551	—
7	Difference due to the consideration of provisions	597	597	—	—	908	908	—	—
8	Net potential future exposures	368	—	368	—	314	—	314	—
9	Other regulatory adjustments	124	124	—	—	72	72	—	—
10	Exposure amounts considered for regulatory purposes	101,490	97,689	2,879	922	95,035	92,021	2,459	555

Off-balance sheet amounts subject to credit risk include undrawn committed facilities and contingent liabilities including guarantees. These amounts are after the application of the credit conversion factor.

Difference in netting rules relates to differences in treatment of master netting agreement on derivatives and offsetting criteria in relation to repurchase agreements.

Differences due to the consolidation of provisions. The assets carrying value amount is net of credit risk adjustments, whereas the exposure amount for regulatory purposes reflects the fact the differing treatment of provisions under IRB approaches and IFRS 9 transitional rules.

Net potential future exposures are add-on amounts associated with all derivatives transactions.

Table 3: EU LI3 - Differences in scope of consolidation

The table below provides information on entities which are treated differently under the accounting and regulatory scope of consolidation. In October 2019, Allied Irish Banks, p.l.c. acquired a majority stake in Seneral Limited a holding company for Payzone Ireland. The exposure to holdings in non-financial sector entities are subject to RWA treatment. Further details are included in Table 56: Banking book equity values.

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation					Description of Entity
		Full Consolidation	Proportional consolidation	Equity Method	Neither Consolidated Nor Deducted	Deducted	
Seneral Limited	Full consolidation				x		Investment holding company
Payzone Ireland Limited	Full consolidation				x		Technology/payments platform
Feepay Limited	Full consolidation				x		Technology/payments platform

Chapter 2. Capital and capital management

Objectives

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

Our capital adequacy risk appetite

We aim to have sufficient quantity and quality of capital to support the bank in both normal and stressed economic conditions and to maintain an appropriate buffer to minimum regulatory ratios and to meet market and rating agency expectations. Detail on the management of capital and capital adequacy risk can be found in 'Risk management 2. - Individual risk types' on page 154 of the Annual Financial Report 2019.

On 30 March 2020, the Group announced, following the recommendation of the European Central Bank, that the Company did not intend to seek shareholder approval for the payment of a final dividend for 2019. Accordingly, the relevant Annual General Meeting ("AGM") resolution was withdrawn and the proposed dividend cancelled.

Table 4: Regulatory capital and capital ratios

The table below summarises AIB Group's capital position:

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

Capital requirements

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

The table does not include the impact of any information or changes in capital requirements announced after 31 December 2019, i.e. in 2020.

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

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

The other systemically important institution ("O-SII") buffer of 0.5% will rise to 1.0% on 1 July 2020 and 1.5% on 1 July 2021.

The countercyclical capital buffer ("CCyB") for Irish exposures of 1.0% equates to a 0.7% Group capital requirement. The CCyB requirement for UK exposures is currently 1.0% and equates to a 0.2% Group capital requirement. This will rise to 2.0% from 16 December 2020 which will equate to a 0.4% Group requirement. Other jurisdictional CCyB in place have a negligible impact on Group capital requirements.

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

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

Capital ratios at 31 December 2019

Fully loaded ratio

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

The fully loaded total capital ratio increased to 20.5% from 19.1% at 31 December 2018. The increase in the ratio was driven by the CET1 movements outlined above and two new capital issuances in late 2019 comprising € 0.5 billion AT1 and € 0.5 billion Tier 2 securities. The amount recognised for the existing AT1 instrument issued by Allied Irish Banks, p.l.c. reduced from € 316 million to € 159 million primarily due to the Group having received permission to buy-back € 250 million at the Bank's discretion. Under the CRR the Group must derecognise this portion from capital

Transitional ratio

The transitional CET1 ratio decreased to 20.3% at 31 December 2019 from 21.1% at 31 December 2018. This decrease is mainly driven by the movements detailed above and an additional year's phasing of the deferred tax asset deduction. At 31 December 2019 the transitional total capital ratio increased to 23.3% from 22.4% as at 31 December 2018.

Targeted review of internal models (TRIM)

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

TRIM adjusted capital metrics	Expected impact	2019 Pro Forma
Fully loaded	€m	€m
CET 1 Impact	(90)	8,915
RWA Impact	2,200	54,199
CET 1 ratio	(0.9)%	16.4 %

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

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

Leverage ratio

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

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

	31 December 2019	31 December 2018
Leverage Ratio Metrics	€m	€m
Total Exposure (Transitional)	101,126	94,086
Total Exposure (Fully Loaded)	99,548	92,467
Tier 1 Capital (Transitional)	11,214	11,144
Tier 1 Capital (Fully Loaded)	9,660	9,309
Leverage Ratio (Transitional)	11.1 %	11.8 %
Leverage Ratio (Fully Loaded)	9.7 %	10.1 %

Finalisation of Basel III

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

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

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

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

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

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

At the 31 December 2019 the Group had an actual MREL ratio of 16.27% of Total Liabilities and Own Funds and 28.5% of RWA.

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

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

Dividends

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

Ratings

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

AIB Group plc

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

Long-term ratings

31 December 2019

Long-term Ratings	Moody's	S&P	Fitch
Long-term	Baa2	BBB-	BBB
Outlook	Positive	Stable	Stable
Investment grade	√	√	√

31 December 2018

Long-term Ratings	Moody's	S&P	Fitch
Long-term	Baa3	BBB-	BBB-
Outlook	Positive	Stable	Positive
Investment grade	√	√	√

Allied Irish Banks, p.l.c.

Moody's upgraded its rating by one notch to A2, with stable outlook. This upgrade is driven by the significant improvements in assets quality. Fitch upgraded its rating by two notches to BBB+, with stable outlook. The upgrade reflects successful AIB Group plc MREL issuances over the last 18 months which creates a buffer to the Allied Irish Banks, p.l.c. creditors.

31 December 2019

Long-term Ratings	Moody's	S&P	Fitch
Long-term	A2	BBB+	BBB-
Outlook	Stable	Stable	Stable
Investment grade	√	√	√

31 December 2018

Long-term Ratings	Moody's	S&P	Fitch
Long-term	A3	BBB+	BBB-
Outlook	Positive	Stable	Positive
Investment grade	√	√	√

Table 5: Reconciliation of shareholders' equity to regulatory capital

The following table provides a reconciliation of the shareholders' equity to regulatory capital on a transitional basis.

	31 December	
	2019	2018
	€m	€m
Total shareholders' equity ^{(1) (2)}	14,230	13,858
Less: Additional tier 1 capital	(990)	(494)
Accrued coupon on additional tier 1 capital	(9)	(3)
Proposed dividend ⁽¹⁰⁾	(217)	(461)
	13,014	12,900
<i>Regulatory adjustments:</i>		
Intangible assets ^{(2) (3)}	(798)	(682)
Cash flow hedging reserves ^{(4) (5)}	(469)	(285)
IFRS 9 CET1 transitional addback ⁽⁶⁾	251	298
Pension revenue reserves relating to pension schemes in surplus ⁽³⁾	(31)	(183)
Deferred tax ^{(3) (7)}	(1,334)	(1,079)
Prudent valuation adjustment ⁽⁸⁾	(36)	(39)
Expected loss deduction ⁽³⁾	(8)	(21)
Common equity tier 1 capital	10,589	10,909
Additional tier 1 capital		
Other equity interests ⁽²⁾	496	494
Non-controlling interests ⁽²⁾	494	—
<i>Regulatory adjustments:</i>		
Minority interest deduction in respect of AT1 securities ⁽⁹⁾	(115)	(259)
Additional tier 1 securities intention to redeem	(250)	—
Total tier 1 capital	11,214	11,144
Tier 2 Capital		
Subordinated debt:		
Subordinated liabilities and other capital instruments ⁽²⁾	1,299	795
Instruments not allowable for capital purposes	(10)	(10)
	1,289	785
<i>Regulatory adjustments:</i>		
Minority interest deduction in respect of tier 2 securities ⁽⁹⁾	(363)	(370)
Total tier 2 capital	926	415
Total capital	12,140	11,559

⁽¹⁾ The capital figures reflect the audited 2019 year-end profit for the Group. These have also been included in the quarterly SSM regulatory capital reporting for December 2019.

⁽²⁾ Per statement of financial position in the 2019 Annual Financial Report.

⁽³⁾ Deductions applied as described under CRR Article 36.

⁽⁴⁾ Prudential filter applied as described under CRR Article 33.

⁽⁵⁾ Per statement of changes in equity in the 2019 Annual Financial Report.

⁽⁶⁾ Transitional arrangements as described under Regulation (EU) 2017/2395.

⁽⁷⁾ Transitional arrangements as described under CRR Article 478, the 50% transitional rate has been applied for 2019 (2018: 40%).

⁽⁸⁾ Per Article 34 and 105 of the CRR.

⁽⁹⁾ Minority interest deduction in respect of AT1 and T2 securities calculated in accordance with Art. 85, 87 and 480 of the CRR.

⁽¹⁰⁾ On 30 March 2020, the Group announced, following the recommendation of the European Central Bank, that the Company did not intend to seek shareholder approval for the payment of a final dividend for 2019. Accordingly, the relevant Annual General Meeting ("AGM") resolution was withdrawn and the proposed dividend cancelled.

Table 6: Movements in total capital

The following table analyses the movements in total capital on a transitional basis:

	31 December	
	2019	2018
	€m	€m
Common equity tier 1 capital at 1 January	10,909	10,768
Profit for the year	364	1,092
Other comprehensive income:		
Net actuarial movement in retirement benefit schemes	(188)	26
Net change in fair value of investment securities reserves	(53)	(289)
Net change in cashflow hedging reserves	184	28
Foreign currency translation reserves	66	10
Total movement in other comprehensive income	9	(225)
Total comprehensive income for the year	373	867
Adoption of IFRS 9 1 January 2018	—	(267)
Adoption of IFRS 15 1 January 2018	—	10
Proposed ordinary dividend ⁽¹⁾	(217)	(461)
Payment of additional Tier 1 distribution	(37)	(37)
Movements in regulatory adjustments		
- Intangible assets	(116)	(113)
- Cash flow hedging reserves	(184)	(28)
- IFRS 9 transitional CET1 addback	(47)	298
- Available for sale securities	—	196
- Pension	152	(33)
- Deferred tax	(255)	(250)
- Expected loss deduction	13	(21)
- Other	(2)	(20)
Total movements in regulatory adjustments	(439)	29
Common Equity Tier 1 at 31 December	10,589	10,909
Additional Tier 1 capital at 1 January	235	260
Additional Tier 1 issued	496	—
Instruments issued by subsidiaries that are given recognition in AT1 Capital	(106)	(25)
Total Tier 1 capital at 31 December	11,214	11,144
Total tier 2 capital at 1 January	415	644
Subordinated loan capital issued	500	—
Instruments issued by subsidiaries that are given recognition in Tier 2 Capital	11	(27)
Eligible credit provisions	—	(199)
Other	—	(3)
Total Tier 2 capital at 31 December	926	415
Total capital at 31 December	12,140	11,559

⁽¹⁾ On 30 March 2020, the Group announced, following the recommendation of the European Central Bank, that the Company did not intend to seek shareholder approval for the payment of a final dividend for 2019. Accordingly, the relevant Annual General Meeting ("AGM") resolution was withdrawn and the proposed dividend cancelled.

Table 7: EU OV1 – Overview of risk weighted assets (RWAs)

The following table summarises risk weighted assets (“RWAs”) and minimum capital requirements ⁽¹⁾ (“MCRs”) by risk type: For analysis of movement in each individual risk type please see explanation in the relevant section within this document.

	Risk weighted assets		Minimum capital requirements	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	€m	€m	€m	€m
1 Credit risk (excluding counterparty credit risk) (“CCR”)	45,108	44,815	3,609	3,585
Of which:				
2 Standardised approach	26,756	26,268	2,140	2,101
3 Foundation IRB (FIRB) approach	13,775	12,945	1,102	1,036
4 Advanced IRB (AIRB) approach	4,577	5,602	366	448
5 Equity IRB under the simple risk-weighted approach or the internal model approach (“IMA”)	—	—	—	—
6 CCR	1,003	1,301	80	104
Of which:				
7 Mark to market	541	568	43	45
8 Financial collateral comprehensive method (for SFTs)	325	341	26	27
12 CVA ⁽²⁾	137	392	11	31
13 Settlement risk	—	—	—	—
14 Securitisation exposures in the banking book (after the cap)	458	68	37	5
Of which:				
15 IRB approach	67	68	5	5
15 a Securitisation external ratings based approach (SEC- ERBA) ⁽³⁾	391	—	31	—
19 Market risk	473	371	38	30
Of which:				
20 Standardised approach	473	371	38	30
22 Large exposures	—	—	—	—
23 Operational risk	4,700	4,624	376	370
Of which:				
25 Standardised approach	4,700	4,624	376	370
27 Amounts below the thresholds for deduction (subject to 250% risk weight)	379	417	31	34
Other risk exposure amounts	—	—	—	—
28 Floor adjustment	—	—	—	—
29 Total	52,121	51,596	4,171	4,128

⁽¹⁾ Minimum capital requirements are calculated as 8% of risk weighted assets.

⁽²⁾ CVA decreased in 2019 due to exclusion of transactions with qualifying central counterparties.

⁽³⁾ Securitisation external ratings based approach reflects the purchase of new securitisation exposures in 2019, under Regulation (EU) 2017/2401.

Table 8: Bridge detailing how credit risk RWAs in table OV1 reconciles to capital and other tables

The following tables provide a bridge detailing how credit risk RWAs in table OV1 reconciles to the Capital and other tables.

	31 December 2019						
	Per EU OV1	Securitisations	Total credit risk	Amounts below threshold for deduction	Total credit risk	Counterparty credit risk ⁽¹⁾	As reported in table 4/9
	€m	€m	€m	€m	€m	€m	€m
Total credit risk	45,108	458	45,566	379	45,945	866	46,811
Of which:							
Credit risk - exposures subject to IRB approach	18,352	67	18,419	—	18,419	486	18,905
Credit risk - exposures subject to standardised approach	26,756	391	27,147	379	27,526	380	27,906

	31 December 2018						
	Per EU OV1	Securitisations	Total credit risk	Amounts below threshold for deduction	Total credit risk	Counterparty credit risk ⁽¹⁾	As reported in table 4/9
	€m	€m	€m	€m	€m	€m	€m
Total Credit Risk	44,815	68	44,883	417	45,300	909	46,209
Of which:							
Credit Risk - Exposures subject to IRB Approach	18,547	68	18,615	—	18,615	601	19,216
Credit Risk - Exposures subject to Standardised Approach	26,268	—	26,268	417	26,685	308	26,993

⁽¹⁾ Excludes CVA adjustment of € 137 million (2018: € 392 million) which is shown separately in capital.

Table 9: Total exposures by exposure class and related minimum capital requirements

The minimum capital requirements for exposures calculated under the standardised approach and IRB approach and the related exposure values are set out in the following table.

Total exposures (€ 119,163 million) include credit risk exposures net of impairment provisions before the application of credit risk mitigation (CRM) and credit conversion factors (CCF). These also include counterparty credit risk exposures (€ 12,185 million) and securitisations exposures (€ 922 million).

	31 December 2019			31 December 2018		
	Total exposures	Risk weighted assets	Minimum capital requirement CRD IV	Total exposures	Risk weighted assets	Minimum capital requirement CRD IV
	€m	€m	€m	€m	€m	€m
IRB approach						
1 Central governments or central banks	7,645	52	4	8,462	59	5
2 Institutions	18,408	2,234	179	13,814	2,045	164
3 Corporates	15,582	11,960	957	14,712	11,425	914
4 Of which: Specialised lending	904	601	48	563	430	34
5 SMEs	3,959	3,842	307	4,426	3,936	315
6 Retail	18,957	4,577	366	19,308	5,602	448
7 Of which: Secured by real estate property	18,957	4,577	366	19,308	5,602	448
Securitisation positions	517	67	5	555	68	5
Other non credit obligations	15	15	1	17	17	1
Total IRB approach ⁽¹⁾	61,124	18,905	1,512	56,868	19,216	1,537
16 Central governments or central banks	12,447	115	9	7,819	136	11
17 Regional Government and Local Authorities	209	1	—	260	1	—
21 Institutions	712	14	1	—	—	—
22 Corporates	11,361	9,141	731	9,461	7,911	634
24 Retail	8,832	3,839	307	9,080	3,746	300
26 Secured by mortgages on immovable property	17,934	9,699	776	17,665	9,601	767
28 Exposures in default	1,226	1,389	111	2,271	2,749	220
29 Items associated with particularly high risk	1,529	1,828	146	1,539	1,802	144
33 Equity exposures	253	412	33	136	306	25
34 ERBA Securitisation positions	405	391	32	—	—	—
35 Other exposures	3,131	1,077	86	3,090	741	59
Total standardised approach ⁽²⁾	58,039	27,906	2,232	51,321	26,993	2,160
Total	119,163	46,811	3,744	108,189	46,209	3,697

⁽¹⁾ Total IRB exposures above includes counterparty credit risk of € 11,022 million (2018: € 7,443 million) and securitisation exposures of € 517 million (2018: € 555 million).

⁽²⁾ Total standardised exposures above includes counterparty credit risk of € 1,163 million (2018: € 309 million) and ERBA securitisation exposures of € 405 million (2018: Nil).

IRB Approach

The increase of € 4.3 billion in the exposures in the IRB portfolio can be predominantly attributed to a € 4.6 billion increase in exposures with institutions and a € 0.9 billion increase in corporate exposures partially offset by decrease in both retail and central government or central banks exposures.

Standardised Approach

In the Standardised portfolio, total exposures increased by € 6.7 billion during 2019 mainly due to increase in exposures with central government or central banks, corporate, institutions, ERBA securitisation and secured by mortgages on immovable property exposures partially offset by decrease in both exposures in default and retail.

Table 10: Movements in risk weighted assets

The following tables analyse the movements in risk weighted assets by risk categories.

	31 December 2019							
	Credit risk STD	Credit risk IRB	Credit risk ERBA	Market risk	Operational risk	Credit valuation adjustment	Other	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Opening risk weighted asset	26,993	19,216	—	371	4,624	392	—	51,596
Asset size ^{(1) (2)}	80	393	391	102	—	318	—	1,284
Asset quality ⁽³⁾	(40)	(720)	—	—	—	—	—	(760)
Methodology and policy ⁽⁴⁾	14	(424)	—	—	—	(573)	—	(983)
Model updates ⁽⁵⁾	—	339	—	—	—	—	—	339
Foreign currency movements	468	101	—	—	—	—	—	569
Other	—	—	—	—	76	—	—	76
Closing risk weighted asset	27,515	18,905	391	473	4,700	137	—	52,121

	31 December 2018							
	Credit risk STD	Credit risk IRB		Market risk	Operational risk	Credit valuation adjustment	Other	Total
	€m	€m		€m	€m	€m	€m	€m
Opening risk weighted asset	27,443	18,876		360	4,248	796	5	51,728
Asset size ^{(1) (2)}	(465)	1,159		11	—	(8)	—	697
Asset quality ⁽³⁾	68	(612)		—	—	—	—	(544)
Model updates	—	(313)		—	—	(396)	—	(709)
Foreign currency movements	(53)	106		—	—	—	—	53
Other	—	—		—	376	—	(5)	371
Closing risk weighted asset	26,993	19,216		371	4,624	392	—	51,596

⁽¹⁾ Asset size increases/decreases in credit risk driven by new lending offset by loan redemptions, restructures, asset sales and write-offs.

⁽²⁾ Credit valuation adjustment reduction driven by the movement in derivative mark to market.

⁽³⁾ Asset quality represents the impact of PD and LGD migration changes within the loan book (also net movement into/out of default).

⁽⁴⁾ Relates to use of credit risk mitigation per article 453 and the application of own funds requirements for exposures to a central counterparty per section 9, chapter 6, Title II, Part three of the CRR. 2018 relates to the impact of the introduction of derivative netting for certain counterparties

⁽⁵⁾ Increase in RWAs of Corporate SME exposures following PD recalibration exercise.

Table 11: EU CR8 – RWA flow statements of credit risk exposures under the IRB approach

The table below analyses the movements in risk weighted assets under the IRB Approach. This table excludes securitisation positions and counterparty credit risk.

	31 December 2019		31 December 2018	
	Risk weighted asset	Capital requirements	Risk weighted asset	Capital requirements
	€m	€m	€m	€m
RWAs as at the end of the previous reporting period	18,547	1,484	18,134	1,451
Asset size ⁽²⁾	221	18	923	74
Asset quality ⁽³⁾	(720)	(58)	(612)	(49)
Model updates ⁽⁴⁾	339	27	—	—
Methodology and policy ⁽⁵⁾	(143)	(11)	—	—
Acquisitions and disposals	—	—	—	—
Foreign exchange movements	108	8	102	8
Other	—	—	—	—
RWAs as at the end of the reporting period	18,352	1,468	18,547	1,484

⁽¹⁾ Excludes securitisation positions of € 67 million (2018: € 68 million) and counterparty credit risk of € 486 million (2018: € 601 million).

⁽²⁾ Asset size increases/decreases in credit risk driven by new lending offset by loan redemptions, restructures, asset sales and write-offs.

⁽³⁾ Asset quality represents the impact of PD and LGD migration changes within the loan book (also net movement into/out of default).

⁽⁴⁾ Increase in RWAs of Corporate SME exposures following PD recalibration exercise.

⁽⁵⁾ Relates to use of credit risk mitigation per article 453.

Table 12: Leverage ratio

Leverage ratio

Leverage Ratio is a new non-risk based measure of leverage introduced under CRD IV.

Its purpose is to contain the build up of excessive leverage in the banking system and provide an extra layer of protection against model risk.

The definition of the leverage ratio is Tier 1 capital divided by total exposure. Total exposure includes on and off balance sheet exposures plus regulatory adjustments.

The minimum ratio was finalised in CRR II at 3% of Tier 1 capital. It is effective from 28 June 2021. The Group is currently and expects to remain well in excess of this requirement.

The transitional leverage ratio decreased to 11.1% at 31 December 2019 from 11.8% at 31 December 2018. Total leverage exposures (transitional) basis increased by € 7.0 billion in the year mainly driven by increases in cash and balances at central banks € 5.4 billion, property plant and equipment € 0.5 billion, investments securities € 0.4 billion and derivative financial instruments € 0.4 billion. The transitional leverage ratio includes the transitional arrangements for deferred tax assets and IFRS 9. The impact of the IFRS 9 transitional arrangements is detailed in Table 13 below.

The Group ensures the avoidance of excessive leverage through its capital allocation process as part of the annual financial planning process. The use of capital and risk adjusted return on capital by business area is monitored at the Asset & Liability Committee ("ALCo") on a monthly basis, and updates are provided by the CFO to the Board on a quarterly basis. In addition to limits for usage of capital, the ALCo monitors and overall Group leverage risk appetite limit.

The following table analyses the calculation of the leverage ratio on a transitional and fully loaded basis.

Table EULRSum: Summary reconciliation of accounting assets and leverage ratio exposures	31 December 2019		31 December 2018	
	Transitional	Fully Loaded	Transitional	Fully Loaded
	€m	€m	€m	€m
1 Total assets as per published financial statements	98,562	98,562	91,536	91,536
2 Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(39)	(39)	—	—
4 Adjustments for derivative financial instruments	442	442	158	158
5 Adjustments for securities financing transactions "SFTs"	1,062	1,062	1,121	1,121
6 Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	3,211	3,211	3,145	3,145
7 Other adjustments	(2,112)	(3,690)	(1,874)	(3,493)
8 Total leverage ratio exposure	101,126	99,548	94,086	92,467

	31 December 2019		31 December 2018	
	CRR leverage ratio exposures	CRR leverage ratio exposures	CRR leverage ratio exposures	CRR leverage ratio exposures
	€m	€m	€m	€m
Table EULRCom: Leverage ratio common disclosure				
On-balance sheet exposures (excluding derivatives and SFTs)				
1 On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	97,410	97,410	90,787	90,787
2 Asset amounts deducted in determining Tier 1 capital	(2,179)	(3,757)	(2,023)	(3,642)
3 Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	95,231	93,653	88,764	87,145
Derivative exposures				
4 Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	944	944	714	714
5 Add-on amounts for PFE ⁽¹⁾ associated with all derivatives transactions (mark-to-market method)	442	442	342	342
11 Total derivative exposures	1,386	1,386	1,056	1,056
Securities financing transaction exposures				
12 Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	9,515	9,515	5,145	5,145
13 Netted amounts of cash payables and cash receivables of gross SFT assets	(9,279)	(9,279)	(5,145)	(5,145)
14 Counterparty credit risk exposure for SFT assets	1,062	1,062	1,121	1,121
16 Total securities financing transaction exposures	1,298	1,298	1,121	1,121
Other off-balance sheet exposures				
17 Off-balance sheet exposures at gross notional amount	12,250	12,250	11,887	11,887
18 Adjustments for conversion to credit equivalent amounts	(9,039)	(9,039)	(8,742)	(8,742)
19 Other off-balance sheet exposures	3,211	3,211	3,145	3,145
Capital and total exposures				
20 Tier 1 capital	11,214	9,658	11,144	9,309
21 Total leverage ratio exposures	101,126	99,548	94,086	92,467
Leverage ratio				
22 Leverage ratio	11.1 %	9.7 %	11.8 %	10.1 %

Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures)	97,410	97,410	90,787	90,787
of which:				
Trading book exposures	—	—	—	—
Banking book exposures, of which:				
Covered bonds	—	—	—	—
Exposures treated as sovereigns	20,390	20,390	16,551	16,551
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	5	5	7	7
Institutions	7,611	7,611	6,504	6,504
Secured by mortgages of immovable properties	35,286	35,286	34,327	34,327
Retail exposures	5,059	5,059	4,934	4,934
Corporate	19,412	19,412	18,162	18,162
Exposures in default	2,176	2,176	3,731	3,731
Other exposures (eg equity, securitisations, and other non-credit obligation)	7,471	7,471	6,571	6,571

⁽¹⁾ Potential future exposure ("PFE").

Table 13: IFRS 9-FL: Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs

On 1 January 2018, IFRS 9 transitional capital arrangements were implemented by Regulation (EU) 2017/2395. AIB elected to apply the transitional arrangements at both consolidated and individual entity levels and will disclose both transitional and fully loaded CET1 ratios until the end of the transitional period. The transitional benefit is phased out over a 5 year period with 95% applicable for 2018; 85% for 2019; 70% for 2020; 50% for 2021; 25% for 2022 with no transitional benefit from 2023 onwards.

The transitional arrangements, implemented under a modified static approach, allow for transitional relief on the 'day 1' impact on adoption of IFRS 9 (static element) and for the increase between 'day 1' and the reporting date (modified element), subject to eligibility. For the static element, all credit provisions are eligible for transition, whereas for the modified element, credit impaired are excluded.

Separate calculations are performed for standardised and IRB (both foundation and advanced) portfolios, reflecting the different ways these frameworks take account of credit provisions. Under the standardised approach, increases in credit provisions for both the static and the modified elements are eligible for transition. Under the IRB approach, for both the static and modified elements, credit provisions are only eligible for transitional relief to the extent that they exceed regulatory expected losses.

The table below shows key metrics as required by the EBA relating to IFRS 9.

	11 July 2019	10 July 2018
	€m	€m
Available capital (amounts)		
1 Common Equity Tier 1 (CET1) capital	10,589	10,909
2 Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	10,338	10,611
3 Tier 1 capital	11,214	11,144
4 Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	10,963	10,846
5 Total capital	12,140	11,559
6 Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	11,889	11,261
Risk-weighted assets (amounts)		
7 Total risk-weighted assets	52,121	51,596
8 Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	51,999	51,439
Capital ratios		
9 Common Equity Tier 1 (as a percentage of risk exposure amount)	20.3%	21.1%
10 Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	19.9%	20.6%
11 Tier 1 (as a percentage of risk exposure amount)	21.5%	21.6%
12 Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	21.1%	21.1%
13 Total capital (as a percentage of risk exposure amount)	23.3%	22.4%
14 Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	22.9%	21.9%
Leverage ratio		
15 Leverage ratio total exposure measure	101,126	94,086
16 Leverage ratio	11.1%	11.8%
17 Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	10.9%	11.5%

Capital instruments' main features

The table for capital instruments' main features, at 31 December 2019 is available on the AIB Investor Relations website at <https://aib.ie/investorrelations>

Chapter 3. Risk management

How we manage risk

AIB implements a strong risk management approach to protect our business. We identify the principal risks and uncertainties including the key external risk drivers that could adversely impact our customers, our business and the delivery of our strategic objectives. Risk is defined as any event that could damage the core earnings capacity of the Group, increase cash flow volatility, reduce capital, threaten business reputation or viability, result in breach of regulatory or legal obligations or give rise to poor customer outcomes.

The Group operates a three lines of defence model where each line plays a distinct role within the Group's wider risk governance, management, oversight and assurance responsibilities. These responsibilities including the roles of Compliance which is part of the Risk function and Internal Audit are described in the 2019 Annual Financial Statement as part of the Risk management – Framework section on pages 72 to 73.

Risk profile

The Group has implemented a strong risk management approach to identifying, assessing and managing risks. To support this approach, a number of frameworks and policies approved by the Board (or Board delegation) are in place which set out the key principles, roles and responsibilities and governance arrangements through which the Group's material risks are managed and mitigated. These frameworks and policies are subject to annual review by the respective risk owners. The monthly Chief Risk Officer ("CRO") Report provides qualitative and quantitative information on the management of the Material Risks to which the Group is exposed. During 2019 the CRO Report was presented to the Group Risk Committee ("GRC") and the Board Risk Committee ("BRC").

The core aspects of the Group's risk management framework approach are set out on pages 72 to 78 of the Annual Financial Report 2019. In addition, the Directors' Statement on the effectiveness of the system of Risk Management and Internal Controls is on pages 220 to 221 of the Annual Financial Report 2019, which the Executive Committee attest to. The Group's risk appetite is defined as the amount and type of risk that the Group is willing to accept or tolerate in order to deliver on its strategic and business objectives. The Group Risk Appetite Statement ("RAS") is a blend of qualitative statements and quantitative limits and triggers linked to the Group's strategic objectives. The overarching qualitative statements for the RAS are reflected on pages 75 to 76 of the Annual Financial Report 2019. The Group's risk profile is measured against its risk appetite and during 2019 adherence to the Group RAS was reported to each meeting of the Group GRC and BRC.

In January 2019, the Group transitioned to a new operating model and internal governance structure. From a risk governance perspective, a key change was the replacement of the Group ERC with the Group Risk Committee ("GRC"). The GRC is a subcommittee of the Executive Committee ("ExCo") which replaced the Leadership Team in November 2018 and is chaired by the Chief Risk Officer.

Principal risks

The Group is exposed to a number of material risks which have been identified through the Material Risk Assessment process carried out by the Group. The Group has implemented comprehensive risk management strategies in seeking to manage these risks. While the Group invests substantial time and effort in its risk management strategies and techniques, there is a risk that these may fail to adequately mitigate the risks in some circumstances, particularly if confronted with risks that were not identified or anticipated.

The top and emerging risk drivers for each individual risk type are described in detail on pages 79 to 170 of the Annual Financial Report 2019, these should not be considered as exhaustive and other factors, not yet identified, or not currently considered material, may adversely affect the Group.

Coronavirus outbreak

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

Individual risk types

The following are the principal individual risk types identified through the Group's material risk assessment process:

- Credit risk
- Funding and liquidity risk;
- Capital adequacy risk;
- Financial Risk– (a) Market risk;
(b) Pension risk
- Operational risk;
- Regulatory compliance risk including conduct risk;
- People and culture risk;
- Business model risk; and
- Model risk

These individual risk types are described in detail on pages 79 to 170 of the Annual Financial Report 2019, with prefaces to credit risk, market risk, operational risk and capital adequacy risk included below. Further discussion on credit risk can be found in Chapters 4 to 8 of this report.

Credit risk

Credit risk is the risk that the Group will incur losses as a result of a customer or counterparty being unable or unwilling to meet their contractual obligations

Based on the annual risk identification and materiality assessment, credit risk can be categorised into the following four sub-risks;

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

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

A description of the Group's approach to credit risk including (a) 'credit risk management'; (b) 'internal credit ratings'; (c) 'credit risk monitoring'; and (d) 'credit risk mitigants' are set out on pages 80 to 87 of the Annual Financial Report 2019. Details on 'expected credit loss impairment model' are on pages 88 to 98 of the Annual Financial Report 2019.

In addition, there is a capital charge for credit valuation adjustment ("CVA") which is designed to capture the risk associated with potential mark-to-market losses associated with the deterioration in the creditworthiness of a counterparty. Banks are required to calculate capital charges for CVA under either the standardised CVA approach or the advanced CVA approach ("ACVA"). The Group calculates CVA using the standardised approach. At 31 December 2019, the minimum capital requirement for CVA was € 11 million.

The regulatory CVA capital charge applies to all counterparty exposures arising from over-the-counter ("OTC") derivatives and security financing transactions, excluding those transactions with a qualifying central counterparty, non-financial corporates and intragroup transactions.

Market risk

Market risk is the risk relating to the uncertainty of returns attributable to fluctuations in market factors. Where the uncertainty is expressed as a potential loss in earnings or value, it represents a risk to the income and capital position of the Group. The Group is primarily exposed to market risk through the interest rate and credit spread factors and to a lesser extent through foreign exchange, equity and inflation rate risk factors. AIB Group uses the standardised approach for assessing its capital requirements for trading book market risk. As set out on page 20 of this report, of the total minimum capital requirement of € 4,171 million at 31 December 2019, the minimum capital requirement for market risk amounts to € 38 million. A description of AIB Group's (a) 'key mitigating actions'; (b) 'identification and assessment'; (c) 'management and measurement'; and (c) 'monitoring, escalating and reporting' of market risk is set out on pages 155 and 158 of the Annual Financial Report 2019. A sensitivity analysis of the Group's banking book to movements in interest rates is set out on pages 158 to 160 of the Annual Financial Report 2019, together with a value at risk ("VaR") profile for both the banking and trading book.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes legal risk – the potential for loss arising from the uncertainty of legal proceedings and potential legal proceedings, but excludes strategic and reputational risk. In essence, operational risk is a broad canvas of individual risk types which includes information technology, cyber, change, continuity management, outsourcing and cloud, products, people and property protection and legal risks. AIB Group uses the Standardised Approach for assessing its capital requirements for operational risk. As set out on page 20 of this Report, of the total minimum capital requirement of € 4,171 million at 31 December 2019, the minimum capital requirement for operational risk amounts to € 376 million. A description of AIB Group's (a) "key mitigating actions"; (b) 'identification and assessment; (c) 'management and measurement' and (d) 'monitoring, escalating and reporting' of operational risk is set out on page 163 of the Annual Financial Report 2019.

Capital adequacy risk

Capital adequacy risk is the risk that the Group does not maintain sufficient capital to achieve its business strategy, support our customers or to meet regulatory capital requirements. The key risks impacting on the capital adequacy position of the Group is business model risk, credit risk, market risk and operational risk, although it should be noted that all material risks can to some degree impact capital ratios.

The key processes through which Capital Adequacy Risk is evaluated are the internal capital adequacy assessment process (ICAAP) and quarterly stress tests, which are both subject to supervisory review and evaluation. Further information on 'capital adequacy risk' is set out on page 154 in the Annual Financial Report 2019.

Governance overview

The Group's governance framework (the "Framework") underpins effective decision-making and accountability and is the basis on which the Group conducts its business and engages with customers and other stakeholders. It ensures that organisational and control arrangements are appropriate to the governance of the Group's strategy and operations and the mitigation of related material risks. The Framework encompasses AIB Group and its subsidiaries (collectively referred to as "AIB Group" or the "Group").

The Framework takes account of the many statutory and regulatory obligations that apply to the Group, including various corporate governance codes, regulations and best practice standards and guidelines, Irish company law, the listing rules of the Main Securities Market of the Euronext Dublin and the London Stock Exchange, the UK Corporate Governance Code 2018, and, in relation to the UK businesses, UK company law.

The Group's governance arrangements include a Board of directors of sufficient size and expertise, the majority of whom are Independent Non-Executive directors, to oversee the operations of the Group. At 31 December 2019, the Board comprised the Chair who was independent on appointment, nine Independent Non-Executive Directors and two Executive Directors. Full details of the responsibilities of the Board and its sub-committees are set out on pages 178 to 211 of the Annual Financial Report 2019.

Directorships held by Members of the Management Body

The directors of the Board hold a number of external directorships as set out on pages 44 to 45 of the Annual Financial Report 2019, which comply with Regulation 79 of S.I. 158/2014 (European Union (Capital Requirements) Regulations 2014). This regulation prescribes limits on the number and nature of directorships permitted to be held by members of the management bodies of significant institutions.

Criteria for the selection of Members of the Management Body

The responsibilities of the Nomination and Corporate Governance Committee include to support and advise the Board in fulfilling its oversight responsibilities in relation to the composition of the Board by ensuring it is comprised of individuals who are best able to discharge the duties and responsibilities of directors to include leading the process for nominations and appointments to the Board and Board committees as appropriate, and making recommendations on these matters to the Board for its approval.

The review of the appropriateness of the composition of the Board and Board committees is a continuous process, and recommendations are made based on merit and objective criteria, having regard to the collective skills, experience, independence and knowledge of the Board along with its diversity requirements.

A Board-approved policy for the assessment of the suitability of members of the Board, which outlines the Board appointment process is in place, and is in accordance with applicable joint guidelines issued by the European Securities and Markets Authority and European Banking Authority.

The Relationship Framework specified by the Minister for Finance (the "Minister"), which governs the relationship between AIB Group and the Minister, on behalf of the Irish State as shareholder, requires the Board to consult with the Minister before appointing, reappointing or removing the Chair or Chief Executive Officer and in respect of any other proposed Board appointments.

Policy on Diversity

The Board recognises and embraces the benefits of diversity amongst its own members, including the diversity of skills, experience, background, gender, ethnicity and other qualities, and is committed to achieving the most appropriate blend and balance of diversity possible over time.

Whilst the Board recognises that diversity is wider than gender, in order to achieve its objective to build a diverse Board, it has set measurable targets and objectives around the under-represented gender in its Board Diversity Policy.

The original Board Diversity Policy for AIB Group was introduced in 2015 with an initial target to ensure the percentage of females on the Board reached or exceeded 25 per cent by the end of 2016. This target was met in October 2016. On review of the Board Diversity Policy in July 2019, the Board set a new target to achieve 30 per cent female representation by the end of 2020 and thereafter, to take opportunities to increase the number of female directors over time, where that is consistent with other skills and diversity requirements.

At 31 December 2019, the percentage of females on the Board stood at 41 per cent and the Board is confident it will continue to exceed its target in 2020.

In terms of implementation of the Board's Diversity policy, the Nomination and Corporate Governance Committee reviews and assesses the Group Board composition and has responsibility for leading the process for identifying and nominating, for approval by the AIB Group Board, candidates for appointment as directors. In reviewing AIB Group Board composition, balance and appointments, the committee considers candidates on merit against objective criteria and with due regard for the benefits of diversity, in order to maintain an appropriate range and balance of skills, experience and background on the Board. Where external search firms are engaged to assist in a candidate search, they will be requested to aim for a fair representation of both genders to be included in the initial list of potential candidates so that the committee has a balanced list from which to select candidates for interview.

The terms of reference of the Nomination and Corporate Governance Committee are available on the Corporate Governance section of the Group's website at aib.ie/investorrelations. Performance relative to the diversity target set out in the policy is published on the Group's website.

Risk Management

As at 31 December 2019, the Board Risk Committee (the "Committee") comprised five Non-Executive Directors all deemed to be independent. The Board has determined that the Committee members have the collective skills and relevant experience to enable the Committee to discharge its responsibilities. The Committee met on eleven occasions during 2019. Further details relating to the Board Risk Committee are available on pages 200 to 203 of the 2019 Annual Financial Report.

A description of the flow of information to the management body relating to risk is available on pages 72 to 78 of the 2019 Annual Financial Report.

Chapter 4. Credit risk - overview

One of the Group's main sources of income from ongoing activities arises from granting credit. Accordingly, this exposes it to its most significant risk, namely credit risk. The most significant credit risk in AIB Group arises from traditional lending activities to corporate, commercial and personal customers and to sovereigns and banks. Credit risk also arises through the use of derivatives, off-balance sheet guarantees and commitments and through the Group's investment securities. Capital requirements are based on the estimated level of risk of individual credit exposures. A description of how AIB manages, monitors and reports credit risk is outlined in the 'Risk management' section on pages 79 to 144 of the Annual Financial Report 2019

CRD IV provides two approaches for the calculation of minimum regulatory capital requirements for credit risk:

Internal ratings based ("IRB") approach

The IRB approach allows banks, subject to regulatory approval⁽¹⁾, use their own estimates of certain risk components to derive regulatory capital requirements for credit risk across different asset classes. The relevant risk components are probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). For non-retail exposures, there are two IRB approaches. Under the foundation IRB approach, banks use their own estimate of PD, and regulatory estimates of LGD and EAD. Under the advanced IRB approach, banks use their own estimates of all three risk components. For retail exposures, there is only one IRB approach which uses internal estimates of all three risk components. The Group's exposures under this approach are set out in Chapter 5

As at 31 December 2019, the Group used a combination of standardised and IRB approaches for assessing its capital requirements for credit risk. It has received regulatory approval to use the foundation IRB approach for certain sovereign, bank and corporate exposures, and to use the retail IRB approach for certain residential mortgage exposures. Henceforth, for ease of reference within this document, this combination of foundation and retail IRB approval will be referred to as approval to use the IRB approach. Additional commentary on specific credit risks arising from certain transactions including derivative transactions, repurchase agreements and securitisation positions are set out in Chapter 8. Counterparty credit risks and Chapter 9. Securitisations. These disclosures have been provided on a Group consolidated basis.

The following guidelines apply to the tables throughout this document and should be read in conjunction with the "Glossary of definitions and explanations":

- "Exposures associated with particularly high risk" include, subject to the discretion of competent authorities, exposures associated with particularly high risks such as speculative immovable property financing (defaulted and non-defaulted) and private equity investments; and
- "Other items" refers to other assets including land and buildings, plant and machinery, other fixtures and fittings, tools and equipment, payments on account and tangible assets in the course of construction.

⁽¹⁾ The portfolios for which AIB has received regulatory approval to use the IRB approach are outlined on pages 33 to 35 of this Report.

Exposures rated under the IRB Approach amounted to € 49,585 million, with a capital requirement of € 1,468 million as at 31 December 2019 (2018: exposures of € 48,870 million, capital requirement of € 1,484 million). Total exposures include credit risk exposures net of impairment provisions before the application of credit risk mitigation ("CRM") and credit conversion factors ("CCF"). These exposures exclude counterparty credit risk and securitisations exposures.

Regulatory approval and transition

As at 31 December 2019, the Group applied the IRB approach to the portfolios and exposure classes listed in the table below, having received approval from the Regulator.

AIB portfolio	Exposure class
Bank	Institutions
Corporates	Corporates
Not-for-profit	Corporates
Project finance	Corporates
Commercial/large SME	Corporates
Sovereign	Central governments and central banks
Residential mortgages	Retail

The Group has an IRB roll-out plan to continue to transition standardised portfolios to the IRB approach thereby increasing its IRB coverage. The transition of new portfolios to the IRB approach is dependent upon regulatory approval.

Governance of the rating process

AIB has a formalised governance framework in relation to the internal risk rating systems. The Risk Measurement Committee (“RMC”) has responsibility for the governance, oversight and approval of all aspects of the Group’s risk measurement models, material model methodologies as well as maintenance of existing material models. It is a sub-committee of the Board Risk Committee and its membership includes the Chief Operating Officer (“COO”), Chief Financial Officer (“CFO”), the Chief Risk Officer (“CRO”) and the heads of significant business areas. The RMC reviews and approves all models for which it is the Highest Approval Authority (“HAA”) as defined by the Group Model Risk Policy.

All models are validated by an appropriately qualified team, which is independent of the model build process. In addition, Group Internal Audit (“GIA”) forms the third line of defence within the three lines of defence model. In the case of IRB models, GIA must review the Groups rating systems and operations on at least an annual basis. The review must include adherence to all applicable requirements, including a review of the IRB rollout plan and process and carry out detailed review as needed.

Credit risk control function

The credit risk control function within the Group is an integrated set of independent units which share responsibility for key control aspects of the Group’s rating systems. These responsibilities include the design, implementation, oversight, and performance of the rating systems.

Use of rating models

Rating models and systems are core to credit and risk management in the Group, with the outputs from IRB models playing an essential role in a wide range of risk processes:

- Credit approval: Grades assigned by IRB models are a key input to the assessment of credit applications. Grades are also used in determining the size of delegated credit authorities. The outputs of the models are also used in assessing risk-return and pricing of loans;
- Risk management and decision-making processes: Grades assigned by IRB models are used to drive credit management activities; rating models are fundamental to management reporting, credit portfolio analysis, credit quality monitoring and in determining the level and nature of management attention applied to exposures;
- Internal capital allocation: The outputs from IRB models are an input to the internal capital adequacy assessment process (“ICAAP”) including stress tests of capital adequacy; and
- Annual planning: Risk forecasts based on the outputs of IRB models are incorporated into the annual planning process.

Use of and process for recognising credit risk mitigation

The Group takes account of collateral as a credit risk mitigant for residential real estate in its retail (residential mortgage) portfolio which is reflected in its LGD estimates. For non-retail foundation IRB exposures, supervisory LGDs are used for minimum regulatory capital requirement calculation purposes as is required under the CRR. These LGDs are either applied directly to obligors, or are reduced through the recognition of the risk-mitigating impact of qualifying collateral held.

The Group uses its own estimates of LGD in the calculation of risk weighted assets for exposures secured on residential real estate in its retail (residential mortgage) portfolio originated in Ireland, excluding those originated through EBS d.a.c. The Group’s approach to taking, valuing and monitoring real estate collateral is consistent with its broad framework for credit risk mitigation as described on pages 84 and 85 of the Annual Financial Report 2019.

Internal ratings process by exposure class

The following tables set out by portfolio, the exposure classes rated under the foundation IRB approach: central governments and central banks; institutions; and corporates. It also sets out the retail exposure class which is rated under the advanced IRB approach.

(a) Central governments and central banks

AIB portfolio	Portfolio description
Sovereign	Central governments Central banks Other specified multinational development banks and international organisations

Under the foundation IRB approach, internal rating models are used to assign central governments and central banks obligors to borrower grades to which estimates of PD are attached. The Group uses regulatory LGD and EAD measures in calculating risk weighted assets.

The rating methodology used in assigning borrowers to grades was developed based on expert judgement using statistical tests (against the external ratings) in order to challenge the judgement where appropriate. The ratings are assigned based upon perceived political risk and economic risk of the sovereign. Due to the lack of internal default data, PDs are calibrated using historic default rates of external ratings. The definition of default is aligned to the CRR and is consistent with that used by the rating agencies. The Group's validation processes are rigorous and they test, inter alia, the rank ordering of borrowers in terms of probability of default (versus the external ratings), the stability of the ratings and the probability of default estimates.

(b) Institutions

AIB portfolio	Portfolio description
Bank	Banks Securities firms subject to the same regulation as banks

Under the foundation IRB approach, internal rating models are used to assign institution obligors to borrower grades to which estimates of PD are attached. The Group uses regulatory LGD and EAD measures to calculate risk weighted assets.

Ratings are assigned on the basis of a hybrid model (a statistical model incorporating expert judgement). External ratings for the country of domicile are used to establish a 'country ceiling' on the rating and as an input into the quantitative score. Due to the lack of internal default data, PDs are calibrated to an equivalent external rating grade. The definition of default is aligned to the CRR and is consistent with that used by the rating agencies. The Group's validation processes are rigorous and they test, inter alia, the rank ordering of borrowers in terms of probability of default (versus the external ratings), the stability of the ratings and the probability of default estimates.

(c) Corporates

AIB portfolio	Portfolio description
Commercial/large SME	Predominantly commercial business in Ireland – all sectors except property, agriculture and start-ups.
Corporate	Entities that are engaged in the provision of goods or services with the intention of generating profit for the owners. Excluded from this category are: a) Financial service providers; b) Special purpose entities that do not have a diversified income stream; and c) Special purpose entities set up to facilitate securitisations.
Not-for-profit	Exposures to not-for-profit entities.
Project finance	Long-term loans made to projects in the energy, infrastructure and transportation sectors

Under the foundation IRB approach, internal rating models are used to assign corporate obligors to borrower grades to which estimates of PD are attached. The Group uses regulatory LGD and EAD measures in calculating risk weighted assets.

The ratings methodology and criteria used in assigning borrowers to grades vary across the models used for the four portfolios, but all the models use a combination of statistical analysis (using both financial and non-financial inputs) and expert judgement. PDs are calibrated on the basis of internal default data, supplemented with and benchmarked against external data where available. The definition of default used for all four portfolios is consistent with the CRR definition. The Group's validation processes are rigorous. They test, inter alia, the rank ordering of borrowers in terms of probability of default (versus observed default rates), the stability of the ratings, the stability of the portfolio and the probability of default estimates.

(d) Retail

AIB portfolio	Portfolio description
Residential mortgages	Residential mortgage lending and first five buy-to-lets

The Group uses the advanced IRB approach for assessing its capital requirements for residential mortgages originated in Ireland, excluding those originated through EBS d.a.c., which uses the standardised approach.

Under the advanced IRB approach, the Group uses its own estimates of PD, LGD and EAD in calculating risk weighted assets. The rating methodology is statistical. Both application and behavioural scorecards are used in calculating the PD and PDs and LGDs are calibrated on the basis of internal data. EAD is calculated through the estimation of a CCF both on drawn facilities and on 'pipeline' business (mortgages which have been sanctioned but not yet drawn down). The definition of default is consistent with the CRR definition of default. The Group's validation processes are rigorous and they test, inter alia, the ranking of borrowers in terms of probability of default (versus observed default rates), the stability of the ratings and the probability of default estimates. The LGD and EAD models are also subject to rigorous validation processes, with tests including the predicted LGD/EAD versus actual observed and the ability of the models to rank on this basis. Individual rating models are refined and recalibrated on an ongoing basis as required.

IRB internal obligor grades

For the purpose of measuring credit risk for business decisions and managing capital, all relevant exposures are assigned to a rating system and within that to an internal risk grade. A grade is assigned on the basis of rating criteria within each rating model from which estimates of PD are derived.

The table below shows the Group's mapping of the relationship between the following PD ranges and their internal grade master scale bands for a) sovereigns and b) banks to external rating agency grades. The internal grades and PD bandings are based on a through the cycle PD.

31 December 2019

PD band %	Internal sovereign grade	Midpoint PD %	Internal bank grade	Midpoint PD %	External rating agency grades	
					Standard and Poor's / Fitch	Moody's
0.00 to <0.15	1	0.00	1	0.04	AAA, AA+, AA, AA-	Aaa, As1, Aa2, Aa3
	2	0.00	2	0.10	A+, A, A-	A1, A2, A3
	3	0.02	—	—	BBB+, BBB, BBB-	Baa1, Baa2, Baa3
0.15 to <0.25	—	—	3	0.25	BBB+, BBB, BBB-	Baa1, Baa2, Baa3
0.25 to <0.50	4	0.30	—	—	BB+, BB, BB-	Ba1, Ba2, Ba3
0.50 to <0.75	—	—	4	0.82	BB+, BB, BB-	Ba1, Ba2, Ba3
0.75 to <2.50	5	1.89	5	1.55	B+	B1
	6	3.87	6	3.87	B	B2
2.50 to <10.00	7	9.67	7	9.67	B-	B3
	8	24.14	8	24.14	CCC+, CCC, CCC-, CC, C	Caa, Ca, C
10.00 to <100	9	60.30	9	60.30	—	—
	10	100.00	10	100.00	D	—

Standardised approach

Introduction

Under the standardised approach, risk weightings for rated counterparties are determined on the basis of the external credit rating assigned to the counterparty. For non-rated counterparties and certain other types of exposure, regulatory-determined standardised risk weightings are used. The Group's exposures under this approach are set out in Chapter 5. Credit risk.

Exposures rated under the standardised approach amount to € 56,471 million (2018: € 51,012 million), with a capital requirement of € 2,171 million as at 31 December 2019 (2018: € 2,134 million). The exposure value is presented before credit risk mitigation ("CRM") and credit conversion factors ("CCF") and after credit impairment provisions but excluding counterparty credit risk exposures and securitisations.

Use of external credit ratings

Under CRD IV, institutions are permitted to determine the risk weight of an exposure with reference to the credit assessments of external credit assessment institutions ("ECAIs")⁽¹⁾.

AIB uses the following ECAIs to assess the credit risk of certain exposures under the standardised approach:

- Standard & Poor's Rating Services ("S&P")
- Fitch Ratings ("Fitch")
- Moody's Investors Service ("Moody's")
- Dominion Bond Rating Service ("DBRS")

AIB uses a combination of the credit weightings assigned by the ECAIs and mapping guidelines issued by the Central Bank of Ireland to map the exposures to the appropriate credit quality assessment step. These guidelines are identical to those issued by the European Banking Authority ("EBA").

The ratings applied to the credit quality assessment steps are:

Credit Quality Step	S&P/Fitch/DBRS	Moody's
Credit quality assessment step 1	AAA to AA	Aaa to Aa3
Credit quality assessment step 2	A+ to A-	A1 to A3
Credit quality assessment step 3	BBB+ to BBB-	Baa1 to Baa3
Credit quality assessment step 4	BB+ to BB-	Ba1 to Ba3
Credit quality assessment step 5	B+ to B-	B1 to B3
Credit quality assessment step 6	CCC+ and below	Caa1 and below

Where there are no available credit assessments to map to a credit quality assessment step, the Group assigns risk weights to these exposures in accordance with the CRD IV requirements for unrated exposures.

The standardised approach takes account of CRM that the Group has in place against an exposure, before the relevant risk weight is applied. Tables 16, 23 and 24 in this section give an analysis of the exposures rated under the standardised approach. Table 25 details those exposures which are rated by ECAI, those which have been allocated a credit quality step under CBI guidelines and those which are considered unrated. Table 26 further analyses the exposures which have been given a credit quality assessment step as outlined above.

Of the total standardised exposures of € 56,471 million (2018: € 51,102 million), € 12,447 million (2018: € 7,816 million) have been assigned a credit quality assessment step based on CBI guidelines.

Exposures amounting to € 12,447 million which have been assigned a credit quality assessment step mainly relate to Irish sovereign bonds (c. € 5.4 billion).

⁽¹⁾ The ECAIs are also used in calculating the risk weighted exposure amounts for certain securitisations – see Chapter 9. Securitisations.

Chapter 5. Credit risk

Table 14: EU CRB–B – Total and average net amount of exposures

The table below provides the total year end and the average⁽¹⁾ net exposures over the period by exposure class. All amounts presented are pre CRM and CCF but net of impairment provisions.

The tables exclude counterparty credit risk and securitisation exposures.

The main movement between periods is noted in Table 9 on page 22.

	31 December 2019		31 December 2018	
	Net value of exposures at the end of the period	Average net exposures over the period	Net value of exposures at the end of the period	Average net exposures over the period
	€m	€m	€m	€m
1 Central governments or central banks	7,645	7,709	8,462	8,454
2 Institutions	7,492	6,975	6,436	5,801
3 Corporates	15,476	15,156	14,647	13,564
4 of which: Specialised lending	846	671	533	412
5 of which: SMEs	3,959	4,170	4,426	4,355
6 Retail	18,957	19,101	19,308	19,493
7 of which: Secured by real estate property	18,957	19,101	19,308	19,493
Other non credit obligations	15	26	17	26
15 Total IRB approach	49,585	48,967	48,870	47,338
16 Central governments or central banks	12,447	10,263	7,816	8,721
17 Regional governments or local authorities	209	239	260	124
18 Public sector entities	—	—	—	23
21 Institutions	—	—	—	—
22 Corporates	10,910	10,238	9,155	9,168
24 Retail	8,832	8,897	9,080	9,435
26 Secured by mortgages on immovable property	17,934	17,785	17,665	17,101
28 Exposures in default	1,226	1,765	2,271	2,512
29 Items associated with particularly high risk	1,529	1,544	1,539	1,524
33 Equity exposures	253	164	136	129
34 Other exposures	3,131	3,123	3,090	3,284
35 Total standardised approach	56,471	54,018	51,012	52,021
36 Total	106,056	102,985	99,882	99,359

⁽¹⁾ Average net exposures are calculated based on quarterly averages.

Table 15: EU CRB–C – Geographical breakdown of exposures

The table below provides a breakdown of exposures by geographical areas⁽¹⁾ and exposure classes. All exposures presented are pre CRM and CCF but net of impairment provisions. The main movement between periods is noted in Table 9 on page 22.

	31 December 2019						31 December 2018					
	Net value						Net Value					
	Republic of Ireland	United Kingdom	United States of America	Rest of World ⁽²⁾	Other Geographical Areas ⁽³⁾	Total	Republic of Ireland	United Kingdom	United States of America	Rest of World	Other Geographical Areas ⁽³⁾	Total
€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	
1 Central governments or central banks	—	4,585	670	2,021	369	7,645	—	4,817	760	2,329	556	8,462
2 Institutions	309	1,386	169	5,628	—	7,492	366	1,152	141	4,777	—	6,436
3 Corporates	9,347	735	3,053	2,341	—	15,476	9,250	549	2,883	1,965	—	14,647
of which: Specialised lending	611	85	—	150	—	846	483	41	—	9	—	533
of which: SME	3,928	26	—	5	—	3,959	4,415	11	—	—	—	4,426
4 Retail	18,933	12	3	9	—	18,957	19,279	13	5	11	—	19,308
Other non credit obligation assets	15	—	—	—	—	15	17	—	—	—	—	17
6 Total IRB approach	28,604	6,718	3,895	9,999	369	49,585	28,912	6,531	3,789	9,082	556	48,870
7 Central governments or central banks	12,435	6	6	—	—	12,447	7,798	12	6	—	—	7,816
8 Regional governments or local authorities	209	—	—	—	—	209	260	—	—	—	—	260
13 Corporates	3,902	6,693	17	298	—	10,910	3,094	5,745	48	268	—	9,155
14 Retail	8,280	509	9	34	—	8,832	8,038	999	9	34	—	9,080
15 Secured by mortgages on immovable property	13,966	3,536	—	432	—	17,934	13,848	3,424	3	390	—	17,665
16 Exposures in default	1,046	170	—	10	—	1,226	2,077	150	1	43	—	2,271
17 Items associated with particularly high risk	1,091	267	171	—	—	1,529	1,129	300	109	1	—	1,539
21 Equity exposures	233	20	—	—	—	253	130	6	—	—	—	136
22 Other exposures	2,927	198	5	1	—	3,131	2,929	159	1	1	—	3,090
23 Total standardised approach	44,089	11,399	208	775	—	56,471	39,303	10,795	177	737	—	51,012
24 Total	72,693	18,117	4,103	10,774	369	106,056	68,215	17,326	3,966	9,819	556	99,882

⁽¹⁾ The geographical breakdown is based on residence of the immediate counterparty.

⁽²⁾ For 2019, Rest of the World comprises less than 2% of the total exposures and comprises predominantly France, Canada, Spain, Netherlands, Australia, Sweden, Luxembourg, Italy, Germany and Belgium.

⁽³⁾ Other Geographical Areas contains all exposures with EU supranational organisations.

Table 16: EU CRB–D – Concentration of exposures by industry or counterparty types

The tables below provides a breakdown of exposures by industry or counterparty types and exposure classes. All amounts presented are pre CRM and CCF but net of impairment provisions. The tables exclude counterparty credit risk and securitisation exposures. The main movement between periods is noted in Table 9 on page 22.

		31 December 2019													
		Agriculture	Construction	Distribution	Energy	Financial	Home loans	Manufacturing	Other loans - personal	Other services	Property	Transport and communication	Bank, sovereign and public sector	Other	Total exposures
		€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
1	Central governments or central banks	—	—	—	—	—	—	—	—	—	—	—	7,645	—	7,645
2	Institutions	—	—	—	—	—	—	—	—	—	—	—	7,492	—	7,492
3	Corporates	397	580	3,616	1,193	569	2	3,596	49	3,719	175	1,580	—	—	15,476
	of which: Specialised lending	—	—	—	661	—	—	—	—	134	—	51	—	—	846
	of which: SME	161	134	1,728	47	69	2	453	47	884	64	370	—	—	3,959
4	Retail	—	—	—	—	—	18,957	—	—	—	—	—	—	—	18,957
	Other non credit obligation assets	—	1	—	—	—	—	2	—	2	—	10	—	—	15
6	Total IRB approach	397	581	3,616	1,193	569	18,959	3,598	49	3,721	175	1,590	15,137	—	49,585
7	Central governments or central banks	—	—	—	—	—	—	—	—	—	—	—	12,447	—	12,447
8	Regional governments or local authorities	—	—	—	—	—	—	—	—	—	—	—	209	—	209
9	Public sector entities	—	—	—	—	—	—	—	—	—	—	—	—	—	—
12	Institutions	—	—	—	—	—	—	—	—	—	—	—	—	—	—
13	Corporates	980	161	2,060	1,074	1,311	63	1,131	237	3,090	52	743	8	—	10,910
14	Retail	1,012	88	479	12	25	506	152	5,245	987	178	148	—	—	8,832
15	Secured by mortgages on immovable property	—	—	—	—	—	11,964	—	—	—	5,970	—	—	—	17,934
16	Exposures in default	32	7	38	—	2	710	31	97	40	240	29	—	—	1,226
17	Items associated with particularly high risk	1	741	2	—	171	—	1	4	254	354	1	—	—	1,529
21	Equity exposures	—	—	—	18	101	—	21	—	106	7	—	—	—	253
22	Other exposures	—	—	—	—	—	—	—	—	—	—	—	—	3,131	3,131
23	Total standardised approach	2,025	997	2,579	1,104	1,610	13,243	1,336	5,583	4,477	6,801	921	12,664	3,131	56,471
24	Total	2,422	1,578	6,195	2,297	2,179	32,202	4,934	5,632	8,198	6,976	2,511	27,801	3,131	106,056

31 December 2018

	Agriculture	Construction	Distribution	Energy	Financial	Home loans	Manufacturing	Other loans - personal	Other services	Property	Transport and communication	Bank, sovereign and public sector	Other	Total exposures
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
1 Central governments or central banks	—	—	—	—	—	—	—	—	—	—	—	8,462	—	8,462
2 Institutions	—	—	—	—	—	—	—	—	—	—	—	6,436	—	6,436
3 Corporates	435	341	3,870	1,021	362	3	3,191	54	3,730	190	1,450	—	—	14,647
of which: Specialised lending	—	—	—	413	—	—	—	—	71	—	49	—	—	533
of which: SME	187	120	1,884	100	17	2	552	49	1,044	119	352	—	—	4,426
4 Retail	—	—	—	—	—	19,308	—	—	—	—	—	—	—	19,308
Other non credit obligation assets	—	4	1	—	—	—	1	—	1	—	10	—	—	17
6 Total IRB approach	435	345	3,871	1,021	362	19,311	3,192	54	3,731	190	1,460	14,898	—	48,870
7 Central governments or central banks	—	—	—	—	—	—	—	—	—	—	—	7,816	—	7,816
8 Regional governments or local authorities	—	—	—	—	—	—	—	—	—	—	—	260	—	260
9 Public sector entities	—	—	—	—	—	—	—	—	—	—	—	—	—	—
12 Institutions	—	—	—	—	—	—	—	—	—	—	—	—	—	—
13 Corporates	831	164	1,864	634	847	47	897	320	2,870	61	620	—	—	9,155
14 Retail	1,021	86	482	13	22	589	140	5,459	961	185	122	—	—	9,080
15 Secured by mortgages on immovable property	—	—	—	—	—	11,669	—	—	—	5,996	—	—	—	17,665
16 Exposures in default	94	11	90	1	24	1,020	9	173	16	829	4	—	—	2,271
17 Items associated with particularly high risk	—	1,021	—	—	117	—	—	—	185	216	—	—	—	1,539
21 Equity exposures	—	—	—	16	113	—	—	—	—	7	—	—	—	136
22 Other exposures	—	—	—	—	—	—	—	—	—	—	—	—	3,090	3,090
24 Total standardised approach	1,946	1,282	2,436	664	1,123	13,325	1,046	5,952	4,032	7,294	746	8,076	3,090	51,012
25 Total	2,381	1,627	6,307	1,685	1,485	32,636	4,238	6,006	7,763	7,484	2,206	22,974	3,090	99,882

Table 17: EU CRB-E – Maturity of exposures

The table below provides a breakdown of net exposures pre CRM and CCF by contractual residual maturity and exposure classes. The main movement between periods is noted in Table 9 on page 22.

	31 December 2019						31 December 2018					
	Net exposure value						Net exposure value					
	On Demand	<= 1 year	>1 year <= 5 years	>5 years	no stated maturity	Total	On Demand	<= 1 year	>1 year <= 5 years	>5 years	no stated maturity	Total
€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	
1 Central governments or central banks	4,847	243	1,731	824	—	7,645	5,223	390	1,901	948	—	8,462
2 Institutions	431	1,062	4,922	1,077	—	7,492	535	823	4,598	480	—	6,436
3 Corporates ⁽¹⁾	1,390	1,461	7,357	5,268	—	15,476	686	1,970	6,657	5,334	—	14,647
of which Specialised lending	4	80	13	749	—	846	3	2	113	415	—	533
of which SME	596	532	1,576	1,255	—	3,959	431	840	1,784	1,371	—	4,426
4 Retail	55	588	535	17,779	—	18,957	86	532	551	18,139	—	19,308
Other non credit obligation assets	3	9	3	—	—	15	5	8	4	—	—	17
6 Total IRB approach	6,726	3,363	14,548	24,948	—	49,585	6,535	3,723	13,711	24,901	—	48,870
7 Central governments or central banks	7,016	1,292	1,384	2,755	—	12,447	1,353	2,049	2,517	1,897	—	7,816
8 Regional governments or local authorities	204	—	2	3	—	209	1	253	1	5	—	260
9 Public sector entities	—	—	—	—	—	—	—	—	—	—	—	—
12 Institutions	—	—	—	—	—	—	—	—	—	—	—	—
13 Corporates ⁽¹⁾	2,733	893	4,179	2,647	458	10,910	1,206	1,313	3,889	2,279	468	9,155
14 Retail ⁽¹⁾	2,232	2,682	2,555	1,363	—	8,832	21	2,630	4,933	1,496	—	9,080
15 Secured by mortgages on immovable property	118	1,002	4,533	12,281	—	17,934	168	1,030	3,850	12,617	—	17,665
16 Exposures in default	245	84	173	724	—	1,226	646	125	352	1,148	—	2,271
17 Items associated with particularly high risk	135	365	599	27	403	1,529	178	462	484	120	295	1,539
21 Equity exposures	—	—	—	—	253	253	—	—	—	—	136	136
22 Other exposures	693	77	1	—	2,360	3,131	646	158	1	—	2,285	3,090
23 Total standardised approach	13,376	6,395	13,426	19,800	3,474	56,471	4,219	8,020	16,027	19,562	3,184	51,012
24 Total	20,102	9,758	27,974	44,748	3,474	106,056	10,754	11,743	29,738	44,463	3,184	99,882

⁽¹⁾ The corporate and retail exposures reflect overdrafts and credit cards as on demand in 2019 due to a change in methodology.

Table 18: EU CR6 - Credit risk exposures by exposure class and PD range

The table below provides a detailed analysis, by PD grade, of credit risk exposures under the IRB approach. Exposures are presented both on a pre and post CRM and CCF basis. The tables below take into account PD and LGD floors specified by regulators in respect of the calculation of regulatory capital requirements. The main movement between periods is noted in Table 9 on page 22.

The EBA guidelines include a single prescribed scale for presenting the credit quality of all IRB portfolios by asset class, which is used in the tables that follow. Throughout this section 'RWA density' represents the 'average risk weight'. 'number of obligors' corresponds to the number of individual PDs in each band.

The table⁽¹⁾ includes exposures rated under Foundation IRB and Advanced IRB. All exposures are presented both pre and post CRM and CCF (EAD). The table excludes counterparty credit risk, securitisations and non-credit obligation assets. Gross exposures are presented before credit impairment provisions. The Group has not used credit derivatives as a credit risk mitigant for exposures rated under the IRB approach.

Foundation IRB		Central Governments and Central Banks										31 December 2019	
PD scale	Original on balance sheet gross exposures	Off-balance sheet exposures pre CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions	
%	€m	€m	%	€m	%		%	Years	€m	%	€m	€m	
0.00 to <0.15	7,645	—	—	7,943	0.00	30	45.00	2.50	52	1	—	—	
0.15 to <0.25	—	—	—	—	—	—	—	—	—	—	—	—	
0.25 to <0.50	—	—	—	—	—	—	—	—	—	—	—	—	
0.50 to <0.75	—	—	—	—	—	—	—	—	—	—	—	—	
0.75 to <2.50	—	—	—	—	—	—	—	—	—	—	—	—	
2.50 to <10.00	—	—	—	—	—	—	—	—	—	—	—	—	
10.00 to <100	—	—	—	—	—	—	—	—	—	—	—	—	
100 (Default)	—	—	—	—	—	—	—	—	—	—	—	—	
Total	7,645	—	—	7,943	0.00	30	45.00	2.50	52	1	—	—	
Foundation IRB		Institutions											
%	€m	€m	%	€m	%		%	Years	€m	%	€m	€m	
0.00 to <0.15	6,645	13	0.00	6,645	0.08	128	27.14	2.50	1,491	22	2	—	
0.15 to <0.25	806	3	0.00	507	0.25	33	39.94	2.50	301	59	—	—	
0.25 to <0.50	—	—	—	—	—	—	—	—	—	—	—	—	
0.50 to <0.75	24	—	—	24	0.62	5	45.00	2.50	25	104	—	—	
0.75 to <2.50	—	—	—	—	—	—	—	—	—	—	—	—	
2.50 to <10.00	1	—	—	1	3.87	1	45.00	2.50	1	177	—	—	
10.00 to <100	—	—	—	—	—	—	—	—	—	—	—	—	
100 (Default)	—	—	—	—	—	—	—	—	—	—	—	—	
Total	7,476	16	0	7,177	0.10	167	28.11	2.50	1,818	25	2	—	
Foundation IRB		Corporate Other											
%	€m	€m	%	€m	%		%	Years	€m	%	€m	€m	
0.00 to <0.15	1,321	915	59	1,863	0.08	105	45.16	2.50	591	32	1	—	
0.15 to <0.25	1,308	272	65	1,485	0.18	70	44.13	2.50	769	52	2	1	
0.25 to <0.50	1,673	405	53	1,890	0.32	140	44.99	2.50	1,359	72	3	2	
0.50 to <0.75	1,906	342	48	2,069	0.58	131	43.93	2.50	1,912	92	6	8	
0.75 to <2.50	1,889	524	60	2,204	1.21	273	45.08	2.50	2,685	122	14	17	
2.50 to <10.00	66	24	56	80	5.11	33	45.00	2.50	147	185	2	1	
10.00 to <100	9	0	74	9	16.87	10	45.00	2.50	23	259	1	2	
100 (Default)	54	6	33	56	100.00	73	45.00	2.50	—	—	25	12	
Total	8,226	2,488	57	9,656	1.15	835	44.69	2.50	7,486	78	54	43	

Foundation IRB Corporate SME 31 December 2019

PD scale	Original on balance sheet gross exposures	Off-balance sheet exposures pre CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
%	€m	€m	%	€m	%		%	Years	€m	%	€m	€m
0.00 to <0.15	12	21	71	26	0.10	4	45.00	2.50	10	38	—	—
0.15 to <0.25	39	6	70	43	0.18	9	38.30	2.50	20	45	—	—
0.25 to <0.50	315	44	33	329	0.32	66	42.26	2.50	222	68	1	—
0.50 to <0.75	192	19	64	205	0.58	30	40.03	2.50	172	84	1	2
0.75 to <2.50	1,435	503	42	1,648	1.43	1,657	44.60	2.50	1,698	103	11	12
2.50 to <10.00	1,046	196	37	1,118	4.77	1,608	44.89	2.50	1,504	135	26	44
10.00 to <100	101	7	27	103	18.90	170	45.00	2.50	216	209	10	13
100 (Default)	120	15	40	126	100.00	510	45.00	2.50	—	—	57	41
Total	3,260	811	42	3,598	6.24	4,054	44.17	2.50	3,842	107	106	112

Foundation IRB Corporate Specialised Lending

%	€m	€m	%	€m	%		%	Years	€m	%	€m	€m
0.00 to <0.15	55	12	72	63	0.10	2	45.00	2.50	22	35	—	—
0.15 to <0.25	181	9	73	188	0.20	6	45.03	2.50	98	52	—	—
0.25 to <0.50	296	85	79	363	0.35	18	45.00	2.50	252	70	1	—
0.50 to <0.75	78	26	74	98	0.58	4	45.00	2.50	87	88	—	—
0.75 to <2.50	71	17	48	79	0.95	5	47.88	2.50	90	114	1	—
2.50 to <10.00	9	—	75	9	2.50	1	45.00	2.50	13	145	—	1
10.00 to <100	—	—	—	—	—	—	—	—	—	—	—	—
100 (Default)	9	—	—	9	100.00	1	45.00	2.50	—	—	4	1
Total	699	149	74	809	1.53	35	45.29	2.50	562	67	6	2

Total Foundation IRB (all portfolios)

27,306	3,464	54	29,183	1.21	5,121	40.65	2.50	13,760	47	168	157
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Foundation IRB Central governments and central banks

31 December 2018

%	€m	€m	%	€m	%		%	Years	€m	€m	€m	€m
0.00 to <0.15	8,462	—	—	8,735	0.00	35	45.00	2.50	59	1	—	—
0.15 to <0.25	—	—	—	—	—	—	—	—	—	—	—	—
0.25 to <0.50	—	—	—	—	—	—	—	—	—	—	—	—
0.50 to <0.75	—	—	—	—	—	—	—	—	—	—	—	—
0.75 to <2.50	—	—	—	—	—	—	—	—	—	—	—	—
2.50 to <10.00	—	—	—	—	—	—	—	—	—	—	—	—
10.00 to <100	—	—	—	—	—	—	—	—	—	—	—	—
100 (Default)	—	—	—	—	—	—	—	—	—	—	—	—
Total	8,462	—	—	8,735	0.00	35	45.00	2.50	59	1	—	—

Foundation IRB Institutions

%	€m	€m	%	€m	%		%	Years	€m	€m	€m	€m
0.00 to <0.15	5,735	26	0.00	5,735	0.08	152	26.09	2.50	1,233	21	1	—
0.15 to <0.25	627	5	0.00	355	0.25	35	39.24	2.50	208	59	1	—
0.25 to <0.50	—	—	—	—	—	—	—	—	—	—	—	—
0.50 to <0.75	42	—	—	42	0.62	8	45.00	2.50	43	104	—	—
0.75 to <2.50	1	—	—	1	1.55	1	45.00	2.50	2	142	—	—
2.50 to <10.00	—	—	—	—	3.87	1	45.00	2.50	—	177	—	—
10.00 to <100	—	—	—	—	—	—	—	—	—	—	—	—
100 (Default)	—	—	—	—	—	—	—	—	—	—	—	—
Total	6,405	31	0.00	6,133	0.10	197	26.98	2.50	1,486	24	2	—

Foundation IRB		Corporate other										31 December 2018	
PD scale	Original on balance sheet gross exposures	Off-balance sheet exposures pre CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions	
%	€m	€m	%	€m	%		%	Years	€m	%	€m	€m	
0.00 to <0.15	1,041	923	59	1,581	0.07	91	45.00	2.50	483	31	1	—	
0.15 to <0.25	1,072	339	67	1,299	0.18	80	45.00	2.50	697	54	1	1	
0.25 to <0.50	1,533	331	51	1,704	0.32	138	45.00	2.50	1,225	72	3	—	
0.50 to <0.75	1,843	255	52	1,977	0.58	154	45.91	2.50	1,909	97	6	1	
0.75 to <2.50	1,831	282	60	2,001	1.23	275	45.04	2.50	2,418	121	13	7	
2.50 to <10.00	124	54	52	152	3.95	45	45.00	2.50	254	167	3	4	
10.00 to <100	21	5	34	23	48.00	15	45.00	2.50	53	231	6	5	
100 (Default)	71	6	47	74	100.00	154	45.00	2.50	—	—	33	25	
Total	7,536	2,195	58	8,811	1.54	952	45.21	2.50	7,039	80	66	43	
Foundation IRB		Corporate SME											
%	€m	€m	%	€m	%		%	Years	€m	%	€m	€m	
0.00 to <0.15	—	5	60	3	0.03	3	45.00	2.50	1	19	0	0	
0.15 to <0.25	—	1	68	1	0.18	4	45.00	2.50	—	53	0	0	
0.25 to <0.50	327	82	68	383	0.32	64	45.00	2.50	275	72	1	0	
0.50 to <0.75	211	77	70	265	0.58	37	45.00	2.50	251	95	1	0	
0.75 to <2.50	1,490	524	44	1,719	1.45	1,545	45.04	2.50	1,646	96	11	18	
2.50 to <10.00	1,133	191	29	1,188	4.94	1,612	45.00	2.50	1,469	124	26	67	
10.00 to <100	143	15	36	149	23.16	237	45.00	2.50	294	198	16	20	
100 (Default)	496	29	40	508	100.00	1,152	45.05	2.50	—	—	229	193	
Total	3,800	924	45	4,216	14.91	4,654	45.02	2.50	3,936	93	284	298	
Foundation IRB		Corporate Specialised lending											
%	€m	€m	%	€m	%		%	Years	€m	%	€m	€m	
0.00 to <0.15	—	—	—	—	—	—	—	—	—	—	—	—	
0.15 to <0.25	96	106	82	183	0.20	7	45.00	2.50	95	52	0	0	
0.25 to <0.50	45	22	90	65	0.40	8	45.16	2.50	49	75	0	0	
0.50 to <0.75	80	15	94	94	0.57	4	45.00	2.50	82	87	0	0	
0.75 to <2.50	122	18	52	131	1.06	6	46.83	2.50	151	115	1	1	
2.50 to <10.00	21	—	100	21	2.75	2	45.00	2.50	31	149	0	0	
10.00 to <100	—	—	—	—	—	—	—	—	—	—	—	—	
100 (Default)	10	—	—	10	100.00	1	45.00	2.50	—	—	5	1	
Total	374	161	81	504	2.55	28	45.50	2.50	408	81	6	2	
Total Foundation IRB (all portfolios)	26,577	3,311	52	28,399	3.62	5,866	41.34	2.50	12,928	45	358	343	

Advanced IRB		Retail										31 December 2019	
PD scale	Original on balance sheet gross exposures	Off-balance sheet exposures pre CCF	Average CCF	EAD post CRM and post CCF	Average post PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions	
%	€m	€m	%	€m	%		%	Years	€m	%	€m	€m	
0.00 to <0.15	10,566	354	60	10,778	0.05	88,315	27	—	606	6	2	6	
0.15 to <0.25	3,676	101	64	3,740	0.24	27,537	28	—	728	19	4	6	
0.25 to <0.50	50	120	59	120	0.39	279	31	—	35	29	—	—	
0.50 to <0.75	—	—	—	—	—	—	—	—	—	—	—	—	
0.75 to <2.50	2,620	11	86	2,630	1.15	19,742	28	—	1,488	57	12	12	
2.50 to <10.00	570	3	93	572	3.34	4,698	28	—	642	112	8	13	
10.00 to <100	103	—	100	103	21.91	877	28	—	256	248	9	4	
100 (Default)	1,039	6	100	1,045	100.00	9,164	27	—	822	79	221	221	
Total	18,624	595	61	18,988	5.96	150,612	27.62	—	4,577	24	256	262	

Advanced IRB		Retail										31 December 2018	
%	€m	€m	%	€m	%		%	Years	€m	%	€m	€m	
0.00 to <0.15	9,677	310	61	9,866	0	81,642	27	—	559	6	2	4	
0.15 to <0.25	3,839	80	65	3,890	0	29,633	28	—	763	20	4	7	
0.25 to <0.50	87	116	59	156	0	500	31	—	46	30	—	—	
0.50 to <0.75	—	—	—	—	0	—	—	—	—	—	—	—	
0.75 to <2.50	3,168	12	84	3,177	1	23,103	28	—	1,803	57	14	11	
2.50 to <10.00	723	7	77	729	3	5,659	28	—	855	117	11	12	
10.00 to <100	159	—	100	159	22	1,309	29	—	411	258	15	6	
100 (Default)	1,465	13	100	1,478	100	11,725	27	—	1,165	79	307	308	
Total	19,118	538	63	19,455	8.16	153,571	27.67	—	5,602	29	353	348	

(1) Non-credit obligation assets are excluded from this analysis (2019:€ 15 million, 2018: € 17 million).

Table 19: IRB – Probability of default by geography (excluding securitisations)

The following table sets out an analysis of exposure at default (“EAD”) and probability of default (“PD”) by exposure class and geography. The table includes both credit risk and counterparty credit risk but excludes securitisations and non-credit obligation assets. Exposures (EAD) are shown post CRM and CCF.

														31 December 2019
	Central Governments and Central Banks		Institutions		Corporates Other		Corporates SME		Corporates - Specialised Lending		Retail		Total IRB	
	EAD	Average PD	EAD	Average PD	EAD	Average PD	EAD	Average PD	EAD	Average PD	EAD	Average PD	EAD	Average PD
	€m	%	€m	%	€m	%	€m	%	€m	%	€m	%	€m	%
Ireland	—	—	309	0.18	3,824	0.60	3,444	2.85	570	0.38	17,924	0.48	26,071	0.81
United Kingdom	4,585	0.00	1,385	0.12	587	0.67	24	1.69	83	0.62	9	1.70	6,673	0.10
United States of America	670	0.00	168	0.11	3,048	0.52	—	—	—	—	3	2.63	3,889	0.42
Other Geographical Areas ⁽¹⁾	369	0.00	—	—	—	—	—	—	—	—	—	—	369	0.00
Rest of World	2,319	0.00	5,315	0.08	2,141	0.55	4	2.46	147	0.39	7	1.36	9,933	0.17
Total performing	7,943	0.00	7,177	0.10	9,600	0.57	3,472	2.84	800	0.41	17,943	0.48	46,935	0.53
Defaulted	—	—	—	—	56	100.00	126	100.00	9	100.00	1,045	100.00	1,236	100.00
Total exposures	7,943	0.00	7,177	0.10	9,656	1.15	3,598	6.24	809	1.53	18,988	5.96	48,171	3.09

														31 December 2018
	Central Governments and Central Banks		Institutions		Corporates Other		Corporates SME		Corporates - Specialised Lending		Retail		Total IRB	
	EAD	Average PD	EAD	Average PD	EAD	Average PD	EAD	Average PD	EAD	Average PD	EAD	Average PD	EAD	Average PD
	€m	%	€m	%	€m	%	€m	%	€m	%	€m	%	€m	%
Ireland	—	—	366	0.17	3,498	0.88	3,700	3.26	461	0.58	17,953	0.61	25,978	1.02
United Kingdom	4,817	0.00	2,401	0.11	475	0.82	8	1.35	54	1.02	10	2.30	7,765	0.09
United States of America	760	0.00	142	0.12	2,888	0.49	—	—	—	—	5	0.79	3,795	0.38
Other Geographical Areas ⁽¹⁾	556	0.00	—	—	—	—	—	—	—	—	—	—	556.00	0.00
Rest of World	2,601	0.00	5,310	0.09	1,910	0.71	—	—	9	0.40	9	2.35	10,396	0.18
Total performing	8,735	0.00	8,219	0.10	8,771	0.71	3,708	3.26	524	0.62	17,977	0.62	47,934	0.66
Defaulted	—	—	—	—	74	100.00	508	100.00	10	100.00	1,478	100.00	2,070	100.00
Total exposures	8,735	0.00	8,219	0.10	8,845	1.54	4,216	14.91	534	2.43	19,455	8.16	50,004	4.18

⁽¹⁾ Exposures with supranational organisations are included under other geographical area.

The geographical analysis presented is based on the residence of the immediate counterparty. There is a reduction in the average PD % for the exposure classes “Corporates” and “Retail” due to the improved risk profile of the exposures during 2019.

Table 20: EU CR7 – Effect on the RWAs of credit derivatives used as CRM techniques – IRB approach

The table below illustrates the effect of credit derivatives on the IRB approach capital requirements calculations:

	31 December 2019		31 December 2018	
	Pre-credit derivatives RWAs	Actual RWAs	Pre-credit derivatives RWAs	Actual RWAs
	€m	€m	€m	€m
1 Exposures under FIRB				
2 Central governments and central banks	52	52	59	59
3 Institutions	1,818	1,818	1,486	1,486
4 Corporates – SMEs	3,842	3,842	3,936	3,936
5 Corporates – Specialised lending	562	562	408	408
6 Corporates – Other	7,486	7,486	7,039	7,039
19 Other non-credit obligation assets	15	15	17	17
7 Exposures under AIRB				
13 Retail – Secured by real estate non SMEs	4,577	4,577	5,602	5,602
20 Total	18,351	18,351	18,547	18,547

The Group has not used credit derivatives as a credit risk mitigant for exposures rated under the IRB approach.

Table 21: EU CR9 – Backtesting of PD per exposure class – IRB approach

The table below provides back testing data to validate the reliability of PD calculations:

31 December 2019									
Exposure class	PD range	External rating equivalent	Weighted average	Arithmetic average by obligors	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate ⁽¹⁾
					End of previous year	End of the year			
	%		%	%					%
Central governments and central banks									
	0.00 to <0.15	AAA to A-	—	—	35	28	—	—	—
	0.15 to <0.25	BBB+ to BBB-	—	—	—	—	—	—	—
	0.25 to <0.50	—	—	—	—	—	—	—	—
	0.50 to <0.75	BB+ to BB-	—	—	—	—	—	—	—
	0.75 to <2.50	B+	—	—	—	—	—	—	—
	2.50 to <10.00	B to B-	—	—	—	—	—	—	—
	10.00 to <100.00	CCC+ to C	—	—	—	—	—	—	—
	100.00 (Default)	—	—	—	—	—	—	—	—
Total			—	—	35	28	—	—	—
Institution									
	0.00 to <0.15	AAA to BBB-	0.08	0.09	152	128	—	—	—
	0.15 to <0.25	—	0.25	0.25	35	33	—	—	—
	0.25 to <0.50	BB+ to BB-	—	—	—	—	—	—	—
	0.50 to <0.75	—	0.62	0.62	8	5	—	—	—
	0.75 to <2.50	B+	—	—	1	1	—	—	—
	2.50 to <10.00	B to B-	—	—	1	—	—	—	—
	10.00 to <100.00	CCC+ to C	—	—	—	—	—	—	—
	100.00 (Default)	—	3.87	3.87	—	—	—	—	—
Total			0.10	0.13	197	167	—	—	—
Corporate specialised lending									
	0.00 to <0.15	N/A	0.10	0.10	7	2	—	—	—
	0.15 to <0.25	N/A	0.20	0.20	8	6	—	—	—
	0.25 to <0.50	N/A	0.35	0.34	4	18	—	—	—
	0.50 to <0.75	N/A	0.58	0.61	6	4	—	—	6.67
	0.75 to <2.50	N/A	0.95	1.09	2	5	—	—	15.00
	2.50 to <10.00	N/A	2.50	2.50	1	1	—	—	—
	10.00 to <100.00	N/A	—	—	—	—	—	—	—
	100.00 (Default)	N/A	100.00	100.00	—	1	—	—	—
Total			1.53	3.19	28	37	—	—	2.84
Corporate SME									
	0.00 to <0.15	N/A	0.10	0.05	3	4	—	—	—
	0.15 to <0.25	N/A	0.18	0.18	4	9	—	—	—
	0.25 to <0.50	N/A	0.32	0.32	64	66	3	3	—
	0.50 to <0.75	N/A	0.58	0.58	37	30	—	—	0.22
	0.75 to <2.50	N/A	1.41	1.52	1,545	1,657	12	5	0.88
	2.50 to <10.00	N/A	4.77	4.70	1,612	1,608	73	21	3.48
	10.00 to <100.00	N/A	18.90	18.53	237	170	56	17	13.90
	100.00 (Default)	N/A	100.00	100.00	1,152	510	—	—	—
Total			6.98	15.85	4,654	4,054	144	46	3.48

31 December 2019

Exposure class	PD range	External rating equivalent	Weighted average	Arithmetic average by obligors	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate ⁽¹⁾
					End of previous year	End of the year			
	%		%	%					%
Corporates									
	0.00 to <0.15	N/A	0.08	0.08	91	105	—	—	0.30
	0.15 to <0.25	N/A	0.18	0.18	80	70	—	—	0.83
	0.25 to <0.50	N/A	0.32	0.32	138	140	—	—	0.12
	0.50 to <0.75	N/A	0.58	0.58	154	131	2	1	0.82
	0.75 to <2.50	N/A	1.21	1.11	275	273	1	—	0.38
	2.50 to <10.00	N/A	5.11	3.78	45	33	1	—	2.60
	10.00 to <100.00	N/A	16.87	18.68	15	10	—	—	4.23
	100.00 (Default)	N/A	100.00	100.00	154	73	—	—	—
Total			1.20	9.65	952	835	4	1	0.96
Retail									
	0.00 to <0.15	N/A	0.05	0.05	81,642	88,315	203	5	0.09
	0.15 to <0.25	N/A	0.24	0.24	29,633	27,537	323	—	0.33
	0.25 to <0.50	N/A	0.39	0.39	500	279	—	—	—
	0.50 to <0.75	N/A	—	—	—	—	—	—	—
	0.75 to <2.50	N/A	1.15	1.13	23,103	19,742	379	3	0.93
	2.50 to <10.00	N/A	3.34	3.36	5,659	4,698	506	5	5.36
	10.00 to <100.00	N/A	21.91	21.91	1,309	877	273	2	16.84
	100.00 (Default)	N/A	100.00	100.00	11,725	9,164	—	—	—
Total			5.96	6.54	153,571	150,612	1,684	15	0.92

31 December 2018

Exposure class	PD range	External rating equivalent	Weighted average	Arithmetic average by obligors	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate ⁽¹⁾
					End of previous year	End of the year			
	%		%	%					%
Central governments and central banks									
	0.00 to <0.15	AAA to BBB-	—	—	26	35	—	—	—
	0.15 to <0.25	—	—	—	—	—	—	—	—
	0.25 to <0.50	BB+ to BB-	—	—	—	—	—	—	—
	0.50 to <0.75	—	—	—	—	—	—	—	—
	0.75 to <2.50	B+	—	—	—	—	—	—	—
	2.50 to <10.00	B to B-	—	—	—	—	—	—	—
	10.00 to <100.00	CCC+ to C	—	—	—	—	—	—	—
	100.00 (Default)	—	—	—	—	—	—	—	—
Total			—	—	26	35	—	—	—
Institution									
	0.00 to <0.15	AAA to A-	0.08	0.09	134	152	—	—	—
	0.15 to <0.25	BBB+ to BBB-	0.25	0.25	29	35	—	—	—
	0.25 to <0.50	—	—	—	—	—	—	—	—
	0.50 to <0.75	BB+ to BB-	0.62	0.62	14	8	—	—	—
	0.75 to <2.50	B+	1.55	1.55	—	1	—	—	—
	2.50 to <10.00	B to B-	3.87	3.87	—	1	—	—	—
	10.00 to <100.00	CCC+ to C	—	—	—	—	—	—	—
	100.00 (Default)	—	—	—	—	—	—	—	—
Total			0.10	0.16	177	197	—	—	—

Exposure class	PD range	External rating equivalent	Weighted average	Arithmetic average by obligors	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate ⁽¹⁾
					End of previous year	End of the year			
	%		%	%					%
Corporate specialised lending									
	0.00 to <0.15	N/A	—	—	—	—	—	—	—
	0.15 to <0.25	N/A	0.20	0.20	5	7	—	—	—
	0.25 to <0.50	N/A	0.40	0.39	8	8	—	—	—
	0.50 to <0.75	N/A	0.57	0.62	5	4	—	—	6.67
	0.75 to <2.50	N/A	1.06	1.46	2	6	—	—	15.00
	2.50 to <10.00	N/A	2.75	2.75	1	2	—	—	—
	10.00 to <100.00	N/A	—	—	—	—	—	—	—
	100.00 (Default)	N/A	100.00	100.00	—	1	—	—	—
Total			2.55	4.33	21	28		—	2.84
Corporate SME									
	0.00 to <0.15	N/A	0.03	0.06	4	3	—	—	—
	0.15 to <0.25	N/A	0.18	0.18	6	4	—	—	—
	0.25 to <0.50	N/A	0.32	0.32	51	64	1	1	—
	0.50 to <0.75	N/A	0.58	0.58	45	37	—	—	0.22
	0.75 to <2.50	N/A	1.45	1.55	1,292	1,545	13	3	1.51
	2.50 to <10.00	N/A	4.94	4.80	1,667	1,612	88	23	4.38
	10.00 to <100.00	N/A	23.16	21.29	325	237	67	15	15.80
	100.00 (Default)	N/A	100.00	100.00	1,328	1,152	—	—	—
Total			14.91	28.02	4,718	4,654	169	42	4.62
Corporates - Other									
	0.00 to <0.15	N/A	0.07	0.08	85	91	—	—	0.60
	0.15 to <0.25	N/A	0.18	0.18	82	80	1	—	0.83
	0.25 to <0.50	N/A	0.32	0.32	161	138	1	—	0.12
	0.50 to <0.75	N/A	0.58	0.58	149	154	2	—	0.56
	0.75 to <2.50	N/A	1.23	1.36	276	275	1	—	0.48
	2.50 to <10.00	N/A	3.95	4.00	57	45	2	—	2.38
	10.00 to <100.00	N/A	48.00	55.36	40	15	—	—	7.21
	100.00 (Default)	N/A	100.00	100.00	195	154	—	—	—
Total			1.54	17.79	1,045	952	7	—	1.17
Retail									
	0.00 to <0.15	N/A	0.05	0.05	77,635	81,642	182	1	0.13
	0.15 to <0.25	N/A	0.24	0.24	30,227	29,633	221	1	0.42
	0.25 to <0.50	N/A	0.39	0.39	357	500	—	—	—
	0.50 to <0.75	N/A	—	—	—	—	—	—	—
	0.75 to <2.50	N/A	1.12	1.10	24,289	23,103	400	7	1.20
	2.50 to <10.00	N/A	3.46	3.49	6,522	5,659	566	7	5.91
	10.00 to <100.00	N/A	21.91	21.91	1,718	1,309	349	—	18.97
	100.00 (Default)	N/A	100.00	100.00	14,090	11,725	—	—	—
Total			8.16	8.19	154,838	153,571	1,718	16	1.27

Methodology and processes have been revised leading to adjusted numbers of obligors compared to the 2018 report including: a shift in the populations used for the average annual default rate calculation between 'Corporate – SME' and 'Corporate – Other', an amendment to the annual default rate calculation for the 'Retail' asset class and a change in the methodology used to identify defaults from new obligors in the year.

⁽¹⁾ Average historical annual default rate is the average over the last five years.

Risk weightings for IRB models

The Group's risk weightings as a percentage of EAD for IRB models at 31 December 2019 are detailed below. The weightings are influenced by the grade profile and the associated PDs of the portfolios, having applied the regulatory LGD of 45% for the majority⁽¹⁾ of the non-retail portfolios (2018: 45% for the majority), and the Group's own estimate of LGD for the retail portfolio (residential mortgages), which had an average LGD of 28% applied at 31 December 2019 (2018: 28%).

An LGD of 45% is applied to senior exposures, whilst LGDs of 11.25% and 75% are applied to covered bonds and subordinated exposures respectively, with an LGD of 35% available for exposures secured by real estate collateral.

Table 22: CRD risk weightings as a percentage of EAD for IRB models

	31 December	
	2019	2018
AIB Group - IRB rating models ⁽¹⁾	%	%
Sovereign	1	1
Bank	25	25
Commercial ⁽²⁾	117	109
Corporate	77	81
Not-for-profit	81	90
Project finance	70	82
Residential mortgage	24	29

⁽¹⁾ Non retail exposures classified as defaulted have been excluded from the calculation of the risk weightings as a percentage of EAD as these loans influence the EL calculation and not the risk weighted assets calculation.

⁽²⁾ Increase in RWAs of "Commercial" exposures following PD recalibration exercise.

Table 23: EU CR4 – Credit risk exposure and CRM effects

The table below shows credit risk exposures under the standardised approach both before and after credit risk mitigation (CRM) and credit conversion factors (CCF) and the associated RWAs and RWA density, split by exposure class. These exposures exclude counterparty credit risk exposures. The main movement between periods is noted in Table 9 on page 21.

	31 December 2019						31 December 2018					
	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs	RWA density	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs	RWA density
	On balance sheet amount	Off balance sheet amount	On balance sheet amount	Off balance sheet amount			On balance sheet amount	Off balance sheet amount	On balance sheet amount	Off balance sheet amount		
	€m	€m	€m	€m	€m	%	€m	€m	€m	€m	€m	%
1 Central governments or central banks	12,447	—	12,447	—	115	1	7,816	—	7,816	—	134	2
2 Regional governments or local authorities	5	204	5	0	1	20	7	253	7	0	1	20
3 Public sector entities	—	—	—	—	—	—	—	—	—	—	—	—
6 Institutions	—	—	—	—	—	—	—	—	—	—	—	—
7 Corporates	8,229	2,681	8,229	546	8,775	100	7,146	2,009	7,146	459	7,605	100
8 Retail	5,059	3,773	5,059	60	3,839	75	4,934	4,146	4,934	61	3,746	75
9 Secured by mortgages on immovable property ⁽¹⁾	17,019	915	17,019	353	9,699	56	16,714	951	16,714	357	9,601	56
10 Exposures in default	1,167	59	1,167	15	1,389	118	2,213	58	2,213	16	2,749	123
11 Exposures associated with particularly high risk	997	532	997	222	1,828	150	958	581	958	243	1,802	150
15 Equity	253	—	253	—	412	163	136	—	136	—	306	225
16 Other	3,131	—	3,131	—	1,077	34	3,090	—	3,090	—	741	24
17 Total	48,307	8,164	48,307	1,196	27,135	55	43,014	7,998	43,014	1,136	26,685	60

⁽¹⁾ Included in 'Secured by mortgages on immovable property' are exposures in EBS Mortgage Finance which is no longer considered a significant subsidiary.

Table 24: EU CR5 – Credit risk exposure class and risk-weights

The table below analyses exposures at default (EAD) under the standardised approach by risk weight, split by exposure class. All amounts presented are post CRM and CCF and net of impairment provisions but exclude counterparty credit risk. The main movement between periods is noted in Table 9 on page 22.

		31 December 2019																	
		Risk weight																	
		0 %	2 %	4 %	10 %	20 %	35 %	50 %	70 %	75 %	100 %	150 %	250 %	370 %	1250 %	Others	Deducted	Total	of which unrated
1	Central governments or central banks	12,401	—	—	—	—	—	—	—	—	—	46	—	—	—	—	—	12,447	—
2	Regional governments or local authorities	—	—	—	—	5	—	—	—	—	—	—	—	—	—	—	—	5	5
3	Public sector entities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
6	Institutions	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
7	Corporates	—	—	—	—	—	—	—	—	8,775	—	—	—	—	—	—	—	8,775	8,775
8	Retail	—	—	—	—	—	—	—	5,119	—	—	—	—	—	—	—	—	5,119	5,119
9	Secured by mortgages on immovable property	—	—	—	—	11,805	—	—	—	5,567	—	—	—	—	—	—	—	17,372	17,372
10	Exposures in default	—	—	—	—	—	—	—	—	767	415	—	—	—	—	—	—	1,182	1,182
11	Exposures associated with particularly high risk	—	—	—	—	—	—	—	—	—	1,219	—	—	—	—	—	—	1,219	1,219
15	Equity	—	—	—	—	—	—	—	—	147	—	106	—	—	—	—	—	253	253
16	Other	1,993	—	—	—	76	—	—	—	1,062	—	—	—	—	—	—	2,163	5,294	5,294
17	Total	14,394	—	—	—	81	11,805	—	—	5,119	16,318	1,634	152	—	—	—	2,163	51,666	39,219

		31 December 2018																	
		Risk weight																	
		0 %	2 %	4 %	10 %	20 %	35 %	50 %	70 %	75 %	100 %	150 %	250 %	370 %	1250 %	Others	Deducted	Total	of which unrated
1	Central governments or central banks	7,762	—	—	—	—	—	—	—	—	—	54	—	—	—	—	—	7,816	—
2	Regional governments or local authorities	—	—	—	—	7	—	—	—	—	—	—	—	—	—	—	—	7	7
3	Public sector entities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
6	Institutions	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
7	Corporates	—	—	—	—	—	—	—	—	7,605	—	—	—	—	—	—	—	7,605	7,605
8	Retail	—	—	—	—	—	—	—	4,995	—	—	—	—	—	—	—	—	4,995	4,995
9	Secured by mortgages on immovable property	—	—	—	—	11,493	—	—	—	5,578	—	—	—	—	—	—	—	17,071	17,071
10	Exposures in default	—	—	—	—	—	—	—	—	1,189	1,040	—	—	—	—	—	—	2,229	2,229
11	Exposures associated with particularly high risk	—	—	—	—	—	—	—	—	—	1,201	—	—	—	—	—	—	1,201	1,201
15	Equity	—	—	—	—	—	—	—	—	23	—	113	—	—	—	—	—	136	136
16	Other	2,223	—	—	—	157	—	—	—	710	—	—	—	—	—	—	1,944	5,034	5,034
17	Total	9,985	—	—	—	164	11,493	—	—	4,995	15,105	2,241	167	—	—	—	1,944	46,094	38,278

Table 25: Total exposures pre CRM and CCF split by credit quality assessment step – standardised approach

	31 December 2019							
	Standard and Poor's (ECAI 1)	Moody's (ECAI 2)	Fitch (ECAI 3)	DBRS (ECAI 4)	Credit quality assessment steps	Total rated	Total unrated	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Central governments and central banks	—	—	—	—	12,447	12,447	—	12,447
Regional governments or local authorities	—	—	—	—	—	—	209	209
Public sector entities	—	—	—	—	—	—	—	—
Institutions	—	—	—	—	—	—	—	—
Corporates	—	—	—	—	—	—	10,910	10,910
Retail	—	—	—	—	—	—	8,832	8,832
Secured by mortgages on immovable property	—	—	—	—	—	—	17,934	17,934
Exposures in default	—	—	—	—	—	—	1,226	1,226
Exposures associated with particularly high risk	—	—	—	—	—	—	1,529	1,529
Equity	—	—	—	—	—	—	253	253
Other Items	—	—	—	—	—	—	3,131	3,131
Total	—	—	—	—	12,447	12,447	44,024	56,471

	31 December 2018							
	Standard and Poor's (ECAI 1)	Moody's (ECAI 2)	Fitch (ECAI 3)	DBRS (ECAI 4)	Credit quality assessment steps	Total rated	Total unrated	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Central governments and central banks	—	—	—	—	7,816	7,816	—	7,816
Regional governments or local authorities	—	—	—	—	—	—	260	260
Public sector entities	—	—	—	—	—	—	—	—
Institutions	—	—	—	—	—	—	—	—
Corporates	—	—	—	—	—	—	9,155	9,155
Retail	—	—	—	—	—	—	9,080	9,080
Secured by mortgages on immovable property	—	—	—	—	—	—	17,665	17,665
Exposures in default	—	—	—	—	—	—	2,271	2,271
Exposures associated with particularly high risk	—	—	—	—	—	—	1,539	1,539
Equity	—	—	—	—	—	—	136	136
Other Items	—	—	—	—	—	—	3,090	3,090
Total	—	—	—	—	7,816	7,816	43,196	51,012

Table 26: Total exposures pre CRM and CCF split by external rating and credit quality assessment step

	31 December 2019								
	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Total rated	Total unrated	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m
Central governments and central banks	—	12,447	—	—	—	—	12,447	—	12,447
Regional governments or local authorities	—	—	—	—	—	—	—	209	209
Public sector entities	—	—	—	—	—	—	—	—	—
Institutions	—	—	—	—	—	—	—	—	—
Corporates	—	—	—	—	—	—	—	10,910	10,910
Retail	—	—	—	—	—	—	—	8,832	8,832
Secured by mortgages on immovable property	—	—	—	—	—	—	—	17,934	17,934
Exposures in default	—	—	—	—	—	—	—	1,226	1,226
Exposures associated with particularly high risk	—	—	—	—	—	—	—	1,529	1,529
Equity	—	—	—	—	—	—	—	253	253
Other Items	—	—	—	—	—	—	—	3,131	3,131
Total	—	12,447	—	—	—	—	12,447	44,024	56,471

	31 December 2018								
	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Total rated	Total unrated	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m
Central governments and central banks	—	7,816	—	—	—	—	7,816	—	7,816
Regional governments or local authorities	—	—	—	—	—	—	—	260	260
Public sector entities	—	—	—	—	—	—	—	—	—
Institutions	—	—	—	—	—	—	—	—	—
Corporates	—	—	—	—	—	—	—	9,155	9,155
Retail	—	—	—	—	—	—	—	9,080	9,080
Secured by mortgages on immovable property	—	—	—	—	—	—	—	17,665	17,665
Exposures in default	—	—	—	—	—	—	—	2,271	2,271
Exposures associated with particularly high risk	—	—	—	—	—	—	—	1,539	1,539
Equity	—	—	—	—	—	—	—	136	136
Other Items	—	—	—	—	—	—	—	3,090	3,090
Total	—	7,816	—	—	—	—	7,816	43,196	51,012

The following ratings apply to the credit quality assessment steps:

Credit quality assessment step 1: AAA to AA (S&P/ Fitch / DBRS); Aaa to Aa3 (Moody's)

Credit quality assessment step 2: A+ to A- (S&P/ Fitch / DBRS); A1 to A3 (Moody's)

Credit quality assessment step 3: BBB+ to BBB- (S&P/ Fitch / DBRS); Baa1 to Baa3 (Moody's)

Credit quality assessment step 4: BB+ to BB- (S&P/ Fitch / DBRS); Ba1 to Ba3 (Moody's)

Credit quality assessment step 5: B+ to B- (S&P/ Fitch / DBRS); B1 to B3 (Moody's)

Credit quality assessment step 6: CCC+ and below (S&P/ Fitch / DBRS); Caa1 and below (Moody's).

Chapter 6. Credit risk mitigation

The strength of a borrower's repayment capacity is the primary factor in granting a loan. The Group uses various approaches to help mitigate risks relating to individual credits including: transaction structure; collateral; and guarantees. Collateral or guarantees are usually required as a secondary source of repayment in the event of the borrower's default. The main types of collateral for loans and advances to customers are described below. Credit policy and credit management standards are controlled and set centrally by the credit risk function.

The methodologies applied and processes used to assess the value of property assets taken as collateral are described on pages 84 and 85 of the Annual Financial Report 2019.

Collateral

The principal collateral types for loans and advances are:

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

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

Further details on collateral are set out in the 'Risk management' section of the Annual Financial Report 2019 on pages 84 and 85, which describes the methodologies used for valuing collateral. Further information in relation to repurchase transactions is set out in Chapter 8 of this report – Counterparty credit risks on pages 74 to 82.

Credit risk mitigation for regulatory capital requirements calculation

For non-retail foundation IRB exposures, supervisory LGDs are used for minimum regulatory capital requirement calculation purposes as is required under the CRR. These LGDs are either applied directly to obligors, or are reduced through the recognition of the risk-mitigating impact of qualifying collateral held. The Group takes account of collateral as a credit risk mitigant for a specific hotel portfolio within corporate exposure class.

For counterparty credit risk, the Group uses eligible financial collateral for derivatives and securities financing transactions as outlined in Table 49 on page 80 of this report.

⁽¹⁾ Gross exposures are presented before provisions for impairment, credit risk mitigation and credit conversion factors. Gross exposures also include counterparty credit risk and securitisation exposures.

Table 27: EU CR3 CRM techniques overview

This table includes all collateral, financial guarantees and credit derivatives used as credit risk mitigants for all secured exposures, irrespective of whether the standardised approach or the IRB approach is used for RWA calculation. Any secured exposures by collateral or financial guarantees (eligible or not eligible as CRM techniques under Part Three, Title II, Chapter 4 of the CRR) have been disclosed.

Note the table below is per the Consultation Paper Draft Implementing Technical Standards on public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 (EBA-CP-2019-09).

	31 December 2019				
	Unsecured carrying amount	Secured carrying amount			
			Of which secured by collateral	Of which secured by financial guarantees	
				Of which secured by credit derivatives	
	€m	€m	€m	€m	€m
Loans and advances	33,790	41,237	41,063	174	—
Debt securities	15,362	1,317	1,317	—	
Total	49,152	42,554	42,380	174	—
Of which non-performing exposures	1,199	2,163	2,145	18	—
Of which defaulted	1,199	2,163			

Chapter 7. Credit risk - credit profile of exposures

AIB's customer loan portfolio comprises loans (including overdrafts), instalment credit and finance lease receivables. The credit quality of the customer loan portfolio is discussed in detail on pages 101 to 129 of the Annual Financial Report 2019. AIB's debt securities portfolio comprises mainly government and bank securities.

Non-performing/default

On 1 January 2018, the Group introduced a new definition of default aligned with the EBA 'Guidelines on the application of the definition of default' under Article 178 of Capital Requirements Regulation and ECB Banking Supervision Guidance to Banks on Non-performing loans. The Group has aligned the definitions of 'non-performing', 'classification of default' and IFRS 9 Stage 3 'credit impaired', with the exception of those loans which have been derecognised and newly originated in Stage 1 or Purchased or Originated Credit Impaired ("POCI").

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

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

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

Non-performing loans that have received a concession from the Group on terms or conditions will remain in the non-performing probationary period for a minimum of 12 months, and are subject to meeting defined probation criteria before moving to a performing classification.

For regulatory reporting purposes, the Group discloses details of its non-performing exposures as defined under regulatory and EBA implementing technical standards.

Details on the Group's non-performing exposures are disclosed on page 105 of the Annual Financial Report 2019.

Impairment

The Group implemented IFRS 9 at 1 January 2018. The IFRS 9 PD modelling approach uses a combination of rating grades and scores obtained from these credit risk models along with key factors such as age of an account, the current/recent arrears status or the current/recent forbearance status and macro-economic factors to obtain the relevant 12 month (Stage 1) and Lifetime (Stage 2) PD. The Group has set out the methodologies used and judgements exercised in determining its expected credit loss ("ECL") allowance for the year to 31 December 2019 on pages 88 to 98 in the Annual Financial Report 2019.

Table 28: EU CR1–A – Credit quality of exposures by exposure class and instrument

The table below presents an overview of the credit quality of on-balance sheet and off-balance sheet exposures by exposure class. The gross carrying value of exposures presented in this table is before the application of: a) credit risk mitigation; b) credit conversion factors; and c) ECL provisions under IFRS 9. The main movement between periods is noted in Table 9 on page 22.

	31 December 2019							31 December 2018						
	Gross carrying value of ⁽¹⁾							Gross carrying value of ⁽¹⁾						
	Defaulted Exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges/ (credit) in the period	Net Values ⁽²⁾	Defaulted Exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges/ (credit) in the period	Net Values ⁽²⁾
€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
1 Central governments and central banks	—	7,645	—	—	—	—	7,645	—	8,462	—	—	—	—	8,462
2 Institutions	—	7,492	—	—	—	—	7,492	—	6,436	—	—	—	—	6,436
3 Corporates	204	15,429	157	—	164	(16)	15,476	612	14,378	343	—	504	10	14,647
4 Of which: Specialised lending	9	839	2	—	—	—	846	10	525	2	—	—	—	533
5 SMEs	135	3,936	112	—	119	(17)	3,959	525	4,199	298	—	392	18	4,426
6 Retail	1,045	18,174	262	—	294	(2)	18,957	1,478	18,178	348	—	400	(89)	19,308
7 property	1,045	18,174	262	—	0	0	18,957	1,478	18,178	348	—	—	—	19,308
Non-credit obligation assets	0	15	—	—	0	0	15	—	17	—	—	—	—	17
15 Total IRB approach	1,249	48,755	419	—	458	(18)	49,585	2,090	47,471	691	—	904	(79)	48,870
16 Central governments and central banks	—	12,447	—	—	—	—	12,447	—	7,816	—	—	—	—	7,816
17 authorities	—	209	—	—	—	—	209	—	260	—	—	—	—	260
22 Corporates ⁽³⁾	235	10,967	57	—	—	(4)	10,910	498	9,232	77	—	—	109	9,155
24 Retail ⁽³⁾	396	8,932	100	—	—	(17)	8,832	586	9,246	166	—	—	(31)	9,080
26 property ⁽³⁾	979	18,018	84	—	—	(24)	17,934	1,905	17,750	85	—	—	(82)	17,665
28 Exposures in default	1,610	—	384	—	1,113	107	1,226	2,989	—	718	—	1,642	(91)	2,271
29 risk	113	1,461	45	—	348	(28)	1,529	321	1,353	135	—	868	(30)	1,539
33 Equity exposures	—	253	—	—	—	—	253	—	136	—	—	—	—	136
34 Other exposures	—	3,131	—	—	—	—	3,131	—	3,090	—	—	—	—	3,090
35 Total standardised approach	1,723	55,418	670	—	1,461	34	56,471	3,310	48,883	1,181	—	2,510	(125)	51,012
36 Total ⁽⁴⁾	2,972	104,173	1,089	—	1,919	16	106,056	5,400	96,354	1,872	—	3,414	(204)	99,882
37 Of which: Loans	2,846	70,076	1,055	—	1,919	27	71,867	5,242	68,492	1,822	—	3,414	(209)	71,912
38 Debt securities	—	21,973	—	—	—	—	21,973	—	16,133	—	—	—	—	16,133
39 Off-balance sheet exposures	126	12,124	34	—	—	(11)	12,216	158	11,729	50	—	—	5	11,837

⁽¹⁾ Excludes securitisations of € 922 million (2018: € 555 million) and counterparty credit risk amounting to € 12,185 million (2018: € 7,752 million).

⁽²⁾ Gross carrying value minus specific credit risk adjustment.

⁽³⁾ Defaulted exposures are broken down into the exposure class that corresponds to the exposure before default.

⁽⁴⁾ Total IFRS 9 ECLs amount to € 1,280 million of which € 1,089 million is reported to the Regulator, including IFRS 9 transitional scalars.

Table 29: EU CR1–B – Credit quality of exposures by industry or counterparty types

The table below presents an overview of the credit quality of on-balance sheet and off-balance sheet exposures by industry. The main movement between periods is noted in Table 9 on page 22.

	31 December 2019							31 December 2018						
	Gross carrying value of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write - offs	Credit risk adjustment charges/ (credit) in the period	Net Values	Gross carrying value of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write - offs	Credit risk adjustment charges/ (credit) in the period	Net Values
	Defaulted Exposures	Non-defaulted exposures						Defaulted Exposures	Non-defaulted exposures					
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Agriculture	58	2,399	35	—	48	(16)	2,422	139	2,305	63	—	104	(15)	2,381
Energy	14	2,289	6	—	13	(3)	2,297	24	1,674	13	—	28	9	1,685
Manufacturing	60	4,908	34	—	27	12	4,934	42	4,243	47	—	82	10	4,238
Property	310	6,770	104	—	330	(5)	6,976	1,129	6,656	301	—	758	(12)	7,484
Construction	130	1,512	64	—	300	(46)	1,578	349	1,426	148	—	689	(111)	1,627
Distribution	149	6,155	109	—	170	(41)	6,195	416	6,155	264	—	406	(5)	6,307
Transport and communication	36	2,487	12	—	16	14	2,511	18	2,201	13	—	21	(1)	2,206
Financial	3	2,181	5	—	2	—	2,179	31	1,463	9	—	4	(1)	1,485
Other services	109	8,183	94	—	92	(1)	8,198	213	7,730	180	—	179	15	7,763
Home loans	1,927	30,764	489	—	738	93	32,202	2,734	30,530	628	—	775	(84)	32,636
Other loans personal	176	5,593	137	—	183	9	5,632	305	5,907	206	—	338	(11)	6,006
Bank, sovereign and public sector	—	27,801	—	—	—	—	27,801	—	22,974	—	—	—	—	22,974
Other	—	3,131	—	—	—	—	3,131	—	3,090	—	—	30	2	3,090
Total	2,972	104,173	1,089	—	1,919	16	106,056	5,400	96,354	1,872	—	3,414	(204)	99,882

Table 30: EU CR1–C – Credit quality of exposures by geography

The table below presents an overview of the credit quality of on-balance sheet and off-balance sheet exposures by geography ⁽¹⁾. The main movement between periods is noted in Table 9 on page 22.

		31 December 2019						31 December 2018							
		Gross carrying value of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges/ (credit) in the period	Net Values	Gross carrying value of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges/ (credit) in the period	Net Values
		Defaulted Exposures	Non-defaulted exposures						Defaulted Exposures	Non-defaulted exposures					
		€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
1	Ireland	2,686	70,963	956	—	1,817	(21)	72,693	5,015	64,850	1,650	—	3,380	(235)	68,215
2	United Kingdom	270	17,953	106	—	61	14	18,117	307	17,203	184	—	12	15	17,326
3	United States of America	1	4,116	14	—	16	19	4,103	2	3,966	2	—	16	—	3,966
4	Rest of the World ⁽²⁾	15	10,772	13	—	25	4	10,774	76	9,779	36	—	6	16	9,819
10	Other Geographical Areas ⁽³⁾	—	369	—	—	—	—	369	—	556	—	—	—	—	556
11	Total	2,972	104,173	1,089	—	1,919	16	106,056	5,400	96,354	1,872	—	3,414	(204)	99,882

⁽¹⁾ The geographical breakdown is based on residence of the immediate counterparty.

⁽²⁾ For 2019, Rest of the World comprises less than 2% of the total exposures and comprises predominantly France, Canada, Spain, Netherlands, Australia, Sweden, Luxembourg, Italy, Germany and Belgium.

⁽³⁾ Other Geographical Areas contains all exposures with EU supranational organisations.

Measurement of credit risk

Use of PD, LGD, and EAD within regulatory capital

The Group uses a combination of standardised and internal ratings based (“IRB”) approaches for the calculation of regulatory capital. Under the standardised approach, regulatory risk weightings are determined on a fixed percentage basis, depending on the portfolios, as specified in the relevant regulations. The Group has regulatory approval to use certain of its internal credit models in the calculation of its capital requirements.

Non-retail

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

Retail

For retail exposures, the advanced IRB approach is adopted for Irish residential mortgages (excluding EBS mortgages) where the Group uses its own estimates of PD, LGD and EAD. PDs and LGDs are calibrated on the basis of internal data. The Group has a formalised governance framework around the internal ratings process. Each rating model is subject to an annual validation process undertaken by an independent validation team.

Table 31: Distribution of outstanding non-defaulted credit exposures to customers for IRB portfolios by classification in the Annual Financial Report 2019

The table below shows the distribution of outstanding non-defaulted credit exposures to customers in terms of EAD, PD, LGD and EL for IRB portfolios at 31 December 2019 and 2018. The EAD is the gross exposure after taking account of CRM and CCF and net of credit impairment provisions.

	31 December 2019				31 December 2018			
	EAD	Average PD	Average LGD	EL ⁽¹⁾	EAD	Average PD	Average LGD	EL ⁽¹⁾
	€m	(%)	(%)	€m	€m	(%)	(%)	€m
Residential mortgages	17,943	0.48	27.62	35	17,977	0.62	27.72	46
Owner occupiers	16,041	0.48	27.54	29	15,803	0.60	27.53	36
Buy to let properties	1,903	0.54	28.35	6	2,174	0.75	29.08	10
Corporate	10,505	0.55	44.73	31	9,295	0.70	45.23	35
SME	3,472	2.84	44.14	49	3,708	3.26	45.02	56
Total	31,921	0.76	35.05	114	30,980	0.96	35.04	137

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

Table 32: EU CR2–B – Changes in the stock of defaulted and impaired loans and debt securities

The table below presents the changes in the stock of defaulted loans and debt securities.

	31 December 2019	31 December 2018
	Gross carrying value ⁽¹⁾ defaulted exposures	Gross carrying value ⁽¹⁾ defaulted exposures
	€m	€m
1 Opening balance	6,054	9,612
2 Loans that have defaulted or impaired since the last reporting period	973	2,322
3 Returned to non-defaulted status	(722)	(2,727)
4 Amounts written off	(362)	(1,029)
5 Other changes ⁽²⁾	(2,596)	(2,124)
6 Closing balance	3,347	6,054

⁽¹⁾ Gross carrying value represents that used for financial reporting purposes in the Annual Financial Report 2019.

⁽²⁾ Other changes include the disposal of distressed loan portfolios, accounts that were closed or cleared and balance decreases.

Table 33: EU CR2-A – Changes in the stock of general and specific credit risk adjustments

The tables below present the movements in accumulated credit risk adjustments held against loans and advances to customers which have been reported on an accounting basis. Since year ending 31 December 2019, this has been prepared under IFRS 9 and includes expected credit losses on both non credit impaired and credit impaired loans.

	31 December 2019		31 December 2018	
	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
	€ m	€ m	€ m	€ m
At 31 December 2017 (IAS 39)	—	—	3,345	—
Impact of adopting IFRS 9 at 1 January 2018	—	—	271	—
1 Opening balance	2,039	—	3,616	—
2 Increases due to amounts set aside for estimated loan losses during the period and decreases due to amounts reversed for estimated loan losses during the period	117	—	(89)	—
4 Decreases due to amounts taken against accumulated credit risk adjustments	(362)	—	(1,029)	—
6 Impact of exchange rate differences	9	—	(1)	—
7 Disposals	(565)	—	(472)	—
8 Other adjustments	—	—	14	—
9 Closing balance ⁽¹⁾	1,238	—	2,039	—
10 Recoveries on credit risk adjustments recorded directly to the income statement	(90)	—	(120)	—
11 Specific credit risk adjustments recorded directly to the income statement	—	—	—	—

⁽¹⁾ Excludes specific credit risk adjustments for AIB Group of € 42 million on off-balance sheet items at 31 December 2019 (31 December 2018: € 58 million).

At 31 December 2019, the expected credit loss allowances based on permitted regulatory calculations totalled € 1,089 million (2018: € 1,872 million). Total Group expected credit loss allowances on loans and advances to customers under IFRS 9 was € 1,238 million (2018: € 2,039 million).

The reduction in ECL allowances was driven by disposals of € 565 million and loan write-offs of € 362 million. This was slightly offset by a € 117 million charge on the on-balance sheet exposures (loans to customers).

The income statement net credit impairment charge of € 16 million in 2019 (2018: € 203 million writeback) in respect of loans to customers comprised the € 117 million charge noted above, which was offset by recoveries of amounts previously written-off of € 90 million (2018: € 120 million) and a € 11 million writeback for off-balance sheet exposures (2018: € 6 million charge).

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

As disclosed under the management judgements section on pages 97 to 98 of the Annual Financial Report 2019, the impact of the post model adjustments on the mortgage portfolio allowance resulted in a charge of € 82 million. The post model adjustment in relation to the syndicated lending portfolio resulted in a charge of € 16 million.

Enhancements in 2019 to the retail asset finance LGD model and the retail loans and overdrafts PD model resulted in a € 33 million writeback. Changes to the macroeconomic factors and probability weightings, excluding their impacts in post model adjustments, resulted in a € 46 million charge. In the first half of 2019, the Group updated the House Price Index forecast to reflect slower anticipated growth which resulted in a € 23 million charge. In the second half of 2019, a fourth macroeconomic scenario was introduced to reflect a global slowdown accordingly, the probability weightings across the scenarios were changed, details of which are set out on pages 93 to 95 of the Annual Financial Report, and resulted in a charge of € 23 million.

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

In 2019, write-offs amounted to € 362 million (2018: € 1,029 million).

When the prospects of recovering a loan, either partially or fully, do not improve, a point will come when it will be concluded that as there is no realistic prospect of recovery, the loan and any related ECL will be written-off. The Group determines, based on specific criteria, the point at which there is no reasonable expectation of recovery, e.g. inception of formal insolvency proceedings or receivership/other formal recovery action. This is considered on a case-by-case basis. The reduced loan balance remains on the balance sheet as non-performing.

In addition, write-offs may reflect restructuring activity with customers who are subject to the terms of a revised loan agreement and subsequent satisfactory performance.

Where there is no formal debt forgiveness agreed with the customer, the Group may write-off a loan either partially or fully when there is no reasonable expectation of recovery. This is considered a non-contracted write-off. In this case, the borrower remains fully liable for the credit obligation and is not advised of the write-off. Debt forgiveness arises where there is a formal contract agreed with the customer for the write-off of a loan.

In 2019, the Group disposed of some portfolios of distressed non-performing loans on which there were ECL allowances of € 565 million.

Loss experience in the preceding period – IRB approach

An analysis of the expected loss (“EL”) and actual loss experience (net credit impairment loss incurred) by exposure class for the year ended 31 December 2019 is outlined in Table 34 below.

Regulatory EL provides a view of the expected losses that are likely to emerge in the non-defaulted loan book over a 12 month period, using through-the-cycle estimates of PD, and downturn estimates of LGD. In order to compare the expected loss to the actual loss, these estimates would need to be compared to all realised losses which may have materialised after the assets have gone through their life cycle. As life cycles last for a significant number of years, it is not possible to show this comparison. Additionally, the actual asset loss information does not provide a suitable alternative because it is measured at a point in time. This should be taken into consideration with regard to Table 34 below.

The EL would generally expect to be higher than the actual loss in periods of low defaults and vice versa in periods of high default.

Provisions have returned to lower levels over the recent period, and in some cases reflect writebacks, which drives an EL which is higher than provisions in more recent years.

Table 34: Expected loss analysis – IRB approach

Exposure Class	31 December 2019		31 December 2018	
	Expected Loss ⁽¹⁾ €m	Actual (Writeback) / Loss €m	Expected Loss ⁽¹⁾ €m	Actual Loss / (writeback) €m
Institutions	—	—	—	—
Corporates	88	(43)	98	40
Retail exposures secured by immovable property collateral non-SME	46	8	56	(21)
Securitisation positions ⁽²⁾	—	—	—	—
	134	(35)	154	19

⁽¹⁾ Expected loss is derived at the end of the preceding year.

⁽²⁾ Under the IRB approach, rating agency ratings, as opposed to EL, are used in the determination of capital for securitisation positions. For this reason, AIB Group does not calculate EL for securitisation positions.

The income statement net credit impairment charge for the year ended 31 December 2019, of which the actual writeback on the IRB approach is a component, is discussed further in the “Risk management” section of the Annual Financial Report 2019.

Table 35: Credit quality of forborne exposures

The table below presents the gross carrying amount of forborne exposures and the related accumulated impairment, provisions, accumulated change in fair value due to credit risk, and collateral and financial guarantees received, according to the scope of regulatory consolidation.

	31 December 2019							
	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
		€m	Of which defaulted	Of which impaired				
Loans and advances	1,176	2,287	2,287	2,263	(65)	(563)	2,469	1,606
Central banks	—	—	—	—	—	—	—	—
General governments	—	—	—	—	—	—	—	—
Credit institutions	—	—	—	—	—	—	—	—
Other financial corporations	1	1	1	1	—	(1)	1	—
Non-financial corporations	396	301	301	281	(39)	(84)	316	159
Households	779	1,985	1,985	1,981	(26)	(478)	2,152	1,447
Debt Securities	—	—	—	—	—	—	—	—
Loan commitments given	18	27	27	27	—	—	—	—
Total	1,194	2,314	2,314	2,290	(65)	(563)	2,469	1,606

Table 36: Quality of forbearance

The table below presents the gross carrying amount of forborne loans and advances exposures, according to the scope of regulatory consolidation.

	31 December 2019
	Gross carrying value of forborne exposures
	€m
Loans and advances that have been forborne more than twice	674
Non-performing forborne loans and advances that failed to meet the non-performing exit criteria	109

Table 37: Credit quality of performing and non-performing exposures by past due days

The table below presents the gross carrying amount of performing and non-performing exposures according to the scope of regulatory consolidation.

	31 December 2019											
	----- carrying											
	Performing exposures			Non-performing exposures								
	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted	
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	
Loans and advances	71,663	71,537	126	3,363	1,724	202	221	211	351	233	421	3,363
Central banks	11,790	11,790	—	—	—	—	—	—	—	—	—	—
General governments	27	27	—	—	—	—	—	—	—	—	—	—
Credit institutions	1,008	1,008	—	—	—	—	—	—	—	—	—	—
Other financial corporations	770	770	—	4	1	—	1	—	—	—	2	4
Non-financial corporations	25,514	25,492	22	779	507	33	33	33	49	24	100	779
Of which SMEs	10,878	10,859	19	487	312	27	22	25	28	11	62	487
Households	32,554	32,450	104	2,580	1,216	169	187	178	302	209	319	2,580
Debt securities	16,680	16,680	—	—	—	—	—	—	—	—	—	—
Central banks	—	—	—	—	—	—	—	—	—	—	—	—
General governments	7,803	7,803	—	—	—	—	—	—	—	—	—	—
Credit institutions	7,262	7,262	—	—	—	—	—	—	—	—	—	—
Other financial corporations	1,100	1,100	—	—	—	—	—	—	—	—	—	—
Non-financial corporations	515	515	—	—	—	—	—	—	—	—	—	—
Off-balance-sheet exposures	12,088	—	—	162	—	—	—	—	—	—	—	162
Central banks	—	—	—	—	—	—	—	—	—	—	—	—
General governments	230	—	—	—	—	—	—	—	—	—	—	—
Credit institutions	136	—	—	—	—	—	—	—	—	—	—	—
Other financial corporations	363	—	—	—	—	—	—	—	—	—	—	—
Non-financial corporations	7,520	—	—	137	—	—	—	—	—	—	—	137
Households	3,839	—	—	25	—	—	—	—	—	—	—	25
Total	100,431	88,217	126	3,525	1,724	202	221	211	351	233	421	3,525

Table 38: Performing and non-performing exposures and related provisions.

The table below presents gross carrying amount of performing and non-performing exposures and the related accumulated impairment, provisions, accumulated change in fair value due to credit risk, accumulated partial write-off, and collateral and financial guarantees received, according to the scope of regulatory consolidation.

													31 December 2019		
	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
	€m	Of which stage 1 €m	Of which stage 2 €m	€m	Of which stage 2 €m	Of which stage 3 €m	€m	Of which stage 1 €m	Of which stage 2 €m	€m	Of which stage 2 €m	Of which stage 3 €m	€m		
Loans and advances	71,663	67,656	4,007	3,363	—	3,338	(340)	(137)	(203)	(899)	—	(895)	(1,919)	39,074	2,164
Central banks	11,790	11,790	—	—	—	—	—	—	—	—	—	—	—	—	—
General governments	27	18	9	—	—	—	(1)	—	(1)	—	—	—	—	—	—
Credit institutions	1,008	1,008	—	—	—	—	—	—	—	—	—	—	—	—	—
Other financial corporations	770	761	9	4	—	3	(4)	(3)	(1)	(2)	—	(2)	(2)	58	1
Non-financial corporations	25,514	24,022	1,492	779	—	759	(205)	(102)	(103)	(258)	—	(254)	(969)	10,007	331
Of which SMEs	10,878	10,078	800	487	—	474	(128)	(62)	(66)	(168)	—	(165)	(614)	6,048	225
Households	32,554	30,057	2,497	2,580	—	2,576	(130)	(32)	(98)	(639)	—	(639)	(948)	29,009	1,832
Debt securities	16,680	16,680	—	—	—	—	(3)	(3)	—	—	—	—	—	—	—
Central banks	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
General governments	7,803	7,803	—	—	—	—	(2)	(2)	—	—	—	—	—	—	—
Credit institutions	7,262	7,262	—	—	—	—	(1)	(1)	—	—	—	—	—	—	—
Other financial corporations	1,100	1,100	—	—	—	—	—	—	—	—	—	—	—	—	—
Non-financial corporations	515	515	—	—	—	—	—	—	—	—	—	—	—	—	—
Off-balance-sheet exposures	12,088	11,755	333	162	—	162	(22)	(13)	(9)	(19)	—	(19)	—	—	—
Central banks	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
General governments	230	230	—	—	—	—	—	—	—	—	—	—	—	—	—
Credit institutions	136	136	—	—	—	—	—	—	—	—	—	—	—	—	—
Other financial corporations	363	363	—	—	—	—	—	—	—	—	—	—	—	—	—
Non-financial corporations	7,520	7,345	175	137	—	137	(17)	(11)	(6)	(19)	—	(19)	—	—	—
Households	3,839	3,681	158	25	—	25	(5)	(2)	(3)	—	—	—	—	—	—
Total	100,431	96,091	4,340	3,525	—	3,500	(365)	(153)	(212)	(918)	—	(914)	(1,919)	39,074	2,164

Table 39: Quality of non-performing exposures by geography

The table below presents gross carrying amount of performing and non-performing exposures and the related accumulated impairment, provisions and accumulated change in fair value due to credit risk, according to the scope of regulatory consolidation.

31 December 2019

	Gross carrying/nominal amount			Of which subject to impairment	Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
	Of which non-performing		Of which defaulted				
	€m	€m					
On-balance-sheet exposures	91,705	3,362	3,362	91,629	(1,241)		—
Republic of Ireland	60,139	3,025	3,025	60,062	(1,083)		—
United Kingdom	15,915	311	311	15,915	(128)		—
United States of America	4,433	3	3	4,433	(14)		—
Other countries	11,218	23	23	11,219	(16)		—
Off-balance-sheet exposures	12,250	162	162			42	
Republic of Ireland	9,561	142	142			34	
United Kingdom	2,215	19	19			7	
United States of America	104	—	—			—	
Other countries	370	1	1			1	
Total	103,955	3,524	3,524	91,629	(1,241)	42	—

Table 40: Credit quality of loans and advances by industry

The table below presents gross carrying amount of loans and advances to non-financial corporations and the related accumulated impairment and accumulated change in fair value due to credit risk, according to the scope of regulatory consolidation.

31 December 2019

	Gross carrying amount			Of which loans and advances subject to impairment	Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
	Of which non-performing		Of which defaulted			
	€m	€m				
Agriculture, forestry and fishing	1,726	78	78	1,726	(39)	—
Mining and quarrying	52	4	4	52	(2)	—
Manufacturing	3,146	55	55	3,146	(41)	—
Electricity, gas, steam and air conditioning supply	1,294	—	—	1,294	(4)	—
Water supply	166	3	3	166	(2)	—
Construction	1,119	72	72	1,119	(48)	—
Wholesale and retail trade	2,016	122	122	2,016	(61)	—
Transport and storage	1,170	30	30	1,170	(12)	—
Accommodation and food service activities	3,285	59	59	3,285	(63)	—
Information and communication	1,102	6	6	1,102	(8)	—
Financial and insurance activities	—	—	—	—	—	—
Real estate activities	6,100	275	275	6,024	(126)	—
Professional, scientific and technical activities	672	27	27	672	(15)	—
Administrative and support service activities	585	10	10	585	(12)	—
Public administration and defense, compulsory social security	—	—	—	—	—	—
Education	416	6	6	416	(1)	—
Human health services and social work activities	1,742	14	14	1,742	(12)	—
Arts, entertainment and recreation	628	3	3	628	(4)	—
Other services	1,074	15	15	1,074	(13)	—
Total	26,293	779	779	26,217	(463)	—

Table 41: Collateral valuation - loans and advances

The table below presents gross carrying amount on loans and advances and the related accumulated impairment, collateral and financial guarantees received, and partial write-offs, according to the scope of regulatory consolidation.

	Gross carrying amount												31 December 2019
	Performing			Non-performing									
			Of which past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days							
						Of which past due > 90 days ≤ 180 days	Of which: past due > 180 days ≤ 1 year	Of which: past due > 1 years ≤ 2 years	Of which: past due > 2 years ≤ 5 years	Of which: past due > 5 years ≤ 7 years	Of which: past due > 7 years		
€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	
Loans and advances	75,026	71,664	126	3,362	1,724	1,638	202	221	211	351	233	420	
Of which secured	42,901	40,058	88	2,843	1,481	1,362	164	163	155	297	214	370	
Of which secured with immovable property	30,842	28,592	71	2,250	1,102	1,148	137	138	136	252	194	291	
Of which instruments with LTV higher than 60% and lower or equal to 80%	8,456	7,956		499	279	220							
Of which instruments with LTV higher than 80% and lower or equal to 100%	4,336	3,935		401	184	217							
Of which instruments with LTV higher than 100%	758	301		457	93	364							
Accumulated impairment for secured assets	(798)	(177)	(5)	(621)	(236)	(385)	(48)	(58)	(61)	(91)	(55)	(72)	
Collateral													
Of which value capped at the value of exposure	41,063	38,919	76	2,144	1,186	958	113	99	93	202	158	293	
Of which immovable property	39,368	37,256	76	2,112	1,165	947	113	97	92	200	155	290	
Of which value above the cap	73,556	68,551	112	5,005	2,384	2,621	241	292	318	677	406	687	
Of which immovable property	67,494	62,692	107	4,802	2,275	2,527	239	287	310	665	385	641	
Financial guarantees received	174	156	—	18	13	5	—	1	—	1	1	2	
Accumulated partial write-off	1,919	—	—	1,919	91	1,828	13	19	37	246	285	1,228	

Table 42: Changes in the stock of non-performing loans and advances

The table below presents movements of gross carrying amounts of non-performing loans and advances during the period.

	31 December 2019	
	Gross carrying amount	Related net accumulated recoveries
	€m	€m
Initial stock of non-performing loans and advances	6,076	
Inflows to non-performing portfolios	675	
Outflows from non-performing portfolios	(3,389)	
Outflow to performing portfolio	(538)	
Outflow due to loan repayment, partial or total	(682)	
Outflow due to collateral liquidations	(103)	—
Outflow due to taking possession of collateral	—	—
Outflow due to sale of instruments	(1,768)	(1,052)
Outflow due to risk transfers	—	—
Outflows due to write-offs	(283)	
Outflow due to other situations	—	
Outflow due to reclassification as held for sale	(15)	
Final stock of non-performing loans and advances	3,362	

Table 43: Collateral obtained by taking possession and execution processes

The table below presents information on the instruments that were cancelled in exchange for the collateral obtained by taking possession and on the value of the collateral obtained by taking possession.

	31 December 2019	
	Collateral obtained by taking possession	
	Value at initial recognition	Accumulated negative changes
	€m	€m
Property, plant and equipment (PP&E)	—	—
Other than PP&E	16	—
Residential immovable property	16	—
Commercial Immovable property	—	—
Movable property (auto, shipping, etc.)	—	—
Equity and debt instruments	—	—
Other	—	—
Total	16	—

Table 44: Collateral obtained by taking possession and execution processes – vintage breakdown

The table below presents information on the instruments that were cancelled in exchange for the collateral obtained by taking possession and on the value of collateral obtained by taking possession.

31 December 2019

	Debt balance reduction		Total collateral obtained by taking possession									
	Gross carrying amount	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Foreclosed ≤ 2 years		Foreclosed > 2 years ≤ 5 years		Foreclosed > 5 years		Of which non-current assets held-for-sale	
					Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes
€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Collateral obtained by taking possession classified as PP&E	—	—	—	—								
Collateral obtained by taking possession other than that classified as PP&E	16	—	16	—	14	—	2	—	—	—	16	—
Residential immovable property	16	—	16	—	14	—	2	—	—	—	16	—
Commercial immovable property	—	—	—	—	—	—	—	—	—	—	—	—
Movable property (auto, shipping, etc.)	—	—	—	—	—	—	—	—	—	—	—	—
Equity and debt instruments	—	—	—	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	—	—	—	—
Total	16	—	16	—	14	—	2	—	—	—	16	—

Chapter 8. Counterparty credit risks

Assigning internal capital and credit limits for counterparty credit exposure

The Group is predominantly exposed to counterparty credit exposure through its portfolio of derivatives and repurchase agreements ('repos').

Derivatives

The credit risk on derivative contracts is the risk that the Group's counterparty in the contract defaults prior to maturity at a time when AIB has a claim on the counterparty under the contract. AIB would then have to replace the contract at the current market rate, which may result in a loss.

The credit exposure on derivatives is managed in the same way as other types of credit exposure. The Group applies the same credit control and risk management policies as relate to counterparty credit approval, limit setting and monitoring procedures.

Counterparty credit exposure ("CCE") consists partly of current replacement cost (or mark-to-market) of the contracts and partly of potential future exposure. The potential future exposure component is an estimation which reflects possible changes in market values during the remaining life of the individual contract. The CCE for an individual counterparty will take into account the existence of valid bilateral netting or collateral agreements, where these are in place.

The Group applies the mark-to-market method for calculating the Pillar 1 capital for derivatives.

Pre-settlement CCE limits must be approved in advance of any transactions being entered into by the appropriate credit approval authority. This forms part of the normal credit management and review process. Settlement and maturity limits must conform to general credit policy requirements. Limits on the maximum residual maturity of derivative activities are governed by individual counterparty maturity constraints.

Those sanctioning CCE limits must be satisfied that they sufficiently understand the risks involved in the proposed transactions and the models used to measure the exposures arising. It is Group practice, where possible and relevant, that all appropriate documentation, such as facility letters or international swaps and derivatives association ("ISDA") agreements be put in place before any limits are made available for use. Further details of master netting agreements are set out in note 46 in the Annual Financial Report 2019.

The Group uses a volatility-based risk weighting for internal purposes to determine potential future exposure values. For derivatives these weightings or add-on-factors, are based on the methodology prescribed by the Basel Committee on Banking Supervision in BCBS 279 "The Standardised approach for Measuring Counterparty Credit Risk Exposures". The methodology is adjusted to reflect AIB's internal risk measurement policy which requires measuring future exposure at a 95% confidence level over the lifetime of the transaction. For Repo transactions, add on factors are derived according to the rating, maturity, currency and type of the underlying collateral. Pre-settlement CCE limits for derivative transactions are established by reference to the specific transaction's add-on-factors equivalent.

Credit Support Annexes ("CSAs") are taken into consideration when setting the internal credit risk utilisation for derivative counterparties. CSAs and netting are not recognised as credit risk mitigation for reducing the exposure at default on the derivative and repo transactions in the Pillar 1 regulatory capital calculations for all customers; netting and CSAs are currently recognised for just 12 bank counterparties.

The Group has established the capacity to clear derivatives in line with European Markets Infrastructure Regulation ("EMIR") requirements for central counterparty clearing. Clearing of certain derivative transactions is now mandatory for AIB under Article 4 of EMIR (clearing obligation). The clearing obligation requires AIB to clear certain derivatives with an authorised central clearing party (termed a 'CCP'; AIB uses LCH SwapClear, Eurex, LCH (SA) for CDS and ICE Clear) which is completed through a 'Clearing Broker'; AIB's clearing brokers are HSBC, BNP and Barclays. Cleared derivatives eliminate exposure to bilateral counterparties, replacing these counterparties with the CCP.

Repurchase agreements

AIB Group is active in repurchase transactions in capital market instruments. This is achieved through repo/reverse repo products (together called repurchase transactions). Repurchase transactions are undertaken on both a bilateral and tri-party basis.

Where appropriate netting documentation is in place, both sets of products also become legally equivalent from a credit mitigation perspective. The Group only engages in such transactions once the appropriate documentation has been executed. The transactions are executed by authorised personnel in the treasury function.

An independent middle office function in the finance department has responsibility for managing the margining of the Group's bilateral repo/reverse repo and SBB/BSB activities. Margining has been predominantly cash-based although the documentation in general allows for securities to be used as collateral. Tri-party margining is managed through Euroclear. The associated credit risk is managed in the same way as other types of credit exposure. Exposures are calculated to take account of historical price volatility reflecting the maturity of both the collateral and repurchase transaction. The exposures are aggregated with all other exposures to the counterparty.

In addition to the normal credit control and risk management policies relating to counterparty credit approval, limit setting and monitoring procedures, the following credit criteria receive additional focus for repurchase transactions:

- Acceptable collateral;
- Acceptable counterparties;
- Appropriate nominal exposure limits by counterparty;
- Appropriate risk weighted exposure limits by counterparty; and
- Haircut amounts (where appropriate).

AIB applies the financial collateral comprehensive method for the purposes of calculating Pillar 1 capital for counterparty credit exposure for repurchase type transactions

Policies for securing collateral and establishing credit reserves

It is Group practice, where possible and relevant, that ISDA Master Agreements are put in place to cover derivatives business on a counterparty specific basis. It is also Group practice in relation to wholesale market counterparts to supplement ISDA documentation with a CSA to accommodate the reduction of net exposure on an agreed basis, and in line with market practice, by way of transferring a margin amount, typically cash (as opposed to securities).

AIB employs robust procedures and processes to control the residual risk that may arise when taking financial collateral, including strategy, consideration of the underlying credit and collateral management/valuation process. In addition, the Group has established standards to ensure legal certainty exists and the degree of correlation between the credit quality of the obligor and the collateral value must be considered and mitigated.

Wrong-way exposures

AIB's measurement of counterparty credit risk exposure against limits for foreign exchange, interest rate, inflation and equity derivatives does not include a consideration for wrong way risk. Wrong way risk is unlikely to be a feature of such transactions. AIB's measurement of counterparty credit exposure against limits for reverse repurchase agreements and for collateral swaps requires that consideration be given to the correlation between collateral value and the counterparty default probability when determining the add on factor.

Collateral required in the event of a credit downgrade

A downgrade in the Group's credit rating could have the effect of reducing the Minimum Transfer amount for margin calls on two of the CSAs. This would result in a potential increase in the amount of collateral the Group would have to provide against the derivatives within the CSAs. However, due to the very small number of CSAs with downgrade triggers, this is not deemed a significant risk for the Group. In addition, a downgrade in the Group's credit rating could lead to an increase in the haircuts that would be demanded by counterparties in repurchase transactions. This would lead to an increase in the quantum of securities being pledged by the Group as collateral.

Collateral held

At 31 December 2019, AIB held the following amounts for cash margin/collateral in respect of bilaterally cleared derivatives, sale and repurchase agreements and centrally cleared derivatives. All values are in Euro equivalent and rounded to the nearest million; CSA; negative € 368 million; GMRA: € 21 million; and derivatives clearing: € 72 million. Negative numbers indicate that AIB had posted collateral, while positive numbers indicate that AIB had received collateral.

Credit derivative hedges

Index linked CDS contracts are used by the Group to hedge credit spread risk associated with funding valuation adjustments ("FVA") and credit valuation adjustments ("CVA") to the fair value of derivative positions. At 31 December 2019, € 240 million in nominal terms of index CDS positions were in place to offset the impact of widening credit spreads on FVA and CVA. In the calculation of regulatory CVA, any CDSs in place were not treated as eligible hedges, and accordingly, did not reduce the counterparty credit risk capital requirement.

Table 45: EU CCR1 – Analysis of CCR exposure by approach

The table below sets out the methods used to calculate CCR regulatory requirements and the resultant RWAs.

	31 December 2019						
	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE ⁽¹⁾	Multiplier	EAD post CRM	Risk weighted assets
	€m	€m	€m	€m	€m	€m	€m
1 Mark to market	—	566	120	—	—	686	527
9 Financial collateral comprehensive method (for SFTs)	—	—	—	—	—	1,481	325
11 Total	—	566	120	—	—	2,167	852

	31 December 2018						
	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE ⁽¹⁾	Multiplier	EAD post CRM	Risk weighted assets
	€m	€m	€m	€m	€m	€m	€m
1 Mark to market	—	594	314	—	—	908	568
9 Financial collateral comprehensive method (for SFTs)	—	—	—	—	—	1,551	341
11 Total	—	594	314	—	—	2,459	909

⁽¹⁾ Effective expected positive exposure (“EEPE”): the weighted average of effective expected exposure over the first year of a netting set or, if all the contracts within the netting set mature within less than 1 year, over the time period of the longest maturity contract in the netting set, where the weights are the proportion of the entire time period that an individual expected exposure represents.

Table 46: EU CCR4 – CCR exposures by portfolio and PD scale – IRB Approach

The table below presents a detailed view of counterparty credit risk positions subject to the IRB approach by exposure class and PD scale. Institutions exposures decreased in 2019 due to qualifying central counterparties moving to standardised approach.

31 December 2019								
	PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
	%	€m	%		%		€m	%
Corporate other	0.00 to <0.15	29	0.07	27	45.00	2.50	14	48
	0.15 to <0.25	4	0.18	10	45.00	2.50	2	53
	0.25 to <0.50	4	0.32	12	45.00	2.50	3	72
	0.50 to <0.75	8	0.58	10	45.00	2.50	8	95
	0.75 to <2.50	3	1.44	10	45.00	2.50	3	131
	2.50 to <10.00	0	5.29	2	45.00	2.50	1	194
	10.00 to <100.00	—	—	—	—	—	—	—
100.00 (Default)	—	—	—	—	—	—	—	
Subtotal		48	0.28	71	45.00	2.50	31	63
Corporate Specialised Lending	0.00 to <0.15	3	0.10	1	45.00	2.50	1	35
	0.15 to <0.25	16	0.20	2	45.00	2.50	8	52
	0.25 to <0.50	24	0.31	8	45.00	2.50	16	66
	0.50 to <0.75	9	0.61	3	45.00	2.50	8	90
	0.75 to <2.50	6	0.95	2	45.00	2.50	6	108
	2.50 to <10.00	—	—	—	—	—	—	—
	10.00 to <100.00	—	—	—	—	—	—	—
100.00 (Default)	—	—	—	—	—	—	—	
Subtotal		58	0.38	16	45.00	2.50	39	68
Institutions	0.00 to <0.15	1,647	0.10	34	45.00	0.74	392	24
	0.15 to <0.25	48	0.25	6	45.00	1.20	24	49
	0.25 to <0.50	—	—	—	—	—	—	—
	0.50 to <0.75	—	—	—	—	—	—	—
	0.75 to <2.50	—	—	—	—	—	—	—
	2.50 to <10.00	—	—	—	—	—	—	—
	10.00 to <100.00	—	—	—	—	—	—	—
100.00 (Default)	—	—	—	—	—	—	—	
Subtotal		1,695	0.10	40	45.00	0.76	416	25
Total (all portfolios)		1,801	0.12	127	45.00	0.86	486	27

31 December 2018

	PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
	%	€m	%		%		€m	%
Corporate other	0.00 to <0.15	24	0.07	25	45.00	2.50	11	48
	0.15 to <0.25	3	0.18	7	45.00	2.50	1	53
	0.25 to <0.50	4	0.32	15	45.00	2.50	3	72
	0.50 to <0.75	1	0.58	10	45.00	2.50	1	95
	0.75 to <2.50	2	1.16	13	45.00	2.50	2	123
	2.50 to <10.00	—	6.01	2	45.00	2.50	0	203
	10.00 to <100.00	—	—	—	—	—	—	—
	100.00 (Default)	—	—	—	—	—	—	—
Subtotal		34	0.19	72	45.00	2.50	20	57
Corporate Specialised Lending	0.00 to <0.15	—	0.00	0	0.00	0.00	0	0
	0.15 to <0.25	12	0.20	3	45.00	2.50	6	52
	0.25 to <0.50	4	0.31	2	45.00	2.50	3	66
	0.50 to <0.75	10	0.61	2	45.00	2.50	8	90
	0.75 to <2.50	4	0.92	3	45.00	2.50	5	106
	2.50 to <10.00	—	2.75	1	45.00	2.50	0	149
	10.00 to <100.00	—	—	—	—	—	—	—
	100.00 (Default)	—	—	—	—	—	—	—
Subtotal		30	0.47	11	45.00	2.50	22	74
Institutions	0.00 to <0.15	2,033	0.10	56	45.00	1.02	534	26
	0.15 to <0.25	53	0.25	4	45.00	0.84	25	46
	0.25 to <0.50	—	—	—	—	—	—	—
	0.50 to <0.75	—	—	—	—	—	—	—
	0.75 to <2.50	—	—	—	—	—	—	—
	2.50 to <10.00	—	—	—	—	—	—	—
	10.00 to <100.00	—	—	—	—	—	—	—
	100.00 (Default)	—	—	—	—	—	—	—
Subtotal		2,086	0.10	60	45.00	1.01	559	27
Total (all portfolios)		2,150	0.11	143	45.00	1.06	601	28

Table 47: EU CCR3 – CCR exposures by regulatory portfolio and risk weight – standardised approach

The table below presents a breakdown of CCR by exposure class and risk weight.

		31 December 2019														
		Risk weight											Total	Of which unrated		
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	Others	€m	€m	
		€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	
1	Central governments or central banks	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
3	Public sector entities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
6	Institutions	—	712	—	—	—	—	—	—	—	—	—	—	712	712	
7	Corporates	—	—	—	—	—	—	—	—	366	—	—	—	366	366	
11	Total	—	712	—	—	—	—	—	—	366	—	—	—	1,078	1,078	

		31 December 2018														
		Risk weight											Total	Of which unrated		
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	Others	€m	€m	
		€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	
1	Central governments or central banks	—	1	—	—	—	—	—	—	2	—	—	—	3	—	
3	Public sector entities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
7	Institutions	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
8	Corporates	—	—	—	—	—	—	—	—	306	—	—	—	306	306	
12	Total	—	—	—	—	—	—	—	—	308	—	—	—	309	306	

Table 48: EU CCR2 – CVA capital charge

The table below presents the CVA charge broken down by approach. CVA decreased in 2019 due to exclusion of transactions with qualifying central counterparties.

		31 December 2019		31 December 2018	
		Exposure value	Risk weighted assets	Exposure value	Risk weighted assets
		€m	€m	€m	€m
4	All portfolios subject to the standardised method	223	137	539	392
5	Total subject to the CVA capital charge	223	137	539	392

Table 49: EU CCR5–A – Impact on exposure values of netting and collateral held

The table below provides an overview of the impact on exposures of netting and collateral held.

		31 December 2019				
		Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
		€m	€m	€m	€m	€m
1	Derivatives	1,613	550	1,063	123	940
2	SFTs	10,643	—	10,643	9,162	1,481
4	Total	12,256	550	11,706	9,285	2,421

		31 December 2018				
		Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
		€m	€m	€m	€m	€m
1	Derivatives	1,269	555	714	120	594
2	SFTs	6,696	—	6,696	5,145	1,551
4	Total	7,965	555	7,410	5,265	2,145

Derivatives, such as interest rate swaps, options and forward rate agreements, currency swaps and options, equity index options and credit derivatives are used for trading purposes (including for risk reduction purposes within the trading book) while interest rate swaps, currency swaps and cross currency interest rate swaps are used for hedging purposes.

The Group maintains trading positions in a number of financial instruments including derivatives. Trading transactions arise both as a result of activity generated by customers and from proprietary trading with a view to generating incremental income.

Non-trading derivative transactions comprise transactions held for hedging purposes as part of the Group's risk management strategy against assets, liabilities, positions and cash flows.

Table 50: EU CCR5–B – Composition of collateral for exposures to CCR

The table below provides a breakdown of all types of collateral posted or received to support or reduce CCR exposures related to derivative transactions and to SFTs, including transactions cleared through a CCP.

	31 December 2019						31 December 2018					
	Collateral used in derivative transactions				Collateral used in SFTs		Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated ⁽¹⁾	Unsegregated ⁽²⁾	Segregated ⁽¹⁾	Unsegregated ⁽²⁾			Segregated ⁽¹⁾	Unsegregated ⁽²⁾	Segregated ⁽¹⁾	Unsegregated ⁽²⁾		
€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	
Cash	167	180	95	548	27	6	79	186	79	529	25	41
Sovereign debt	—	—	—	—	87	17	—	—	—	—	—	92
Other	—	—	—	—	5,023	6,324	—	—	—	—	3,140	4,866
Total	167	180	95	548	5,137	6,347	79	186	79	529	3,165	4,999

⁽¹⁾ Segregated: Refers to collateral that is held in a bankruptcy-remote manner in the meaning of Article 300 in the CRR.

⁽²⁾ Unsegregated: Refers to collateral that is not held in a bankruptcy-remote manner.

Movement in Collateral received/paid in Derivative transactions is driven by clearing house collateral. Collateral used in SFTs increased compared to 2018, this is primarily due to collateral swap agreements.

Table 51: EU CCR6 – Credit derivatives exposures

The table below sets out the Group's exposure to credit derivative transactions analysed between derivatives bought or sold.

	31 December 2019			31 December 2018		
	Credit derivative hedges		Other	Credit derivative hedges		Other
	Protection bought	Protection sold	credit derivatives	Protection bought	Protection sold	credit derivatives
	€ m	€ m	€ m	€ m	€ m	€ m
Notionals						
Single-name credit default swaps	—	—	—	—	—	—
Index credit default swaps	—	—	240	—	—	130
Credit options	—	—	—	—	—	—
Other credit derivatives	—	—	—	—	—	—
Total notionals	—	—	240	—	—	130
Fair values						
Positive fair value (asset)	—	—	—	—	—	—
Negative fair value (liability)	—	—	12	—	—	9

Credit default swaps increased by €110m as part of AIB's management of its credit exposures.

Table 52: EU CCR8 – Exposures to CCPS

The table below sets out the Group's exposure to qualifying central counterparty (QCCP) at December 2019. The Group had no exposures to QCCPs at December 2018.

	31 December 2019	
	EAD post CRM	Risk weighted assets
	€ m	€ m
1 Exposures to QCCPs (total)	712	14
Exposures for trades at QCCPs (excluding initial margin and default fund contributions);		
2 of which	622	12
3 (i) OTC derivatives	622	12
4 (ii) Exchange-traded derivatives	—	—
5 (iii) SFTs	—	—
6 (iv) Netting sets where cross-product netting has been approved	—	—
7 Segregated initial margin	—	—
8 Non-segregated initial margin	90	2
9 Prefunded default fund contributions	—	—
10 Unfunded default fund contributions	—	—
11 Exposures to non-QCCPs (total)	—	—
Exposures for trades at non-QCCPs (excluding initial margin and default fund		
12 contributions); of which	—	—
13 (i) OTC derivatives	—	—
14 (ii) Exchange-traded derivatives	—	—
15 (iii) SFTs	—	—
16 (iv) Netting sets where cross-product netting has been approved	—	—
17 Segregated initial margin	—	—
18 Non-segregated initial margin	—	—
19 Prefunded default fund contributions	—	—
20 Unfunded default fund contributions	—	—

Chapter 9. Securitisations

Securitisation roles and strategy

During the year the Group utilised securitisations primarily to support the following business objectives:

- as an investor, the Group has primarily been an investor in securitisations issued by other credit institutions as part of the management of its market and liquidity risks through treasury,
- as an investor, securitisations have been utilised by the Group to invest in transactions that offered an appropriate risk-adjusted return opportunity; and
- as an investor, to support its funding activities of the Group.

As an investor

The Group has been an investor primarily in senior tranches of traditional securitisations issued by US Government related financial institutions, which are held as part of its investment portfolio. This investment portfolio is measured at fair value through profit or loss under the 'Investment securities' classification in the financial statements. A securitisation is considered to be traditional where the transfer of risk is achieved through the actual transfer of exposures.

The Group has a portfolio of securitisations comprising predominantly of investment grade rated residential mortgage backed securities ("RMBS"), collateralised loan obligations ("CLO's") and commercial mortgage backed securities ("CMBS") transactions which are held for investment purposes. These are measured at amortised cost under the 'loans and advances' classification in the financial statements.

The Group does not have any trading securitisation exposures.

Originator

At present, the Group is an originator of securitisations in order to support its funding activities. The Group sold loans and advances to customers, mainly mortgages, to special purpose entities ("SPEs"), which, in turn, issued notes or deposits to external investors. The notes or deposits issued by the SPEs are on terms which resulted in the Group retaining the majority of ownership risks and rewards and therefore, the loans continue to be recognised on the Group's statement of financial position. The Group remains exposed to credit risk and interest rate risk on the loans sold. The liability in respect of the cash received from the external investors is included within 'Debt securities in issue' (note 38) of the Annual Financial Report 2019. Under the terms of the securitisations, the rights of the investors are limited to the assets in the securitised portfolios and any related income generated by the portfolios, without further recourse to the Group. The Group does not have the ability to otherwise use the assets transferred as part of securitisation transactions during the term of the arrangement. The transferred loans and advances have not been derecognised for Pillar 1 purposes.

In December 2013, the Group agreed with the trustee of the AIB UK defined benefit pension scheme ("the UK scheme") a restructure of the funding of the deficit in the UK scheme. The Group established a pension funding partnership, AIB PFP Scottish Limited Partnership ("SLP") under which a portfolio of loans were transferred to the SLP from another Group entity, AIB UK Loan Management Limited ("UKLM") for the purpose of ring-fencing the repayments on these loans to fund future deficit payments of the UK scheme. However, this funding plan was replaced in December 2019 as part of the de-risking of the UK Scheme with annual payments of £18.5 million to 2024, and a final additional payment of £31 million expected in 2024.

Further details on the Group's securitisation vehicles are contained in note 49 'Off-balance sheet arrangements and transferred financial assets' on page 340 to 343 of the Annual Financial Report 2019.

Sponsor

The Group is not currently a sponsor of securitisation transactions.

Summary of securitisation activity

During 2019, the Group purchased € 416 million securitisation assets for investment purposes comprising US and European RMBS, CLO's and CMBS transactions. During 2019, there were no sales with amortisations and foreign exchange movements accounting for the remaining € 49 million. At 31 December 2019, the Group's exposure to securitisation assets as an investor amounted to € 922 million (2018: € 555 million).

There were no new securitisations originated during 2019.

Accounting policies

In accordance with the Group's accounting policy, the Group consolidates SPEs when the substance of the relationship indicates that AIB controls the SPE. In assessing control, all relevant factors are considered, both quantitative and qualitative. The primary form of SPE utilised by the Group are securitisations and employee compensation trusts. The accounting policy is set out on pages 247 to 249 under 'Basis of consolidation' in the Annual Financial Report 2019.

The Group derecognises financial assets when the contractual rights to receive cash flows from the assets have expired or the Group has transferred its contractual rights to receive cash flows from the assets and either all the risks and rewards of ownership of the assets have transferred to a third party external to the Group or a significant portion, but not all, of the risks and rewards have been transferred outside the Group. The risks include credit risk and interest rate risk.

If substantially all of the risks and rewards of ownership associated with the financial asset are transferred outside the Group, the financial asset is derecognised. The asset is derecognised in its entirety if the transferee has the ability to sell the financial asset; otherwise, the financial asset continues to be recognised to the extent of the Group's continuing involvement. Only in the event that derecognition is achieved are sales and any resultant gain or loss on sales recognised in the financial statements.

Securitisations which are fair valued are subject to the Group's valuation of financial instruments policy which requires that positions should be valued through direct pricing, as opposed to marking to model, if a reliable and directly observable price for the financial instrument in question is available. In 2019, all the Group's fair valued securitisation positions were valued by marking to market.

Financial assets are valued using the Group's accounting policy for financial instruments (refer to note '51 Fair value of financial instruments' on page 345 of the Annual Financial Report 2019). At both 31 December 2019 and 31 December 2018, no assets were categorised as awaiting securitisation. All securitisations are recorded in the Group's banking book.

There are no contractual arrangements that could require the Group or its subsidiaries to provide financial support to the consolidated structured entities. During the year, neither the Group nor any of its subsidiaries provided financial support to a consolidated structured entity and there is no current intention to provide financial support.

Securitisation risks, monitoring and hedging policies

The risks inherent within securitisation activity include those applicable to other types of financial instruments such as credit risk, liquidity risk, market risk, non-trading interest rate risk, foreign exchange risk and operational risk. Such risks are identified, managed and monitored in line with the Group's Risk Management Framework as described on pages 72 to 78 of the Annual Financial Report 2019 and which are described in further detail in the "Risk management" section of the Annual Financial Report 2019. Furthermore, all securitisations are subject to full annual review of all performance and structural features, along with more frequent periodic monitoring of the performance of the underlying exposures based on issuer reporting. All securitisations are stress tested at least annually in line with CRR requirements.

In 2019, the Group's exposure to securitisation positions as an investor was exclusively to investment grade rated tranches which benefit from subordination and other structural features of standard securitisations (e.g. excess spread). Underlying assets predominantly comprised residential mortgage loans, corporate loans and commercial real estate loans. The Group's last legacy resecuritisation positions were disposed of in March 2018 and none have been held or are permitted under policy since that time.

The Group has a specific credit policy in place which outlines the types of securitisations which are in scope for investment along with the approval process applicable. Securitisations are assessed based on their underlying credit and structural characteristics, and a rating-based matrix applies to hold levels.

The funding and liquidity risk policy is a key policy within the liquidity risk management framework which details the roles and responsibilities within the Group with regard to the management, reporting, control and oversight of asset encumbrance risk. The Group does not use credit hedging or unfunded credit protection to mitigate the risks of retained securitisation and re-securitisation exposures.

Calculating risk weighted exposure amounts

Pursuant to Article 2 of Regulation (EU) No 2017/ 2401, securitised positions relating to the Group's traditional securitisations that were effective prior to 1 January 2019 are primarily risk weighted in accordance with Article 261 of Regulation (EU) No 575/2013 (using the ratings based method) at 31 December 2019.

Under this approach, where investments are rated, risk weights are assigned to securitisation tranches on the basis of the credit ratings applied to these by approved external credit assessment institutions ("ECAIs"). Where there is no credit rating, but other criteria are met to apply a risk band other than unrated, the supervisory formula method (pursuant to Article 262) is applied to the exposures to establish the relevant risk weight. These deals have benefited from grandfathering of this framework until the end of 2019, with a revised approach as outlined in the EU securitisation framework applying to all positions from 1st January 2020 onwards.

For the Group's traditional securitisations executed after 1 January 2019, positions are primarily risk weighted using the external ratings-based approach ("SEC-ERBA") in accordance with Article 263 of Regulation (EU) No 575/2013 as amended by Regulation (EU) No 2017/ 2401 at 31 December 2019.

Use of external credit assessment institutions (ECAIs)

For the purpose of the RWA calculation, ECAI's are used for the Groups purchased securitisation positions. The Group uses the following ECAIs for securitisation exposures: Fitch Ratings Services, Standard & Poor's Ratings Services, Moody's Investors Services, and Dominion Bond Rating Services.

The tables below are prepared in accordance with CRD IV. Tables 53 and 54 analyse the Group's total securitisation positions (including re-securitisations) by exposure type and risk weight.

Table 53: Securitisation positions - by exposure type of underlying exposure

Exposure type	31 December 2019				31 December 2018			
	Securitisation positions - outstanding amount				Securitisation positions - outstanding amount			
	Retained		Purchased	Total	Retained		Purchased	Total
	Originator	Sponsor	Investor		Originator	Sponsor	Investor	
	€m	€m	€m	€m	€m	€m	€m	
Residential mortgages	—	—	222	222	—	—	367	367
Leasing	—	—	—	—	—	—	—	—
Loans to corporates and SMEs	—	—	700	700	—	—	188	188
Re-securitisations	—	—	—	—	—	—	—	—
Total	—	—	922	922	—	—	555	555

Table 54: Securitisation positions – risk weight bands

Risk weight band	31 December 2019				31 December 2018			
	Securitisation positions - outstanding amount				Securitisation positions - outstanding amount			
	Retained		Purchased	Total	Retained		Purchased	Total
	Originator	Sponsor	Investor		Originator	Sponsor	Investor	
	€m	€m	€m	€m	€m	€m	€m	
7% - 9%	—	—	310	310	—	—	367	367
10% - 19%	—	—	157	157	—	—	98	98
20% - 49%	—	—	164	164	—	—	80	80
50% - 74%	—	—	2	2	—	—	—	—
75% - 99%	—	—	10	10	—	—	10	10
100% - 249%	—	—	279	279	—	—	—	—
250% - 349%	—	—	—	—	—	—	—	—
350% - 424%	—	—	—	—	—	—	—	—
425% - 649%	—	—	—	—	—	—	—	—
650% - 1249%	—	—	—	—	—	—	—	—
1250% or deducted	—	—	—	—	—	—	—	—
Total	—	—	922	922	—	—	555	555

Chapter 10. Market risk

Market risk is the risk relating to the uncertainty of returns attributable to fluctuations in market factors. Where the uncertainty is expressed as a potential loss in earnings or value, it represents a risk to the income and capital position of the Group. The Group is primarily exposed to market risk through the interest rate and credit spread factors and to a lesser extent through foreign exchange, equity and inflation rate risk factors. AIB Group uses the Standardised Approach for assessing its capital requirements for trading book market risk. As set out on page 22 of this Report, of the total minimum capital requirement of € 4,171 million at 31 December 2019, the minimum capital requirement for market risk amounts to € 38 million. A description of AIB Group's (a) 'identification and assessment'; (b) 'management and measurement'; and (c) 'monitoring, escalating and reporting' of market risk is set out on pages 155 and 157 of the Annual Financial Report 2019. A sensitivity analysis of the Group's banking book to movements in interest rates is set out on pages 158 to 160 of the Annual Financial Report 2019, together with a Value at Risk ("VaR") profile for both the banking and trading book.

Table 55: EU MR1 – Market risk under the standardised approach

The table below reflects the components of capital requirements for market risk under the Standardised Approach.

	31 December 2019		31 December 2018	
	Risk weighted assets	Capital requirements	Risk weighted assets	Capital requirements
	€m	€m	€m	€m
Outright products				
1 Interest rate risk (general and specific)	468	37	366	29
2 Equity risk (general and specific)	2	—	1	—
3 Foreign exchange risk	—	—	—	—
4 Commodity risk	—	—	—	—
Options				
5 Simplified approach	—	—	—	—
6 Delta-plus method	4	1	4	1
7 Scenario approach	—	—	—	—
8 Securitisation (specific risk)	—	—	—	—
9 Total ⁽¹⁾	473	38	371	30

⁽¹⁾ The movement in market risk RWA was predominately driven by an increase in interest rate risk due to an increase in trading derivatives resulting in a € 83m RWA increase in general interest rate risk and an increase in credit default swaps which resulted in an increase in specific risk of €18m RWA.

Chapter 11. Equity exposures in the banking book

AIB calculates its capital requirements for equity exposures in the banking book using the standardised approach. The Group's equity activity comprises two distinct components:

- i. Principal investments defined as investments made with a view to a profitable exit at some point. The primary focus is fund and direct equity investments.
- ii. Strategic investments defined as investments not undertaken with a view to an exit.

The principal accounting policies applied by the Group to equity investments are informed by International Accounting Standards ("IAS") IAS 28 Investments in Associates and Joint Ventures and IFRS 9 Financial Instruments which set out the rules for classification, balance sheet recognition, methods of valuation and income and impairment recognition.

On transition to IFRS 9, the Group had an option to irrevocably designate equity investments at FVOCI and to present changes in fair value in other comprehensive income with no recycling to profit or loss. The Group availed of this option for one such equity investment held for strategic purposes. All other equity investments are now measured under IFRS 9 at FVTPL. Further information in relation to the Group accounting policies for financial assets, which include equities, can be found in the Group's Annual Financial Report 2019 note 1 (m), page 245.

Investments in associated undertakings are initially recorded at cost. Following initial recognition, an associate is accounted for using the equity method of accounting. The carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The cumulative realised gains from sales and liquidations of equity investments amounted to € 4m for the year to 31 December 2019 (2018: € Nil million). The net unrealised gains on equity investments amounted to € 557 million, gross of tax, at 31 December 2019. All post tax gains are included in CET 1 for 2019 (2018: net unrealised gains € 506 million, with all post tax gains included in CET 1).

Table 56: Banking book equity values

		31 December	
		2019	2018
		Carrying value	
		€m	€m
Exchange traded exposures			
Quoted	A limited number of straight equity positions that are quoted on recognised stock exchanges	46	23
Equity exposures			
Unquoted	Exposures to equities or the equity tranche in a structured transaction or SPE	663 ⁽¹⁾	620
Funds	Exposures to the equity component of a managed investment fund	106	85
		815 ⁽²⁾	679
Investments in associate undertakings		83	90
Shares in group undertakings		101 ⁽³⁾	—
		184	90
		999 ⁽⁴⁾	818
Of which:			
Risk weighted assets		999	818
Deducted from capital		—	—
		999	818

⁽¹⁾ Of which € 458 million (2018: € 468 million) relates to NAMA subordinated bonds and € 171 million relates to Visa Inc. (2018: € 109 million).

⁽²⁾ Equity securities classified as investment securities measured at fair value in the financial statements.

⁽³⁾ Shares in group undertakings includes €101m in relation to Investment in Semeral which is risk weighted at 100%. This Investment is not included as part of AIB Group within the AFR, and is a difference due to method of regulatory consolidation.

⁽⁴⁾ 2019 includes € 557 million of unrealised gains/losses (2018: € 506 million).

Table 57: Risk weighted asset equivalents of equity exposures

	31 December 2019		31 December 2018	
	Exposure	Risk weighted assets	Exposure	Risk weighted assets
	€m	€m	€m	€m
Equity investments subject to a 100% risk weight	605	605	491	491
Equity investments subject to a 150% risk weight	288	432	214	322
Equity investments subject to a 250% risk weight	106	265	113	283
	999	1,302	818	1,096

Chapter 12. Non-trading interest rate risk

Non-trading interest rate risk (also referred to as interest rate risk in the banking book “IRRBB”) is defined as the current or prospective risk to both the Group’s capital and earnings arising from movements in underlying interest rates.

IRRBB results from the structure of the Group’s balance sheet due to normal banking activity with customers and from treasury’s discretionary positions in the banking book. This risk can arise where assets, liabilities and off-balance sheet items have different repricing dates, interest rate basis or behavioural characteristics. The Group requires that interest rate risk is positioned centrally for management purposes.

Non-trading interest rate risk is measured and controlled in AIB using an economic value stress test, an earnings at risk and a VaR approach.

For the economic value stress test, the interest rate sensitivity profiles of the various components of AIB’s balance sheet are measured and severe but plausible interest rate shocks are applied to these profiles. The magnitude of the interest rate shocks is consistent with a one year holding period and a 99% confidence level. The resulting change in economic value as a result of the application of these shocks is the IRRBB economic value exposure. Basis risk, specifically ECB Refi / Euribor and Bank of England Base Rate / LIBOR basis risk, is a component of the IRRBB risk measurement model.

An earnings at risk (EaR) measurement approach measures the quantity by which the Group’s net interest income might change in the event of an adverse change in interest rates. EaR is estimated by modelling how net interest income would perform under different interest rate environments and selecting the 99% worst scenario to apply to the balance sheet. An earnings sensitivity measurement of how the Group’s net interest income is calculated and reported monthly.

IRRBB is also quantified using a 95% one day VaR measure and sensitivity measures. VaR and interest rate sensitivity values are produced and reported daily, the 99% one year IRRBB measure is reported on a monthly basis and EaR is and reported on a quarterly basis.

Certain components of the balance sheet such as non-maturity deposits and the Group’s equity are modelled using behaviourally adjusted assumed lives. Assumptions are also made about how the relationship between market and retail interest rates would develop in different interest rate environments. The Group measures the IRRBB of its fixed rate mortgage portfolio net of assumed prepayments. These assumptions are determined using a combination of statistical analysis and management judgement.

Table 58: Non-trading interest rate risk variation

The following table presents a summary of the Group’s banking book non-traded market risk under a range of interest rate scenarios.

For example, the table shows that the present value of the Group’s open interest rate risk position at 31 December 2019 would increase by € 381 million if there was an instantaneous parallel upward shift in interest rates of 200 basis points.

Interest rate shock	Change in economic value	
	31 December 2019	31 December 2018
	€m	€m
99% 1 year shock	(313)	(281)
+100bps	186	250
+200bps	381	496
-100bps	(246)	(253)
-200bps	(494)	(509)

The absolute level of interest rate risk sensitivity, as represented by the 99% IRRBB measure was steady over the course of 2019. The interest rate sensitivity is primarily attributable to EUR, GBP and USD interest rates, with the vast majority (>98% of the PV01 sensitivity) being due to EUR interest rate sensitivity at 31 December 2019.

Chapter 13. Remuneration

Introduction

These disclosures provide additional information in relation to the Group's remuneration policies and practices and, more specifically, the decision making process and governance of remuneration, the link between pay and performance, the remuneration of those staff whose professional activities are considered to have a material impact on the Group's risk profile and the key components of AIB's remuneration structure applicable to all employees.

This section should be read in conjunction with the Group's Annual Financial Report 2019, in particular, the Directors Remuneration Report, pages 208 - 211.

Remuneration constraints

The Group's remuneration practices operate under a number of constraints arising from State ownership, principally under the terms of placing and subscription agreements entered into between the Group and the State or through commitments provided by the Group to the Minister for Finance in respect of remuneration practices. In particular, AIB is precluded from introducing any new bonus or incentive schemes, allowances or other fringe benefits without prior agreement with the State. These constraints cover the remuneration of directors, senior management, employees and service providers across the Group.

Decision making process and governance of remuneration

The Group remuneration policy provides the overall framework under which all remuneration policies and practices are applied across the Group. Further details in respect of the operation of the Group's remuneration policies and practices are outlined in the Annual Financial Report 2019.

The remuneration policy is set and governed by the remuneration committee (the "Committee") on behalf of the Board. The Committee's responsibilities include oversight of the design, implementation and operation of remuneration policies and practices for all directors and employees with specific reference to Executive and Non-Executive Directors, the Chief Executive Officer, ExCo Members, Heads of Control Functions and Material Risk Takers. In determining remuneration policies and practices, the Committee takes account of appropriate input from the Group's support and control functions to ensure that its decision making is aligned with the Group's financial performance, regulatory guidelines and the State's remuneration constraints.

The Committee makes recommendations to the Board on the remuneration of the Chairman (in his absence) and determines the remuneration of the Chief Executive, Executive Directors and ExCo members. The Committee also directly oversees the remuneration of the heads of risk, compliance and internal audit functions and is required to review the remuneration components of material risk takers ("Identified Staff") as defined under the Capital Requirements Directive (CRD IV). Remuneration outcomes are determined by the Committee in accordance with the remuneration constraints outlined above.

The remuneration policy is designed to reflect the provisions of EU and national regulations, notably the Capital Requirements Directive (CRD IV) and European Banking Authority guidelines on sound remuneration policies. The Group undertakes an annual review of the remuneration policy, including the process for the identification of material risk takers (Identified Staff). The annual review is informed by appropriate input from the Group's risk, compliance and internal audit functions to ensure that remuneration policies and practices are operating as intended, are consistently applied across the Group and are compliant with regulatory requirements.

The Committee further controls the appointment of any external remuneration consultants or similar specialist advisors who provide it with advice. The purpose, duties and membership of the Committee are determined by its terms of reference which may be viewed on the Group's website www.aib.ie.

Attraction and retention of key staff and skills

The Group faces an ongoing challenge to attract and retain the right talent and skill-sets to grow and sustain the business. The Group's remuneration philosophy aims to ensure that remuneration is aligned with performance and that employees are rewarded fairly and competitively for their contribution to the Group's future success and growth. However, the Group's inability to apply market aligned remuneration practices and, in particular, the inability to offer executive remuneration on an equal footing with competitors for talent in the market represents a key risk to the Group. The Remuneration Committee endeavours to monitor and address this risk on an ongoing basis.

Link between pay and performance

The Group's performance management framework is a key enabler of strategy, putting the Group's brand values at the centre of ongoing conversations about performance, achievement and personal development. The Group's brand values provide the behavioural framework for how employees work, interact with each other and serve the customer. With particular emphasis on customer centric behaviours, the framework helps to create a high performance culture where strong performance is recognised and poor performance proactively addressed.

The Group's strategic objectives are cascaded down through the organisation to create a link to individual employees' objectives and to enable an understanding of how individual employees contribute to the delivery of the Group's overall strategy. Performance outcomes for all employees, including Identified Staff, based on a combined assessment of "What" objectives and "How" behaviours, inform a pay matrix which directly impacts the level of base salary increases awarded under the annual pay review to create a transparent link between performance and remuneration. The absence of incentive schemes for Identified Staff precludes alignment of remuneration and reward for variable pay.

Remuneration of Identified Staff

The Group compiles the list of Identified Staff in accordance with the criteria set out in EU Commission Delegated Regulation (EU) No. 604/2014 and the Group's agreed process for the identification of material risk takers across the Group. The purpose of this process is to define the criteria by which staff in the Group are assessed as Identified Staff and also to set out the key responsibilities and governance requirements in compliance with CRD IV and the EBA Guidelines on sound remuneration policies. The process forms an addendum to the remuneration policy and is subject to annual review in conjunction with the Group's remuneration policy. The process was reviewed and approved by the Remuneration Committee during 2019. The list of Identified Staff is prepared using a combination of qualitative and quantitative criteria in accordance with the relevant EU regulations and guidelines together with additional criteria specific to AIB's structure, business activities and risk profile. The list is prepared at Group and subsidiary levels for Ireland and the United Kingdom.

Identified Staff principally comprise of the following:

- Executive and non-executive members of the boards of directors of material Group entities;
- ExCo members and their direct reports, including members of senior management teams;
- Heads of material subsidiaries, business units and their direct reports, including organisational or legal entities, regions, key business lines or geographical locations;
- Heads of risk and internal audit and their direct reports;
- Senior management in credit risk including the chief credit officer, heads of credit, their direct reports and other staff with authority to initiate, approve or veto credit proposals or to structure credit products;
- Senior management responsible for legal, finance, human resources, remuneration policy, IT, economic analysis and other key risk functions; and,
- Other key risk takers or higher remunerated staff whose professional activities individually or collectively exert influence on the institution's risk profile, including the ability to enter into transactions, contracts and other risk positions or to approve or veto the introduction of new products.

During 2019, a total of 234 employees were considered as Identified Staff (2018: 360) for AIB (including subsidiaries). As at 31st December 2019, Identified Staff comprised 220 (31st December 2018: 329). 166 individuals were considered as Identified Staff for AIB Group, with an additional 68 individuals identified for subsidiaries.

During 2019, remuneration across the Group continued to be principally comprised of fixed pay elements encompassing base salary, allowances and employer pension contributions. Variable pay constituted severance payments and compensation for loss of income from previous employment. Remuneration packages to compensate employees for loss of income from previous employments are made in exceptional cases only to attract and retain highly specialised key staff. Such awards are limited to the first year of employment. There were no bonuses, shares, options or other performance based remuneration paid to Identified Staff in 2019.

Table 59: Remuneration by business area

The following tables illustrate the total remuneration of Identified Staff in 2019 and 2018.

		Retail Banking	CIB	Group	AIB UK	Total
Year 2019						
Total remuneration in 2019	€m	6.6	7.6	24.7	3.4	42.4
(All forms of payments or benefits)	Identified Staff	22	28	104	12	166
Total variable remuneration in 2019	€m	0.5	0.2	0.3	0	1
(Severance payments & buy-outs of contracts from previous employment)	Identified Staff	2	1	3	0	6

		RCB	CIB (WIB)	Group	AIB UK	Total
Year 2018						
Total remuneration in 2018	€m	13.5	5.9	32.5	16	67.9
(All forms of payments or benefits)	Identified Staff	56	26	157	121	360
Total variable remuneration in 2018	€m	0.3	0	2.3	0.6	3.2
(Severance payments & buy-outs of contracts from previous employment)	Identified Staff	2	0	13	5	20

Table 60: Remuneration by functional area

		NED's & Senior Management*	Control Functions	Corporate Functions	Other Material Risk Takers	Total
Year 2019						
Total remuneration in 2019	€m	23.4	4.5	2.2	12.3	42.4
(All forms of payments of benefits)	Identified Staff	82	25	11	48	166
Total fixed remuneration in 2019	€m	23	4.3	2.2	11.9	41.3
(Salaries and other fixed benefits including pension contributions)	Identified Staff	82	25	11	48	166
Total variable remuneration in 2019	€m	0.3	0.2	0	0.5	1
(Severance payments & buy-outs of contracts from previous employment)	Identified Staff	3	1	0	2	6

		NED's & Senior Management*	Control Functions	Corporate Functions	Other Material Risk Takers	Total
Year 2018						
Total remuneration in 2018	€m	27.2	9.5	6.3	24.9	67.9
(All forms of payments of benefits)	Identified Staff	105	59	35	161	360
Total fixed remuneration in 2018	€m	26.5	8.2	6.1	23.9	64.7
(Salaries and other fixed benefits including pension contributions)	Identified Staff	105	59	35	161	360
Total variable remuneration in 2018	€m	0.7	1.3	0.2	1	3.2
(Severance payments & buy-outs of contracts from previous employment)	Identified Staff	4	7	1	8	20

*Non-Executive Directors, Executive Committee (ExCo) Members and direct reports to ExCo.

Notes on remuneration 2019:

- i. The reduced number and remuneration of Identified Staff reflects a review of the material risk taker process in 2019;
- ii. While there 234 Identified Staff in AIB (including subsidiaries) for 2019, 166 of these met the criteria for AIB Group. The remainder met the criteria for one or more of the subsidiaries. These tables only show the details for those considered Identified Staff for AIB Group.
- iii. Total variable remuneration paid during the year amounted to € 1m for AIB Group, (€ 1.1m including subsidiaries) (2018: € 3.2m). This comprised of severance payments to 5 individuals which amounted to € 0.9m and payments in respect of compensation for loss of income from previous employment for 1 individual which amounted to € 0.1m;
- iv. Under the severance programme, the highest severance payment to any one person in 2019 was € 225,000. Severance payments which represent redundancy remuneration for loss of office are calculated by reference to an approved generic formula are not taken into account for the purposes of the calculation of the variable to fixed pay ratio;
- v. There were no bonuses paid to Identified Staff during 2019 and no variable remuneration was paid in equity or other instruments;
- vi. Further details of Directors' remuneration are contained on pages 216 - 218 of the Annual Financial Report 2019;
- vii. 1 individual was identified as a material risk taker during 2019 who was designated as a service provider and whose remuneration was not directly paid by AIB. The individual's total remuneration amounted to € 0.3m and is included within fixed remuneration; and,
- viii. There were no employees whose total remuneration exceeded € 1m during 2019.

Total remuneration

Total remuneration during 2019 was principally comprised of fixed pay and pension elements in line with remuneration constraints in place with the State. The Group operates defined contribution pension schemes which followed the closure of all Group defined benefit schemes to future accrual on 31 December 2013. There were no general bonus schemes, long-term incentive plans or share incentive schemes in operation in 2019.

Increases to salary in 2019 were awarded following the annual pay review process (comprised of two individual components:- a flat rate increase to base pay, as well as an increase aligned to individual performance rating), through promotion, progression and, in exceptional cases, through out-of-course increases to retain business critical staff and key skills. A number of employees also received increases to align their salary to the new market related ranges that were introduced.

Further details in respect of total employee numbers and total employee remuneration are contained in Notes 13 and 54 of the Annual Financial Report 2019.

Appendix 1. Own funds

Summary information on the main components of own funds, and their terms and conditions as applicable, is set out below. Further information relating to the terms and conditions is published separately at <http://aib.ie/investorrelations>.

Common equity tier 1

Common equity tier 1 ("CET1") comprises shareholders' equity adjusted as appropriate in accordance with the provisions of CRD IV.

Shareholders' equity

The principal components of shareholders' equity are set out below:

Share capital/share premium

Ordinary share capital comprising shares of the parent company represent funds raised by issuing shares in return for cash or other consideration. When shares are issued at a premium whether for cash or otherwise, the excess of the amount received over the par value of the shares is transferred to share premium.

Other capital reserves

Other capital reserves represent transfers from retained earnings in accordance with relevant legislation.

Capital contributions

Capital contributions represent the receipt of non-refundable consideration arising from transactions with the Irish Government. These contributions comprise both financial and non-financial net assets. The contributions are classified as equity and may be either distributable or non-distributable. Capital contributions are distributable if the assets received are in the form of cash or another asset that is readily convertible to cash, otherwise, they are treated as non-distributable. Capital contributions arose during 2011 from (a) EBS transaction; (b) Anglo transaction; (c) issue of contingent capital notes; and (d) non-refundable receipts from the Irish Government and the NPRFC⁽¹⁾.

The capital contribution from the EBS transaction is treated as non-distributable as the related net assets received were largely noncash in nature.

In the case of the Anglo transaction, the excess of the assets over the liabilities comprised of NAMA senior bonds. On initial recognition, this excess was accounted for as a non-distributable capital contribution. However, according as NAMA repaid these bonds, the proceeds received were deemed to be distributable and the relevant amount was transferred from the capital contribution account to revenue reserves. All NAMA senior bonds were fully repaid at 31 December 2017.

Non-refundable capital contributions amounting to € 6,054 million received from the Irish Government and the NPRFC⁽¹⁾ in 2011 are considered distributable. These are included in revenue reserves.

Revaluation reserves

Revaluation reserves represent the unrealised surplus, net of tax, which arose on revaluation of properties prior to the implementation of IFRS at 1 January 2004.

Investment securities reserves

Investment securities reserves represent the net unrealised gains and losses, net of tax, arising from the recognition in the statement of financial position of investment securities at fair value through other comprehensive income ("FVOCI"). The CRR transitional provisions in relation to investment securities expired at the end of 2017. At 31 December 2019, 100% of investment securities reserves are included in common equity tier 1 capital.

⁽¹⁾ National Treasury Management Agency as controller and manager of the Ireland Strategic Investment Fund (NTMA / ISIF with effect 22 December 2014).

Cash flow hedging reserves

Cash flow hedging reserves represent the gains and losses, net of tax, on effective cash flow hedging instruments that will be reclassified to the income statement when the hedged transaction affects profit or loss. These reserves are not allowable for capital adequacy purposes.

Dividends and distributions

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or in the case of the interim dividend when they become irrevocable having already been approved for payment by the Board of Directors.

The interim dividend may be cancelled at any time prior to the actual payment. Proposed dividends and foreseeable charges are deducted from Common Equity Tier 1 capital in accordance with Article 26(2) of the Capital Requirements Regulations.

Revenue reserves

Revenue reserves represent retained earnings of the parent company, subsidiaries and associated undertakings together with amounts transferred from issued share capital, share premium and capital redemption reserves following Irish High Court approval. They also include amounts arising from the capital reduction which followed the 'Scheme of Arrangement' undertaken by the Group in December 2017.

The cumulative surplus/deficit within the defined benefit pension schemes and other appropriate adjustments are included in/offset

Foreign currency translation reserves

Foreign currency translation reserves represent the cumulative gains and losses on the retranslation of the Group's net investment in foreign operations, at the rate of exchange at the year end reporting date net of the cumulative gain or loss on instruments designated as net investment hedges.

Merger reserve

Under the Scheme of Arrangement ('the Scheme') approved by the High Court on 6 December 2017 which became effective on 8 December 2017, a new company, AIB Group plc ('the Company'), was introduced as the holding company of AIB Group. AIB Group plc is a public limited company registered in Ireland. The share capital of Allied Irish Banks, p.l.c., other than a single share owned by AIB Group plc, was cancelled and an equal number of new shares were issued by the Company to the shareholders of Allied Irish Banks, p.l.c. The difference between the carrying value of the net assets of Allied Irish Banks, p.l.c. entity on acquisition by the Company and the nominal value of the shares issued on implementation of the Scheme was accounted for as a merger reserve. Impairment losses arising from AIB Group plc's investment in Allied Irish Banks, p.l.c. will be charged to the profit or loss account and transferred to the merger reserve in so far as a credit balance remains in the merger reserve.

In the consolidated financial statements of AIB Group plc, the transaction was accounted for under merger accounting. Accordingly, the carrying value of the investment in Allied Irish Banks, p.l.c. by AIB Group plc is eliminated against the share capital and share premium account in Allied Irish Banks, p.l.c. and the merger reserve in AIB Group plc resulting in a negative merger reserve.

Regulatory adjustments to shareholders' equity

The following deductions have been made in accordance with CRD IV in computing regulatory capital:

- Intangibles - deducted from capital;
- Cash flow hedging reserves - not included in capital;
- Investment securities reserves - 100% of the investment securities reserves are recognised at 31 December 2019. At 31 December 2018 100% of the investment securities reserve was recognised;
- Pension reserves in surplus - deduct from capital the total pension reserves of schemes in surplus;
- Pension deficit - 100% of the pension deficit is deducted from CET1 for 2019 as per CRD IV;
- Deferred tax assets that rely on future profitability - deducted from capital at 10% per annum, which commenced in 2015. Therefore, 50% is deducted from capital in 2019;
- Excess of expected loss over IRB provisions - deducted from capital (see page 98 for further information); and
- IFRS 9 - The Group applies the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds as per Regulation (EU) 2017/2395 of the European Parliament and of the Council. The phase in rate at 31 December 2019 was 15% (2018: 5%)

Tier 1 capital

€500m Additional Tier 1 perpetual contingent write down securities issued 3 December 2015

Interest on the securities, at a fixed rate of 7.375% per annum, is payable semi-annually in arrears on 3 June and 3 December, commencing on 3 June 2016. On the first reset date on 3 December 2020, in the event that the securities are not redeemed, interest will be reset to the relevant 5 year rate plus a margin of 7.339%. Allied Irish Banks, p.l.c. has sole and absolute discretion at all times to cancel (in whole or in part) any interest payment that would otherwise be payable on any interest payment date. In addition, there are certain limitations on the payment of interest if such payments are prohibited under Irish banking regulations or regulatory capital requirements, if Allied Irish Banks, p.l.c. has insufficient reserves available for distribution or if Allied Irish Banks, p.l.c. fails to satisfy the solvency condition as defined in the securities terms. Any interest not paid on an interest payment date by reason of the provisions as to cancellation of interest or by reason of the solvency condition set out in the terms and conditions, will not accumulate or be payable thereafter.

The securities are perpetual securities with no fixed redemption date. Allied Irish Banks, p.l.c. may, in its sole and full discretion, redeem all (but not some only) of the securities on the first call date or on any interest payment date thereafter at the prevailing principal amount together with accrued but unpaid interest. However, redemption is subject to the permission of the Single Supervisory Mechanism/Central Bank of Ireland who have set out certain conditions in relation to redemption, purchase, cancellation and modification of these securities. In addition, the securities are redeemable at the option of Allied Irish Banks, p.l.c. for certain regulatory or tax reasons.

The securities, which do not carry voting rights, rank *pari passu* with holders of other tier 1 instruments (excluding the Company's ordinary shares) and with the holders of preference shares, if any, which have a preferential right to a return of assets in a winding-up of Allied Irish Banks, p.l.c. They rank ahead of the holders of ordinary share capital of the Company but junior to the claims of senior creditors.

If the CET1 ratio of Allied Irish Banks, p.l.c. or of the Group at any time falls below 7% (a Trigger Event) and is not in winding-up, subject to certain conditions, Allied Irish Banks, p.l.c. may write down the AT1s by the lower of the amount necessary to generate sufficient common equity tier 1 capital to restore the CET1 ratio to 7% or the amount that would reduce the prevailing principal amount to zero. To the extent permitted, in order to comply with regulatory capital and other requirements, Allied Irish Banks, p.l.c. may at its sole and full discretion reinstate any previously written down amount.

Under CRD IV, a portion of the capital reserves attributable to the Additional Tier 1 Securities issued by Allied Irish Banks, p.l.c., which exceed the minimum own funds requirement, is not recognised for AIB Group plc consolidated regulatory capital purposes. This restriction* reduced qualifying transitional tier 1 capital by € 132 million.

*The calculation may require adjustment pending the final communication of the EBA's position on the matter.

€500m Additional Tier 1 perpetual contingent write down securities issued 2 October 2019

On 2 October 2019 part of its capital reorganisation, AIB Group plc. issued € 500 million nominal value of Additional Tier 1 Perpetual Contingent Temporary Write-down Securities ('AT1s'). The securities, which are accounted for as equity in the statement of financial position, are included in the Group consolidated capital position. The securities have been downstreamed in the same form to its subsidiary, Allied Irish Banks, p.l.c.

Interest on the securities, at a fixed rate of 5.25% per annum, is payable semi-annually in arrears on 9 April and 9 October, commencing on 9 April 2020. On the first reset date in the event that the securities are not redeemed, interest will be reset to the relevant 5 year rate plus a margin. AIB Group plc. has sole and absolute discretion at all times to cancel (in whole or in part) any interest payment that would otherwise be payable on any interest payment date. In addition, there are certain limitations on the payment of interest if such payments are prohibited under Irish banking regulations or regulatory capital requirements, if AIB Group plc. has insufficient reserves available for distribution or if AIB Group plc. fails to satisfy the solvency condition as defined in the securities terms. Any interest not paid on an interest payment date by reason of the provisions as to cancellation of interest or by reason of the solvency condition set out in the terms and conditions, will not accumulate or be payable thereafter.

The securities are perpetual securities with no fixed redemption date. AIB Group plc. may, in its sole and full discretion, redeem all (but not some only) of the securities on the first call date or on any interest payment date thereafter at the prevailing principal amount together with accrued but unpaid interest. However, redemption is subject to the permission of the Single Supervisory Mechanism/Central Bank of Ireland who have set out certain conditions in relation to redemption, purchase, cancellation and modification of these securities. In addition, the securities are redeemable at the option of AIB Group plc. for certain regulatory or tax reasons.

The securities, which do not carry voting rights, rank pari passu with holders of other tier 1 instruments (excluding the Company's ordinary shares) and with the holders of preference shares, if any, which have a preferential right to a return of assets in a winding-up of AIB Group plc. They rank ahead of the holders of ordinary share capital of the Company but junior to the claims of senior creditors.

If the CET1 ratio of the Group at any time falls below 7% (a Trigger Event) and is not in winding-up, subject to certain conditions, the issuer. may write down the AT1s by the lower of the amount necessary to generate sufficient common equity tier 1 capital to restore the CET1 ratio to 7% or the amount that would reduce the prevailing principal amount to zero. To the extent permitted, in order to comply with regulatory capital and other requirements, the issuer may at its sole and full discretion reinstate any previously written down amount.

Tier 2 capital

Broadly includes qualifying subordinated debt and other tier 2 securities in issue. It is subject to adjustments relating to the excess of expected loss on the IRBA portfolios over the accounting expected credit losses on the IRBA portfolios, securitisation positions and material holdings in financial companies.

Instruments issued by subsidiaries that are given recognition in tier 2 capital

€ 750 million Subordinated Tier 2 Notes due 2025, Callable 2020

On 26 November 2015, Allied Irish Banks, p.l.c. issued € 750 million Subordinated Tier 2 Notes due 2025, Callable 2020. These notes mature on 26 November 2025 but can be redeemed in whole, but not in part, at the option of Allied Irish Banks, p.l.c. on the optional redemption date on 26 November 2020, subject to the approval of the Financial Regulator, with approval being conditional on meeting the requirements of the EU Capital Requirements Regulation.

The notes bear interest on the outstanding nominal amount at a fixed rate of 4.125%, payable annually in arrears on 26 November each year. The interest rate will be reset on 26 November 2020 to Eur 5 year Mid Swap rate plus the initial margin of 395 basis points.

Other subordinated term loan capital

Following the liability management exercises in 2011 and the Subordinated Liabilities Order ("SLO") in April 2011, residual balances remained on certain dated loan capital instruments. The SLO, which was effective from 22 April 2011, changed the terms of all of those outstanding dated loan agreements. The original liabilities were derecognised and new liabilities were recognised, with their initial measurement based on the fair value at the SLO effective date. The contractual maturity date changed to 2035 as a result of the SLO, with coupons to be payable at the option of Allied Irish Banks, p.l.c. These instruments will amortise to their nominal value in the period to their maturity in 2035.

Under CRD IV, a portion of the capital reserves attributable to the tier 2 capital instruments issued by Allied Irish Banks, p.l.c. as outlined above, which exceed the minimum own funds requirement, is not recognised for AIB Group plc consolidated regulatory capital purposes. This restriction* reduced qualifying transitional tier 2 capital by € 243 million.

*The calculation may require adjustment pending the final communication of the EBA's position on the matter.

€500m Subordinated Tier 2 Notes due 2029, Callable 2024

On 19 November 2019, AIB Group plc. issued € 500 million Subordinated Tier 2 Notes due 2029, callable 2024. These notes mature on 19 November 2029 but can be redeemed in whole, but not in part, at the option of AIB Group plc. on the optional redemption date on 19 November 2024, subject to the approval of the Financial Regulator, with approval being conditional on meeting the requirements of the EU Capital Requirements Regulation. The notes bear interest on the outstanding nominal amount at a fixed rate of 1.875%, payable annually in arrears on 19 November each year

IRB excess of provisions over expected eligible losses

For IRB exposures, the total regulatory expected loss (“EL”) on IRB loans is compared to the total expected credit loss (“ECL”) attributed to those loans in the financial statements. If EL is greater than ECL, the excess is deducted from CET1. An excess of ECL over EL on exposures in default cannot be used to cover a deficit on non-default exposures, i.e. the CET 1 deduction is the greater of (i) the total excess of EL over ECL and (ii) the non-default excess of EL over ECL. Any excess of ECL over EL is added to tier 2 capital up to a limit of 0.6% of IRB risk weighted assets.

Other: Warrants

Warrants to acquire a fixed number of the Company shares for a fixed amount of currency are classified as equity instruments and are recognised on initial recognition at the fair value of consideration received.

Appendix 2. Asset encumbrance

The following tables show the amounts of on-balance sheet encumbered and unencumbered assets and off-balance sheet collateral held by the Group. The tables below are based on the EBA reporting templates pertaining to asset encumbrance under CRD IV. The figures are median values based on quarter end point-in-time figures covering the year to 31 December 2019. The exposure values used are in line with implementing Regulation (EU) No 680/2014. The asset encumbrance disclosure is consolidated at the group regulatory consolidated level excluding those assets pursuant to article 18 of the CRR - see Table 3: EU LI3 - Differences in scope of consolidation.

An asset is defined as encumbered if it has been pledged as collateral, and, as a result, is no longer available to the Group to secure funding, to satisfy collateral needs or to be sold.

Table 61: Encumbered and unencumbered assets held by AIB Group – Table A

	Encumbered Assets				Unencumbered Assets			
	Carrying amount	Of which: notionally eligible EHQLA ⁽¹⁾ and HQLA ⁽¹⁾	Fair value	Of which: notionally eligible EHQLA ⁽¹⁾ and HQLA ⁽¹⁾	Carrying amount	Of which: notionally eligible EHQLA ⁽¹⁾ and HQLA ⁽¹⁾	Fair value	Of which: notionally eligible EHQLA ⁽¹⁾ and HQLA ⁽¹⁾
	€m	€m	€m	€m	€m	€m	€m	€m
Assets of the reporting institution	10,902	1,173			85,388	20,482		
Equity instruments	—	—			765	—		
Debt securities	1,173	1,173	1,173	1,173	15,665	12,608	15,665	12,608
Of which:								
Covered bonds	223	223	223	223	3,271	3,271	3,271	3,271
Asset-backed securities	147	147	147	147	1,026	455	1,011	455
Issued by general governments	847	847	847	847	8,142	8,115	8,142	8,115
Issued by financial corporations	325	303	325	303	7,321	4,013	7,321	4,013
Issued by non-financial corporations	—	—	—	—	416	332	416	332
Other assets	9,690	—			68,744	8,726		
Of which Loans and Advances	8,764	—			52,900	—		
Loans on demand	680	—			8,951	8,726		
Other Assets	248	—			7,153	—		

	Encumbered Assets				Unencumbered Assets			
	Carrying amount	of which: notionally eligible EHQLA and HQLA	Fair value	of which: notionally eligible EHQLA and HQLA	Carrying amount	Of which: notionally eligible EHQLA and HQLA	Fair value	Of which: notionally eligible EHQLA and HQLA
	€m	€m	€m	€m	€m	€m	€m	€m
Assets of reporting institution	12,113	1,790			79,773	18,757		
Equity instruments	—	—			717	—		
Debt securities	1,855	1,790	1,855	1,790	13,643	12,197	13,643	12,197
Of which:								
Covered bonds	254	254	254	254	2,701	2,690	2,701	2,690
Asset-backed securities	295	295	295	295	248	206	248	206
Issued by general governments	1,291	1,332	1,291	1,334	8,343	8,209	8,343	8,209
Issued by financial corporations	563	334	563	334	5,260	3,734	5,260	3,734
Issued by non-financial corporations	—	—	—	—	137	26	137	26
Other assets	10,418	—			64,003	6,914		
Of which Loans and Advances	9,491	—			51,566	—		
Loans on demand	673	—			7,122	6,914		
Other Assets	250	—			5,922	—		

⁽¹⁾ EHQLA: Extremely High Quality Liquid Assets and HQLA: High Quality Liquid Assets - includes unencumbered cash at central banks, domestic currency (euro) denominated bonds issued or guaranteed by European Economic Area (“EEA”) sovereigns, highly rated sovereign bonds, highly rated covered bonds and certain other highly rated securities.

Table 62: Collateral received – Table B

The table below presents off-balance sheet encumbered and unencumbered collateral received.

	31 December 2019			
	Fair value of encumbered collateral received or own debt securities issued	Of which: notionally eligible EHQLA and HQLA	Fair value of collateral received or own debt securities issued available for encumbrance	Of which: notionally eligible EHQLA and HQLA
	€ m	€ m	€ m	€ m
Collateral received by the reporting institution	—	—	4,026	1,551
Loans on demand	—	—	427	—
Equity instruments	—	—	—	—
Debt securities	—	—	3,533	1,282
Of which:				
Covered bonds	—	—	1,253	1,253
Asset-backed securities	—	—	226	—
Issued by general governments	—	—	36	36
Issued by financial corporations	—	—	3,497	1,253
Issued by non- financial corporations	—	—	—	—
Loans and advances other than loans on demand	—	—	—	—
Other collateral received	—	—	—	—
Own debt securities issued other than own covered bonds or asset-backed securities ⁽¹⁾	—	—	—	—
Own covered bonds and asset-backed securities issued and not yet pledged	—	—	6,443	—
Total assets, collateral received and own debt securities issued	10,902	1,173	6,443	—
	31 December 2018			
	Fair value of encumbered collateral received or own debt securities issued	of which: notionally eligible EHQLA and HQLA	Fair value of collateral received or own debt securities issued available for encumbrance	of which: notionally eligible EHQLA and HQLA
	€ m	€ m	€ m	€ m
Collateral received by the reporting institution	—	18	2,899	1,056
Loans on demand	—	—	201	—
Equity instruments	—	—	—	—
Debt securities	—	3	2,717	1,151
Of which:				
Covered bonds	—	—	879	877
asset-backed securities	—	—	340	—
issued by general governments	—	3	47	77
issued by financial corporations	—	—	2,431	877
issued by non- financial corporations	—	—	290	—
Loans and advances other than loans on demand	—	—	—	—
Other collateral received	—	—	—	—
Own debt securities issued other than own covered bonds or asset-backed securities	—	—	—	—
Own covered bonds and asset-backed securities issued and not yet pledged	—	—	5,911	—
Total assets, collateral received and own debt securities issued	12,113	1,793	5,911	—

⁽¹⁾ Asset backed securities (“ABSs”).

Table 63: Encumbered assets/collateral received and associated liabilities – Table C

31 December 2019		
Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	
€m		€m
Carrying amount of selected financial liabilities	4,687	9,365

31 December 2018		
Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	
€m		€m
Carrying amount of selected financial liabilities	5,649	10,436

Information on importance of encumbrance

The ability to encumber certain pools of assets is a key element of the Group's funding and liquidity strategy. As part of managing its funding requirements, the Group encumbers assets as collateral to support wholesale funding initiatives. In particular, encumbrance through the repo markets plays a role in funding the Group's investment securities portfolio. The funding of customer loans is also supported through the issuance of covered bonds and securitisations. Other lesser sources of encumbrance include cash placed, mainly with banks, in respect of derivative liabilities, sterling notes and coins issued and loan collateral pledged in support of pension liabilities in AIB Group (UK) p.l.c.

The Group's Asset and Liability Committee ("ALCo") is the governance forum with accountability for reviewing and monitoring the Group's level of asset encumbrance as described in the "Management and measurement" section on page 146 of the Annual Financial Report 2019. ALCo convenes on a monthly basis and reviews risk information regarding encumbrance. In 2019, € 10,902 million (2018: € 12,113 million) of the Group's assets and collateral received were encumbered, primarily through the structures outlined above. In 2019, the Group had € 7,153 million (2018: € 5,922 million) of unencumbered 'Other assets'. These are primarily made up of assets which would not be deemed available for encumbrance in the normal course of business and includes deferred tax assets, derivative assets, property, and plant and equipment.

The Group includes two authorised mortgage banks, AIB Mortgage Bank and EBS Mortgage Finance, that issue residential mortgage backed asset covered securities ("ACS"). Both mortgage banks are required to maintain minimum contractual over-collateralisation of 5% and minimum legislative over collateralisation of 3% (both on a prudent market value basis). This is monitored by the Covered Asset Monitor on behalf of the Central Bank of Ireland. However, both mortgage banks hold higher levels of assets in their covered pools in order to meet rating agency requirements and beyond this for reasons of operational flexibility.

In addition, the mortgage banks repo bonds centrally for liquidity management purposes. Bonds held centrally contribute to the Group's liquidity buffer and do not add to the Group's encumbrance level unless used in a repo transaction or pledged externally. Secured funding between Allied Irish Banks, p.l.c. and other Group entities (e.g. EBS d.a.c. and AIB Group (UK) p.l.c.) is an element of the Group's liquidity management processes. The Group recognises the restrictions on the transfer of liquidity between jurisdictions and separately monitors asset encumbrance by jurisdictions.

Appendix 3. Transitional and fully loaded own funds

The tables below set out the own funds of AIB Group in accordance with Articles 4 and 5 of the Commission Implementing Regulation (EU) No.1423/2013:

Table 64: Own funds of AIB Group

	CRD IV Transitional		CRD IV Fully loaded	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	€m	€m	€m	€m
Common equity tier 1 capital: Instruments and reserves				
1 Capital instruments and the related share premium accounts				
- Ordinary stock	1,696	1,696	1,696	1,696
- Share premium	—	—	—	—
2 Retained earnings	13,088	12,057	13,088	12,057
3 Accumulated other comprehensive income (and other reserves)	(1,910)	(1,941)	(1,910)	(1,941)
5a Independently reviewed interim profits net of any foreseeable charge or dividend	138	166	138	166
6 Common equity tier 1 (CET 1) capital before regulatory adjustment	13,012	12,900	13,012	12,900
Common equity tier 1 (CET 1) capital : regulatory adjustments				
7 Additional value adjustments	(35)	(39)	(35)	(39)
8 Intangible assets (net of related tax liability)	(798)	(682)	(798)	(682)
10 Deferred tax asset that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(1,334)	(1,079)	(2,667)	(2,697)
11 Fair value reserves related to gains or losses on cash flow hedges	(469)	(285)	(469)	(285)
12 Negative amounts resulting from the calculation of expected loss amounts	(8)	(21)	(8)	(21)
15 Defined benefit pension fund assets	(31)	(183)	(31)	(183)
27a Other regulatory adjustments (including IFRS 9 transitional adjustments when relevant)	251	298	—	—
28 Total regulatory adjustments to common equity tier 1 (CET 1)	(2,424)	(1,991)	(4,008)	(3,907)
29 Common equity tier 1 (CET 1) capital	10,589	10,909	9,004	8,993
Additional tier 1 (AT1) capital: Instruments				
30 Capital instruments and the related share premium accounts				
31 - Classified as equity under applicable accounting standards	496	—	496	—
34 Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	129	235	159	316
Additional tier 1 (AT1) capital: before regulatory adjustments	625	235	655	316
43 Total regulatory adjustments to additional tier 1 (AT1)	—	—	—	—
44 Additional tier 1 (AT1) capital	625	235	655	316
45 Tier 1 capital (T1 = CET 1 + AT1)	11,214	11,144	9,659	9,309
Tier 2 (T2) capital: Instruments and provisions				
46 Capital instruments and the related share premium accounts	500	—	500	—
48 Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	426	415	507	531
50 Credit Risk adjustments	—	—	—	—
Tier 2 (T2) capital before regulatory adjustments	926	415	1,007	531

	CRD IV Transitional		CRD IV Fully loaded	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	€m	€m	€m	€m
Tier 2 (T2) capital: Regulatory adjustments				
57 Total regulatory adjustments to Tier 2 (T2) capital	—	—	—	—
58 Tier 2 (T2) capital	926	415	1,007	531
59 Total capital (TC = T1 + T2)	12,140	11,559	10,666	9,840
60 Total risk weighted assets	52,121	51,596	51,999	51,438
Capital ratios and buffers				
61 Common equity tier 1	20.3%	21.1%	17.3%	17.5%
62 Tier 1	21.5%	21.6%	18.6%	18.1%
63 Total Capital	23.3%	22.4%	20.5%	19.1%
64 Institution specific buffer requirement (CET 1 requirement in accordance with article 92 (1) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	8.3851%	6.579%	9.3851%	8.704%
65 of which: capital conservation buffer requirement	2.500%	1.875%	2.5%	2.5%
66 of which : countercyclical buffer requirement	0.8851%	0.204%	0.8851%	0.204%
67a of which: Other Systemically Important Institution (O-SII) buffer	0.50%	—	1.5%	1.5%
68 Common equity tier 1 available to meet buffers ⁽¹⁾ (as a percentage of risk exposure amount)	15.8%	16.6%	12.8%	13.0%
Amounts below the thresholds for deduction (before risk weighting)				
72 Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	188	109	188	109
73 Direct and indirect holdings of the capital of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	106	113	106	113
75 Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	70	85	70	85
Applicable caps on the inclusion of provision in Tier 2				
77 Cap on inclusion of credit risk adjustments in T2 under standardised approach	344	337	344	337
79 Cap for inclusion of credit risk adjustments in T2 under internal ratings based approach	113	115	113	115

⁽¹⁾ CET 1 in excess of 4.5%.

Appendix 4. Quantitative information on liquidity coverage ratio

Liquidity Risk

The Liquidity Cover Ratio ("LCR") table below has been produced in line with the requirements set out in the 'Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013' (EBA/GL/2017/01). All figures included in the tables below represent a 12 month rolling average for each quarter of the respective year.

Table 65: Funding and liquidity risk

	Total Unweighted Value (average) €m				Total Weighted Value (average) €m			
	30/3/2019	28/6/2019	28/9/2019	31/12/2019	30/3/2019	28/6/2019	28/9/2019	31/12/2019
High quality liquid assets ("HQLA")								
Total HQLA					17,784	18,107	18,889	19,900
Cash outflows								
Retail deposits and deposits from small business customers, of which:	39,332	40,520	41,617	42,804	3,497	3,601	3,695	3,796
Stable deposits	23,415	24,093	24,698	25,395	1,171	1,209	1,239	1,274
Less stable deposits	15,858	16,376	16,874	17,366	2,267	2,341	2,411	2,478
Unsecured wholesale funding	21,893	21,931	21,870	22,053	9,841	9,943	9,920	9,997
Operational deposits (all counterparties) and deposits in networks of cooperative banks	—	—	—	—	—	—	—	—
Non-operational deposits (all counterparties)	21,851	21,889	21,870	22,053	9,799	9,901	9,920	9,997
Unsecured debt	42	42	—	—	42	42	—	—
Secured wholesale funding					14	7	7	19
Additional requirements, of which	11,056	11,431	11,554	11,678	1,189	1,233	1,262	1,273
Outflows related to derivative exposures and other collateral requirements	308	302	285	272	308	302	285	272
Outflows related to loss of funding on debt products	—	—	—	—	—	—	—	—
Credit and liquidity facilities	10,748	11,128	11,269	11,406	881	931	977	1,001
Other contractual funding obligations	271	274	270	284	167	172	169	182
Other contingent funding obligations	889	881	843	847	46	44	42	42
Total cash outflows					14,754	15,000	15,095	15,309
Cash inflows								
Secured lending (eg reverse repos)	117	162	155	240	61	110	104	162
Inflows from fully performing exposures	854	837	817	800	517	511	504	509
Other cash inflows	925	928	972	1,031	225	234	281	346
Total cash inflows	1,896	1,927	1,944	2,071	804	856	889	1,018
Fully exempt inflows	—	—	—	—	—	—	—	—
Inflows Subject to 90% Cap	—	—	—	—	—	—	—	—
Inflows Subject to 75% Cap	1,794	1,786	1,820	1,886	804	856	889	1,018
					€m	€m	€m	€m
Liquidity buffer					17,784	18,107	18,889	19,900
Total net cash outflows					13,951	14,145	14,206	14,292
Liquidity coverage ratio (%) ⁽¹⁾					128 %	128 %	133 %	139 %

⁽¹⁾ Liquidity coverage ratio ("LCR") is liquidity buffer/total net cash outflows

	Total Unweighted Value (average) €m				Total Weighted Value (average) €m			
	30/3/2018	28/6/2018	28/9/2018	31/12/2018	30/3/2018	28/6/2018	28/9/2018	31/12/2018
High quality liquid assets (HQLA)								
Total HQLA					17,166	17,418	17,509	17,581
Cash outflows								
Retail deposits and deposits from small business customers, of which:								
Stable deposits	35,169	36,175	37,271	38,304	3,054	3,170	3,297	3,401
Less stable deposits	21,475	21,930	22,432	22,957	1,101	1,139	1,181	1,208
Unsecured wholesale funding, of which:	13,694	14,245	14,839	15,347	1,953	2,031	2,116	2,193
Operational deposits (all counterparties) and deposits in networks of cooperative banks	20,704	20,936	21,424	21,727	9,286	9,253	9,513	9,709
	—	—	—	—	—	—	—	—
Non-operational deposits (all counterparties)	20,527	20,914	21,371	21,685	9,108	9,231	9,461	9,667
Unsecured debt	178	22	53	42	178	22	53	42
Secured wholesale funding					32	29	23	19
Additional requirements, of which:	10,262	10,355	10,625	10,851	1,146	1,134	1,150	1,166
Outflows related to derivative exposures and other collateral requirements	350	334	328	316	350	334	328	316
Outflows related to loss of funding on debt products	—	—	—	—	—	—	—	—
Credit and liquidity facilities	9,912	10,021	10,297	10,536	797	800	823	851
Other contractual funding obligations	396	361	329	262	279	247	218	155
Other contingent funding obligations	1,318	1,221	1,129	999	89	80	70	58
Total cash outflows					13,886	13,913	14,271	14,508
Cash Inflows								
Secured lending (reverse repos)	57	52	92	104	—	—	41	61
Inflows from fully performing exposures	799	825	854	862	476	495	523	524
Other cash inflows	923	949	940	931	200	236	232	227
Total cash Inflows	1,779	1,826	1,886	1,897	676	731	796	812
Total HQLA					17,166	17,418	17,509	17,581
Total net cash outflows					13,210	13,182	13,475	13,696
Liquidity coverage ratio (Average)					130 %	132 %	130 %	128 %

⁽¹⁾ Liquidity coverage ratio ("LCR") = total HQLA/total net cash outflows.

Qualitative information on LCR

The LCR is calculated on significant currency, consolidated-all currencies basis and for subsidiaries outside the liquidity sub-group pursuant to article 8(1) of Regulation (EU) No. 575/2013 (CRR). The average LCR for the 12 months to 31 December 2019 increased to 139%, as growth in the liquidity buffer exceeded growth in stresses. Growth in the average liquidity buffer during the 12 month period is largely driven by net deposit growth across businesses. The Group also continued to maintain surpluses to its internal liquidity requirements.

The quarterly average HQLA ranged from € 17,784 million to € 19,900 million of which government securities constituted 41-46% and withdrawable central bank reserves constituted 25-32%. The quarterly weighted average of outflows ranged from € 14,756 million to € 15,309 million of which the non-operational deposits and undrawn commitments contribution remained broadly flat at 65% and 7% respectively. The quarterly weighted average inflows from assets ranged from € 804 million to € 1,018 million with fully performing exposures constituting 50-64% of total cash inflows. The LCR captures both contractual derivative outflows and the impact of an adverse market scenario on derivative outflows and collateral calls. The quarterly weighted average of outflows ranged from € 273 million to € 309 million during 2019. Derivative inflows were de minimus.

Management of funding and liquidity risk

The Group defines liquidity risk as the risk it will be unable to fund its assets and meet its payment obligations as they come due, without incurring unacceptable costs or losses. The objective of liquidity management is to ensure that, at all times, the Group holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties at an economic price.

Funding and liquidity risk is measured and controlled using a range of metrics and methodologies including, liquidity stress testing and ensuring adherence to limits based on the regulatory defined liquidity ratios, the liquidity coverage ratio ("LCR") and the net stable funding ratio ("NSFR").

Liquidity stress testing consists of applying severe but plausible stresses to the Group's liquidity buffer through time in order to simulate a survival period. The simulated survival period is a key risk metric and is controlled using Board approved limits. The LCR is designed to promote short term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. The NSFR has a time horizon of one year and has been developed to promote a sustainable maturity structure of assets and liabilities. A number of other internal and external limits and indicators (e.g. asset encumbrance) are utilised to manage and monitor both liquidity and funding risks.

The Group's asset and liability committee ("ALCo") is the governance forum with accountability for reviewing and monitoring the Group's funding and liquidity risk as described in the "Management and measurement" section on page 146 of the Annual Financial Report 2019.

Oversight of funding and liquidity risk

The Group's internal liquidity adequacy assessment process ("ILAAP") encompasses all aspects of funding and liquidity management, including planning, analysis, stress testing, control, governance, policy and contingency planning. The ILAAP considers evolving regulatory standards and aims to ensure that the Group maintains sufficient financial resources of appropriate quality for the Group's funding profile. On an annual basis, the Board attests to the Group's liquidity adequacy via the liquidity adequacy statement as part of ILAAP.

Appendix 5. Countercyclical capital buffer

Table 66: Countercyclical capital buffer – geographical distribution of credit exposures

The countercyclical buffer (“CCyB”) was introduced under CRD IV.

National designated authorities will deploy CCyB rates when excessive credit growth is determined to be connected with a build-up of system-wide risk.

AIB had an overall CCyB additional capital requirement of € 461 million as at 31 December 2019 (2018: € 105 million).

The following table sets out the Group’s countercyclical capital buffer by geographical location:

31 December 2019											
General Credit Exposures		Trading Book Exposures	Securitisation Exposures			Own Funds Requirements ⁽¹⁾					
Exposure Value for SA	Exposure Value for IRB	Sum of long and short positions of trading book exposures	Exposure Value for SEC-IRB	Total	General Credit Exposures	Trading book Exposures	Securitisation Exposures	Total	Own funds requirements weights ⁽²⁾	Counter-cyclical capital buffer rate ⁽³⁾	
€m	€m		€m	€m							€m
Breakdown by country:											
ROI	26,271	27,041	241	155	53,927	2,303	13	24	2,340	65.64	1
UK	10,241	759	—	—	11,000	786	—	—	786	22.05	1
France	83	593	—	14	690	44	—	—	44	1.23	0.25
Denmark	17	40	—	—	57	4	—	—	4	0.12	1
Sweden	—	45	—	—	45	5	—	—	5	0.13	2.5
Norway	—	10	—	—	10	1	—	—	1	0.02	2.5
Hong Kong	—	—	—	—	—	—	—	—	—	0	2
Slovakia	—	—	—	—	—	—	—	—	—	0	1.5
Bulgaria	—	—	—	—	—	—	—	—	—	0	0.5
Czech Republic	—	—	—	—	—	—	—	—	—	0	1.5
Iceland	—	—	—	—	—	—	—	—	—	0	1.75
Lithuania	—	—	—	—	—	—	—	—	—	0	1
Other	804	4,684	—	348	6,023	372	—	13	385	10.8	
Total	37,416	33,172	241	517	71,752	3,515	13	37	3,565	100	0.8851

⁽¹⁾ Based on 8% of risk weighted assets.

⁽²⁾ This is the own funds requirement of each country expressed over the total own funds requirement for CCyB.

⁽³⁾ This is calculated as a weighted average of the CCyB rates applied to the own funds requirements weights for the countries included above.

	General Credit Exposures		Trading Book Exposures	Securitisation Exposures		Own Funds Requirements ⁽¹⁾					
	Exposure Value for SA	Exposure Value for IRB	Sum of long and short positions of trading book exposures for SA	Exposure Value for SEC-ERBA	Exposure Value for SEC-IRB	General Credit Exposures	Trading book Exposures	Securitis ation Exposures	Total	Own funds requirements weights ⁽²⁾	Counter-cyclical capital buffer rate ⁽³⁾
	€m	€m	€m	€m	€m	€m	€m	€m	€m	%	%
Breakdown by country:											
ROI	26,414	27,689	11	—	159	2,399	1	2	2,402	68.26	—
UK	9,365	551	—	—	—	712	—	—	712	20.25	1
Hong Kong	—	—	—	—	—	—	—	—	—	—	1.88
Norway	—	19	—	—	—	1	—	—	1	0.03	2
Sweden	—	19	—	—	—	2	—	—	2	0.06	2
Slovakia	—	—	—	—	—	—	—	—	—	—	1.3
Other	855	4,787	—	—	396	398	—	3	401	11.4	—
Total	36,634	33,065	11	—	555	3,512	1	5	3,518	100	0.2044

⁽¹⁾ Based on 8% of risk weighted assets.

⁽²⁾ This is the own funds requirement of each country expressed over the total own funds requirement for CCyB.

⁽³⁾ This is calculated as a weighted average of the CCyB rates applied to the own funds requirements weights for the countries included above.

Table 67: Countercyclical capital buffer

The additional countercyclical capital buffer requirement is shown below for the Group.

	31 December 2019	31 December 2018
Total risk exposure amount (€m)	52,121	51,596
Institution specific countercyclical capital buffer rate (%) ⁽¹⁾	0.8851	0.2044
Institution specific countercyclical capital buffer requirement (€m)	461	105

⁽¹⁾ Countercyclical capital buffer rate multiplied by Own funds requirement weights by country breakdown.

Appendix 6. Further analysis of the loan profile

Table 68: Loans and advances, loans past due but not impaired, impaired loans and provisions – industry and geographic distribution

The following table presented for AIB Group and significant subsidiaries, profiles the customer loan portfolio, loans past due, credit impaired ECL allowance and credit impairment losses/ (writeback) by industry sector and geography⁽¹⁾:

	31 December 2019					
	Gross loans and advances to customers (²)	Of which: past due	Of which: credit impaired (³)	ECL (⁴) allowance on gross loans and advances to customers - Balance sheet	ECL (⁴) allowance on credit impaired gross loans and advances to customers - Balance sheet	Credit impairment losses/ (writeback) - Income statement
	€m	€m	€m	€m	€m	€m
Agriculture	1,741	54	78	40	23	-17
Energy	1,490	8	4	7	2	-3
Manufacturing	3,143	25	57	41	24	14
Property and construction	7,376	216	367	189	132	-47
Distribution	5,257	86	173	125	49	-38
Transport	1,936	10	29	14	6	14
Financial	764	4	4	6	1	0
Other services	5,981	71	93	72	36	1
Personal - Residential mortgages	31,454	1,832	2,338	569	507	93
Personal - Other	2,984	259	191	175	115	10
	62,126	2,565	3,334	1,238	895	27
Ireland	46,970	2,336	3,002	1,087	828	-12
United Kingdom	9,589	208	311	125	65	17
Rest of World	5,567	21	21	26	2	22
	62,126	2,565	3,334	1,238	895	27

⁽¹⁾ The geographic breakdown in this table is based on the residence of the immediate counterparty.

⁽²⁾ Includes loans and advances to customers at amortised cost at FVTPL.

⁽³⁾ Loans and advances to customers classified as Stage 3 under IFRS 9. Also included are loans and advances which were purchased or originated as credit impaired.

⁽⁴⁾ Expected credit loss ("ECL").

31 December 2018

	Gross loans and advances to customers (2)	Of which: past due	Of which: credit impaired (3)	ECL (4) allowance on gross loans and advances to customers - Balance sheet	ECL (4) allowance on credit impaired gross loans and advances to customers - Balance sheet	Credit impairment losses/ (writeback) - Income statement
	€m	€m	€m	€m	€m	€m
Agriculture	1,836	147	172	77	45	(15)
Energy	983	13	14	14	6	9
Manufacturing	2,934	40	54	49	29	10
Property and construction	7,951	733	1,189	480	403	(123)
Distribution	5,518	307	460	283	177	(5)
Transport	1,779	18	20	17	8	(1)
Financial	595	5	33	12	8	(1)
Other services	5,921	159	235	141	95	14
Personal - Residential mortgages	32,315	2,486	3,257	713	654	(84)
Personal - Other	3,075	337	343	253	172	(13)
	62,907	4,245	5,777	2,039	1,597	(209)
Ireland	48,677	3,899	5,321	1,787	1,418	(231)
United Kingdom	8,864	301	366	208	142	8
Rest of World	5,366	45	90	44	37	14
	62,907	4,245	5,777	2,039	1,597	(209)

(1) The geographic breakdown in this table is based on the residence of the immediate counterparty.

(2) Includes loans and advances to customers at amortised cost at FVTPL.

(3) Loans and advances to customers classified as Stage 3 under IFRS 9. Also included are loans and advances which were purchased or originated as credit impaired.

(4) Expected credit loss ("ECL").

Glossary of definitions and explanations

A

Additional Tier 1 capital – (“AT1”) are securities issued by AIB and included in its capital base as fully CRD IV compliant additional tier 1 capital on a fully loaded basis.

Arrears – Relate to any interest or principal on a loan which was due for payment, but where payment has not been received. Customers are said to be in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan is unpaid or overdue.

B

Banking book (also non-trading book) – A regulatory classification to support the regulatory capital treatment that applies to all exposures which are not in the trading book. Banking book positions tend to be structural in nature and, typically, arise as a consequence of the size and composition of a bank’s balance sheet. Examples include the need to manage the interest rate risk on fixed rate mortgages or rate insensitive current account balances. The banking book portfolio will also include all transactions/positions which are accounted for on an interest accruals basis or, in the case of financial instruments in a held to collect and sell business model, on a fair value through other comprehensive income (FVOCI) basis.

Basel II – A set of banking regulations issued in 2004 by the Basel Committee on Bank Supervision, which regulated finance and banking internationally. It was implemented into EU law by Directive 2006/48/EC and Directive 2006/49/EC. Basel II attempted to integrate Basel capital standards with national regulations, by setting the minimum capital requirements of financial institutions with the goal of ensuring institution liquidity.

Basel III – A comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector. These measures aim to:

- improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source;
- improve risk management and governance; and
- strengthen banks' transparency and disclosures. Basel III is part of the Committee's continuous effort to enhance the banking regulatory framework.

Basel III builds on the International Convergence of Capital Measurement and Capital Standards document (Basel II). CRD IV implements the Basel III agreement in the EU framework.

Basis points (“bps”) – One hundredth of a per cent (0.01%), so 100 basis points is 1%. Used in quoting movements in interest rates or yields on securities.

C

Carrying value – An accounting measure of value, where the value of an asset or a company is based on the figures in the company's statement of financial position (balance sheet). This is the amount at which an asset is recognised in the balance sheet after deducting accumulated depreciation and accumulated impairment. This is different from market value, as it can be higher or lower depending on the circumstances, the asset in question and the accounting practices that affect those assets.

Capital Requirements Directive (“CRD”) – Capital adequacy legislation implemented by the European Union and adopted by Member States designed to ensure the financial soundness of credit institutions and certain investment firms and give effect in the EU to the Basel II proposals which came into force on 20 July 2006.

Capital Requirements Directive IV (“CRD IV”) – Which came into force on 1 January 2014, comprises a Capital Requirements Directive and a Capital Requirements Regulation which implements the Basel III capital proposals together with transitional arrangements for some of its requirements. The Regulation contains the detailed prudential requirements for credit institutions and investment firms. Requirements Regulation (No. 575/2013) (“CRR”) and the Capital Requirements Directive (2013/36/EU).

Central Bank of Ireland – (“Central Bank” or “CBI”) is responsible for both central banking and financial regulation and was created under the Central Bank Reform Act 2010. The Central Bank has a legal mandate, in both domestic legislation and under the Maastricht Treaty, to contribute to financial stability both in Ireland and across the eurozone. Historically, the Central Bank had overall responsibility for the authorisation and supervision of credit institutions operating in Ireland. From 4 November 2014, a number of supervisory responsibilities and decision making powers moved to the ECB (see Single Supervisory Mechanism below).

Collateralised loan obligations – A collateralised loan obligation (“CLO”) is a security backed by a pool of debt, often low-rated corporate loans. CLOs are similar to collateralised mortgage obligations, except for the different type of underlying loan.

Common equity tier 1 capital (“CET1”) – The highest quality form of regulatory capital under Basel III that comprises common shares issued and related share premium, retained earnings and other reserves excluding cash flow hedging reserves, and deducting specified regulatory adjustments.

Common equity tier 1 ratio – A measurement of a bank’s common equity tier 1 capital expressed as a percentage of its total risk weighted assets.

Counterparty credit exposure (“CCE”) – A measure of the amount that would be lost in the event that a counterparty to a financial contract defaults prior to its maturity. If, at that time the Group were to incur a loss to replace the contract, this would give rise to a claim on the counterparty. CCE consists partly of the contract’s current replacement cost (or mark-to-market) and partly of potential future exposure. The potential future exposure component is an estimation which reflects possible changes in market values during the remaining life of the individual contract. The CCE for an individual counterparty will take into account the existence of valid bilateral netting or collateral agreements, where these are in place.

Credit conversion factor (“CCF”) – Converts off-balance sheet items and items which are committed but undrawn into on-balance sheet credit exposure equivalents. An estimate is made of the proportion of undrawn commitments expected to have been drawn at the point of default. Conversion factor is the ratio of the currently undrawn amount of a commitment that will be drawn and outstanding at default to the currently undrawn amount of the commitment. The extent of the commitment is determined by the advised limit, unless the unadvised limit is higher.

Credit default swap (“CDS”) – An agreement between two parties whereby one party pays the other a fixed coupon over a specified term. The other party makes no payment unless a specified credit event, such as a default, occurs, at which time a payment is made and the swap terminates. Credit default swaps are typically used by the purchaser to provide credit protection in the event of default by a counterparty.

Credit derivatives – Financial instruments where credit risk connected with loans, bonds or other risk weighted assets or market risk positions is transferred to counterparties providing credit protection. The credit risk might be inherent in a financial asset such as a loan or might be a generic credit risk such as the bankruptcy risk of an entity.

Credit impaired – Under IFRS 9, these are Stage 3 financial assets where there is objective evidence of impairment and, therefore, considered to be in default. A lifetime ECL is recognised for such assets.

Credit risk mitigation (“CRM”) – Techniques used by lenders to reduce the credit risk associated with an exposure by the application credit risk mitigants. Examples include: collateral; guarantees; and credit protection.

Credit support annex (“CSA”) – Provides credit protection by setting out the rules governing the mutual posting of collateral. CSAs are used in documenting collateral arrangements between two parties that trade over-the-counter derivative securities. The trade is documented under a standard contract called a master agreement, developed by the International Swaps and Derivatives Association (“ISDA”). The two parties must sign the ISDA master agreement and execute a credit support annex before they trade derivatives with each other.

D

Default – When a customer breaches a term and/or condition of a loan agreement, a loan is deemed to be in default for case management purposes. Depending on the materiality of the default, if left unmanaged it can lead to loan impairment. Default is also used in a CRD IV context when a loan is greater than 90 days past due and/or the borrower is unlikely to pay his credit obligations. This may require additional capital to be set aside.

E

EBA – The European Banking Authority (“EBA”) is an independent EU Banking Authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector.

Eligible financial collateral – Any of the following:

- a. cash on deposit with, or cash assimilated instruments held by, the lending credit institution;
- b. debt securities issued by central governments and central banks, which securities have a credit assessment by an External Credit Assessment Institution (“ECAI”) or export credit agency recognised as eligible for the purposes of Articles 111 to 113 and 135 to 136 of CRD IV which has been determined by the competent authority to be associated with credit quality step 4 or above under the rules for the risk weighting of exposures to central governments and central banks under Articles 111 to 113 and 135 to 136 of CRD IV;
- c. debt securities issued by institutions, where the securities have a credit assessment by an eligible ECAI which has been determined by the competent authority to be associated with credit quality step 3 or above under the rules for the risk weighting of exposures to credit institutions under Articles 111 to 113 and 135 to 136 of CRD IV;
- d. debt securities issued by other entities, where the securities have a credit assessment by an eligible ECAI which has been determined by the competent authority to be associated with credit quality step 3 or above under the rules for the risk weighting of exposures to corporates under Articles 111 to 113 and 135 to 136 of CRD IV;
- e. debt securities with a short-term credit assessment by an eligible ECAI which has been determined by the competent authority to be associated with credit quality step 3 or above under the rules for the risk weighting of short term exposures under Articles 111 to 113 and 135 to 136 of CRD IV;
- f. equities or convertible bonds that are included in a main index; and
- g. gold.

Expected credit loss (“ECLs”) – The weighted average of credit losses with the respective risks of a default occurring as the weights. This is an accounting measure of losses under IFRS 9 for financial reporting purposes.

Expected loss (“EL”) – The amount expected to be lost on an exposure from a potential default of a counterparty over a one year period. EL is calculated by multiplying the EAD (an amount) by the PD (a percentage) and by LGD (a percentage).

Exposure at default (“EAD”) – The expected or actual amount of exposure to the borrower at the time of default.

Exposure value – For on-balance sheet exposures, it is the amount outstanding less provisions and collateral held taking into account relevant netting agreements. For off-balance sheet exposures, including commitments and guarantees, it is the amount outstanding less provisions and collateral held taking into account relevant netting agreements and credit conversion factors.

External Credit Assessment Institution (“ECAI”) – Credit rating agency that is registered or certified in accordance with Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies or a central bank issuing credit ratings which are exempt from the application of Regulation (EC) No 1060/2009.

F

Fair value – The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date.

Forbearance – Is the term used when repayment terms of a loan contract have been renegotiated in order to make these terms more manageable for borrowers. Standard forbearance techniques have the common characteristic of rescheduling principal or interest repayments, rather than reducing them. Standard forbearance techniques employed by the Group include: - interest only; a reduction in the payment amount; a temporary deferral of payment (a moratorium); extending the term of the loan; and capitalising arrears amounts and related interest.

G

Gross exposure – The exposure at default before Credit Risk Mitigation (“CRM”), Credit Conversion Factors (“CCF”) and other offsets. See Credit Risk Mitigation and Credit Conversion Factor defined above.

I

Impaired loans – See credit impaired above.

Internal Capital Adequacy Assessment Process (“ICAAP”) – The Group’s own assessment, through an examination of its risk profile from regulatory and economic capital perspectives, of the levels of capital that it needs to hold.

Internal Ratings Based Approach (“IRBA”) – Allows banks, subject to regulatory approval, to use their own estimates of certain risk components to derive regulatory capital requirements for credit risk across different asset classes. The relevant risk components are: Probability of Default (“PD”); Loss Given Default (“LGD”); and Exposure at Default (“EAD”).

International Swaps and Derivatives Association (“ISDA”) – Represents participants in the privately negotiated derivatives industry. It is the largest global financial trade association, by number of member firms.

Ireland Strategic Investment Fund (“ISIF”) – Established on 22 December 2014 by the National Treasury Management (Amendment) Act 2014. The ISIF is controlled and managed by the NTMA. Pursuant to this Act, all property held by the National Pensions Reserve Fund Commission (the “NPRFC”).

Items associated with particularly high risk – A CRD IV exposure class whereby institutions assign a 150% risk weight to exposures, including exposures in the form of shares or units in a CIU that are associated with particularly high risks, where appropriate. Exposures with particularly high risks include any of the following exposures:

- investments in venture capital firms;
- investments in Alternative Investment Funds as defined in Article 4(1)(a) of Directive 2011/61/EU except where the mandate of the fund does not allow a leverage higher than that required under Article 51(3) of Directive 2009/65/EC;
- investments in private equity; and
- speculative immovable property financing.

L

Leverage ratio – To prevent an excessive build-up of leverage on institutions’ balance sheets, Basel III introduced a non-risk-based leverage ratio to supplement the risk-based capital framework of Basel II. It is defined as the ratio of tier 1 capital to total exposures. Total exposures include on-balance sheet items, off-balance sheet items and derivatives, and should generally follow the accounting measure of exposure.

Liquidity Coverage Ratio (“LCR”) – The ratio of the stock of high quality liquid assets to expected net cash outflows over the next 30 days under a stress scenario. CRD IV requires that this ratio exceeds 100% on 1 January 2018.

Loss Given Default (“LGD”) – The expected or actual loss in the event of default, expressed as a percentage of ‘exposure at default’.

Loans past due – When a borrower fails to make a contractually due payment, a loan is deemed to be past due. ‘Past due days’ is a term used to describe the cumulative number of days that a missed payment is overdue. Past due days commence from the close of business on the day on which a payment is due but not received. In the case of overdrafts, past due days are counted once a borrower:

- has breached an advised limit;
- has been advised of a limit lower than the then current amount outstanding; or
- has drawn credit without authorisation.

When a borrower is past due, the entire exposure is reported as past due, rather than the amount of any excess or arrears.

M

Mark-to-market – The mark-to-market of a derivative security represents its replacement cost at a point in time.

Minimum Transfer Amount – A cash threshold that needs to be passed in order for the requirement for collateral to be triggered as a result of a change in mark-to-market.

N

The National Treasury Management Agency (“NTMA”) – A State body which operates with a commercial remit outside public service structures to provide asset and liability management services to the Irish Government.

Net Stable Funding Ratio (“NSFR”) – The ratio of available stable funding to required stable funding over a 1 year time horizon.

Non-performing exposures (“NPEs”) – Non-performing exposures are defined by the European Banking Authority to include material exposures which are more than 90 days past due (regardless of whether they are impaired) and/or exposures in respect of which the debtor is assessed as unlikely to pay his/her credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or the number of days the exposure is past due.

O

Off-balance sheet items – Include undrawn commitments to lend, guarantees, letters of credit, acceptances and other items as listed in Annex I of the CRR.

Operational risk – The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk, but excludes strategic and business risk. In essence, operational risk is a broad canvas of individual risk types which include product and change risk, outsourcing, information security, cyber, business continuity, health and safety risks, people risk and legal risk.

Originator – Is either of the following:

- a. an entity which, either itself or through related entities, directly or indirectly, is involved in the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the exposure being securitised;
- b. an entity which purchases a third party's exposures onto its balance sheet and then securitises them.

Other items – A CRD IV definition which refers to other assets including land and buildings, plant and machinery, other fixtures and fittings, tools and equipment, payments on account and tangible assets in the course of construction.

P

Pillar 1 – minimum capital requirements – The part of the Basel Accord setting out the calculation of regulatory capital for credit, market and operational risk.

Pillar 3 – market discipline – The part of the Basel Accord which sets out the disclosure requirements for banks to publish certain details of their risks, capital and risk management, with the aim of strengthening market discipline.

Potential future exposure (“PFE”) – A measure of counterparty risk/credit risk and is defined as the maximum expected credit exposure over a specified period of time calculated at some level of confidence.

Probability of default (“PD”) – The likelihood that a borrower will default on an obligation to repay.

PV01 – A measure of interest rate sensitivity. It quantifies the change in the present value of a position that results from a one basis point increase in interest rates.

R

Regulatory capital – Regulatory capital which AIB holds, determined in accordance with rules established by the SSM/ECB for the consolidated Group and by local regulators for individual Group companies.

Repurchase agreement (“repo”) – A short-term funding agreement that allows a borrower to create a collateralised loan by selling a financial asset to a lender. As part of the agreement, the borrower commits to repurchase the financial asset at a date in the future, repaying the proceeds of the loan. For the counterparty to the transaction it is termed a reverse repurchase agreement or a reverse repo.

Re-securitisation – This is a securitisation exposure in which the underlying asset or pool of assets comprises at least one securitisation exposure.

Residential mortgage backed securities (“RMBS”) – Debt obligations that represent claims to the cash flows from pools of mortgage loans, most commonly on residential property.

Risk weighted assets (“RWAs”) – A measure of assets (including off-balance sheet items converted into asset equivalents e.g. credit lines) which are weighted in accordance with prescribed rules and formulas as defined in the Basel Accord to reflect the risks inherent in those assets.

S

Securitisation – The process of aggregating and repackaging non-tradable financial instruments such as loans and advances, or company cash flows into securities that can be issued and traded in the capital markets.

Securitisation position – An exposure to a securitisation.

Single Supervisory Mechanism (“SSM”) – A system of financial supervision comprising the European Central Bank (“ECB”) and the national competent authorities of participating EU countries. The main aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe.

Special Purpose Entity (“SPE”) – A legal entity which can be a limited company or a limited partnership created to fulfil narrow or specific objectives. A company will transfer assets to the SPE for management or use by the SPE to finance a large project thereby achieving a narrow set of goals without putting the entire firm at risk. This term is used interchangeably with SPV (special purpose vehicle).

Sovereign exposures – Exposures to governments, ministries, departments of governments, embassies, consulates and exposures on account of cash balances and deposits with central banks.

Sponsor – A credit institution other than an originator credit institution that establishes and manages an asset backed commercial paper programme or other securitisation scheme that purchases exposures from third party entities.

Supervisory Formula Method (“SFM”) – This is a formula based on the underlying asset portfolio’s capital requirement calculated under the IRB Approach. It is used to calculate risk-weighted exposure amounts for unrated securitisation positions.

T

Through-the-cycle – A ‘through-the-cycle’ probability of default is an estimate of the average default rate that is observed over an economic cycle rather than at any particular point in time.

Tier 1 capital – A measure of a bank’s financial strength defined by the Basel Accord. It captures common equity tier 1 capital and other instruments in issue that meet the criteria for inclusion as additional tier 1 capital. These are subject to certain regulatory deductions.

Tier 2 capital – Broadly includes qualifying subordinated debt and other tier 2 securities in issue. It is subject to adjustments relating to the excess of expected loss on the IRBA portfolios over the accounting expected credit losses on the IRBA portfolios, securitisation positions and material holdings in financial companies.

Total exposure – See exposure value.

Trading book – Includes all securities and interest rate derivatives that are held for trading purposes in the Treasury function. These are revalued daily at market prices (marked to market) and any changes in value are immediately recognised in the income statement.

V

Value at Risk – The Group’s core risk measurement methodology is based on an historical simulation application of the industry standard Value at Risk (“VaR”) technique. The methodology incorporates the portfolio diversification effect within each standard risk factor (interest rate, credit spread, foreign exchange, equity, as applicable). The resulting VaR figures, calculated at the close of business each day, are an estimate of the probable maximum loss in fair value over a one day holding period that would arise from an adverse movement in market rates. This VaR metric is derived from an observation of historical prices over a period of one year and assessed at a 95% statistical confidence level (i.e. the VaR metric may be exceeded at least 5% of the time).

W

Wrong Way Risk – For the purposes of measuring counterparty credit exposure, wrong way risk may be defined as either a) the probability of default of the counterparty being positively correlated with the quantum of credit exposure or b) the value of collateral held being negatively correlated with the probability of default of the counterparty.

CRR Roadmap

CRR Ref	High Level Summary	AIB Group compliance reference
CRR 431:	Scope of disclosure requirements	
431(1)	Institutions to publish Pillar 3 disclosures.	AIB Group Pillar 3 Disclosures at 31 December 2019 ("P3").
431(2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information.	P3: Chapter 3 – page 30; and AIB Group Annual Financial Report 2019 ("AFR 2019"): pages 163 and 164.
431(3)	Institutions must have a policy to comply with disclosure requirements and have policies for assessing the appropriateness including their verification and frequency of their disclosures. Institutions must also have policies for assessing whether their disclosures convey their risk profile comprehensively to market participants.	AIB Group has a Pillar 3 Disclosure Policy – P3 page 9.
431(4)	Explanation of ratings decision upon request.	Not applicable.
CRR 432:	Non-material, proprietary or confidential information	
432(1)	Institutions may omit certain disclosures provided that they are not regarded as material if certain conditions are respected.	AIB complies with all relevant disclosure requirements with regards to materiality.
432(2)	Institutions may omit certain disclosures that are proprietary or confidential if certain conditions are met.	AIB does not omit any information on the grounds that it may be proprietary or confidential.
432(3)	Where 432 (2) applies this must be stated in the disclosures, and more general information must be disclosed.	Not applicable.
432(4)	Use of paragraphs 1, 2 and 3 is without prejudice to the scope of liability for failure to disclose material information.	Not applicable.
CRR 433:	Frequency of disclosure	
433	Disclosures must be published once a year at a minimum and more frequently if necessary.	P3: Chapter 1 – page 8.
CRR 434:	Means of disclosures	
434(1)	Disclosures should be provided in one appropriate medium or location with clear cross references.	P3: Chapter 1 – page 9.
434(2)	Disclosure made for accounting requirements can be used for Pillar 3 Disclosure purposes if appropriate.	Certain cross references are made to AFR 2019, where appropriate. Sign posting to relevant page references are provided.

CRR 435:	Risk management objectives and policies	
435(1)	Disclose information as follows:	
435(1)(a)	The strategies and processes to manage risks.	P3: Chapter 3 – page 28; and AFR 2019: page 72.
435(1)(b)	Structure and organisation of risk management function.	P3: Chapter 3 – page 30 and AFR 2019: pages 72 to 74.
435(1)(c)	Risk reporting and measurement systems.	AFR 2019: pages 88 to 101; and pages 145 to 170.
435(1)(d)	Hedging and mitigating risk – policies and processes.	P3: Chapter 6 – page 56; and AFR 2019: pages 84 to 87.
435(1)(e)	Adequacy of risk management arrangements approved by the Board.	AFR 2019: pages 219 to 221.
435(1)(f)	Concise risk statement approved by the Board.	AFR 2019: pages 219 to 221.
435(2)	435(2) Information on governance arrangements, including information on Board composition and recruitment and risk committees.	P3: Chapter 3 – page 30; AFR 2019: pages 32 to 42; and 194 to 207.
435(2)(a)	Number of directorships held by Board members.	P3: Chapter 3 – page 30; and AFR 2019: pages 44 and 45.
435(2)(b)	Recruitment policy of Board members, their actual knowledge, skills and expertise.	P3: Chapter 3 – page 30; and AFR 2019: pages 204 to 207. +
435(2)(c)	Policy on diversity of Board membership and results against targets.	P3: Chapter 3 – page 30; and AFR 2019: page 204.
435(2)(d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year.	P3: Chapter 3 – page 30 and AFR 2019: pages 200 to 203.
435(2)(e)	Description of information flow on risk to the Board.	P3: Chapter 3 – pages 30; AFR 2019: pages 69 to 72; and 192 to 195.

CRR 436:	Scope of application	
436	Disclose information as follows:	
436(a)	Name of institution.	AIB Group plc.
436(b)	Difference in basis of consolidation for accounting and prudential purposes, describing entities that are:	P3: Chapter 1 – page 9; and Table 1 on page 11.
436(b)(i)	Fully consolidated.	P3: Chapter 1 – page 9.
436(b)(ii)	Proportionally consolidated.	Not applicable.
436(b)(iii)	Deducted from own funds.	Not applicable.
436(b)(iv)	Neither consolidated nor deducted.	Not applicable.
436(c)	Impediments to transfer of own funds between parent and subsidiaries.	P3: Chapter 1 – page 9.
436(d)	Capital shortfalls in any subsidiaries outside the scope of consolidation.	Not applicable.
436(e)	Making use of articles on derogations from a) prudential requirements or b) liquidity requirements for individual subsidiaries/entities	P3: Chapter 1 – page 8.

CRR 437: Own funds		
437(1)(a)	A full reconciliation of Common equity tier 1 items, Additional tier 1 items, Tier 2 items and filters and deductions to own funds of the institution and to the statutory balance sheet in the audited financial statements of the institution.	P3: Chapter 2 – Table 5 - page 18 and Table 6 – page 19; and Appendix 3. Transitional and fully loaded own funds.
437(1)(b)	A description of the main features of capital instruments issued by the institution.	P3: Appendix 1. Own funds. Also see separate document on website along with Pillar 3 document.
437(1)(c)	The full terms and conditions of all capital instruments issued by the institution.	P3: Appendix 1. Own funds. Also see separate document on website along with Pillar 3 document.
437(1)(d)	Disclosure of the nature and amounts of the following:	
437(1)(d)(i)	Each prudential filter applied.	P3: Chapter 2 – Table 5 – page 18 footnotes; and Appendix 3. Transitional and fully loaded own funds.
437(1)(d)(ii)	Each capital deduction applied.	P3: Chapter 2 – Table 4 to Table 6; and Appendix 1. Own funds.
437(1)(d)(iii)	Items not deducted from capital.	P3: Chapter 2 – pages 15 to 20.
437(1)(e)	A description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply.	P3: Chapter 2 – pages 15 to 20; and Appendix 1. Own funds.
437(1)(f)	Where institutions disclose capital ratios calculated using elements of own funds determined on a different basis.	Not applicable.
437(2)	EBA shall develop draft implementing technical standards to specify uniform templates for disclosure.	EBA published technical standards introducing Common Disclosure templates for Own funds - Regulation (EU) No - 1423/2013.
CRR 438: Capital requirements		
438(a)	Summary of institution's approach to assessing adequacy of capital levels.	P3: Chapter 2 – page 15 and AFR 2019: page 154.
438(b)	Result of ICAAP on demand from authorities.	Not applicable.
438(c)	Capital requirement amounts for credit risk for each Standardised Approach exposure class.	P3: Chapter 2 – Table 9 – page 22.
438(d)	Capital requirement amounts for credit risk for each Internal Ratings Based Approach exposure class.	P3: Chapter 2 – Table 9 – page 22.
438(d)(i)-(iv)	Capital requirement amounts for credit risk for each Internal Ratings Based Approach exposure class.	P3: Chapter 2 – Table 9 – page 22.
438(e)	Capital requirement amounts for market risk or settlement risk.	P3: Chapter 2 – Table 7 – page 20; and Chapter 10 – page 86.
438(f)	Capital requirement amounts for operational risk, separately for the Basic Indicator Approach, the Standardised Approach, and the Advanced Measurement Approaches as applicable.	P3: Chapter 2 – Table 7 – page 20.
438(f) (last paragraph)	Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach.	Not applicable.

CRR 439: Exposure to counterparty credit risk		
439(a)	Description of process to assign internal capital and credit limits to CCR exposures.	P3: Chapter 8 – pages 74 and 75.
439(b)	Discussion of policies to secure collateral and establishing credit reserves.	P3: Chapter 8 – page 75.
439(c)	Discussion of management of wrong-way risk exposures.	P3: Chapter 8 – page 75.
439(d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	P3: Chapter 8 – page 75..
439(e)	Derivation of net derivative credit exposure.	P3: Chapter 9 – page 74 and Table 49 – page 80. P3: Chapter 8 - Table 48 - page 79 & Table 52 - page 82.
439(f)	Exposure values for mark-to-market, original exposure, Standardised and Internal model methods.	P3: Chapter 8 – Table 45 – page 76. P3: Chapter 8 - Table 48 - page 79 & Table 52 - page 82.
439(g)	Notional amounts of credit derivative hedges for own credit, intermediation, bought and sold and current credit exposure by type of exposure.	P3: Chapter 8 – Table 51 page 81.
439(h)	Notional amounts of credit derivative transactions.	P3: Chapter 8 – Table 51 page 81.
439(i)	Estimate of alpha, if applicable.	Not applicable.
CRR 440: Capital buffers		
440(1)(a)	Geographical distribution of relevant credit exposures for calculation of countercyclical capital buffer.	P3: Appendix 5 – Table 66 – page 108.
440(1)(b)	Amount of the institution specific countercyclical capital buffer.	P3: Appendix 5 – Table 67 – page 109.
440(2)	EBA will issue technical implementation standards related to 440 (1).	AIB Group follows the current standards.
CRR 441: Indicators of global systemic importance		
441(1)	Disclosure of the indicators of global systemic importance.	Not applicable.
441(2)	EBA will issue technical implementation standards related to 441 (1).	Not applicable.

CRR 442:	Credit risk adjustments	
442(a)	Disclosure of bank's definitions of past due and impaired.	P3: Chapter 7 – page 58 (definition of non-performing/defaulted).
442(b)	Approaches for calculating specific and general credit risk adjustments.	P3: Chapter 7 – page 58; and AFR 2019: pages 88 to 98.
442(c)	Disclosure of pre-CRM EAD by exposure class.	P3: Chapter 5 – Table 14 – page 37.
442(d)	Disclosure of pre-CRM EAD by geography and exposure class.	P3: Chapter 5 – Table 15 – page 38; and Chapter 7 – Table 30 – page 61
442(e)	Disclosure of pre-CRM EAD by industry and exposure class.	P3: Chapter 5 – Table 16 – page 39; and Chapter 7 – Table 29 – page 60.
442(f)	Disclosure of pre-CRM EAD by residual maturity and exposure class.	P3: Chapter 5 – Table 17 – page 41.
442(g)	Breakdown of impaired, past due, specific and general credit risk adjustments, and impairment charges for the period, by industry.	P3: Chapter 7 - Table 28 – page 59; Table 29 – page 60; Table 33 – page 64; and Appendix 6.
442(h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography.	P3: Chapter 7 - Table 30 – page 61; and Appendix 6
442(i)	Reconciliation of changes in specific and general credit risk adjustments.	P3: Chapter 7– Table 33 – page 64.
442	Specific credit risk adjustments recorded in income statement to be disclosed separately.	P3: Chapter 7 – Table 29 – page 60.
CRR 443:	Unencumbered assets	
443	Disclosures on unencumbered assets.	P3: Appendix 2. Asset encumbrance.
CRR 444:	Use of ECAIs	
444(a)	Names of the ECAIs used in the calculation of Standardised Approach risk-weighted assets and reasons for any changes.	P3: Chapter 4 – page 36.
444(b)	Exposure classes associated with each ECAI.	P3: Chapter 5 – Table 25 – page 54; and Chapter 9 – page 83.
444(c)	Process used to transfer credit assessments to nontrading book items.	P3: Chapter 4 – page 36.
444(d)	Mapping of external rating to Credit Quality Step.	P3: Chapter 4 – page 36; Table 25 - page 54; and Table 26 – page 55.
444(e)	Exposure value pre and post-credit risk mitigation, by Credit Quality Step.	P3: Chapter 4– pages 36 to 55; and Chapter 6 – page 56.
CRR 445:	Exposure to market risk	
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	P3: Chapter 10 – page 86.
CRR 446:	Operational risk	
446	Scope of approaches used to calculate operational risk.	P3: Chapter 3 – page 30; and AFR 2019: pages 163 and 164.

CRR 447:	Exposures in equity not included in the trading book	
447(a)	Differentiation of exposures based on objectives and an overview of accounting techniques and valuation methodologies.	P3: Chapter 11 - page 87
447(b)	Comparison between balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value.	P3: Chapter 11 - pages 87 and 88. For exchange traded instruments market price did not differ for fair value.
447(c)	The types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures.	P3: Chapter 11 - pages 87 and 88.
447(d)	Realised gains or losses arising from sales and liquidations in the period.	P3: Chapter 11 - pages 87 and 88.
447(e)	Total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in the original or additional own funds.	P3: Chapter 11 - pages 87 and 88. There were no latent revaluation gains or losses.
CRR 448:	Exposure to interest rate risk on positions not included in the trading book	
448(a)	Nature of the interest rate risk and the key assumptions, and frequency of measurement of the interest rate risk.	P3: Chapter 12 – page 89; and AFR 2019: page 158.
448(b)	Variation in earnings, economic value or other relevant measure used by the bank for upward and downward rate shocks according to the banks method for measuring the interest rate risk, broken down by currency.	P3: Chapter 12 – page 89; and AFR 2019: page 158.
CRR 449:	Exposure to securitisation positions	
449(a)	Objectives in relation to securitisation activity.	P3: Chapter 9 – pages 83 and 84; and AFR 2019: pages 340 and 341.
449(b)	Nature of other risks in securitised assets, including liquidity.	P3: Chapter 9 – pages 83 and 84.
449(c)	Risks in re-securitisation activity stemming from seniority of underlying securitisations and ultimate underlying assets.	P3: Chapter 9 – pages 83 and 84. No re-securitisation activity.
449(d)	The roles played by the institution in the securitisation process.	P3: Chapter 9 – pages 83 and 84.
449(e)	Indication of the extent of involvement in roles.	P3: Chapter 9 – pages 83 and 84.
449(f)	Processes in place to monitor changes in credit and market risks of securitisation exposures, and how the processes differ for re-securitisation exposures.	P3: Chapter 9 – pages 83 and 84.
449(g)	Description of the institution's policies with respect to hedging and unfunded protection, and identification of material hedge counterparties.	P3: Chapter 9 – pages 83 and 84.
449(h)	Approaches to the calculation of risk-weighted assets for securitisations mapped to types of exposures.	P3: Chapter 9 – page 84.
449(i)	Types of SSPEs used to securitise third-party exposures as a sponsor.	Not applicable.
449(j)	Summary of accounting policies for securitisations.	P3: Chapter 9 – page 84.

449(k)	Names of ECAs used for securitisations and type.	P3: Chapter 9 – page 84.
449(l)	Full description of Internal Assessment Approach.	P3: Chapter 9 – page 84.
449(m)	Explanation of significant changes in quantitative disclosures.	P3: Chapter 9 – pages 83 to 85.
449(n)	Banking and trading book securitisation exposures separately as appropriate:	
449(n)(i)	Amount of outstanding exposures securitised.	P3: Chapter 9 – pages 83 to 85.
449(n)(ii)	On-balance sheet securitisation retained or purchased, and off-balance sheet exposures.	P3: Chapter 9 – pages 83 to 85.
449(n)(iii)	Amount of assets awaiting securitisation.	None.
449(n)(iv)	Early amortisation treatment; aggregate drawn exposures, capital requirements.	None.
449(n)(v)	Deducted or 1,250%-weighted securitisation positions.	None.
449(n)(vi)	Amount of exposures securitised and recorded gains or losses on sales.	P3: Chapter 9 – pages 83 and 84.
449(o)	Banking and trading book securitisations by risk band.	P3: Chapter 2 - Table 7 page 20 and Chapter 9 - Table 53 and Table 54 – page 85.
449(o)(i)	Retained and purchased positions and associated capital requirements, broken down by risk-weight bands.	P3: Chapter 9 - Table 53 and Table 54 – page 85.
449(o)(ii)	Retained and purchased re-securitisation positions before and after hedging and insurance before and after hedging and insurance; exposure to financial guarantors broken down by guarantor credit worthiness.	Not applicable.
449(p)	Impaired assets and recognised losses related to banking book securitisations, by exposure type.	Not applicable.
449(q)	Exposure and capital requirements for trading book securitisations, separated into traditional and synthetic.	Not applicable.
449(r)	449(r) Whether the institution has provided non-contractual financial support to securitisation vehicles.	None.

CRR 450: Remuneration policy

450 Remuneration.

P3: Chapter 13 – pages 90 to 93; and AFR 2019: pages 208 to 218.

CRR 451:	Leverage	
451 (1)	Institutions shall disclose:	
451(1)(a)	The leverage ratio;	P3: Chapter 2 – page 25 and 26; and AFR 2019: page 69.
451(1)(b)	A breakdown of the total exposure measure as well as a reconciliation of the total exposure measure to that disclosed in the published financial statements;	P3: Chapter 2 – page 25 and 26.
451(1)(c)	Where applicable, the amount of derecognised fiduciary items;	Not applicable.
451(1)(d)	A description of the processes used to manage the risk of excessive leverage;	P3: Chapter 2 – page 25.
451(1)(e)	Factors that had an impact on the leverage ratio during the period.	P3: Chapter 2 – page 25.
451(2)	EBA shall develop draft implementing technical standards.	AIB follows the current standards.
CRR 452:	Use of the IRB Approach to credit risk	
452(a)	Permission for use of the IRB approach from the competent authority.	P3: Chapter 4 – pages 32 to 35.
452(b)(i)	Internal rating scales, mapped to external ratings.	P3: Chapter 4 – page 35.
452(b)(ii)	Use of internal ratings for purposes other than capital requirement calculations.	AFR 2019: pages 82 and 83.
452(b)(iii)	Management and recognition of credit risk mitigation.	P3: Chapter 4 – page 33.
452(b)(iv)	Controls around ratings systems.	P3: Chapter 4 – pages 32 to 35.
452(c)	Description of ratings processes for each IRB asset class.	P3: Chapter 4 – pages 33 to 35.
452(d)	Exposure values by IRB exposure class, separately for Advanced and Foundation IRB.	P3: Chapter 5 – Table 18 – page 42.
452(e)(i)	Total exposure, separating drawn and undrawn exposure.	P3: Chapter 5 – Table 18 – page 42.
452(e)(ii)	Exposure-weighted average risk weight.	P3: Chapter 5 – Table 18 – page 42.
452(e)(iii)	Undrawn commitments and the exposure-weighted average Credit Conversion Factor (CCF).	P3: Chapter 5 – Table 18 – page 42.
452(f)	The requirements laid out in 452(e) for the Retail exposure class.	P3: Chapter 5 – Table 18 – page 42.
452(g)	Actual specific risk adjustments for the period and explanation of changes.	P3: Chapter 7 - Table 28 – page 59; Table 33 – page 64.
452(h)	Commentary on drivers of losses in preceding period.	P3: Chapter 7 - Table 34 – page 65.
452(i)	Estimates against actual losses for sufficient period, and historical analysis to help assess the performance of the rating system over a sufficient period.	P3: Chapter 7 - Table 34 – page 65.
452(j)	For all IRB exposures: Where applicable, PD and LGD by each country where the bank operates.	P3: Chapter 5 - Table 18– pages 42 Other than Central governments and central banks, the value of exposures booked on the balance sheet of locations outside Ireland is not material. In terms of Central governments and central banks on page 42, c. 50% is booked in the UK.

CRR 453:	Use of credit risk mitigation techniques	
453(a)	Use of on and off-balance sheet netting.	AFR 2019: page 84.
453(b)	How collateral valuation is managed.	AFR 2019: pages 84 and 85.
453(c)	Description of types of collateral used by the institution.	P3: Chapter 6 – page 56, and AFR 2019: pages 84 and 85.
453(d)	Main types of guarantor and credit derivative counterparty, creditworthiness.	AFR 2019: page 85.
453(e)	Market or credit risk concentrations within risk	P3: Chapter 6 – page 56.
453(f)	Standardised or Foundation IRB Approach, exposure value covered by eligible collateral.	P3: Chapter 6 - page 56
453(g)	Exposures covered by guarantees or credit derivatives.	P3: Chapter 5 - Table 20 - page 47; and Chapter 6 - page 56

CRR 454:	CRR 454: Use of the Advanced Measurement Approaches to operational risk	
454	Description of the use of insurance or other risk transfer mechanisms to mitigate operational risk.	Not applicable.

CRR 455:	Use of Internal Market Risk Models	
455(a)(i)	Disclosure of the characteristics of the market risk models.	Not applicable.
455(a)(ii)	Disclosure of the methodologies used to measure incremental default and migration risk.	Not applicable.
455(a)(iii)	Descriptions of stress tests applied to the portfolios.	Not applicable.
455(a)(iv)	Methodology for back-testing and validating the models.	Not applicable.
455(b)	Scope of permission for use of the models.	Not applicable.
455(c)	Policies and processes to determine trading book classification, and to comply with prudential valuation requirements.	Not applicable.
455(d)	High/Low/Mean values over the year of VaR, SVaR and incremental risk charge.	Not applicable.
455(e)	The elements of the own fund calculation.	Not applicable.
455(f)	Weighted average liquidity horizons of portfolios covered by models.	Not applicable.
455(g)	Comparison of end-of-day VaR measures compared with one day changes in the portfolio's value.	Not applicable.

Guidelines on disclosure of non-performing and forborne exposures - EBA/GL/2018/10

EBA Template	Template title	2019 Pillar 3 location
Template 1	Credit quality of forborne exposures	Table 35 – page 66
Template 2	Quality of forbearance	Table 36 – page 66
Template 3	Credit quality of performing and non-performing exposures by past due days	Table 37 – page 67
Template 4	Performing and non-performing exposures and related provisions	Table 38 – page 68
Template 5	Quality of non-performing exposures by geography	Table 39 – page 69
Template 6	Credit quality of loans and advances by industry	Table 40 – page 70
Template 7	Collateral valuation – loans and advances	Table 41 – page 71
Template 8	Changes in the stock of non-performing loans and advances	Table 42 – page 72
Template 9	Collateral obtained by taking possession and execution processes	Table 43 – page 72
Template 10	Collateral obtained by taking possession and execution processes – vintage breakdown	Table 44 – page 73