BACKING OUR CUSTOMERS

ANNUAL FINANCIAL REPORT
for the financial year ended
31 December 2020

AIB Group plc

ENSURING A GREENER TOMORROW BY BACKING THOSE BUILDING IT TODAY.

During 2020, AIB Group supported our customers through an unprecedented global health pandemic.

With our relentless customer focus, our leading digital technology and our commitment to sustainability, we remain well placed to continue to support our customers, adapting to their changing needs, while delivering long-term sustainable success for our business.

AIB EBS haven payzone AIB Merchant Services

ON OUR COVER

Owen Power and John Carty, Directors of Enerpower, at their solar farm in Kinsale, Co Cork.

Annual Financial Report
for the financial year ended 31 December 2020

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This Annual Financial Report contains forward looking statements with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. See page 362.

BUSINESS PERFORMANCE

2020 RESULTS

FINANCIAL PERFORMANCE

NET INTEREST INCOME

€1,872m

Low interest rate environment and lower lending volumes impacting income
Down 10% due to the low interest rate environment, lower investment securities income and reduced loan volumes partially offset by a decrease in funding costs

NET CREDIT IMPAIRMENT CHARGE

€1,460m

Conservative, forward looking and comprehensive provisioning approach
Impairment charge reflects deterioration in economic outlook, credit downgrades particularly in sectors impacted by COVID-19 and post model adjustments (for expected COVID-19 impacts and legacy non-performing mortgage exposures)

(LOSS)/PROFIT BEFORE TAX

(€931m)

Impacted by impairment charge
Operating profit[1] of €729m, with total operating income down 12% due to interest rates and decline in economic activity, offset by impairment charge of €1,460m and exceptional items of €215m

NEW LENDING

€9.2bn

Impacted by COVID-19 restrictions and lower international lending
Total new lending down 25% reflects lower syndicated, UK, property and mortgage lending, which was down 21%

NET LOANS

€57.0bn

Gross loans down 4% to €59.5bn due to lower economic activity
Net loans down €3.1bn (excluding FX impact) with redemptions exceeding new lending and increase in provision stock

NON-PERFORMING EXPOSURES[2]

€4.3bn

7.3% of gross loans
Non-performing exposures (NPEs) increased by €1.0bn to €4.3bn driven by higher property and business NPEs

MEDIUM-TERM FINANCIAL TARGETS[3] (END 2023)

ABSOLUTE COST BASE[4]

Cost of running the business, excluding exceptional costs

TARGET

<€1.35bn

Focussed cost discipline; controlling costs annually at €1.35bn by 2023

OUTCOME

Costs increased 1.5% to €1,527m

RETURN ON TANGIBLE EQUITY

A measure of how well capital is deployed to generate earnings growth

TARGET

>8%

Deliver sustainable returns; ROTE >8% by 2023

OUTCOME

Negative ROTE due to loss in the year

CET1 RATIO (FULLY LOADED)

A measure of our ability to withstand financial stress and remain solvent

TARGET

>14%

Appropriate capital target of CET1 >14% needed to run the business

OUTCOME

Strong capital position with CET1 15.6%

1. Operating profit before impairment losses and exceptional items.
2. Non-performing exposures (NPEs) refers to non-performing loans (NPLs) and excludes €163m of off-balance sheet commitments. For further information see pages 114 and 140.
3. Excludes potential inorganic opportunities.
4. Before bank levies, regulatory fees and exceptional items. For exceptional items see pages 64 and 73.

NON-FINANCIAL PERFORMANCE

GREEN FINANCE

Amount of new lending per year for sustainability purposes

€1.5bn

OUTCOMES

2020	€1.5bn
2019	€1.2bn

REDUCTION IN EMISSIONS[5]

% reduction in Scope 1 & 2 emissions year-on-year

24%

OUTCOMES

2020	24%
2019	6%

DIGITALLY ACTIVE CUSTOMERS

Number of active users on digital channels

1.72 million

OUTCOMES

2020	1.72 million
2019	€1.63 million

CUSTOMER SATISFACTION

Transaction Net Promoter Score

Measured after customer transactions for key touch points[6]

49

OUTCOMES

2020	49
2019	48

DIVERSITY

Women as % of management

41%

OUTCOMES

2020	41%
2019	41.5%

5. Our CO_2e emissions are reported one year in arrears: emissions reported in 2020 were generated in 2019. We are reporting on Scope 1 & 2 emissions. These emissions are independently verified by EcoAct.
6. Transactional Net Promoter Score (NPS) is an aggregation of 20 Homes, Personal, SME, Digital, Retail, Direct and Day-to-Day Banking journeys.

AIB AT A GLANCE

A FINANCIAL SERVICES GROUP

AIB Group is a financial services group. Our main business activities are retail, business and corporate banking, mobile payments and card acquiring. These services are provided through well-recognised brands, including AIB, EBS, Haven and Payzone as well as AIB Merchant Services, which is a joint venture with Fiserv. The Group operates predominantly in Ireland and the United Kingdom with the exception of AIB Merchant Services, which serves a global customer base. We are committed to supporting the transition to a low-carbon economy and backing sustainable communities. Our shares are quoted on the Irish and London stock exchanges and we are a member of the FTSE4Good index. Our core segments are: Retail Banking; Corporate, Institutional and Business Banking (CIB), and; AIB UK. We also operate wholesale treasury activities along with control and support functions.

AIB is our principal brand across all geographies. AIB provides a range of services to retail, business and corporate customers, with market-leading positions across key segments.

EBS is a challenger brand within the AIB Group. It offers mortgage, personal banking, savings and investment products and services, helping families buy their own homes and save for many of life's milestones.

Haven is a trading name. It is our mortgage broker channel that was established by EBS in December 2007 to focus on mortgage distribution through the intermediary market.

Payzone is a subsidiary of AIB Group. It is the largest provider of specialised payment services in Ireland, providing cashless solutions with significant reach, expertise and ambition.

AIB Merchant Services is an associate company within the AIB Group and a joint venture with Fiserv. With global card processing capabilities, it is one of Europe's largest e-commerce card payment acquiring firms.

RETAIL BANKING

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

2.5m
CUSTOMERS

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

296
LOCATIONS

Largest physical distribution network in Ireland, with 296 AIB and EBS locations with a further c. 949 locations through the An Post network, 114 of which are AIB-designated An Post offices.

1.56m
DIGITAL CUSTOMERS

No. 1 digital bank in Ireland, with over 1.56 million active digital customers and 1.39 million active mobile customers.

€4.4bn
LENDING

€34.0bn
NET LOANS

€539m
OPERATING CONTRIBUTION[1]

CORPORATE, INSTITUTIONAL & BUSINESS BANKING (CIB)

CIB serves AIB's large and medium-sized business customers. A holistic product offering combined with deep sector expertise allows us to develop long-term relationships and facilitates strategic engagement with our customers. To provide geographic and sector diversification, CIB selectively participates in European and US syndicated loans and bonds.

RELATIONSHIP DRIVEN MODEL

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

CUSTOMER-FOCUSED SOLUTIONS

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

SECTOR SPECIALIST TEAMS

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

€3.1bn
LENDING

€14.5bn
NET LOANS

€428m
OPERATING CONTRIBUTION[1]

1. Operating contribution before impairments and exceptional items.

AIB UK

AIB UK operates in two distinct markets, providing corporate and commercial banking services in Great Britain and retail and business banking services in Northern Ireland.

14%
OF NET LOANS

285k
CUSTOMERS

285k retail, corporate and business customers across the United Kingdom.

28
LOCATIONS

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

129k
DIGITAL CUSTOMERS

129k customers actively engaging across our digital channels.

£1.5bn
LENDING

£7.4bn
NET LOANS

£87m
OPERATING CONTRIBUTION[1]

GROUP COMPRISES WHOLESALE TREASURY ACTIVITIES, CUSTOMER OPERATIONS AND ALL GROUP FUNCTIONS

TREASURY

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

CONTROL AND SUPPORT

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

OPERATING CONTRIBUTION[1] BY SEGMENT

For a detailed report on our performance, read the 'Operating and financial review' section on pages 60 to 74.

1. Operating contribution before impairments and exceptional items.
2. Excludes Group segment operating loss €0.3bn.

AIB
#TheToughest

DEPUTY CHAIR'S STATEMENT

STRONG CAPITAL POSITION DESPITE PANDEMIC

Undoubtedly everything that can be said about the Group's performance in 2020 must be set against the COVID-19 pandemic and the resulting health and economic crisis.

An early impact of COVID-19 manifested itself on 30 March 2020 when the Group announced that it was no longer intending to seek shareholder approval for the payment of the final dividend for 2019 declared on 6 March 2020 and that the relevant resolution was to be withdrawn from the Annual General Meeting (AGM). This was in response to a European Central Bank (ECB) recommendation issued on 27 March 2020 which provided, inter alia, that "no dividends are paid out and no irrevocable commitment to pay out dividends is undertaken by the credit institutions for the financial year[s] 2019 and 2020." In accordance with the Board's dividend policy, the Group will not recommend any dividend for 2020 for approval at the 2021 AGM on account of the Group's financial performance during 2020.

The Board held weekly update meetings with Management from March to the end of June todeal with the specific challenges brought about by the pandemic including, in particular, approval of the policy and product changes necessary to implement the supports identified for the Group's personal and business customers. The Board, together with Management, remains committed to assisting our customers through these unprecedented conditions. In addition, despite the remote working arrangements necessitated by the pandemic, the Board completed its full scheduled programme of work and ensured a robust governance framework was in place throughout the year.

Whilst the Group's financial performance in the early months of the year was strong, the COVID-19 pandemic impacted the demand for, and our ability to write, new business. We booked a substantial €1.2bn provision for expected credit losses (ECLs) at the half-year, having taken a conservative, forward-looking and comprehensive approach to the economic situation. For the full year, the net credit impairment charge was €1,460m. This resulted in a loss before tax for the year of €931m. Despite this, the Group maintained a strong capital position at the end of the year with a CET1 ratio of 15.6%.

A significant proportion of the Board's time between March and November of 2020 was applied to the consideration of the implications of the COVID-19 pandemic for the Group's strategy, which had been announced at the beginning of last year. This culminated in the refreshing of that strategy and, at the beginning of December, the Group's 2021-23 strategy was shared with investors and analysts along with our medium-term targets.

Colin Hunt, our Chief Executive Officer, deals with the 2021-23 strategy in greater detail in his Review which follows this Statement.

2020 saw a number of changes to the composition of the Board with the retirements of former Chair, Richard Pym, and Senior Independent Director, Tom Foley, in March and April respectively, and the resignation of Executive Director Tomás O'Midheach in November. On behalf of the Board, I want to record our sincerest appreciation to all three Directors for their outstanding service to the Group during their time on the Board, and in Tomás's case, in his extensive career over 14 years in the Group. Tom's last act as a Director was to chair the Group's AGM on 29 April 2020 in the midst of the COVID-19 crisis and the extraordinary circumstances under which the meeting was held. We are very grateful to him for taking this role on and for his effective management of this meeting.

The Nomination & Corporate Governance Committee had a very active year and a number of additions to the Board were well advanced at the end of the year, subject to the satisfactory

Brendan McDonagh, Independent Non-Executive Director and Deputy Chair.

"THE GROUP IS WELL POSITIONED FOR DELIVERY OF REAL VALUE IN THE YEARS AHEAD"

completion of the required regulatory approval processes. On 22 January 2021 we reported the first of these, when we announced that Fergal O'Dwyer, former CFO of DCC plc, was joining the Board and the Audit Committee with immediate effect. I believe that the additional Directors will enhance the overall experience of the current Board whilst maintaining our commitment to appropriate levels of diversity and I look forward to sharing further details with you in due course.

We continue in our search to identify a candidate to serve as your Chair and we have made very good progress during 2020 under an externally managed process being overseen by Carolan Lennon, Senior Independent Director. We will update shareholders and the market as soon as circumstances permit. In the meantime, it has been my honour to fulfil the role of the Chair on an interim basis since Richard Pym's retirement in March 2020 and I will continue to perform this role until a successful selection and appointment process has concluded. In the absence of an appointed Chair, I remain available to shareholders for any issues you may have as does Carolan Lennon, in her role as Senior Independent Director.

We took early and decisive action in recognising the ECLs that might emerge from the COVID-19 pandemic whilst retaining a strong capital position. We refreshed our three-year strategy to address, with greater urgency, the trends that COVID-19 is accelerating – digitalisation, sustainability and alternative ways of working. We have realistic plans to diversify our income streams and to improve the breadth of our offerings to customers. Your Board is confident that, under the leadership of Colin and his Executive Committee colleagues, the Group is well positioned for delivery of real value in the years ahead to all of our shareholders. I would like to take this opportunity, on behalf of the Board, to thank all of our over 9,000 colleagues for their commitment to the Group and our customers in these difficult times.

Thank you sincerely for your ongoing support.

BRENDAN MCDONAGH
Deputy Chair
4 March 2021

CHIEF EXECUTIVE'S REVIEW

BACKING OUR CUSTOMERS

In 2020, we demonstrated AIB's resilience and our determination to deliver for our customers, making a real difference when it mattered most.

Colin Hunt, AIB's Chief Executive Officer, opening the virtual AIB Sustainability Conference in November 2020.

2020 was an extraordinary year in all our lifetimes. Our customers and the communities in which we operate faced an unprecedented social, health and economic crisis as a result of COVID-19 coupled with additional economic uncertainty arising from Brexit. While there have been challenges, I am pleased to report that the fundamentals of our business remain robust, sustainable and strong. We continue to have the leading position in personal loan, current account and credit card markets, a modern technology infrastructure with a resilient and flexible digital offering, while also leading the sustainability agenda in financial services in Ireland.

As a result of hard work over recent years, AIB entered this crisis in a position of capital strength with a good quality balance sheet, enabling us to deliver unprecedented levels of support to our customers, communities and the economy. We moved fast to give help where it mattered most. We worked closely with our customers as they faced into the evolving challenges and granted over 66,000 payment breaks on mortgages, small business and personal loans in 2020. We reassigned staff to contact centres and kept over 99% of our branch network open for business across our communities, with priority hours to support the most vulnerable; and we moved over 80% of our workforce to remote working overnight. We didn't get it right all the time, but we responded quickly in areas where we fell short. We navigated the pandemic while fundamentally altering our operating model, proving ourselves to be extraordinarily agile and resilient at a time of great change.

As a financial institution at the heart of the Irish economy, this emergency has demanded that we tackle the short and long-term economic consequences and play a central role in the recovery. AIB partnered with the Strategic Banking Corporation of Ireland (SBCI) on two COVID-19 lending schemes aimed at helping businesses that had been affected by the pandemic. In March 2020, we launched the SBCI COVID-19 Working Capital Loan Scheme and in September we were the first Irish bank to offer the Government-backed COVID-19 Credit Guarantee Scheme providing low-cost loans to SMEs, the backbone of our national economy.

The growing trends towards digitalisation, sustainability and changing the way we work have been fast-tracked by COVID-19. Against this backdrop, it was our view that this once-in-a-generation event was the moment to accelerate positive transformation, driven by our ambition to be at the heart of our customers' financial lives, at every stage. At the onset of the pandemic in March, while our immediate and primary focus was on supporting our customers and our people, we also began work on refreshing our strategic plan. In December, we announced details of the acceleration of our existing strategy, which will see our organisation transformed and delivering on a revised set of targets to 2023. More details on our 2023 strategy can be found on pages 22-25.

We have already made significant progress in 2021 namely, the agreement of a Memorandum of Understanding with Natwest Holdings for the proposed acquisition of Ulster Bank's c.€4bn corporate and commercial loan book and the acquisition of Goodbody. We are also in advanced discussions with Great-West LifeCo Inc. to establish a joint venture to greatly enhance our life, pensions and savings propositions that we offer to our customers.

Financial Performance

Our 2020 financial performance reflects our changed economic environment. We entered this crisis in a position of capital strength, which we have maintained. Our capital ratios are materially in excess of minimum regulatory requirements ensuring that we continue to deliver on our priorities.

"AS A RESULT OF HARD WORK OVER RECENT YEARS, AIB ENTERED THIS CRISIS IN A POSITION OF CAPITAL STRENGTH"

Gary Lavin, CEO of VitHit. In 2020, we shared stories of the businesses we support through both trying times and thriving times.

"COST MANAGEMENT REMAINS A PRIORITY FOR THE GROUP, REAFFIRMED BY THE REDUCTION IN OUR ABSOLUTE COST BASE TARGET FOR 2023"

We are reporting a loss before tax of €931m for the full-year. This loss has been driven by the net credit impairment charge of €1,460m, an increase of €244m from the half-year. Further information on the charge is detailed on page 112.

We have seen a reduction in our net interest income to €1,872m which represents a decrease of €204m compared to the full-year 2019 result. This adverse outcome was principally due to the low interest rate environment, lower investment securities income, reduced loan volumes and cost of excess liquidity partially offset by a decrease in interest expense.

Our total operating expenses for 2020 were €1,527m. Cost management remains a priority for the Group, reaffirmed by the reduction in our absolute cost base target for 2023 to less than €1,350m. Exceptional items of €215m include restitution related costs, restructuring costs attributed to the strategic decision to exit the SME market in Great Britain, impairment of intangible assets as well as the incremental costs of implementing a large volume of payment breaks on home mortgages, personal and SME loans to customers impacted by COVID-19.

Gross loans and gross performing loans at €59.5bn and €55.2bn respectively have both decreased since the prior year. As at December 2020, 16% of AIB's loan book has had a significant increase in credit risk and is in stage 2 (up from 6% at 2019 year-end), due to the impact of COVID-19 on those sectors most affected by pandemic restrictions. Maintaining the quality of new lending is critical, with >97% of our new lending being of strong or satisfactory credit quality in 2020.

The sharp reduction in economic activity negatively impacted the demand for new credit across most business areas in 2020, with new lending of €9.2bn, 25% lower than 2019. SME and corporate lending was 28% lower at €4.5bn, primarily due to lower international lending, with property and construction lending 30% lower at €1.4bn. Mortgage lending was 21% lower at €2.4bn and personal lending was down 10% to €0.9bn. Our Energy, Climate Action and Infrastructure portfolio continues to perform well with nearly 100% of the portfolio fully performing and no COVID-19 modifications made in 2020.

Non-performing loans as a percentage of gross loans to customers was 7.3% at 31 December 2020 compared to 5.4% at 31 December 2019. This increase primarily reflects increased flow to Non-Performing Exposures (NPEs) predominantly from those loans most affected by the impact of COVID-19 along with changes to the definition of default.

"WE HAVE BEEN ABLE TO SUPPORT OUR CUSTOMERS' ACCELERATED TRANSITION TO DIGITAL OVER THE COURSE OF 2020"

A key priority for the Group is addressing NPEs in a sustainable way. Our preference is to restructure loans for customers in difficulty on a case-by-case basis and for customers to engage with us in order to provide sustainable solutions. In Q1 2021, we agreed the sales of two NPE portfolios in deep arrears which collectively reduce the NPE ratio by c.1% as well as reducing risk-weighted assets and alleviating some of the impact of calendar provisioning. We remain committed to reducing NPEs further given the impact on cost, capital requirements and balance sheet resilience.

In terms of legacy issues, last year we completed payments to c.5,900 customers in relation to the AIB prevailing tracker rate issue and to c.1,000 EBS customers who were deemed impacted under the Tracker Mortgage Examination (TME) during 2020.

In relation to the AIB prevailing tracker rate issue, c.5,600 of these customers received the application of a Financial Services and Pensions Ombudsman decision, as well as, following the intervention of the Central Bank of Ireland (CBI), providing TME payments to c.300 customers who rolled off tracker rates very shortly after trackers were withdrawn and were deemed impacted under the TME.

We will, on an ongoing basis, work closely with the CBI in relation to any tracker-related issues and associated enforcement investigations.

AIB's funding ratios remain robust. As deposits continue to accumulate, our Loan to Deposit Ratio was 69% at the end of December 2020 and we continue to have strong liquidity metrics (Liquidity Coverage Ratio 193% and Net Stable Funding Ratio 148%).

In September 2020, we successfully issued our inaugural Tier 2 Green Bond of €1bn. This transaction, the largest Green Tier 2 issue in Europe, was the first Green Bond issued by an Irish bank and represented a further endorsement of the progress AIB is making on the climate action agenda. This issue, along with the AT1 issue in June 2020, further strengthened our capital position. Highlighting the firm support for AIB within credit markets, both deals had oversubscribed order books with quality institutions across multiple geographies. AIB Group's own funds and eligible liabilities are in excess of the estimated MREL requirement. We continue to focus on improving the efficiency of our capital.

We have a strong capital base with a robust pro forma fully-loaded CET1 ratio of 15.6% at 31 December 2020, well in excess of regulatory requirements and our medium-term target of greater than 14%.

Expected Credit Losses

Our expected credit loss approach deployed in response to the impact of COVID-19 has been comprehensive, conservative and forward-looking. With volatility and uncertainty continuing to feature in the macro environment, we remain satisfied that our prudent approach to provisioning is appropriate, with the full year net credit impairment charge of €1,460m. Key drivers of this charge are changes in macro-economic forecast, credit deterioration and stage transfers and post-model adjustments for expected COVID-19 impacts and legacy non-performing mortgage exposures.

Although the environment remains uncertain, there is a significant difference to asset quality now compared with the global financial crisis of 2007/2008. Government supports have been unprecedented in quantum and tenor, ensuring that businesses and individuals have had the capacity to endure lockdowns. Our provisioning outcomes reflect these measures, which have resulted in an increase of stage 2 exposures, especially in highly impacted sectors, namely hospitality and commercial real estate. Whilst we have seen an increase in NPEs compared to prior years, we have not as yet seen significant levels of default. Acknowledging the need for caution, we remain vigilant to the ongoing challenges presented by COVID-19.

Digital

Having invested significantly to become Ireland's leading digital bank, we have been able to support our customers' accelerated transition to digital over the course of 2020 with 1.72 million digitally active users. The pandemic has fundamentally changed the way that our customers interact with us and we have seen a shift across demographics, most notably a 21% increase in online daily usage by banking customers aged 65+.

Our customers have also embraced new payment methods – the volume of digital wallet payments has increased by 71% on the previous year with a 39% reduction in the volume of ATM withdrawals for the same period. In 2020, we also saw an increase in the digital share of sales across all our key, digitally-enabled product lines.

A socially distant meeting in Ballygarry House Hotel, AIB Customer.

"WE LAUNCHED OUR WELLBEING PROGRAMME IN EARLY 2020 AND IT IS DOMINATED BY EMPLOYEE-GENERATED IDEAS"

This is why digitalisation is at the core of our accelerated strategy to 2023. Investment in our digital capability will remain a priority, streamlining services to ensure we continue to deliver meaningful enhancements to our customer journeys, replicating our excellent personal customer experience for our business customers too, characterised by faster response and turnaround times and our ability to safely get financial products into the hands of our customers in a timely way.

Digital optimisation is equally important for our people. As hybrid working becomes the norm, the requirement for effective remote collaboration has been fast-tracked. This will be an ongoing area of focus and a key enabler in the delivery of our strategy.

Culture and our People

As I reflect on 2020, there is no doubt that we have really seen the best of our culture in action, with our people coming together to deliver solutions for customers, colleagues adapting to new ways of working and, in parallel, people and teams supporting their local communities.

As part of our ongoing culture evolution programme, we launched a refreshed set of values and associated behaviours to further evolve how our culture enables fair customer outcomes. Our strategic ambition can only be achieved when all of our customers see AIB as their trusted partner to help manage their financial wellbeing at every stage of life.

Listening to our people is crucial to our strategic progress and never has this been more relevant than in the last year. Staying connected while physically apart has been vital for making sure we have the right support mechanisms in place, so we ran regular check-in surveys with our people throughout the year. The most recent results, from November, show that 9 out of 10 employees felt supported in the new ways of working and 85% of participants agreed that AIB is concerned about their wellbeing.

In December, we communicated AIB's refreshed strategy in live virtual events for the markets and our own people.

We launched our wellbeing programme in early 2020 and it is dominated by employee-generated ideas as we seek to leverage the tremendous range of wellbeing skillsets within our workforce. Wellbeing is recognised as a key enabler of performance and we are proud to have been the first organisation in Ireland to implement a Right to Disconnect policy to support our people in achieving an optimal work-life balance.

Our people strategy to 2023 and beyond is underpinned by four pillars – Talent, Accountability & Performance, Wellbeing & Inclusion, and Organisational Shape – and has our values and behaviours at its core, ensuring the continued development of our culture and enabling us to deliver on our Group's strategic priorities while re-imagining the future of work.

As detailed in our Half-Year Financial Report, the Executive Committee (ExCo) changed in 2020 with the appointments of Geraldine Casey as Chief People Officer, Robert Mulhall as AIB UK Managing Director and the departures of Brendan O'Connor as AIB UK Managing Director and Tomás O'Midheach as Chief Operating Officer (COO). I would like to thank Brendan and Tomás for their significant contribution to the Group and wish them both well in their future endeavours.

In light of the revision of our strategic plan, we took this opportunity to review the ExCo structure to ensure that we were best organised to deliver our strategic priorities and objectives. The outcome of this review led to the redefinition of the role of COO into two distinct ExCo positions – a COO to lead transformation while driving the ongoing efficiency of our operations, and a Chief Technology Officer (CTO) to lead our technology agenda and ongoing enhancement of our customer and employee digital proposition. A process is currently underway to fill these positions.

I would like to acknowledge the retirement, on 31 December 2020, of Joe O'Connor as Trustee Chairman and Anne Maher as Trustee Director of the AIB Group Irish Pension Scheme. Over their many years of service, both Joe and Anne successfully managed the Scheme through some difficult periods and they now leave the Scheme in a much-improved financial position. Joe will be replaced by Gary Byrne as the Trustee Chairman.

Sustainable Communities

As a financial institution operating within a local and global context, recent events have only served to reinforce how important it is that we build sustainable business that works for all. We recognise that the pandemic provides an opportunity to rebuild economies and communities in a more inclusive manner but doing so requires bold commitment and action.

We are fundamentally committed to supporting the transition to a low-carbon economy, reducing our own carbon footprint and helping our customers to do the same. We announced our commitment to becoming the first Irish bank to operate as carbon neutral across our operations by 2030 and we pledge to use our local reach and influence to help society make that transition, ensuring a greener tomorrow by backing those building it today.

In 2020 we continued to grow our green lending, exceeding our €1bn yearly target by almost €0.5bn, accounting for 16% of all new lending. In the second half of the year, we raised €1bn from our first green bond issuance, the first Irish bank to do so, and we launched a €300m Social Housing Fund to deliver 2,000 sustainable A-rated homes. We also hosted our fourth annual Sustainability Conference as part of Ireland's Climate Finance Week 2020.

We continue to have the leading position in personal loan and current account markets.

"THIS IS THE DECADE FOR CHANGE AND AIB IS COMMITTED TO BEING A CHANGE-MAKER TO ENABLE ACTION AND MEANINGFUL PROGRESS"

We are pleased that our progress has also been recognised more widely. AIB was awarded Outstanding Achievement in Sustainability by Chambers Ireland/Business in the Community as well as the Excellence in the Environment award at the Annual Sustainable Impact Awards 2020. We were also re-accredited with inclusion on the CDP[1] Global 'A list' which recognises companies leading on environmental transparency and action and we continue to score strongly with the relevant ESG rating agencies, achieving Leadership ratings for both Sustainalytics and MSCI.

We are proud of the role we play in our communities, in which we are embedded by design not by accident. As an employer we're connected through our people; our physical network on high-streets enables face-to-face advice, support and friendships; and our continuing support for grassroots activities from sport to the arts to education.

Our AIB Together community programme really came to the fore at a time when it was most needed. We launched our €1m COVID Fund in April, and to date over €700,000 has gone to those most in need during the pandemic, and we pledged €2.4m in the battle against COVID-19 for a dedicated Research Hub at Trinity College Dublin. Further details of our progress in relation to making AIB a sustainable business as well as the impact of our community investment programme are contained in later sections of this report.

Sustainability is at the heart of our overall business strategy. It must be. This is *the* decade for change and AIB is committed to being a change-maker to enable action and meaningful progress.

Outlook

Prior to the onset of COVID-19, the Irish economy was performing strongly. The global recession triggered by the pandemic has been like no other and we have been dealing with an array of uncertainties that have made the near-term outlook more clouded than that of the medium-term.

1. CDP is a global disclosures charity; Environment, Social and Governance ratings are referred to as ESG ratings and MSCI is a global data provider.

"I AM PROUD OF HOW WE HAVE RISEN TO THE CHALLENGES PRESENTED BY THIS PANDEMIC HEAD ON"

Despite the economy going back into lockdown at the turn of the year, there were two major developments at the end of 2020 that greatly improved the economic outlook. Firstly, the EU and UK managed to conclude a Free Trade Agreement, thereby avoiding a hard Brexit, which would have been very damaging to both the Irish and UK economies. Secondly, the approval and roll-out of COVID-19 vaccines commenced. While it will be the second half of 2021 before the vaccines become widely available, it does provide the foundations for a strong and sustained recovery to take root as the year progresses, after what has proved to be a difficult start to 2021 on many fronts. I believe an unwinding of the large build-up of private sector savings during 2020, together with the continuing supportive stance of macro policies, points to the scope for a strong rebound in activity in the next couple of years as the COVID-19 pandemic is overcome.

Although our economic and operating environment has changed dramatically, the five pillars of our strategy remain as relevant today as when we announced them last March. In fact, they have been further validated and underpinned by the crisis. Strategy 2023 will now see us delivering on a revised set of financial targets enabled by a refocused set of strategic priorities and initiatives. In December, we reiterated our commitment to deliver a return on tangible equity, exceeding 8%. We retained our objective of having a CET1 ratio of greater than 14%, and we announced a new cost target 10% below the previous ceiling, delivering a cost base for the group of less than €1.35bn in 2023.

While maintaining a strong and resilient balance sheet, this strategy will reshape our business so that we generate sustainable profits, provide an excellent and efficient customer experience and make a meaningful contribution to the communities and societies that we serve. Full recovery of the investment made by the State in AIB is a continuing priority and our new strategy aims to ensure that we are well positioned to do so, at a time of the Government's choosing. Our targets are set, our plans are in place and we are prepared at every level to deliver on these commitments in the interests of all of our stakeholders.

I would like to thank my fellow Board and Executive Committee members, and all my colleagues across the Group for their relentless effort and steadfast support in a year that has truly been like no other. As Chief Executive Officer, I am proud of how we have risen to the challenges presented by this pandemic head on. We have demonstrated our resilience and determination to deliver and collectively make a real difference when it mattered most. After the extraordinary year that was 2020, our purpose to back our customers to achieve their dreams and ambitions has never been more relevant as we seek to rebuild a better country. We are committed to emerging stronger from the crisis, playing our part in creating a more sustainable society and environment. 2021 has not had the start that we hoped for but with the vaccine roll-out underway the future is brighter. I look forward with confidence as we implement our strategy to 2023 at pace.

COLIN HUNT
Chief Executive Officer
4 March 2021

CUSTOMER FOCUS

SUPPORTING OUR CUSTOMERS THROUGH COVID-19

In 2020, we moved fast to put supports in place for our customers across Ireland and the United Kingdom as a once-in-a-generation pandemic unfolded across the globe.

On 6 March 2020, we shared AIB's three-year strategy with the market, outlining our commitment to simplify, streamline and strengthen our business and set medium-term financial targets. One week later COVID-19 officially landed on Irish shores and we were faced with an unprecedented global health pandemic.

Immediately when the crisis hit, we got to work. From the payment breaks we arranged, to the deferral of fee charges and waiving contactless fees, we moved fast to give help where it mattered most. We kept over 99% of our branch network open for business, with priority hours to support the most vulnerable, and reassigned staff to our contact centres in order to support customers over the phone. Overnight we moved the vast majority of our people to a remote working model, and we did it without impacting on our ability to deliver for our customers.

AIB was first to market with our Government-backed COVID-19 Credit Guarantee Scheme term loan, allocating €746m to support businesses as disease-mitigating lockdowns affected day-to-day operations and supply chains.

Alongside providing assistance to customers to get through the immediate issue, as a global corporate citizen we were obliged to support those trying to solve the problem as well. We worked with Trinity College Dublin to set up the AIB COVID-19 Research Hub on their campus, donated 450 laptops to Deis Schools enabling students to continue with their studies, and launched our AIB Together fundraising campaign among our staff – and committed to matching these funds – to support charities at the frontline.

66,000+ PAYMENT BREAKS

Of the more than 66,000 Mortgage, Personal and SME Loan payment breaks we facilitated in 2020 to support our customers, by the end of the year 88% of these had rolled off their second and final payment break.

231,487 REFUNDED CHARGES

If a Direct Debit payment is missed due to insufficient funds, we usually apply a €10 'Unpaid item' charge. In order to support our Personal customers, we removed this charge in March and April, and refunded 231,487 accounts.

£320M IN SUPPORT FOR OUR UK CUSTOMERS

AIB UK helped thousands of personal customers in Great Britain and Northern Ireland with support for mortgage, loan and overdraft payments.
And, as an accredited lender for all UK Government Loan Schemes, we provided over £320m to business customers experiencing cashflow disruptions.

SUPPORTING THE FRONTLINE

In March, we announced that we would provide leave with full pay to members of our team who have dependents with partners working on the frontline in a healthcare role. This decision was first proposed by our colleagues as a way to support frontline workers in our communities.

€746M CREDIT GUARANTEE SCHEME

In September, AIB was the first Irish bank to offer the Government-backed COVID-19 Credit Guarantee Scheme term loan, having received €270m from the scheme administrator. In October, we were allocated a further €476m. The loans cover facilities from €10,000 to €1m, with no security required for loans of up to €250,000. The scheme is aimed at helping businesses affected by COVID-19.

2,947 CALLS FROM VULNERABLE CUSTOMERS

We kept over 99% of our branches open during the pandemic in 2020, and our Vulnerable Customer Programme introduced priority banking hours for those who need extra care as well as a dedicated helpline, facilitating 2,947 queries.

AIB COVID-19 RESEARCH HUB

In April, we committed €2.4m to Trinity College Dublin to set up the AIB COVID-19 Research Hub, which would accelerate the university's immunology project in tackling COVID-19.

OVERVIEW OF THE IRISH ECONOMY

TOWARDS ECONOMIC RECOVERY

After a very tough 2020, with Brexit complete and the roll-out of vaccines underway, a robust economic rebound is expected in Ireland.

Deep Global Recession in 2020

The global recession triggered in 2020 by the COVID-19 pandemic saw the largest contraction in world economic activity since the Great Depression of the early 1930s. Output fell very sharply in the first half of the year, most notably in the second quarter as a result of lockdowns, with many European economies registering declines of between 10% and 18% in GDP.

Global activity bounced back strongly in the third quarter as lockdowns ended and restrictions were lifted. However, the recovery lost momentum in the final quarter of 2020 as a second wave to the coronavirus took hold. This necessitated the re-imposition of restrictions on economic activity, including new lockdowns in some countries.

The pandemic has had a severe impact on the United Kingdom, with the economy contracting by 9.9% in 2020. The decline in Eurozone GDP for the year was 6.8%.

Contraction in Domestic Irish Economy

In Ireland's case, the hit to the economy was mitigated to some extent by the continuing strength of exports, most notably from the multi-national sector, in particular pharma. The volume of Irish exports rose by 4.4% in the first three quarters of the year according to the latest Central Statistics Office (CSO) data. As a result, the declines of 7-10% in Irish GDP that were forecast earlier in the year did not materialise. Instead, Irish GDP rose in 2020 – the latest CSO data show it increased by 3.6% year-on-year in the Q1-Q3 period, though GNP was broadly flat.

There was a marked contraction in the domestic economy, though. The latest CSO data show that real modified final domestic demand fell by 6.4% year-on-year in the first three quarters of year. Consumer spending took a considerable hit, declining by 10% in the period. However, full-year figures show that core retail sales (i.e. excluding the motor trade) rose by 0.7% in 2020, while new car registrations were down by 25%. Domestic fixed investment was severely impacted by the recession as well, declining by 10% year-on-year also in the first three quarters of 2020 per CSO data.

The recession in 2020 saw employment contract and unemployment rise. Some sectors were hit very hard by the restrictions on activity, in particular, hospitality, tourism, travel, live entertainment, non-essential retail and some personal services. At one stage earlier in the year, the unemployment rates including those on pandemic unemployment payments rose to 30%, although the official unemployment rate remained much lower, ending the year at 5.8%.

Housing Market Holds up

Meanwhile, the recession appears to have had just a modest impact on house prices, which were quite stable during 2020, rising by 0.3% overall. Indeed, the latest CSO monthly data, which are for December, show prices rose by 2.2% compared to December 2019.

+0.3%
HOUSE PRICES

-1.9%
HOUSING COMPLETIONS

+0.7%
CORE RETAIL SALES

Rents in the residential sector came under downward pressure during 2020, with CSO data showing them falling by 2.9% in December from earlier levels.

House building activity held up better than expected in 2020, with CSO data putting house completions at 20,676 for the year, down only 1.9% on the 2019 number of 21,087. Meanwhile, CSO data show that construction output fell by 16.5% in the first three quarters of the year.

Savings Rise, Lending Falls

A notable feature of the recession has been a very sharp increase in private sector savings. This has been evident in other economies as well and is manifesting itself in rising levels of banking deposits. In regard to AIB, balances in customer accounts have grown significantly in 2020 to €82.0bn by December from €75.7bn in June and €71.8bn at the start of the year.

At the same time, bank lending weakened in 2020. Mortgage lending fell to €8.4bn, down by 12% on the 2019 total of €9.5bn. New lending to the SME sector also declined as the domestic economy entered a deep recession.

Central Bank data show new lending to the SME sector amounted to just under €2bn to end-September, down 23.5% from the same period in 2019.

Economic Outlook

An EU-UK trade deal was successfully concluded at the end of 2020, which removed one element of uncertainty in terms of the economic outlook for 2021. It has been a difficult start to the year, though, with both Ireland and the UK going back into lockdown in the opening quarter as new COVID-19 cases surged. However, the roll-out of vaccines that is currently underway should see the virus recede as the year progresses, allowing a strong and sustained economic recovery to take root.

It is clear that monetary policy will remain supportive of activity over the next number of years. In Ireland, the 2021 Budget has ensured that fiscal policy will continue to provide considerable support to the economy in the coming year. The large build-up of private sector savings together with the supportive stance of macro policy, points to the scope for a strong rebound in activity once the COVID-19 pandemic is overcome.

"IN IRELAND'S CASE, THE HIT TO THE ECONOMY WAS MITIGATED TO SOME EXTENT BY THE CONTINUING STRENGTH OF EXPORTS"

Core Retail Sales (Qtr,YoY, %)

Source: CSO via Refinitiv

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

Source: CSO via Refinitiv

Private Sector Deposits (Total, €m)

Source: CBI via Refinitiv

New Dwelling Completions (Total, 4 Qtr Mov Avg)

Source: CSO via Refinitiv

OUR STRATEGY

AN UPDATED THREE-YEAR STRATEGY

In December, we announced a refreshed strategy to 2023, with a continued focus on simplifying, streamlining and strengthening our business. Our updated three-year strategy was shaped by the challenges and emerging trends driven by global developments.

AIB has made significant progress in delivering a more simplified, streamlined and strengthened business aligned to our five strategic pillars – Customer First, Simple & Efficient, Risk & Capital, Talent & Culture and Sustainable Communities. As a result, the fundamentals of our business are strong. We are well capitalised, we have strong market shares in Ireland and we are a digital leader with a market-leading approach to sustainability.

In 2020, COVID-19 sent a lasting shock across the globe. This, coupled with Brexit uncertainty and the lower-for-longer interest rate environment in Ireland, significantly changed our operating environment.

Financial institutions were – and still are – integral in tackling the economic impact of the COVID-19 crisis. It also required us to revisit the three-year strategy that we had announced in March 2020. And so we took a twin-track approach throughout the year; navigating the COVID-19 pandemic while also updating our strategic plan. This resulted in the acceleration of our business transformation to better meet our customers' needs with a renewed focus on cost in a changed environment.

This acceleration, the details of which were announced in December 2020, will continue to focus on simplifying, streamlining and strengthening our business, acting with pace and rigour as we adapt to the challenges and trends driven by global developments.

We intend to undertake several strategic initiatives that will transform how we operate and address product gaps, broadening our service offering for customers, aligned to our strategic pillars, to ensure that we deliver our medium-term targets by 2023. In December, we re-committed to these medium-term targets: an appropriate Common Equity Tier 1 (CET1) fully loaded capital ratio of more than 14%, and; a sustainable Return on Tangible Equity (ROTE) of greater than 8%. We adjusted our absolute cost base commitment down, to €1.35bn per annum, representing our ambition to achieve a 10% reduction in costs over the next three years.

"THROUGHOUT THE YEAR, WE NAVIGATED THE COVID-19 PANDEMIC WHILE ALSO UPDATING OUR STRATEGIC PLAN"

Over the next three years, our priority will be to continue developing our digital capability, streamlining services, improving journeys for customers and creating an inclusive and optimised employee experience. We will use our deep insight into customer preferences to personalise our service offering. This includes refocusing our branches where appropriate while maintaining our commitment to our local communities. We will broaden our products and services, aligning our operating model and ways of working to ensure we can serve customers however, wherever and whenever they need us, as a complete provider of financial services.

And we will prioritise our commitment to sustainability, expanding green lending, supporting the transition to a low-carbon economy in the communities in which we operate, and delivering on our own commitment to achieve carbon neutrality across our operations by 2030, using a net zero approach.

CUSTOMER FIRST
SIMPLE & EFFICIENT
RISK & CAPITAL
TALENT & CULTURE
SUSTAINABLE COMMUNITIES

OUR STRATEGY

STRATEGY 2023

We revisited our strategy against the backdrop of three accelerated trends in 2020: digitalisation, ways of working and sustainability.

As we looked to the three years ahead and considered how our strategy can place AIB at the heart of our customers' financial lives, we were driven by three global trends: digitalisation, ways of working and sustainability. Today, our customers expect us to be in the right place, at the right time, with the right support. Whether that's in a branch, over the phone, on our website or through our award-winning app.

AIB is already a sector leader in Ireland in digitalisation. We have a modern, resilient and flexible IT infrastructure that, in 2020, allowed us to deliver for our people and our customers when it mattered most. Digitalisation enables our customers to bank with us simply and efficiently, and also enables us to collaborate in a new way of working, as a lot of our employees spend more time away from the office. During the height of the crisis in 2020, over 80% of our people worked remotely, continuing to back our customers.

Recent events have only reinforced how important it is to build a sustainable future for everyone. AIB is fundamentally committed to supporting the transition to a low-carbon economy, reducing our own carbon footprint and helping our customers to do the same.

PURPOSE	**Our purpose is to back our customers to achieve their dreams and ambitions.**
STRATEGIC AMBITION	**We will be at the heart of our customers' financial lives by meeting their evolving needs at every life-stage.**

STRATEGIC PILLARS

FINANCIAL AMBITION	**We will be a sustainable, capital-generative and efficient business.**		
FINANCIAL TARGETS 2023[1]	Cost[2]: <€1.35bn	CET1[3]: >14%	RoTE[4]: >8%

For more information on the governance of our strategy work in 2020, see page 47.

1. Excludes potential inorganic opportunities.
2. Costs before bank levies, regulatory fees and exceptional items.
3. Fully loaded.
4. RoTE = (PAT – AT1) / (CET1 @ 14% of RWAs). See the 'Capital' section on pages 75–78 for further information.

STRATEGIC PRIORITIES AND INITIATIVES

Over the next three years, our strategy will enable AIB to reshape our business to deliver sustainable returns; an excellent, efficient customer experience; an agile business, capable of dealing with evolving market dynamics; diversified income streams and improved service offerings; a network that is embedded in our communities, and; an ever-greater contribution to resolving the challenge of climate change. As well as delivering our medium-term targets, we will undertake several initiatives in order to meet strategic goals in the areas of sustainability, technology, our branch network, our workforce, our business in Great Britain and cost management throughout the organisation.

DIGITALISATION

END-TO-END CREDIT	With a transformed technological capability, we will remove complexity across the bank and provide end-to-end digital credit processes for an enhanced, data-driven customer experience.
REFOCUSED BRANCH NETWORK	With more customers choosing to interact via our digital channels, we will evolve our branch services beyond transactional support and towards sales and advice.

FUTURE WAYS OF WORKING

FUTURE OF WORK	We will embrace hybrid working, ensuring innovation, flexibility, agility and a culture of collaboration. We will create an environment where personal performance is optimised, attracting and retaining the best talent available. While we will exit some city centre head office locations we will enhance how we use other locations to get the best out of a hybrid work model.

BUSINESS MODEL

PRODUCT GAPS	We will address the current gaps in life, savings, investment and wealth products, to become a complete provider of financial services in Ireland.
AIB GB BUSINESS MODEL	We will withdraw from SME lending and refocus on our corporate business, particularly in renewables, infrastructure, health and manufacturing.
SIMPLIFICATION	Reflecting business needs, the shape of our workforce will change. We expect to employ c.1,500 fewer people and reduce our reliance on external third party providers by bringing in-house 400 digital, data and change specialist roles. We will use a zero based budgeting cost management approach.

SUSTAINABILITY

SUSTAINABLE COMMUNITIES	We are committed to achieving carbon neutrality across our operations by 2030 using a net zero approach, and to aligning our customer lending portfolio to net zero carbon emissions by 2040[1].

1. With the exception of agriculture, which we are aligning to the Irish government's Climate Action Plan.

OUR STRATEGY

CUSTOMER FIRST

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

Our purpose is to back our customers to achieve their dreams and ambitions – and this purpose drives everything we do in AIB. With the onset of COVID-19 in 2020, our digital capability allowed customers to bank securely – and new customers could open an account remotely. We also launched a fully digital mortgage process for those keen to continue their search for a home during the pandemic. We reduced mortgage rates across AIB and EBS, backed vital social housing development and supported our business customers through the uncertainty of both Brexit and COVID-19. AIB branches and EBS offices operated safely, and we put measures in place for our vulnerable customers. In a challenging year, over 80,000 customers shared their experiences with us and gave seven customer journeys a net promoter score (NPS) of 65, which is considered world-class.

MEASURE	OUTCOME 2020	MEDIUM-TERM TARGET (END 2023)
CUSTOMER SATISFACTION TRANSACTION NET PROMOTER SCORE (NPS) Measured after customer transactions for key touch points	**49**	**53+**

CONSISTENTLY SUPPORTING OUR VULNERABLE CUSTOMERS

Our Vulnerable Customer Programme is focused on the following key areas: financial abuse, addiction, dementia, mental health, accessibility and economic resilience. In 2020, we introduced a system to record when someone needs additional support; a customer just needs to tell us once and we can provide consistent support.

BREXIT SUPPORT AT EVERY STAGE

We have been preparing for Brexit for the past four years. We provide the SBCI Working Capital and Future Growth Loan schemes alongside our wider working capital, long-term funding and foreign exchange supports to meet our customers' needs. On top of that, we have a dedicated Brexit helpline, an online Brexit Hub and 32 Brexit Advisors across Ireland supporting our customers to manage their business through Brexit.

IRELAND'S FIRST DIGITAL MORTGAGE

We launched Ireland's first end-to-end online digital mortgage in February. First-time house buyers and movers can conduct their entire mortgage application process online; completing an application in minutes, uploading documents, securing approval-in-principle and drawing down their mortgage.

TWO MORTGAGE RATE REDUCTIONS

In September, we introduced a range of Loan-to-Value (LTV) fixed rate mortgages, from as low as 2.25%. This followed our fixed rate reduction in February.

€300m SOCIAL HOUSING FUND

In October, we launched a new €300m social housing fund for Approved Housing Bodies (AHBs) and experienced developers in order to deliver over 2,000 new social housing units across Ireland. This followed the full allocation of our previous €100m Social Housing Fund, which helped deliver over 800 social housing units over the past two years.

IGNITING DREAMS & AMBITIONS

In 2020, we quickly changed the format of our Future Sparks Festival as a result of COVID-19 restrictions. The one-day festival which was due to host over 10,000 students was quickly transformed into an exciting eight-part series of online events in April – the AIB Future Sparks Festival Series. The series aimed to inspire and educate students to plan their future careers with positivity, confidence and purpose.

OUR STRATEGY

SIMPLE & EFFICIENT

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

Having completed the upgrade of our digital banking platforms to meet the requirements of open banking, we are strongly positioned to leverage our extensive digital distribution network to provide an extended range of products and services. With 1.72 million active digital banking customers engaging with us every day, AIB has by far the largest digital banking network in Ireland and one of the most-used banking apps in Europe. Our priority is to continue developing our digital capability, streamlining services and aligning our operating model and ways of working to ensure we can serve our customers however, wherever and whenever they need us.

MEASURE	OUTCOMES 2020	MEDIUM-TERM TARGETS (END 2023)
ABSOLUTE COST BASE[1] Cost of running the business, excluding exceptional costs	€1,527m	<€1.35bn
DIGITALLY ACTIVE CUSTOMERS Number of active customers on digital channels	1.72 million	>2.25 million

1. Before bank levies, regulatory fees and exceptional items. For exceptional items see pages 64 and 73. The Medium-Term target excludes potential inorganic opportunities.

1.39m

ACTIVE MOBILE CUSTOMERS

OVER 80% COLLABORATING REMOTELY

When the pandemic hit, we enabled our employees to continue to support our customers remotely. At the height of the pandemic, over 80% of our people were working away from their usual AIB location.

2.65m

TRANSACTIONS IN ONE DAY - A NEW MILESTONE

Throughout 2020, our availability of service remained over 99.9% despite the rapid move of our workforce to a remote setting. Indeed, we even reached new milestones: in Ireland, we experienced our busiest day ever for point of service (POS) on 23 December, with 2.65 million transactions, and our busiest day ever for mobile transactions on 1 December, with 2.3 million API Quick Balance and Login connections.

66%

INCREASE IN DIGITAL WALLET PAYMENTS

END-TO-END DIGITAL SFS

Our online Standard Financial Statement (SFS) project digitised what was a paper-based credit restructure by using Docusign. This has, importantly, saved our customers time, while also saving 15,000kg of wood, 160,000l of water, 34,000l of carbon and 1,000kg of waste.

MAKING PAYMENTS EASY WITH PAYZONE

Payzone launched Easy Payments Plus (EPP) in September to provide a simple and secure online platform for clubs, charities, schools and SMEs to communicate, collect payments and manage data in a GDPR-compliant way. Given COVID-19 restrictions, EPP enabled not-for-profit organisations to continue to collect donations and helped businesses manage their online payments.

OUR STRATEGY

RISK & CAPITAL

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

We moved quickly to carry out stress testing analysis of the potential impacts of COVID-19. This informed an early review of our Risk Appetite Statement (RAS) as well as an earlier-than-planned issuance of €625m AT1 and €1bn Tier 2 capital. We have significantly increased the level of credit review throughout the year to ensure early engagement with our customers and early recognition of credit losses in our accounts. In addition, we have maintained our CET1 capital target at >14%. The Group ended the year with a higher total capital position than 2019 despite recording a comprehensive 240 basis points of credit provision charge during the year.

MEASURE	OUTCOMES 2020	MEDIUM-TERM TARGETS (END 2023)
RETURN ON TANGIBLE EQUITY[1] A measure of how well capital is deployed to generate earnings growth	(11.2)%	>8%
CET1 RATIO[2] (FULLY LOADED) A measure of our ability to withstand financial stress and remain solvent	15.6%	>14%

1. For further information see the 'Capital' section on page 78. The Medium-Term target excludes potential inorganic opportunities.
2. The Medium-Term target excludes potential inorganic opportunities.

€625m AT1 ISSUANCE

A REFRESHED STRATEGY TO 2023

On 2 December, our CEO and CFO communicated a refreshed strategy with a renewed focus on costs at a live, virtual event from our Headquarters in Molesworth St, Dublin. Recommitting to two of the medium-term financial targets that were set in March – CET1 of >14% and ROTE of >8% – we extended our outlook to 2023 and reset our annual absolute cost base target to €1.35bn.

STRONG CAPITAL POSITION

We maintained a very strong CET1 ratio of 15.6%, well in excess of regulatory requirements and our medium-term target of > 14%. A geographically diverse and quality investor demand enabled us to optimise our capital structure in 2020 through the issuance of additional AT1 and Tier 2.

RAISING RISK AWARENESS

In December, everyone in AIB Group was invited to take part in Risk Awareness Week – Risk in Conversation. As most of us were working remotely, the activities took place virtually, which included senior leader roundtables, training, discussions, blogs, videos and live panel discussions with Executive Committee members and external speakers.

€1bn GREEN BOND ISSUANCE

Having published our Green Bond Framework in 2019, AIB became the first Irish bank to enter the growing green bonds market in September 2020. We were also only the second bank in Europe to issue subordinated Tier 2 green bonds, raising €1bn of capital to support lending towards sustainable projects and further strengthening our capital.

SRI BOND FRAMEWORK

As an established, buy-to-hold bond investor, AIB is in a position to help facilitate the transition to a more sustainable global economy. So, in June, we launched our Socially Responsible Investment (SRI) Bond Framework, to fund domestic and international projects aimed at global sustainability, carbon emission reduction, and social improvement.

OUR STRATEGY

TALENT & CULTURE

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

In March 2020, we launched new values and associated behaviours for our people – Be One Team, Own the Outcome, Show Respect, Eliminate Complexity and Drive Progress. Just days later, COVID-19 restrictions were in place across our locations and employee wellbeing came to the fore. We 'checked in' with our people with short, regular surveys throughout the year, ensuring we received ongoing feedback. We recognise that, in building a strong culture, we require the right risk culture, practicing risk management every day. We also continued to progress our diversity and inclusion agenda, and were again recognised in the third Balance for Better report in November as the joint-most gender-balanced Board in Ireland.

MEASURE	OUTCOME 2020	LONG-TERM TARGET
DIVERSITY Women as % of management	**41%**	**GENDER BALANCED**

EMPLOYEE CHECK-IN SURVEY*, NOVEMBER 2020

RESPONDENTS AGREED	STATEMENT
85%	AIB is concerned about employee health and wellbeing.
80%	I have confidence in the leadership of the AIB to successfully manage emerging challenges.
86%	AIB is supporting employees to adapt to new ways of working.

* Based on 54% participation rate.

BE ONE TEAM
OWN THE OUTCOME
DRIVE PROGRESS
SHOW RESPECT
ELIMINATE COMPLEXITY

OUR NEW VALUES AND BEHAVIOURS

Following much consultation across the business, we launched our new values and associated behaviours in March 2020 – just as COVID-19 hit our shores. These new values helped us face this challenge as one team.

AN AUGMENTED WELLBEING PROGRAMME

To ensure the wellbeing of our employees, we launched digital apps Gympass and PepTalk, enabling our staff to complete thousands of wellbeing courses virtually. We also organised live virtual events, such as family quizzes and concerts, to entertain while raising money for charity. And in September, our #TimetoTalk campaign encouraged colleagues to reach out and support each other.

WINNERS IRISH HR CHAMPION: USE OF TECHNOLOGY IN HR

THE RIGHT TO DISCONNECT

In July, AIB was the first organisation in Ireland to implement a Right to Disconnect policy, having engaged with the Financial Services Union. This ensures our people can 'switch off' outside of working hours.

'CHECKING IN' WITH EMPLOYEES

We launched three 'Check-in' surveys with employees – in April, July and November – to find out just how we could support each other during the pandemic. Our survey in November showed: increased confidence in the leadership of AIB into the future; 9 out of 10 employees feel supported in new ways of working; and 85% of participants agreed that AIB is concerned for their wellbeing.

OUR STRATEGY

SUSTAINABLE COMMUNITIES

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

We have a duty and responsibility to enable an accelerated transition to a low-carbon economy. In 2019, we first pledged to do more, and so we did in 2020. Financially, we exceeded our target of €1bn in green lending and raised €1bn in our first green bond issuance. Socially, we launched the AIB COVID-19 Research Hub, matched funds raised by employees as part of our AIB Together community programme, backed vital social housing development and supported various education initiatives. We supported Climate Finance Week in Ireland, hosting our annual Sustainability Conference to a virtual audience of 5,100. And we made a steadfast commitment: by 2030 we will operate on a net zero carbon emissions basis.

MEDIUM-TERM (END 2023) | LONG-TERM

MEASURE	OUTCOMES 2020	TARGETS
REDUCTION IN EMISSIONS[1] % reduction in Scope 1 & 2 emissions from operations year-on-year	24%	NET ZERO BY 2030
GREEN FINANCE Amount of lending for sustainability purposes	€1.5bn	€1bn per year

1. Our CO2 emissions are reported one year in arrears – Scope 1 and 2 emissions reported in 2020 were generated in 2019. In 2020, we committed to a target of Net Zero by 2030.

TARGET FOR NET ZERO BY 2030

We want to reduce our carbon footprint and help our customers to make the transition to a low-carbon economy. That's why, in November, we committed to achieving carbon neutrality across our operations by 2030, using a net zero approach. This means we will reduce our own emissions while also actively removing greenhouse gases from the atmosphere. We have also set an ambition for our green and transition lending to account for 70% of lending to new customers by this time. And by 2040, we hope to align our customer lending portfolio across all sectors to net zero carbon emissions (with the exception of agriculture, which is aligned to the Government's Climate Action Plan).

PARTNERING WITH RESPONSIBLE SUPPLIERS

Third party suppliers are important to AIB and each plays a different part. And so, in October, we launched our Responsible Supplier Code, which reflects our values. It sets out the minimum standards to which we hold ourselves, and which we expect our suppliers to also adopt.

€1.5bn FINANCING SUSTAINABILITY

In 2020, our green finance totalled €1.5bn, supporting sustainable projects and initiatives across Ireland and the UK. Meanwhile, renewable energy lending continues to be one of the fastest growing parts of our balance sheet. Our Energy, Climate Action and Infrastructure portfolio performed well against the backdrop of COVID-19 uncertainty.

30 YEARS OF GAA

This is AIB's 30th year of partnership with the GAA. We are extremely proud to sponsor the All-Ireland GAA Football and Hurling Club Championships, the All-Ireland Camogie Club Championships and the GAA All-Ireland Senior Football Championships.

ENVIRONMENTAL IMPACT THROUGH FINANCE

In July 2020, we published a list of excluded business activities; activities with negative environmental impacts that AIB Group will not finance, such as deforestation and nuclear power generation. Initially, this was implemented in parts of our CIB segment, and since 29 January 2021, this rule applies to all business customers with a Gross Connected Exposure of >£/€300k and who are relationship-managed.

SUSTAINABILITY IN AIB

OUR CLIMATE RISK DISCLOSURES

AIB became a supporter of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) in 2019, and we are making our first disclosures with reference to the TCFD in 2020.

We have published our Sustainability Report 2020 to GRI standards and it is available to view on aib.ie/sustainability. We recommend doing so in conjunction with this Annual Financial Report as it provides further detail and examples of the progress we made in our sustainability strategy last year. For the first time, we have made disclosures with reference to the Taskforce on Climate-related Financial Disclosures (TCFD) within the Sustainability Report, having become a supporter of the TCFD in September 2019. Below is a summary of these disclosures.

Governance

The Board maintains oversight of climate change as it relates to AIB and reviews material items. The Board, along with the Executive Committee, also maintains oversight of climate-related metrics on the AIB Group Scorecard. Sustainability is integral to AIB's operations, and we provided training (including environmental, social and governance (ESG) regulatory training) at Board, Executive Committee and all-employee levels. Sustainability is also integrated into our strategic planning and investment process. We have reviewed existing and emerging regulatory requirements and have implemented a multi-year programme to deliver on these evolving requirements.

"THIS IS THE DECADE FOR CHANGE AND AIB IS COMMITTED TO BEING A CHANGE-MAKER TO ENABLE ACTION AND MEANINGFUL PROGRESS"

Strategy

Sustainable Communities was integrated as a fifth pillar of our strategy in 2020, with a specific focus on climate action. We identified risks and opportunities for key sectors using the TCFD's physical and transition risk categorisations and qualitative scenarios aligned to the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) recommendations. We have quantified opportunities to finance the transition to a low-carbon economy in certain business areas and launched a number of new propositions including our green mortgage, electric vehicle proposition and green consumer loan. We issued our first green bond in 2020 for €1bn as well as a number of sustainability linked loans (SLLs). And we have identified the lending portfolios where we need to update lending policies to achieve the lower-carbon-intensive metrics across our loan book.

HELPING OUR CUSTOMERS BECOME MORE SUSTAINABLE

- GREEN MORTGAGE
- GREEN CAR FINANCE
- GREEN PERSONAL LOAN
- SUSTAINABILITY LINKED LOAN
- GREEN BOND FRAMEWORK
- SRI BOND FRAMEWORK

Risk Management

We have developed a defined exclusions list of lending activities for customers with an exposure greater than €300,000, which is integrated into our Group Credit Risk policy and published

Bryan Daniels, winner of Overall and Sustainable Farming Grassland Farmer of the Year at Teagasc Grass10 in 2020, with his wife Gail and three children.

externally, and ESG considerations are integrated in Corporate and Institutional Business Banking (CIB) credit applications. Qualitative statements relating to climate risk have been integrated into our Material Risk Assessment (MRA) and Risk Appetite Statement (RAS). We launched a Responsible Supplier Code in 2020, setting out our expectations for suppliers in relation to carbon reporting and sustainability practice. And we stood up a multi-year programme to deliver on emerging regulatory requirements and our own climate risk ambition, including integration into our Risk Management Framework.

Metrics and Targets

We have a number of net zero long-term targets, which were approved by our Board. We have annual green lending targets in place, we disclose our green financing and operational footprint metrics, and we are quantifying the emissions intensity of our loan book. We are committed to setting science-based targets in collaboration with the Science Based Targets initiative (SBTi).

OUR ENVIRONMENTAL IMPACT

OUR CARBON REDUCTION PATHWAY[1]

AIB's Scope 1 & 2 emissions have reduced by 40% from 2014

LOOKING AHEAD – WHERE OUR ENERGY IS FOCUSED

- POWER PURCHASE AGREEMENT
- PROPERTY FOOTPRINT
- REMOVAL OF OIL AND GAS HEATING
- WAYS OF WORKING
- SCIENCE BASED TARGETS

All fuel energy related activities (electricity, gas, business travel, employee commuting) exclude well-to-tank emissions. These are the upstream emissions associated with extracting, refining and transporting fuel/energy to the end-user. Total well-to-tank emissions are 5,512 tonnes of CO_2e.

For more details, see our Sustainability Report 2020, which is available on our website: aib.ie/sustainability

1. Our CO2 emissions are reported one year in arrears. Emissions reported in 2020 were generated in 2019.

AIB IN OUR COMMUNITIES

OUR AIB TOGETHER COMMUNITY PROGRAMME

AIB and our people have a long history of fundraising, both locally and nationally. In 2020, this came to the fore, with funds being raised and going to vital causes during the COVID-19 pandemic. AIB Together is our bankwide community programme, partnering with charities FoodCloud, Soar, ALONE, Pieta, Age NI and Age UK and creating volunteering opportunities for employees. Here are just some examples of the fundraising initiatives that took place across AIB in 2020.

OUR PARTNERSHIP WITH FOODCLOUD

FoodCloud is a multi-award-winning social enterprise that enables the redistribution of surplus food from industry to the charity sector. 2018-2020 marked our first three-year partnership with FoodCloud, helping to triple its impact in that time. We share FoodCloud's vision of building more sustainable communities where no good food goes to waste, and we're so happy to embark on another three-year journey with this incredible organisation.

BRANCH NETWORK CHARITY RESPONSE

At the onset of the pandemic, every branch was provided €1,000 or £1,000 to help support local community efforts. As a result, AIB supported over 600 local charities in 2020.

THE AIB COVID FUND

In April, we launched the AIB COVID Fund, matching money raised by staff to support our charity partners during the pandemic. In 2020, over €700,000 was donated from this fund in total.

ENABLING PIETA, ALONE, AGE NI & AGE UK

In 2020, our fundraising enabled: Pieta to provide 7,700 hours of critical counselling services to those in distress; ALONE to support 15,000 older people facing a variety of challenges across Ireland; and Age NI and Age UK to provide over 14,000 Dementia Care Sessions and over 7,000 Day Care Sessions and answer 23,330 calls from older people who needed support.

AIB ALL TOGETHER

In June, our people came together on one day for an AIB 'All Together' 5km virtual walk and raised over €55,000 for our partner charities.

THE TOUGHEST SEASON

In December, we commissioned *The Toughest Season* photobook – a collection of images from an extraordinary season in GAA – all proceeds of which go to our charity partners.

VIRTUALLY FUNDRAISING

Some of our annual charity initiatives went online and together we raised: €40,000 for Movember; €23,000 for Focus Ireland's 'Shine a Light' appeal, and; €25,000 for Temple Street.

TECH2STUDENTS

In April, we partnered with Trinity College Dublin's Tech2Students Programme to provide 450 disadvantaged students with laptops.

HELPING TEENS SOAR

Soar delivers early-intervention, preventative wellness workshops for teenagers. In 2020, AIB's partnership helped shift these workshops online and develop longer-term programmes.

24 YEARS OF JUNIOR ACHIEVEMENT

We have partnered with Junior Achievement Ireland since its inception in 1996, and over 1,000 of our colleagues have helped kids understand the importance of education. In 2020, 47,000 students in 549 schools benefited from Junior Achievement Ireland programmes.

NON-FINANCIAL STATEMENT

OUR NON-FINANCIAL STATEMENT

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

We have set out information on our business model on pages 4-6 of this report and below offers some high-level information to provide an understanding of the development, performance, position and impact of our activity in the four non-financial matters. We have provided references to supplemental information in this report and in our Sustainability Report 2020, which is published to the Global Reporting Initiative (GRI) Standards.

In AIB, policies and codes are in place to enable us to operate our business in a responsible and sustainable way. Below we have set out some of the key policies related to Non-Financial Reporting Directive (NFRD) requirements, and provided links to the associated principal risks and key performance indicators (KPIs) for each matter. Our Sustainability Report 2020 contains more information.

ENVIRONMENTAL MATTERS	
POLICIES	**DESCRIPTION**
Environmental Policy	Our Environmental policy, sponsored by the Chief Operating Officer designate, is focused on the direct impact of our own operations on the environment, including minimising harmful emissions and the consumption of materials and natural resources. It is publicly available on aib.ie/sustainability and reviewed annually. AIB is certified to ISO 14001 for environmental management.
Energy Policy	We are committed to conducting our business and operations as energy efficiently as possible. Our Energy policy, sponsored by the Chief Operating Officer, sets out the key principles that underpin decisions we make to deliver continuous improvement in energy consumption. It is publicly available on aib.ie/sustainability and reviewed annually. AIB is certified to ISO 50001 for energy management.
Group Credit Risk Policy	In July 2020, we published a list of excluded business activities; those activities with negative environmental impacts such as deforestation and nuclear power generation. Initially, this was implemented in parts of our CIB segment. It has been incorporated into our Group Credit Risk policy, which supports the management of Credit Risk across the Group. The policy rules now prohibit providing new money for any term lending facilities to businesses, or any of their subsidiaries, involved in the excluded business activities. This policy was approved by our Board in October 2020. Since 29 January 2021, this rule applies to all business customers with a Gross Connected Exposure of >£/€300k and who are relationship-managed. The list is publicly available on aib.ie/corporate/sector-expertise/excluded-activities.
Project Finance Policy	Our Project Finance policy, approved by our Group Credit Committee, guides our climate-related lending assessments and decisions for long-term infrastructure, industrial projects and public services. Within credit assessment due diligence, assets that are likely to have significant effects on the environment by virtue of their size, nature or location must undergo an environmental impact assessment (EIA) which will have to be submitted to competent authorities when applying for project development. AIB may rely on analysis provided by external parties to support our assessment.
KPIs	Our main KPIs for environmental matters are Reduction in Emissions and Green Finance metrics, set out in our Non-Financial Performance on page 3.
Principal Risks	Operational Risk (see page 164) and Credit Risk (see page 87).

SOCIAL & EMPLOYEE MATTERS

POLICIES	DESCRIPTION
Code of Conduct	Our Code sets out how we are expected to behave in a manner consistent with our values and asks us, individually and collectively, to Do the Right Thing. It applies to anyone working in AIB. All employees are required to adhere to our Code of Conduct and complete a declaration of compliance with our Code as part of their annual performance management process. Annual e-learning on the Code is mandatory for all employees. We report annually to the Board Audit Committee on the Code; on training completed on it and any breaches. The Code is available on aib.ie/sustainability.
Diversity & Inclusion Code	The ethos of our Diversity & Inclusion Code is that respecting, developing and harnessing the talents of all our employees creates an inclusive and supportive organisation that delivers a superior experience for all our customers, provides an extraordinary place to work for our employees, and brings an appropriate financial return for our shareholders and the economies within which we operate. It operates as part of a suite of policies and standards that support our Code of Conduct. It is available on aib.ie/sustainability.
Health & Safety Policy	The safety of our customers and employees is paramount. Our Health & Safety policy forms part of our Safety Statement. It sets out the practical steps each of us must take to ensure the safety of our employees, customers, contractors, visitors and our workplaces, and defines and communicates the roles and responsibilities for health and safety throughout AIB. It is supported by training (online and classroom options) and regular accident awareness communications. We report annually to the Board on health and safety activities. While over 80% of our employees were able to work from home during the pandemic, to ensure that employees who needed to be onsite knew how to be safe in the workplace, we developed an e-learning course: Working Safely in AIB During the COVID-19 Pandemic. We implemented robust structures and new practices to support a sustained service while protecting customers and employees.
Social Housing Policy	Our Social Housing policy, which is part of our Credit Risk policy suite, supports lending to our customers for social housing and helps us to manage and mitigate the associated risks. Credit Risk develop and maintain policies to ensure responsible lending practices, aligned with our Risk Appetite Statement (RAS). It was approved by our Group Credit Committee.
KPIs	• **Code of Conduct training** – In 2020, 93.2% of employees completed this training. We target a completion rate of 90% annually, to allow for staff who are on leave during the training period. On returning from leave, employees are expected to complete the training. • **Diversity** – Women as a % of management is one of our non-financial performance metrics – see page 3. At year end we had 56% female representation on both our Board and Executive Committee. • **Social housing finance** – In 2020, we launched a new €300m social housing fund to help approved housing bodies and developers deliver more than 2,000 social housing units.
Principal Risks	People and Culture Risk (see page 167) and Credit Risk (see page 87).

RESPECT FOR HUMAN RIGHTS

POLICIES	DESCRIPTION
Our Human Rights Statement	Our Human Rights Statement sets out how AIB is complying with all of the applicable laws and respecting the internationally recognised human rights. This commitment applies to all of the relationships that AIB establishes with our customers, suppliers, employees and the communities in which we operate. As it was recently launched, we will undertake a due diligence process in 2021 to identify any remedies required and continue to embed the reporting across the Group.
Code of Conduct	Our Code sets out how we are expected to behave in a manner consistent with our Values and asks us, individually and collectively, to Do the Right Thing. It applies to anyone working in AIB. We don't partner with or buy from organisations that we know to breach human rights or fair practices. Annual e-learning on the Code is mandatory for all employees. We report annually to the Board Audit Committee on the Code, on training completed on it and any breaches. It is available on aib.ie/sustainability.
Responsible Supplier Code	Launched in October, our Responsible Supplier Code sets out our expectation that our suppliers conduct their business in a fair, lawful and honest manner with all their stakeholders, employees, subcontractors and other third parties. It includes expectations on human rights, health, safety and welfare, supply chain, diversity and inclusion. Suppliers are expected to comply with it, along with all applicable laws, regulations and standards in the countries in which business is conducted. Our suppliers may be asked to provide a written attestation that they have read and understood the Code and will abide by it. It is available on our Suppliers Portal on aib.ie/suppliers.
Modern Slavery Statement 2020	AIB recognises our responsibility to comply with all relevant legislation, including the UK Modern Slavery Act 2015, and we release an annual AIB Group Statement on Modern Slavery. Our 2020 statement, published in July, sets out the steps we took during 2019 to prevent modern slavery and human trafficking ("Modern Slavery") in our business and supply chains. An update will be published later in 2021. The current statement is available on aib.ie/content/dam/aib/group/Docs/modern-slavery-statement-2020.pdf

RESPECT FOR HUMAN RIGHTS CONTINUED

POLICIES	DESCRIPTION
Data Protection Policy	This policy is part of the Regulatory Compliance Risk Management Framework. It aims to ensure that processes and controls are in place to minimise the risk of unfair or unlawful data processing and all employees understand the responsibilities and obligations that must be adhered to under Data Protection regulation. It applies to our entire operation, including our suppliers. Material changes to the policy must be approved by our Group Risk Committee. While this policy is not publicly available, our Data Protection Notice and other information, including information on customers' data rights, is available on aib.ie/dataprotection.
Data Ethics Principles	In 2020 we published our Data Ethics Principles. These principles will ensure we continue to take an ethical approach on topics like data privacy, fairness, transparency and equity, by applying them to all our data activities in areas like AI and algorithmic design and data-driven technology development.
KPIs	We report on these metrics annually in our Sustainability Report: • **Breaches of data privacy** – In 2020, we received 24 complaints from the Data Protection supervisory authorities in Ireland and the UK regarding breaches of data privacy. The majority of these complaints related to alleged failures to comply with data subject access requests. Nineteen of these complaints were closed by the supervisory authorities following engagement with AIB. • **Personal data breaches** – In 2020, we reported 133 breaches under GDPR to the Data Protection supervisory authorities in Ireland and the UK. While these may include losses of customer data or inaccuracy, the majority of the breaches we reported related to unauthorised disclosure of personal data.
Principal Risks	People and Culture Risk (see page 167), Operational Risk (see page 164) and Regulatory Compliance Risk (see page 165).

BRIBERY & CORRUPTION

POLICIES	DESCRIPTION
Anti-Bribery & Corruption Policy	AIB believes in open and fair competition. We do not engage in or accept any form of bribery, collusive anti-competitive discussions or agreements. We do not abuse our position in any of the markets that we operate in to gain unfair or unethical advantage. This policy complies with applicable anti-bribery and anti-corruption legislation in all the jurisdictions in which we operate. It forms part of our Code of Conduct and it is publicly available on aib.ie/sustainability.
Conflicts of Interests Policy	Conflict of interest situations may arise between the interests of two or more parties, (whether directly or indirectly involved) in any situation. It is the result of any activities, interests or relationships that interfere with (or appears to interfere with) the ability of employees, agency workers or contractors, or of AIB to act in the best interests of our customers, employees, or AIB as an organisation. This policy provides a clear statement of the standards for recognising and preventing potential conflicts of interests and for managing conflicts of interests where they cannot be avoided. All employees are required to complete annual Conflict of Interests training which includes anti-bribery and anti-corruption matters. The policy forms part of our Code of Conduct and it is publicly available on aib.ie/sustainability.
Financial Crime Policy	In AIB we have a robust Financial Crime Framework, which includes our Financial Crime policy and standards on Anti-Money Laundering (AML)/Countering the Financing of Terrorism (CFT), Fraud and Group Sanctions. The policy and standards are embedded within our operating procedures. They set out the general principles that will assist AIB in detecting and preventing money laundering, terrorist financing and fraud, and protect the bank and its employees from being misused for criminal purposes. All employees are required to complete annual mandatory training in financial crime. Customer-facing employees, employees involved in the investigation of suspicious activity and compliance employees are required to complete additional bespoke training for their roles at least annually. Our Board receives regular bespoke training on financial crime issues from our Money Laundering Reporting Officer.
KPIs	Conflicts of Interests training – 91.5% completion in 2020. We target a completion rate of 90% annually, to allow for staff who are on leave during the training period. On returning from leave, employees are expected to complete the training.
Principal Risks	Regulatory Compliance Risk (see page 165) and Conduct Risk (see page 166).

For more details, see our Sustainability Report 2020, which is available on our website: aib.ie/sustainability

GOVERNANCE IN AIB

OUR CORPORATE GOVERNANCE IN ACTION

Strong corporate governance underpinned the Board's decision-making throughout 2020 as it managed the impacts of the COVID-19 pandemic.

In considering the far-reaching impacts of 2020's global events on each of AIB's five stakeholder groups, the Board devoted substantial time to ensure stakeholder impacts were thoroughly assessed and all decisions were taken in a considered, timely manner. From March to the end of June, the Board met on a weekly basis to deal with the challenges arising from the COVID-19 pandemic, which impacted all of our stakeholders. We continue to implement our corporate governance standards by way of a comprehensive and coherent suite of frameworks, policies and procedures.

Such procedures were robustly tested in 2020 as the Board, and AIB Group as a whole, transitioned to operating from multiple locations and through various means of technology. Since March, we have held all our Board and Committee meetings virtually, with minimal disruption to the Board fulfilling its mandate.

Although the major focus of the year was on the pandemic, the scale and impact of which was unforeseen, the Board continued to strengthen the Group's corporate governance standards. In order to enhance collective skills and experience, we added a new Board Advisory Committee – the Technology & Data Advisory Committee – and proceeded with a number of director search processes. An overview of the Board's focus throughout 2020 is available on page 180.

See an overview of the Board's governance structure below:

AIB GROUP BOARD

BOARD AUDIT COMMITTEE	BOARD RISK COMMITTEE	REMUNERATION COMMITTEE	NOMINATION & CORPORATE GOVERNANCE COMMITTEE	SUSTAINABLE BUSINESS ADVISORY COMMITTEE	TECHNOLOGY & DATA ADVISORY COMMITTEE
Independently oversees the quality and integrity of the Group's accounting policies, financial reporting and disclosure, internal control framework and audit, as well as the mechanisms through which employees may raise concerns. **See page 188 for further information.**	Fosters sound risk governance across the Group's operations, overseeing risk management and compliance frameworks to include the risk appetite profile and the overall risk awareness across the Group. **See page 193 for further information.**	Oversees the design and implementation of the Group's Remuneration Policy and the operation of remuneration policies and practices with particular reference to certain senior management. **See page 199 for further information.**	Oversees Board and Executive Committee succession planning and keeps the Board's governance arrangements and corporate governance compliance under review. **See page 196 for further information.**	Supports the Group's sustainable business strategy, which includes the development and safeguarding of the Group's social license to operate. **See page 181 for further information.**	Reviews and challenges the strategy, governance and execution of matters relating to technology and data. **See page 182 for further information.**
BOARD COMMITTEE	BOARD COMMITTEE	BOARD COMMITTEE	BOARD COMMITTEE	ADVISORY COMMITTEE	ADVISORY COMMITTEE

AIB NON-EXECUTIVE DIRECTORS
AS AT 31 DECEMBER 2020

In 2020, the Board continued to meet from multiple locations through various means of technology.

GOVERNANCE IN AIB

STAKEHOLDER ENGAGEMENT

While the manner of engaging with many of our stakeholders may have changed during the year, our consideration of all stakeholders in decision-making remained steadfast.

Our Board's approach to stakeholder engagement aligns with the UK Corporate Governance Code 2018, which applies to the Group by virtue of its premium listing on the London Stock Exchange. While not directly applicable to the Group due to it being a provision of UK Company Law, the Board recognises section 172 of the UK Companies Act 2006 and acknowledges the benefits of considering the spirit intended by such provisions as part of its decision-making process. Below are a number of examples that, at a high level, demonstrate our strong governance standards and consideration of AIB's five stakeholder groups when making decisions. Additional information on considerations of our stakeholders is available in this Annual Financial Report on pages 24 to 35 where the strategy is presented through the lens of each of the Strategic Pillars including Customer First, Talent & Culture, and Sustainable Communities, as well as within the Corporate Governance Report on page 180.

OUR STAKEHOLDER GROUPS | **OUR CUSTOMERS** | **OUR EMPLOYEES** | **OUR INVESTORS** | **SOCIETY** | **REGULATORS**

COVID-19 RESPONSE - SOLUTIONS & EMPLOYEE ENGAGEMENT

Following the onset of the COVID-19 pandemic, the Board met weekly to ensure urgent delivery of COVID-19 payment break solutions to our customers while meeting evolving regulatory requirements. The Board reviewed, challenged and approved a number of necessary changes to credit policies to enable AIB Group to provide this vital support to our customers. These changes, coupled with the hard work and dedication of our employees, ensured that payment breaks, new loans and supports and simplified customer journeys were available throughout 2020. The Board also considered the policy changes required in the provision of low-cost loans to SMEs, through the Strategic Banking Corporation Ireland's (SBCI) Credit Guarantee and Future Growth Loan Schemes.

Though the COVID-19 pandemic hugely impacted society as a whole, the Board sought to minimise the negative impacts on AIB employees as far as practicable and to support them in a variety of ways. The Board supported a structured communications plan to keep employees informed of the supports available to them and rolled out three regular Check-in Surveys to gauge how employees were dealing with the impacts on their work and personal lives. We put supports in place to ensure employees could manage their family needs while continuing to support our customers in a timely and compassionate way. These supports included paid leave for childcare or on compassionate grounds – particularly for those who were partners of frontline workers – provision of office equipment at home and a range of online wellbeing supports. Furthermore, we introduced a number of work/life balance guiding principles, including a Right to Disconnect, alongside an emphasis on the importance of mental health. The Board routinely discussed with management the effectiveness of these initiatives to fully understand how employees were coping throughout the pandemic, from both a physical and mental perspective, and to ensure appropriate supports at all times.

The onset of the pandemic also accelerated a change in how, and where, our employees work. Through the strategic review process, the Board considered AIB's future property strategy. Following employee engagement, and in response to that engagement as well as a number of additional strategic considerations, the Board approved the revised Group Property Strategy. This strategy will facilitate greater flexibility in future working arrangements for employees, as well as giving due consideration to potential cost savings, reduction in carbon emissions and the related impacts on our medium-term targets for the benefit of our investors.

IMPACTED STAKEHOLDERS:

BREXIT

Preparation for Brexit continued at pace throughout 2020 through three dedicated workstreams: Operational Contingency; Products & Customer Solutions, and; Business Response. Throughout the year, the Board received updates from, and supported the efforts of, the internal Brexit Steering Group, which was leading the workstreams. Importantly, the Products & Customer Solutions workstream was tasked with ensuring product readiness for all potential post-Brexit scenarios, as well as standing up robust external and internal communication plans, appropriate employee training and a dedicated Brexit phoneline to support customers. This preparation has allowed AIB to make a smooth transition to the post-Brexit operating environment and support our customers.

IMPACTED STAKEHOLDERS:

STRATEGY DEVELOPMENT

In light of the changing world events, the Group's agreed strategy for 2020-22 underwent significant review and challenge during 2020 to ensure it was appropriately refocussed and its delivery would enable AIB to meet our medium-term financial targets by 2023. The strategy review was informed by the global themes of sustainability, digitalisation and future ways of working. Stakeholder impacts and considerations were a key focus in the Board's review, challenge and approval of the revised Strategy during 2020 when the Directors came together virtually from multiple locations in November over a two-day meeting.

IMPACTED STAKEHOLDERS:

SUCCESSION PLANNING

Succession planning for the Board and Executive Committee continued to be a key area of focus of the Nomination and Corporate Governance Committee and the Board as a whole. In each process, the Board considered the importance of diversity in line with the Board Diversity Policy and we continue to exceed our stated targets in this area.

2020 saw the retirement of Mr Richard Pym, Chair, Mr Tom Foley, Senior Independent Director, and the resignation of Mr Tomás O'Midheach, Chief Operating Officer and Executive Director. To ensure the continued strength of the Group's leadership, the Board prioritised succession planning. In light of these efforts, at the time of writing, a number of appointments were made conditional on the satisfactory completion of the regulatory fitness and probity approval processes underway. Following conclusion of his regulatory fitness and probity process, we are pleased to introduce Fergal O'Dwyer who joined the Board as a Non-Executive Director and member of the Board Audit Committee on 22 January 2021. Further announcements will be made as soon as practicable. The succession plan for both the Board and Executive Committee is well positioned to ensure the strength of leadership going forward.

IMPACTED STAKEHOLDERS:

CULTURE PROGRAMME

Throughout 2020 the evolution of culture remained a strong area of focus for the Board, and in early 2020, the Board was actively involved in defining a new set of values for the organisation. There are five values – Drive Progress, Own the Outcome, Show Respect, Eliminate Complexity and Be One Team – which centre on our purpose to back our customers to achieve their dreams and ambitions. Each of the values is underpinned by specific behaviours.

The Board remains committed to taking a leadership role in ensuring that the culture at AIB continues to evolve, and incorporates an appropriate risk culture. As we look to our five stakeholder groups, success for us is only achieved when all of our respective stakeholders see the culture in AIB, and indeed the industry, as having changed for the better. In addition, the Board is committed to supporting the work programme of the Irish Banking Culture Board (IBCB). The Chair and CEO of IBCB joined the October Board meeting to share their views and work programme for the coming years. Finally, the Board welcomed the survey that was issued in February 2021 by the IBCB to all employees of the five member banks in order to examine culture and behaviours. We will work on the outputs of that review with the same rigour that we have applied to AIB's own culture evolution, and augment our programme in line with such outputs as necessary.

IMPACTED STAKEHOLDERS:

RISK SUMMARY

HOW WE MANAGE RISK

In AIB, we use a dynamic risk management process to guide and protect our purpose to back our customers to achieve their dreams and ambitions.

In AIB, Risk & Capital is one of our five strategic pillars and the management of risk is recognised as a critical component in the attainment of the Group's strategy. We implement a strong risk management approach to protect our customers and mitigate risks. We achieve this through identifying the Principal Risks and Uncertainties, including the key Emerging Risk Drivers, that could adversely impact our customers, our other stakeholders, our business and the delivery of our strategic objectives. Principal Risks are those risks that could have a material adverse effect on the Group. The Emerging Risk Drivers, should they occur, will materially impact on one or more of the Principal Risks.

The description of the Risk Management Framework is set out on pages 80 to 86. This provides more detail on the key elements of how we manage risk within the Group, including the three lines of defence, our risk committee structure and the setting of our risk appetite.

Risk Developments in 2020

COVID-19 has had a pervasive impact on our operations as well as our customers' livelihoods and businesses. During 2020, our priorities have been to support our customers, protect our people, maintain the Group's strong capital position and improve operational resilience. Risk provided significant input and oversight to ensure appropriate responses were put in place.

To that end, over 66,000 customer solutions were implemented in Retail Banking during 2020. We have engaged actively with customers during this period, with the vast majority of impacted customers 88% having now returned to normal payment schedules. To facilitate this support most effectively, we ensured that our digital channels were enhanced.

To mitigate the operational risks arising from these changes, Risk provided assurance on the customer solutions to ensure that they were fit for purpose for customers and implemented appropriately. The risk of financial crime continues to be a key focus for the Group, with Risk providing oversight over the Group's controls and specifically delivering bespoke, virtual, training to all staff and Directors of the Group over the course of 2020, covering such themes as money muling, human trafficking and emerging trends.

During 2020, we completed the capital issuance of AT1 and Tier 2 instruments. We assessed our medium- and long-term capital positions across a range of possible scenarios with significant and long-lasting COVID-19 effects. Even under severe scenarios, our capital and liquidity position remains robust.

Brexit

The Group prepared extensively for the UK's exit from the European Union since the Brexit vote in 2016. The Group has not suffered any material negative impact to date but we continue to closely monitor the impact the EU-UK Trade and Cooperation Agreement is having on our customers and the wider economy.

Sustainability and Climate Change

AIB is committed to being a leader in the necessary transition to a low-carbon economy and we continue to integrate climate risk into our overall risk management approach and broader sustainability strategy. In 2020, under the Green Bond Framework, the Group successfully raised €1bn to support lending to environmental and climate-related initiatives. Additionally, we have implemented specific sector exclusions into our Credit Risk Policy, which sets out the sectors to which the Group does not have an appetite to lend. Further detail is provided on page 85.

Cyber Risk and Information Security

The threat from information security and cyber risk continues to grow as a result of increased digitalisation and sophisticated techniques. These threats increased in 2020, particularly in social engineering and Distributed Denial of Service (DDOS) techniques. Our controls are based on the principles of prediction, prevention, detection and response. The AIB cyber control environment withstood a number of attempted attacks during 2020, preventing customer impact and maintaining system and service availability. Further detail is provided on page 85.

Business Model and Operating Environment

Throughout 2020, in response to the evolving macro-economic backdrop of the global pandemic, the Group closely monitored the potential risks to our business model and capital, including expected credit loses (ECLs) and the cost of surplus liquidity. This was achieved through regular re-forecasting and ad hoc scenario stress testing to determine the full range of potential outcomes. During the year, we reviewed the risk appetite of the Group more frequently, to ensure it was appropriate for the evolving external environment.

Linking Risk Management to Strategy

Our strategic objectives are established and approved by the Board. Our approach to risk management directly supports the achievement of Board-approved strategic objectives by responding to changes in risk and prompting action to address those risks. For example, in response to the COVID-19 pandemic, we performed more frequent assessments of the Emerging Risk Drivers.

The Emerging Risk Drivers are set out in the table below and the following pages include the linkage of these Risk Drivers for each of the Principal Risks.

	EMERGING RISK DRIVER	TREND IN 2020	MITIGANTS
A	**FURTHER RESTRICTIONS DUE TO COVID-19** COVID-19 has increased risk across different dimensions, including a significant impact on our customers. The long-term economic outlook continues to be uncertain in relation to timing and length of public health restrictions and the efficacy of vaccines.	**Increasing Risk**	• We have provided over 66,000 customers with reduced payment requirements in 2020 and continue to work closely with our customers in difficulty • We reviewed our risk appetite and have enhanced our Credit Risk monitoring processes to ensure current information on asset quality information is available through this volatility • We have applied a prudent forward-looking approach to ECLs and in our assessment of capital adequacy, taking account of the potential impact of COVID-19 in 2021 and beyond • We continue to perform stress tests, across a range of scenarios, reflecting elevated volatility to identify potential sectors that may come under stress to identify management strategies
B	**GEOPOLITICAL RISKS** The trends in recent years for growing geopolitical tensions continued in 2020. This risk can originate from a variety of sources, such as trade wars, global taxation rules and increased political instability.	**Stable**	• We continue to incorporate geopolitical risks in scenarios assessing adequacy of provisions and capital in these scenarios • We maintained an Executive-led Brexit steering group through 2020 to ensure all aspects of the UK withdrawal and the end of the extension period were closely managed and will continue until further clarity emerges • We continue to monitor and adjust our risk appetite where the uncertainty requires a more conservative outlook
C	**INFORMATION SECURITY AND CYBER THREATS** Cyber attacks continue to increase globally each year, potentially impacting customers through fraud and the Group through accessing payments systems or customer data.	**Increasing Risk**	• We continue to invest in the resilience of our IT systems, including our cybercrime controls • We continue to enhance staff education in relation to identifying potential cyber attacks and continue to regularly complete phishing tests • We continue to communicate with, and educate our customers on, fraud threats, both directly and through the BPFI FraudSMART initiative
D	**COMPETITION** Competition continues to increase, particularly in the mortgage market with new entrants announced in 2020 and continued competition from fintechs.	**Stable**	• We continue to see our significant in-depth knowledge of our core markets as a competitive advantage and have enhanced our digital and physical offerings to reflect changing customer expectations • Our product offering has expanded and we continue to examine robust approaches to improve our offering to our customers
E	**CHANGING REGULATORY EXPECTATIONS** A variety of regulations were changed throughout 2020 and regulatory expectations continue to evolve.	**Increasing Risk**	• We continue to work closely with our regulators to ensure that new regulatory requirements are implemented in an appropriate and effective way • We continue to review decisions (e.g. approach to applying payment breaks to customers) in a risk-focussed manner to minimise the risk of future regulatory issues being identified
F	**CLIMATE CHANGE** This incorporates both physical risks (climate and weather-related events) and transition risks resulting from the process of adjustment towards a low-carbon economy.	**Increasing Risk**	• We continue to enhance our measurement and management of the impact of climate change on our credit portfolio and our business model • We have developed a Board-approved three-year plan to significantly increase AIB's ability to fully embed sustainability and climate change into all key processes in the Group • The incorporation of Sustainable Communities as a fifth pillar supporting our strategic ambition drives the importance of this from the Board throughout the Group

OUR PRINCIPAL RISKS

CUSTOMER FIRST

SIMPLE & EFFICIENT

RISK & CAPITAL

TALENT & CULTURE

SUSTAINABLE COMMUNITIES

BUSINESS MODEL RISK

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

Example

The impact of significant external events, e.g. the COVID-19 pandemic, on ability to meet financial objectives.

Key mitigating considerations and controls

- Annual Board review of strategy
- The Board receives regular updates on performance against strategic objectives via a quarterly performance scorecard
- Comprehensive reports setting out the current financial performance against budget, multi-year financial projections, capital plans and economic updates
- Material external events (e.g. COVID-19) trigger comprehensive re-forecasting and re-assessment of financial objectives by the Board

Key Risk Indicators

- Operating profit
- Net Interest Margin (NIM)

Alignment to strategic priorities and pillars

- We achieve sustainable growth by delivering long-term value to customers and stakeholders, by being efficient in our operations and by pricing appropriately

- We create long-term shared value in a sustainable way for our customers, stakeholders and the communities in which we live and work

- We conduct our business by putting the customer first and doing the right thing

Emerging Risk Drivers

A, B, C, D & F

+ Read more: pages 168 to 169

CAPITAL ADEQUACY RISK

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

Example

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

Key mitigating considerations and controls

- Board approved and monitored risk appetite limits covering key regulatory and internal capital requirements
- Regular forward-looking assessment of capital adequacy via annual Internal Capital Adequacy Assessment Process (ICAAP) and quarterly internal stress testing, which considers a number of scenarios including a base case, moderate downside and severe but plausible stress
- In response to material external events, such as COVID-19, additional scenarios considered through stress testing to assess the full range of potential outcomes
- Monthly reporting of the Group's capital metrics to the Group's Asset & Liability Management Committee (ALCo)
- Capital contingency and recovery planning activities

Key Risk Indicators

- CET1 ratio
- Fully loaded total capital ratio

Alignment to strategic priorities and pillars

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

Emerging Risk Drivers

A, B & F

+ Read more: page 156

CONDUCT RISK

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

Example

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

Key mitigating considerations and controls

- Board-approved and monitored risk appetite limits covering key dimensions of Conduct Risk
- A suite of policy standards that clearly define expected standards of behaviour, including how we lend responsibly and how we facilitate vulnerable customers
- Mandatory conduct-related training required to be completed by all staff
- The customer impacts of external events (e.g. COVID-19) are considered as part of our management of Conduct Risk

Key Risk Indicators

- Number of complaints open beyond 33 days

Alignment to strategic priorities and pillars

- We conduct our business in a fair and transparent manner in line with our purpose, values and strategic ambition

- We ensure processes are in place to minimise the systemic risk of unfair customer outcomes arising from inadequate product design, sales and lifecycle processes or market abuse

Emerging Risk Drivers

A & F

+ Read more: pages 166 to 167

CREDIT RISK

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

Example

Changes in the economic environment (for example Brexit and COVID-19 uncertainty) could impact profitability due to higher-than-expected credit losses.

Key mitigating considerations and controls

In response to the COVID-19 pandemic and Brexit, we have additional measures to mitigate Credit Risk i.e. additional Credit Risk guidance documents, enhanced portfolio asset quality monitoring, case-specific reviews and top-down COVID-19 vulnerable portfolio/sector reviews.

Existing controls include:

- Board approved and monitored risk appetite limits covering the key dimensions of Credit Risk
- The Group implements and operates policies to govern the identification, assessment, approval, monitoring and reporting of Credit Risk
- A specialised recovery function focuses on managing the majority of criticised loans and deals with customers in default, collection or insolvency

Key Risk Indicators

- NPE outstanding as % of customer loans
- Migration to stage 2

Alignment to strategic priorities and pillars

- We build long-term lending relationships with customers that are resilient through the cycle
- Our core market is in Ireland and the UK.

Emerging Risk Drivers

A, B, D & F

+ Read more: pages 87 to 146

FINANCIAL RISK

The uncertainty of returns attributable to fluctuations in market factors. Where the uncertainty is expressed as a potential loss in earnings or value, it represents a risk to the income and capital position of the Group.

Example

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

Key mitigating considerations and controls

- Board approved policies and risk appetite limits
- Group market risk strategy, systems, controls and monitoring
- The Group substantially reduces our market risk through hedging in external markets
- Regular oversight and monitoring by ALCo of market risk positions and exposures, including review of hedging strategy
- In response to material external events, such as COVID-19, additional controls and regular monitoring of market risk positions and exposures

Key Risk Indicators

- Earnings Sensitivity
- Interest Rate Capital at Risk (CaR)

Alignment to strategic priorities and pillars

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

Emerging Risk Drivers

A, B & F

+ Read more: pages 157 to 164

FUNDING AND LIQUIDITY RISK

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

Example

A deterioration in the macroeconomic environment or to the Group's credit rating could deplete funding resources and/or increase funding requirements leading to a deterioration in the asset quality of the liquidity buffer.

Key mitigating considerations and controls

- Board approved and monitored risk appetite limits
- Group funding and liquidity strategy, policies, systems, controls and monitoring
- Annual forward-looking Internal Liquidity Adequacy Assessment Process (ILAAP)
- The suite of liquidity stress tests performed captures material external events, such as Brexit and COVID-19, with additional liquidity stress scenarios considered to assess the full range of potential outcomes
- Liquidity contingency and recovery planning prescribed activities are activated by material events, such as COVID-19 and Brexit

Key Risk Indicators

- Liquidity Coverage Ratio (LCR)
- Survival Period

Alignment to strategic priorities and pillars

- We ensure that our liquidity and funding profile is managed to deliver a sustainable supply of funding for the Group's activities

Emerging Risk Drivers

A, B, E & F

+ Read more: pages 147 to 155

MODEL RISK

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

Example

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

Key mitigating considerations and controls

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

Key Risk Indicators

- Quarterly risk assessment of live models

Alignment to strategic priorities and pillars

- We build models that are logical and efficient with clearly understood aims
- We only use appropriately designed, deployed and maintained models for decision-making
- We develop and maintain highly competent and skilled teams, supported by appropriate data governance structures and frameworks

Emerging Risk Drivers

A, B, E & F

+ Read more: pages 169 to 170

OPERATIONAL RISK

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

Example

The dynamic threat posed by cyber risk to the confidentiality and integrity of electronic data and the availability of systems.

Key mitigating considerations and controls

- Board-approved and monitored risk appetite limits covering key dimensions of Operational Risk
- The Group continues to invest significantly in technology, including cyber deterrents and defences with controls to predict, prevent, detect and respond to cyber risk
- The Group operates a risk and control assessment of our processes and people to deliver objectives and keep customers safe

Key Risk Indicators

- Cumulative operational risk losses
- Cyber security metric

Alignment to strategic priorities and pillars

- We design and manage controls, processes and systems according to our risk frameworks and policies
- We ensure the management of critical IT delivers exemplary levels of customer access to our services as and when they need it
- We ensure that we have the right talent, skills and capabilities within the organisation to support accountable, collaborative and trusted ways of working
- We ensure that all products are appropriately designed

Emerging Risk Drivers

A, C & F

+ Read more: pages 164 to 165

PEOPLE AND CULTURE RISK

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

Example

Inability to attract or retain staff with key skills, and result of poor engagement of staff working from home as a result of COVID-19, could impact the achievement of business objectives.

Key mitigating considerations and controls

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

Key Risk Indicators

- Senior role attrition
- Staff engagement survey

Alignment to strategic priorities and pillars

- We retain and recruit talented staff to support our future strategic plans
- Our values and Code of Conduct contain clear statements of the behaviours we expect from everyone in AIB and we place great emphasis on the integrity of staff and accountability for both inaction and actions taken

Emerging Risk Drivers

A, D & F

+ Read more: pages 167 to 168

REGULATORY COMPLIANCE RISK

The risk of legal or regulatory sanctions or failure to protect market integrity could result in material financial loss, reputational damage or negative customer outcomes.

Example

Failure to comply with laws, regulations, or rules, for example Data Protection, Anti-Money Laundering, Countering Terrorist Financing, Financial Sanctions and Modern Slavery, as well as internal standards and codes of conduct, could result in regulatory sanction or detrimental customer impact.

Key mitigating considerations and controls

- Board-approved and monitored risk appetite limits
- Training is provided to staff on the Group's frameworks and policies for regulatory compliance and reporting
- Identification, assessment and monitoring of new or changing laws and regulations, including collaboration with industry bodies
- The regulatory implications of external events (e.g. COVID-19 and Brexit) are analysed and communicated across the Group

Key risk indicators

- Regulatory correspondence failures
- Number of data protection incidents

Alignment to strategic priorities and pillars

- We have no appetite for deliberate or systemic breaches of internal policies, standards and compliance obligations or the untimely reporting and resolution of such incidents

- We do not have relationships with, or knowingly process transactions involving, companies or individuals operating from/residing in an Extreme High Risk Country

Emerging Risk Drivers

A, B & F

+ Read more: pages 165 to 166

OUR BOARD OF DIRECTORS

BRENDAN MCDONAGH

Independent Non-Executive Director and Deputy Chair

Date of appointment
27 October 2016

24 October 2019: Deputy Chair

Nationality: Irish

CAROLAN LENNON

Senior Independent Director

Date of appointment
27 October 2016

Nationality: Irish

BASIL GEOGHEGAN

Independent Non-Executive Director

Date of appointment
4 September 2019

Nationality: Irish

ELAINE MACLEAN

Independent Non-Executive Director

Date of appointment
4 September 2019

Nationality: British

HELEN NORMOYLE

Independent Non-Executive Director

Date of appointment
17 December 2015

Nationality: Irish

COMMITTEE MEMBERSHIP AND TENURE (as at 31 December 2020, in years or months)

	Brendan McDonagh	Carolan Lennon	Basil Geoghegan	Elaine Maclean	Helen Normoyle
	Ri	Ri	Ri	R	S
	4 y	3.5 y	1 y	1 y	4.5 y
	Ri	S	A	N	N
	1 y	3.5 y	1 y	1 y	7 m
	A			N	T
	2.5 y			2 m	1 m
	R				
	2 y				
	N				
	1 y				

SKILLS, EXPERTISE AND EXPERIENCE

Brendan started his banking career with HSBC in 1979, working across Asia, Europe and North America, where he held various roles such as Group Managing Director for HSBC Holdings Inc, membership of the HSBC Group Management Board and CEO of HSBC North America Holdings Inc. Brendan is a former Director of Ireland's National Treasury Management Agency. He was previously the Executive Chairman of Bank of N.T. Butterfield & Son Limited. Brendan was appointed Deputy Chair with effect from 24 October 2019.

Prior to her current role of CEO of eir, Carolan held a variety of executive roles in eir Limited, including Managing Director of Open eir, Acting Managing Director Consumer and Chief Commercial Officer. Prior to joining eir, she held a number of senior roles in Vodafone Ireland, including Consumer Director and Marketing Director. Carolan is a former Non-Executive Director of the Dublin Institute of Technology Foundation and the Irish Management Institute. Carolan was appointed Senior Independent Director with effect from 29 April 2020.

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

Elaine is a highly experienced human resources director specialising in financial services and retail. Following her early retail career with Harrods, Windsmoor and later as Retail Operations Director and Human Resources Director with Arcadia, Elaine moved to financial services culminating in her appointment as Group Human Resources Director for Legal and General plc in 2006. Elaine holds an MA in English Literature and Psychology from the University of Glasgow.

Helen started her career working for Infratest+GfK, based in Germany. She moved to Motorola, as Director of Marketing and Director of Global Consumer Insights and Product Marketing and thereafter to Ofcom, as Director of Market Research. Helen also held the roles of Chief Marketing Officer at Countrywide, Chief Marketing Officer at DFS and Director of Marketing and Audiences at the BBC. She most recently held the office of Marketing Director of Boots UK and Ireland and also Chair and Director of the Boots Charitable Trust until November 2020. Helen is the co-founder of My Menopause Centre.

KEY EXTERNAL APPOINTMENTS

Brendan McDonagh	Carolan Lennon	Basil Geoghegan	Elaine Maclean	Helen Normoyle
Non-Executive Director and Chair of Audit Committee of UK Asset Resolution Limited	Chief Executive Officer of eir	Chairman of daa plc	None	None
Chair of the Trinity Business School Advisory Board	Sits on the Council of Patrons for Special Olympics Ireland	Partner at PJT Partners		
Serves on the Board of The Ireland Funds, Ireland Chapter		Patron of IFGB (Ireland Fund of Great Britain)		
Chairman, PEAL Investment Partners Limited				

BOARD COMMITTEES

- R Remuneration
- N Nomination & Corporate Governance
- A Board Audit
- Ri Board Risk
- S Sustainable Business Advisory
- T Technology & Data Advisory
- Committee Chair

ANN O'BRIEN

Independent Non-Executive Director

Date of appointment
25 April 2019

Nationality: Irish

FERGAL O'DWYER

Independent Non-Executive Director

Date of appointment
22 January 2021

Nationality: Irish

SANDY KINNEY PRITCHARD

Independent Non-Executive Director

Date of appointment
22 March 2019

Nationality: Irish

RAJ SINGH

Independent Non-Executive Director

Date of appointment
25 April 2019

Nationality: American

COLIN HUNT

Chief Executive Officer

Date of appointment
8 March 2019

Nationality: Irish

COMMITTEE MEMBERSHIP AND TENURE (as at 31 December 2020, in years or months)

A	R	S	T	A	A	Ri		Ri	S
7 m	1.5 y	1.5 y	2 m			1.5 y	1.5 y	1.5 y	1.5 y

SKILLS, EXPERTISE AND EXPERIENCE

Ann has over 30 years' experience in the financial services industry. A graduate of both University College Dublin and later Trinity College Dublin, Ann has led complex management consulting engagements at many of the world's largest global banking and securities organisations. Her most recent role was as a Principal with Deloitte in New York where she was based for 10 years. Ann was appointed under the Relationship Framework between the Minister for Finance and AIB Group.

Fergal is a Chartered Accountant with significant experience in financial management, treasury, strategy, capital deployment and development. Fergal retired in 2020 from DCC plc, the Irish-headquartered international sales, marketing and business support services group, which is a FTSE100 constituent company, where he began as an Associate Director, later progressing to Chief Financial Officer in 1992, and Executive Director in 2000. Prior to working in DCC, he worked in PwC and KPMG.

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

Raj has 34 years' business, risk and governance experience gained in large complex financial services organisations. He served as a non-executive director of a national credit bureau and two publicly traded financial institutions as well as serving on the Boards of many of the major banking, insurance, reinsurance and asset management subsidiaries of those firms. Raj held the role of Chief Risk Officer and Executive Committee member of EFG International, a Swiss private banking group. Raj was appointed under the Relationship Framework between the Minister for Finance and AIB Group.

In March 2019, Colin was appointed Chief Executive Officer. He joined AIB in August 2016 as Managing Director of Wholesale, Institutional & Corporate Banking. Prior to joining AIB, he was Managing Director at Macquarie Capital in Ireland. Previously, he was a Policy Adviser at the Departments of Transport and Finance, Research Director at Goodbody Stockbrokers, Head of Trading Research at Bank of Ireland Group Treasury and a country risk analyst at NatWest. He has a Phd in Economics from Trinity College Dublin.

KEY EXTERNAL APPOINTMENTS

Non-Executive Director of Royal London Asset Management Limited

Non-Executive Director and Chair of Audit Committee of ABP Food Group

Board Member of Focus Ireland and Focus Housing Association – two independent charitable companies

Non-Executive Director and Chair of both the Audit Committee and the Remuneration Committee of Credit Suisse (UK) LTD

Non-Executive Chair of the Board of London & Country Mortgages Ltd

None

Serves on the Board of The Ireland Funds, Ireland Chapter

Non-Executive Director and President 2021/2022 of the Institute of Bankers in Ireland

OUR EXECUTIVE COMMITTEE

CJ BERRY

Chief Operating Officer Designate

CATHY BRYCE

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

GERALDINE CASEY

Chief People Officer

FERGAL COBURN

Chief Technology Officer Designate

HELEN DOOLEY

Group General Counsel

SKILLS, EXPERTISE AND EXPERIENCE

CJ joined AIB in 2002, bringing with him a wealth of experience across Irish, UK, US and European markets. During his 18 years in AIB, he has driven significant business development in our corporate and retail business, taking up the position of Interim Head of Group Strategy in July 2020. As Chief Operating Officer Designate, CJ will oversee the bank's transformation agenda, identifying and leading initiatives that contribute to the overall strategy of the bank. He is an Economics & Philosophy graduate of Trinity College Dublin.

Cathy started her career in investment banking with Morgan Stanley and subsequently ABN AMRO. She joined AIB in 1996, holding a range of leadership roles in debt capital markets, most recently leading the international leveraged finance business. In 2018 she joined the National Treasury Management Agency where she was part of the executive management team as Director of NewERA and National Development Finance Agency. In 2019 she returned to AIB as Managing Director of Corporate, Institutional and Business Banking (CIB). She is a business graduate of Trinity College Dublin and holds an MBA from INSEAD.

Geraldine joined AIB in January 2020 from her most recent role as Director of People, Communications and IT at Tesco Ireland. She was also a member of the Executive Board of Tesco for five years prior to joining AIB and has a wealth of experience working closely with internal and external stakeholders. Geraldine has led large teams through culture, process and organisational change. She is an accomplished business leader, having run Tesco's retail operations at national level before taking up her current role. Geraldine is a business graduate of University College Cork.

Prior to his appointment to Chief Technology Officer Designate, Fergal was Chief Digital & Innovation Officer, responsible for the strategy and development of AIB's digital businesses. Over the previous 18 years, he held leadership positions across all aspects of AIB's digital and technology businesses. He currently serves as a Director on the Boards of First Merchant Processing (Ireland) DAC and Payzone Ireland Limited. An electronics engineer, immediately prior to joining AIB Fergal worked with Eircom in Network Support Systems development. He holds Bachelors and Masters degrees from Trinity College Dublin.

Helen joined AIB as Group General Counsel in 2012. She had previously worked in private practice in the City of London, Hong Kong and Dublin, before taking up an in-house role as Head of Legal in EBS Building Society in 2005, which became part of the AIB Group in 2011. Over the last 16 years, in addition to her legal role, Helen has also held the Company Secretary position and managed the regulatory compliance and HR functions. Helen is currently responsible for the Legal, Corporate Governance and Customer Care function.

DONAL GALVIN

Chief Financial Officer

DEIRDRE HANNIGAN

Chief Risk Officer

ROBERT MULHALL

Managing Director of AIB Group (UK) plc

JIM O'KEEFFE

Managing Director of Retail Banking

MARY WHITELAW

Director of Corporate Affairs, Strategy & Sustainability

SKILLS, EXPERTISE AND EXPERIENCE

Donal joined AIB as Group Treasurer in September 2013 and was appointed Chief Financial Officer in March 2019. Donal has worked in domestic and international financial markets over the last 25 years. He was Managing Director in Mizuho Securities Asia, the investment banking arm of Japanese bank Mizuho, where he was responsible for Asian Global Markets. Before that, he was Managing Director in Dutch Rabobank, managing its London and Asian Global Financial Markets business, and Treasurer of Rabobank International.

Deirdre joined AIB in April 2017 from the National Treasury Management Agency where she was Chief Risk Officer and chaired the Executive Risk Committee. She has held a number of senior international risk management roles with GE Capital and progressively senior roles in Bank of Ireland, primarily in strategy and risk management. Previous to that, she worked in Retail and Corporate Banking with AIB and Rabobank. In 2010, she was admitted as a Chartered Director to the Institute of Directors in London.

Robert's career in AIB has spanned almost 25 years, covering a variety of roles across multiple business areas and geographies. Before taking up his current role within AIB, Robert was Managing Director of Retail & Commercial Banking. Outside of AIB, Robert held the position of Managing Director of Distribution & Marketing Consulting as well as Financial Services with Accenture in North America from 2013 to 2015, during which time he brought his industry experience to build a rapidly growing consulting practice in the fast moving and innovative areas of financial services. Robert is chair of the Board of Payzone Ireland Limited and is a director of the Irish Banking Culture Board (IBCB).

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

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

Colin Hunt (CEO) is also on the Executive Committee. His biography can be found on page 55.

THE VALUE WE CREATE

OUR PURPOSE

To back our customers to achieve their dreams and ambitions.

OUR SCALE

2.8m CUSTOMERS

4,000 SUPPLIERS

324 LOCATIONS ACROSS IRELAND AND THE UK

9,356 EMPLOYEES

#1 IN IRELAND

PERSONAL LOANS[1]

PERSONAL CREDIT CARDS

PERSONAL MAIN CURRENT ACCOUNT

BACKING DREAMS

€2.4bn MORTGAGE DRAWDOWNS

€9.2bn NEW LENDING

€1.6bn NEW SME LENDING[2]

€1.5bn NEW GREEN LENDING

DIGITALLY ADVANCED

2.57m DAILY INTERACTIONS

1.72m DIGITALLY ACTIVE CUSTOMERS

1.39m ACTIVE MOBILE CUSTOMERS

VALUE CREATION

€801m EMPLOYEE SALARIES AND BENEFITS

€1bn SPEND ON SUPPLIERS

€14.1m COMMUNITY INVESTMENT

€476m TAX PAID & COLLECTED

Information as at December 2020.
Sources: Company information and independent market research.
1. No. 1 among banks, personal lending excl. car finance.
2. SME lending in ROI.

Business review

	Page
1. Operating and financial review	60
2. Capital	75

Business review – 1. Operating and financial review

Basis of presentation

The operating and financial review is prepared using IFRS and non-IFRS measures to analyse the Group's performance, providing comparability year-on-year. These performance measures are consistent with those presented to the Board and Executive Committee. Non-IFRS measures include management performance measures which are considered Alternative Performance Measures ("APMs"). APMs arise where the basis of calculation is derived from non-IFRS measures. A description of the Group's APMs and their calculation is set out on page 73. These measures should be considered in conjunction with IFRS measures as set out in the consolidated financial statements from page 227. A reconciliation between the IFRS and management performance summary income statements is set out on page 74.

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

Basis of calculation

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

The Group's business has been adversely affected by the COVID-19 pandemic which triggered a global recession in 2020. In Ireland, whilst the hit to the economy was mitigated to some extent by the continuing strength of exports, most notably from the multi-national sector, there was a marked contraction in the domestic economy. The pandemic has also had a particularly severe impact on the UK economy. The impact of the pandemic on the Group's financial performance in 2020 is reflected in a significant increase in the net credit impairment charge due to the deterioration in the economic outlook and negative impact on credit quality, particularly in sectors impacted by COVID-19 restrictions. It was also evident in lower new lending, a substantial increase in customer accounts and a reduction in income. For further information see the Chief Executive's Review on page 10 to 17, the Overview of the Irish Economy on page 20 and 21, and the Risk management section on pages 79 to 170.

Management performance – summary income statement	2020 € m	2019 € m	% change
Net interest income	1,872	2,076	-10
Business income	398	491	-19
Other items	101	128	-21
Other income[1]	499	619	-19
Total operating income[1]	2,371	2,695	-12
Personnel expenses[1]	(734)	(774)	-5
General and administrative expenses[1]	(514)	(501)	3
Depreciation, impairment and amortisation[1]	(279)	(229)	22
Total operating expenses[1]	(1,527)	(1,504)	2
Bank levies and regulatory fees[1]	(115)	(104)	11
Operating profit before impairment losses and exceptional items[1]	729	1,087	-33
Net credit impairment charge	(1,460)	(16)	–
Operating (loss)/profit before exceptional items[1]	(731)	1,071	-168
Associated undertakings	15	20	-24
(Loss)/profit before exceptional items[1]	(716)	1,091	–
Restitution costs	(117)	(416)	–
Restructuring costs	(36)	–	–
Impairment of intangibles	(30)	(18)	–
Covid product costs	(22)	–	–
Termination benefits	(9)	(48)	–
Loss on disposal of loan portfolios	(1)	(40)	–
Provision for regulatory fines	–	(78)	–
Other	–	8	–
Total exceptional items[1]	(215)	(592)	–
(Loss)/profit before taxation	(931)	499	–
Income tax credit/(charge)	190	(135)	–
(Loss)/profit for the year	(741)	364	–

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

Net interest income

Net interest income

€1,872m

Net interest income	2020 € m	2019 € m	% change
Interest income[1]	2,049	2,334	-12
Interest expense[1]	(177)	(258)	-31
Net interest income	1,872	2,076	-10
Average interest earning assets	96,037	87,479	10
	%	%	Change
Net interest margin (NIM)	1.94	2.37	-0.43

Net interest income

€1,872m

Net interest income of € 1,872 million decreased by € 204 million or 10% compared to 2019.

Interest income

Interest income of € 2,049 million in 2020 decreased by € 285 million compared to 2019 primarily due to:

- Reduced asset yields driven by the lower interest rate environment including decreases in sterling and dollar interest rates in 2020.
- Lower income on investment securities due to maturities and disposals of higher yielding securities and reinvestment at lower yields.
- Lower volumes of loans and advances to customers as redemptions exceeded new lending in 2020 and due to deleveraging of non-performing loans in 2019.
- Higher volumes of excess liquidity held with the central bank at negative rates.

Interest expense

Interest expense of € 177 million in 2020 decreased by € 81 million compared to 2019. The lower cost of customer accounts, other debt issued and deposits by banks was partially offset by an increase in MREL-related costs due to the Subordinated Tier 2 issuance in November 2019.

Net interest margin

1.94%

NIM decreased 43 bps to 1.94% in 2020 compared to 2.37% in 2019 due to:

- Reduced interest income primarily due to the impact of the lower interest rate environment, decrease in investment security yields and lower customer loan volumes c. -34 bps.
- Higher excess liquidity impacting average interest earning assets c. -18 bps partly offset by:
- Lower interest expense c. +9 bps.

Average interest earning assets of € 96.0 billion in 2020 increased by € 8.6 billion from 2019 primarily due to funds placed with banks. This was driven by excess liquidity mainly due to higher customer account balances, TLTRO III funding drawdown and proceeds from MREL-related issuances.

Average balance sheet

	Year ended 31 December 2020			Year ended 31 December 2019		
Assets	**Average balance € m**	**Interest[1] € m**	**Average rate %**	Average balance € m	Interest[1] € m	Average rate %
Loans and advances to customers	59,586	1,965	3.29	61,405	2,117	3.45
Investment securities	18,389	112	0.61	16,755	195	1.17
Loans and advances to banks	18,062	(28)	(0.15)	9,319	22	0.24
Average interest earning assets	96,037	2,049	2.13	87,479	2,334	2.67
Non-interest earning assets	7,227			8,108		
Total average assets	103,264	2,049		95,587	2,334	
Liabilities & equity						
Deposits by banks	1,870	(3)	(0.15)	957	11	1.15
Customer accounts	40,766	54	0.13	38,765	109	0.28
Other debt issued	6,089	68	1.11	6,488	91	1.41
Subordinated liabilities	1,481	45	3.05	856	33	3.82
Lease liabilities	408	13	3.18	446	14	3.06
Average interest earning liabilities	50,614	177	0.35	47,512	258	0.54
Non-interest earning liabilities	38,682			33,881		
Equity	13,968			14,194		
Total average liabilities & equity	103,264	177		95,587	258	
Net interest income		1,872	1.94		2,076	2.37

[1]Negative interest income on assets amounting to € 44 million in 2020 (2019: € 16 million) is offset against interest income. Negative interest expense on liabilities amounting to € 34 million in 2020 (2019: € 20 million) is offset against interest expense.

Business review – 1. Operating and financial review

Other income

Other income[1]

€499m

Other income[1]	2020 Business income € m	2020 Other items € m	2020 Total € m	2019 Business income € m	2019 Other items € m	2019 Total € m	% change Total
Net fee and commission income	395	–	395	472	–	472	-16
Dividend income	26	–	26	26	–	26	–
Net trading loss	(23)	(9)	(32)	(8)	(49)	(57)	-43
Net gain on equity investments (FVTPL)	–	45	45	–	74	74	-39
Net gain on loans and advances to customers (FVTPL)	–	42	42	–	62	62	-33
Other operating income	–	23	23	1	41	42	-45
Other income	398	101	499	491	128	619	-19

Other income[1]

€499m

Other income of € 499 million decreased by € 120 million or 19% compared to 2019 with decreased business income of € 93 million and other items of € 27 million.

Business income

€398m

Business income was € 398 million in 2020 compared to € 491 million in 2019.

Net fee and commission income	2020 € m	2019 € m	% change
Customer accounts	179	214	-16
Card income	69	84	-18
Lending related fees	40	50	-20
Customer related foreign exchange	54	71	-24
Payzone	15	2	–
Other fees and commissions	38	51	-26
Net fee and commission income	395	472	-16

Net fee and commission income of € 395 million in 2020 decreased by € 77 million compared to 2019 reflecting lower transaction volumes due to a reduction in economic activity. Payzone income was € 15 million in 2020 following acquisition in late 2019.

Dividend income was € 26 million in 2020 including € 23 million received on NAMA subordinated bonds, which were redeemed in March 2020.

Net trading loss of € 23 million 2020 increased by € 15 million compared to 2019 mainly due to negative movements on derivative valuation adjustments (XVA).

Other items

€101m

Other items were € 101 million in 2020 compared to € 128 million in 2019.

Net income from equity investments of € 36 million in 2020 (2019: € 25 million) reflected the disposal and revaluation of equity investments. This comprises a net gain on equity investments (FVTPL) of € 45 million in 2020 (2019: € 74 million), offset by a net trading loss of € 9 million on a partial hedge of the equity investments (2019: € 49 million).

Net gain on loans and advances to customers (FVTPL) of € 42 million in 2020 (2019: € 62 million) represents income recognised on previously restructured loans carried at fair value through profit and loss.

Other operating income of € 23 million in 2020 primarily reflects a gain on disposal of individual loans in the syndicated and international business for credit management purposes. The € 41 million in 2019 was primarily due to a gain on disposal of investment securities.

IFRS basis

On an IFRS basis other income, including a net gain of € 2 million on exceptional items[1], was € 501 million in 2020 compared to € 579 million in 2019.

[1] Other income before exceptional items. A net gain of € 2 million on exceptional items in 2020 (2019: € 40 million loss) comprises: Net loss on loans and advances to customers (FVTPL) € 1 million (2019: € 4 million gain) and Other operating income gain on settlement € 3 million (2019: loss on disposal of loan portfolios € 44 million).

Total operating expenses[1][2]

€1,527m

Operating expenses[1][2]	2020 € m	2019 € m	% change
Personnel expenses	734	774	-5
General and administrative expenses	514	501	3
Depreciation, impairment and amortisation	279	229	22
Total operating expenses	1,527	1,504	2
Staff numbers at period end[3]	9,193	9,520	-3
Average staff numbers[3]	9,356	9,855	-5

Total operating expenses[1][2]

€1,527m

Total operating expenses of € 1,527 million increased € 23 million or 2% compared to 2019, with increased depreciation, impairment and amortisation of € 50 million and general and administrative expenses of € 13 million partly offset by lower personnel expenses of € 40 million.

Personnel expenses

Personnel expenses decreased by € 40 million compared to 2019 primarily due to the decrease in average staff numbers and lower retirement benefit costs, partly offset by salary inflation.

General and administrative expenses

General and administrative expenses increased € 13 million compared to 2019 primarily relating to the roll out of the Group's new ways of working strategy. Higher operational costs associated with the COVID-19 pandemic were partially offset by savings achieved as a result of reduced travel and business expenses.

Depreciation, impairment and amortisation

Depreciation, impairment and amortisation increased by € 50 million compared to 2019 due to the commissioning of assets into operational use from the investment programmes in prior years.

Cost income ratio[1][2]

64%

Costs of € 1,527 million (up 2%) and income of € 2,371 million (down 12%) resulted in a cost income ratio of 64% in 2020 compared to 56% in 2019.

Bank levies and regulatory fees

€115m

Bank levies and regulatory fees	2020 € m	2019 € m	% change
Irish bank levy	35	35	–
Deposit Guarantee Scheme	39	33	16
Single Resolution Fund	17	16	7
Other regulatory levies and charges	24	20	19
Bank levies and regulatory fees	115	104	11

Bank levies and regulatory fees of € 115 million increased € 11 million compared to 2019 due to an increase in Deposit Guarantee Scheme fees and higher regulatory levies.

IFRS basis

On an IFRS basis total costs, including bank levies and regulatory fees of € 115 million and the cost of exceptional items[2] of € 217 million, were € 1,859 million in 2020 compared to € 2,181 million in 2019. This results in a cost income ratio (IFRS basis) of 78% in 2020, compared to 82% in 2019.

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

[2] The cost of exceptional items of € 217 million in 2020 (2019: € 573 million) comprised: Personnel expenses € 42 million (2019: € 56 million), General and administrative expenses € 139 million (2019: € 500 million) and Depreciation, impairment and amortisation € 36 million (2019: € 17 million).

[3] Staff numbers are on a full time equivalent ("FTE") basis. Average staff numbers for 2020 include 95 FTEs following the acquisition of Payzone in late 2019.

Business review – 1. Operating and financial review

Net credit impairment charge

€1,460m

There was a net credit impairment charge of € 1,460 million in 2020 primarily due to the deterioration in the economic outlook, credit downgrades, particularly in sectors impacted by COVID-19 restrictions, as well as post model adjustments for expected COVID-19 impacts and legacy non-performing mortgage exposures.

The net credit impairment charge reflected a € 1,421 million charge on loans and advances to customers (net re-measurement of expected credit loss ("ECL") allowance charge of € 1,493 million, offset by recoveries of amounts previously written-off of € 72 million) and a € 39 million charge for off-balance sheet exposures.

There was a net credit impairment charge of € 16 million in 2019 comprising of a € 27 million charge on loans and advances to customers and a € 11 million writeback for off-balance sheet exposures.

Further information is available in the Risk management section on pages 87 to 170.

Income tax credit/(charge)

€190m

The effective tax rate was 20.4% in 2020 compared to 27.1% in 2019.

The income tax credit recognised in 2020 reflects the:

- Deferred tax asset recognised in respect of losses in the period as well as a credit due to the set back of 2020 losses against tax for earlier years.
- Release of previously recognised liabilities following resolution of a tax matter where uncertainty had existed in prior years.
- Deferred tax assets write-down.

For further information see note 16 'Taxation' of the consolidated financial statements.

Total exceptional items

€215m

Total exceptional items	2020 € m	2019 € m
Restitution costs	(117)	(416)
Restructuring costs	(36)	–
Impairment of intangibles	(30)	(18)
Covid product costs	(22)	–
Termination benefits	(9)	(48)
Loss on disposal of loan portfolios	(1)	(40)
Provision for regulatory fines	–	(78)
Other	–	8
Total exceptional items	(215)	(592)

These gains/costs were viewed as exceptional by management.

Restitution costs include provision for customer redress and compensation in relation to the tracker mortgage examination of € 11 million and other customer redress of € 35 million along with € 71 million of associated costs. 2019 included a provision of € 265 million for additional redress to customers who had an option of a prevailing rate tracker.

Restructuring costs reflect changes to the AIB UK business model and the cost associated with the strategic decision to exit the SME market in Great Britain including termination benefits of £ 19 million.

Impairment of intangible assets relates to the write-down of assets following consideration of internal and external indicators of impairment.

Covid product costs reflect the incremental cost of implementing a large volume of payment breaks on home mortgages, personal and SME loans to customers impacted by COVID-19.

Termination benefits relate to the cost of the voluntary severance programme.

Loss on disposal of loan portfolios is a net loss of € 1 million in 2020 relating to portfolio disposals in prior years.

Other comprises:

- Costs relating to the implementation of the Group's property strategy of € 3 million. In 2019 this also included a gain of € 21 million on the disposal of land at Bankcentre.
- A net gain of € 3 million on the settlement of a legacy claim in 2020.

Assets

Net loans to customers

€57.0bn

New lending

€9.2bn

Assets	31 Dec 2020 € bn	31 Dec 2019 € bn	% change
Gross loans to customers	59.5	62.1	-4
ECL allowance	(2.5)	(1.2)	103
Net loans to customers	57.0	60.9	-6
Investment securities	19.5	17.3	12
Loans and advances to banks	27.3	13.5	103
Other assets	6.6	6.9	-4
Total assets	110.4	98.6	12

Net loans to customers

€57.0bn

Net loans, excluding the impact of currency movements of € 0.8 billion, decreased by € 3.1 billion compared to 31 December 2019 reflecting redemptions of € 11.1 billion exceeding new lending of € 9.2 billion and an increase in ECL allowance of € 1.3 billion from 31 December 2019.

New lending

€9.2bn

New lending of € 9.2 billion in 2020 was € 3.1 billion or 25% lower than in 2019 driven by the reduction in economic activity during 2020. Non-property lending was 28% lower at € 4.5 billion primarily due to lower syndicated and UK lending. Property related lending was 30% lower at € 1.4 billion, mortgage lending was 21% lower at € 2.4 billion and personal lending down 10% to € 0.9 billion.

New lending comprises € 7.7 billion term lending in 2020 (€ 10.8 billion in 2019) and € 1.5 billion transaction lending (€ 1.5 billion in 2019).

Non-performing loans

€4.3bn

Non-performing loans ratio

7.3%

Non-performing loans increased by € 1.0 billion to € 4.3 billion at 31 December 2020 primarily due to higher property and business non-performing exposures. Net flow to non-performing of € 1.8 billion, which included changes to the definition of default of € 0.2 billion, were partially offset by redemptions of € 0.7 billion.

Non-performing loans ratio

Non-performing loans as a percentage of gross loans to customers was 7.3% at 31 December 2020 compared to 5.4% at 31 December 2019.

ECL allowance

€2.5bn

Non-performing loans cover

32%

The ECL allowance of € 2.5 billion at 31 December 2020 increased from € 1.2 billion at 31 December 2019 reflecting the net credit impairment charge recognised in 2020 on loans and advances to customers, particularly in respect of stage 2 and non-performing exposures, partially offset by reductions due to write-offs and disposals.

Non-performing loans cover

The ECL allowance cover rate on non-performing loans of 32% at 31 December 2020 compared to 27% at 31 December 2019.

Summary of movement in loans to customers

The table below sets out the movement in loans to customers from 1 January 2020 to 31 December 2020.

Loans to customers	Performing loans € bn	Non-performing loans € bn	Loans to customers € bn
Gross loans (opening balance 1 January 2020)	58.8	3.3	62.1
New lending	9.2	–	9.2
Redemptions of existing loans	(10.4)	(0.7)	(11.1)
Net movement to non-performing	(1.8)	1.8	–
Write-offs and restructures	–	(0.1)	(0.1)
Foreign exchange movements	(0.8)	–	(0.8)
Other movements	0.2	–	0.2
Gross loans (closing balance 31 December 2020)	55.2	4.3	59.5
ECL allowance	(1.1)	(1.4)	(2.5)
Net loans (closing balance 31 December 2020)	54.1	2.9	57.0

There were no portfolio disposals in the year ended 31 December 2020.

Business review – 1. Operating and financial review

Assets *(continued)*

The tables below summarise the credit profile of the loan portfolio by asset class and include a range of credit metrics that the Group uses in managing the portfolio. Further information on the Group's risk profile and non-performing loans is available in the Risk management section on pages 87 to 170.

Loan portfolio profile 31 December 2020	Residential mortgages € bn	Other personal € bn	Property and construction € bn	Non-property business € bn	Total € bn
Gross loans to customers	30.6	2.8	7.4	18.7	59.5
Of which: Stage 2	2.0	0.3	2.1	5.0	9.4
Of which: Non-performing loans	2.1	0.2	1.0	1.0	4.3
Total ECL allowance	0.9	0.2	0.4	1.0	2.5
Total ECL allowance cover (%)	2.8%	8.5%	5.4%	5.5%	4.2%
ECL allowance cover Stage 2 (%)	3.7%	15.4%	6.4%	11.6%	9.0%
ECL allowance cover non-performing (%)	33.9%	61.1%	22.0%	32.3%	32.4%
31 December 2019	€ bn	€ bn	€ bn	€ bn	€ bn
Gross loans to customers	31.5	3.0	7.3	20.3	62.1
Of which: Stage 2	2.2	0.3	0.4	1.1	4.0
Of which: Non-performing loans	2.3	0.2	0.4	0.4	3.3
Total ECL allowance	0.6	0.1	0.2	0.3	1.2
Total ECL allowance cover (%)	1.8%	5.9%	2.6%	1.5%	2.0%
ECL allowance cover Stage 2 (%)	2.4%	13.9%	5.9%	7.5%	5.1%
ECL allowance cover non-performing (%)	21.8%	59.6%	35.1%	32.1%	26.8%

Non-performing loans 31 December 2020	Residential mortgages € bn	Other personal € bn	Property and construction € bn	Non-property business € bn	Total € bn
Collateral disposals	0.1	0.0	0.1	0.0	0.2
Unlikely to pay (including > 90 days past due)	1.8	0.2	0.4	0.8	3.2
Non-performing loans probation	0.2	0.0	0.5	0.2	0.9
Total non-performing loans	2.1	0.2	1.0	1.0	4.3
Total non-performing loans/Total loans (%)	7.0%	8.5%	13.0%	5.4%	7.3%
31 December 2019	€ bn	€ bn	€ bn	€ bn	€ bn
Collateral disposals	0.1	0.0	0.1	0.0	0.2
Unlikely to pay (including > 90 days past due)	1.9	0.2	0.3	0.3	2.7
Non-performing loans probation	0.3	0.0	0.0	0.1	0.4
Total non-performing loans	2.3	0.2	0.4	0.4	3.3
Total non-performing loans/Total loans (%)	7.4%	6.4%	5.1%	2.2%	5.4%

Investment securities

Investment securities of € 19.5 billion, primarily held for liquidity purposes, have increased by € 2.2 billion from 31 December 2019.

Loans and advances to banks

Loans and advances to banks of € 27.3 billion, including € 25.6 billion of cash and balances at central banks, were € 13.8 billion higher than 31 December 2019. The increased placement with banks was due to excess liquidity driven by increased customer account balances and TLTRO III funding drawdown.

Other assets

Other assets of € 6.6 billion comprised:

- Deferred tax assets of € 2.7 billion[1] in line with 31 December 2019.
- Derivative financial instruments of € 1.4 billion, € 0.1 billion increase from 31 December 2019.
- Remaining assets of € 2.5 billion, decreased € 0.4 billion from 31 December 2019 due to the receipt of proceeds from a loan portfolio disposal.

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

Liabilities & equity

Customer accounts

€82.0bn

Equity

€13.4bn

Liabilities & equity	31 Dec 2020 € bn	31 Dec 2019 € bn	% change
Customer accounts	82.0	71.8	14
Deposits by banks	4.7	0.8	470
Debt securities in issue	5.5	6.8	-20
Subordinated liabilities	1.6	1.3	23
Other liabilities	3.2	3.7	-12
Total liabilities	97.0	84.4	15
Equity	13.4	14.2	-6
Total liabilities & equity	110.4	98.6	12
	%	%	Change
Loan to deposit ratio	69	85	-16

Customer accounts

€82.0bn

Customer accounts, excluding the impact of currency movements of € 0.8 billion, increased by € 11.0 billion compared to 31 December 2019 primarily reflecting substantially higher current account balances across all segments.

Loan to deposit ratio

The loan to deposit ratio decreased to 69% at 31 December 2020 compared to 85% at 31 December 2019 reflecting increased customer accounts and a reduction in net loans.

Deposits by banks

Deposits by banks of € 4.7 billion increased € 3.9 billion compared to 31 December 2019 driven by TLTRO III funding drawdown of € 4.0 billion.

Debt securities in issue

Debt securities of € 5.5 billion decreased by € 1.3 billion from 31 December 2019 due to maturity of covered bonds and medium term notes of € 1.25 billion.

Subordinated liabilities

Subordinated liabilities of € 1.6 billion were € 0.3 billion higher compared to 31 December 2019 due to issuance of € 1.0 billion Tier 2 Notes in September 2020 which was partly offset by the redemption of € 0.75 billion Tier 2 Notes in November 2020.

Other liabilities

Other liabilities of € 3.2 billion comprised:

- Derivative financial instruments of € 1.2 billion, in line with 31 December 2019.
- Remaining liabilities of € 2.0 billion, € 0.5 billion decrease from 31 December 2019 due to reduction in provisions, current taxation and deferred tax liabilities.

Equity

€13.4bn

Equity decreased by € 0.8 billion to € 13.4 billion compared to € 14.2 billion at 31 December 2019.

The table below sets out the movements to 31 December 2020.

Equity	€ bn
Opening balance (1 January 2020)	**14.2**
Loss for the year	(0.7)
Issue of Additional Tier 1 securities	0.6
Redemption of Additional Tier 1 securities	(0.5)
Distributions paid	(0.1)
Other comprehensive income:	
Cash flow hedging reserves	0.1
Investment securities reserves/other	(0.2)
Closing balance (31 December 2020)	**13.4**

The Group issued € 0.6 billion of Additional Tier 1 securities in June 2020 at a coupon rate of 6.25%.

Business review – 1. Operating and financial review

Segment reporting

Segment overview

The Group's performance is managed and reported across the Retail Banking, Corporate, Institutional & Business Banking ("CIB"), AIB UK and Group segments. Segment performance excludes exceptional items.

Retail Banking

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

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

Corporate, Institutional & Business Banking ("CIB")

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

AIB UK

AIB UK offers retail and business banking services in two distinct markets, a sector-led corporate and commercial bank supporting businesses in Great Britain ("Allied Irish Bank (GB)"), and a retail and business bank in Northern Ireland ("AIB (NI)").
The Group's revised strategy (Strategy 2023) entails changes to the AIB UK business model including the withdrawal from SME lending in Great Britain and a refocus on our corporate business, particularly in renewables, infrastructure, health and manufacturing.

Group

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

Segment allocations

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

Retail Banking

Retail Banking contribution statement	2020 € m	2019 € m	% change
Net interest income	1,115	1,234	-10
Other income	334	398	-16
Total operating income	1,449	1,632	-11
Total operating expenses	(908)	(923)	-2
Bank levies and regulatory fees	(2)	(2)	–
Operating contribution before impairments and exceptional items	539	707	-24
Net credit impairment (charge)/ writeback	(485)	17	–
Operating contribution before exceptional items	54	724	-93
Associated undertakings	12	17	-24
Contribution before exceptional items	66	741	-91

Retail Banking balance sheet metrics	31 Dec 2020 € bn	31 Dec 2019 € bn	% change
Mortgages	2.3	2.9	
Personal	0.9	1.0	
Property	0.1	0.1	
Non-property business	1.1	0.9	
New lending	4.4	4.9	-11
Mortgages	29.0	29.6	
Personal	2.6	2.8	
Property	0.7	0.9	
Non-property business	3.2	3.3	
Gross loans	35.5	36.6	-3
ECL allowance	(1.5)	(1.1)	28
Net loans	34.0	35.5	-4
Current accounts	31.7	25.5	24
Deposits	25.2	23.1	9
Customer accounts	56.9	48.6	17

Net interest income

€1,115m Net interest income has decreased by € 119 million compared to 2019. This was primarily due to lower average loans, as redemptions exceeded new lending and following the deleveraging of non-performing loans in 2019, as well as the increase in customer account volumes coupled with the impact of the negative interest rate environment and lower allocation of liquidity income.

Other income

€334m Other income decreased by € 64 million compared to 2019, mainly due to lower transaction volumes due to a reduction in economic activity as well as customer preference for non-cash services and lower income recognised on previously restructured loans. Net fee and commission income includes € 15 million (2019: € 2 million) following the acquisition of Payzone in late 2019.

Total operating expenses

€908m Total operating expenses decreased by € 15 million compared to 2019 driven by reductions in personnel costs due to lower average staff numbers. This is partly offset by an increase in depreciation and amortisation as assets created under the investment programme were commissioned to operational use as well as the amortisation of intangible assets created following the acquisition of Payzone.

Net credit impairment (charge)/writeback

€485m There was a net credit impairment charge of € 485 million in 2020 primarily due to the deterioration in the economic outlook as well as post model adjustments for expected COVID-19 impacts and legacy non-performing mortgage exposures. There was a net credit impairment writeback of € 17 million in 2019.

New lending

€4.4bn New lending was 11% lower at € 4.4 billion reflecting lower economic activity. Mortgage market share was 28.4% for 2020.

Net loans

€34.0bn Net loans reduced by € 1.5 billion mainly reflecting redemptions exceeding new lending and an increase in expected credit loss allowance.

ECL allowance

€1.5bn The ECL allowance of € 1.5 billion in 2020 increased by € 0.4 billion from € 1.1 billion at 31 December 2019 reflecting the net credit impairment charge recognised in 2020 on loans and advances to customers partially offset by reductions due to write-offs.

Customer accounts

€56.9bn Customer accounts increased by € 8.3 billion compared to 31 December 2019 reflecting reduced consumer spending and higher savings which elevated balances across all sectors.

Business review – 1. Operating and financial review

Corporate, Institutional & Business Banking ("CIB")

CIB contribution statement	2020 € m	2019 € m	% change
Net interest income	**439**	471	*-7*
Other income	**121**	87	*40*
Total operating income	**560**	558	–
Total operating expenses	**(132)**	(115)	*15*
Operating contribution before impairments and exceptional items	**428**	443	*-3*
Net credit impairment charge	**(767)**	(18)	–
Contribution before exceptional items	**(339)**	425	–

CIB balance sheet metrics	31 Dec 2020 € bn	31 Dec 2019 € bn	% change
Mortgages	**0.0**	0.1	
Personal	**0.0**	0.1	
Property	**0.9**	1.3	
Non-property business	**2.2**	3.5	
New lending	**3.1**	5.0	*-38*
Mortgages	**0.6**	0.6	
Personal	**0.1**	0.1	
Property	**4.7**	4.3	
Non-property business	**9.9**	11.2	
Gross loans	**15.3**	16.2	*-6*
ECL allowance	**(0.8)**	0.0	
Net loans	**14.5**	16.2	*-11*
Investment securities	**1.1**	0.7	*49*
Current accounts	**9.0**	7.4	*21*
Deposits	**3.7**	3.9	*-5*
Customer accounts	**12.7**	11.3	*12*

Net interest income

€439m Net interest income decreased by € 32 million compared to 2019 primarily due to the impact of the lower interest rate environment and lower allocation of liquidity income.

Other income

€121m Other income increased by € 34 million compared to 2019 reflecting an increase in income from equity investments and loan disposals which was partially offset by lower net fee and commission income from a decrease in transaction volumes reflecting the reduction in economic activity.

Total operating expenses

€132m Total operating expenses increased by € 17 million compared to 2019 mainly due to increased personnel costs.

Net credit impairment charge

€767m There was a net credit impairment charge of € 767 million in 2020 primarily due to the deterioration in economic outlook, credit downgrades, particularly in sectors impacted by COVID-19 restrictions, as well as post model adjustments for expected COVID-19 impacts. There was a net credit impairment charge of € 18 million in 2019.

New lending

€3.1bn New lending of € 3.1 billion was € 1.9 billion lower than 2019. New lending was lower across all business areas with syndicated and international lending most impacted as a result of the Group's reduced risk appetite.

Net loans

€14.5bn Net loans of € 14.5 billion at 31 December 2020 decreased by € 1.7 billion driven by increase in expected credit loss allowance and the impact of lower syndicated and international lending. This was partially offset by an increase in the energy, climate action and infrastructure portfolio.

ECL allowance

€0.8bn The ECL allowance of € 0.8 billion at 31 December 2020 increased by € 0.8 billion from 31 December 2019 reflecting the net credit impairment charge recognised in 2020 on loans and advances to customers partially offset by reductions due to loan disposals.

Investment securities

€1.1bn Investment securities of € 1.1 billion were € 0.4 billion higher than 31 December 2019.

Customer accounts

€12.7bn Current accounts of € 12.7 billion were € 1.4 billion higher than 31 December 2019. Deposits of € 3.7 billion decreased by € 0.2 billion compared to 31 December 2019.

AIB UK

AIB UK contribution statement	2020 £ m	2019 £ m	% change
Net interest income	191	235	-19
Other income	43	59	-28
Total operating income	234	294	-21
Total operating expenses	(146)	(154)	-5
Bank levies and regulatory fees	(1)	–	–
Operating contribution before impairments and exceptional items	87	140	-38
Net credit impairment charge	(184)	(13)	–
Operating contribution before exceptional items	(97)	127	–
Associated undertakings	2	3	-33
Contribution before exceptional items	(95)	130	–
Contribution before exceptional items € m	(108)	148	–

AIB UK balance sheet metrics	31 Dec 2020 £ bn	31 Dec 2019 £ bn	% change
AIB GB	1.1	1.8	-36
AIB NI	0.4	0.3	29
New lending	1.5	2.1	-26
AIB GB	5.6	5.6	-1
AIB NI	2.1	2.2	-4
Gross loans	7.7	7.8	-2
ECL allowance	(0.3)	(0.1)	115
Net loans	7.4	7.7	-3
Current accounts	6.8	5.8	18
Deposits	3.0	3.0	–
Customer accounts	9.8	8.8	12

Net interest income

£191m Net interest income decreased by £ 44 million compared to 2019 primarily due to the Bank of England base rate cuts in March 2020.

Other income

£43m Other income decreased by £ 16 million compared to 2019 mainly due to a decrease of £ 14 million in net fee and commission income from lower transaction volumes reflecting the reduction in economic activity.

Total operating expenses

£146m Total operating expenses decreased by £ 8 million compared to 2019 driven by lower general and administration costs.

Net credit impairment charge

£184m There was a net credit impairment charge of £ 184 million in 2020 primarily due to the deterioration in the economic outlook, credit downgrades, particularly in sectors impacted by COVID-19 restrictions, as well as post model adjustments for expected COVID-19 impacts. There was a net credit impairment charge of £ 13 million in 2019.

New lending

£1.5bn New lending of £ 1.5 billion in 2020 decreased by £ 0.6 billion compared to 2019 driven by a general slowdown of new business activity due to the lower economic activity and Brexit related uncertainty.

Net loans

£7.4bn Net loans of £ 7.4 billion decreased £ 0.3 billion compared to 31 December 2019, largely driven by an increase in expected credit loss allowance.

ECL allowance

£0.3bn The ECL allowance of £ 0.3 billion at 31 December 2020 increased by £ 0.2 billion from 31 December 2019 primarily reflecting the net credit impairment charge recognised in 2020 on loans and advances to customers.

Customer accounts

£9.8bn Customer accounts of £ 9.8 billion at 31 December 2020 were £ 1.0 billion higher compared to 31 December 2019.

Business review – 1. Operating and financial review

Group

Group contribution statement	2020 € m	2019 € m	% change
Net interest income	**104**	103	*1*
Other income	**(4)**	66	–
Total operating income	**100**	169	*-41*
Total operating expenses	**(323)**	(290)	*11*
Bank levies and regulatory fees	**(112)**	(102)	*10*
Contribution before exceptional items	**(335)**	(223)	*50*

Group balance sheet metrics	31 Dec 2020 € bn	31 Dec 2019 € bn	% change
Gross loans	**0.1**	0.1	*-3*
Investment securities	**18.4**	16.6	*11*
Customer accounts	**1.4**	1.5	*-4*

Net interest income

€104m Net interest income was in broadly line with 2019.

Other income

(€4m) Other income decreased by € 70 million compared to 2019 due to a decrease in other operating income, negative movements on derivative valuation adjustments (XVA) and a lower net gain on equity investments measured at FVTPL. Other operating income for 2019 included a gain on disposal of investment securities.

Total operating expenses

€323m Total operating expenses of € 323 million increased by € 33 million compared to 2019 primarily due to an increase in general and administration expenses and in depreciation and amortisation as assets created under the investment programme were commissioned to operational use.

Bank levies and regulatory fees

€112m Bank levies and regulatory fees of € 112 million in 2020 include the Deposit Guarantee Scheme of € 39 million, the Irish bank levy of € 35 million, the Single Resolution Fund € 17 million, and other regulatory levies and charges of € 21 million.

Investment securities

€18.4bn Investment securities of € 18.4 billion primarily held for liquidity purposes increased by € 1.8 billion from 31 December 2019.

Customer accounts

€1.4bn Customer accounts were € 1.4 billion at 31 December 2020 compared to € 1.5 billion at 31 December 2019.

Alternative performance measures

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

Average rate	Interest income/expense for balance sheet categories divided by corresponding average balance.
Average balance	Average balances for interest-earning assets are based on daily balances for all categories with the exception of loans and advances to banks, which are based on a combination of daily/monthly balances. Average balances for interest-earning liabilities are based on a combination of daily/monthly balances, with the exception of customer accounts which are based on daily balances.
Absolute cost base	Total operating expenses excluding exceptional items, bank levies and regulatory fees.
Cost income ratio	Total operating expenses excluding exceptional items, bank levies and regulatory fees divided by total operating income excluding exceptional items.
Cost income ratio (IFRS basis)	Total operating expenses divided by total operating income.
Exceptional items	Performance measures have been adjusted to exclude items viewed as exceptional by management and which management view as distorting comparability of performance year-on-year. The adjusted performance measure is considered an APM. A reconciliation between the IFRS and management performance summary income statements is set out on page 74. Exceptional items include: – *Restitution costs* include provision for potential customer redress and compensation in relation to the tracker mortgage examination, and other customer redress, along with associated costs. – *Restructuring costs* reflect changes to the AIB UK business model and the cost associated with the strategic decision to exit the SME market in Great Britain including termination benefits. – *Impairment of intangible assets* relates to the write-down of assets following consideration of internal and external indicators of impairment. – *Covid product costs* reflect the incremental cost of implementing a large volume of payment breaks on home mortgages, personal and SME loans to customers impacted by COVID-19. – *Termination benefits* reflect costs associated with the reduction in employees arising from the voluntary severance programme. – *Loss on disposal of loan portfolios* includes gain/(loss) on disposals measured at amortised cost and gain/(loss) on loans and advances to customers measured at FVTPL. – *Provision for regulatory fines* in 2019 included a provision for the potential impact of monetary penalties arising from the Central Bank of Ireland investigation in respect of tracker mortgages. – *Other* reflects (1) the implementation of the Group property strategy including the exit from Bankcentre and the acquisition and development of various office locations across Dublin and (2) the settlement of a legacy claim.
Loan to deposit ratio	Net loans and advances to customers divided by customer accounts.
Net interest margin	Net interest income divided by average interest-earning assets.
Non-performing exposures	Non-performing exposures as defined by the European Banking Authority, include loans and advances to customers (non-performing loans) and off-balance sheet commitments such as loan commitments and financial guarantee contracts.
Non-performing loans cover	ECL allowance on non-performing loans as a percentage of non-performing loans.
Non-performing loans ratio	Non-performing loans as a percentage of total gross loans.
Return on Tangible Equity (RoTE)	Profit after tax less AT1 coupons paid, divided by targeted (14 per cent) CET1 capital on a fully loaded basis. Details of the Group's RoTE is set out in the Capital Section on page 78.
Management performance – summary income statement	The following line items in the management performance summary income statement are considered APMs: • Other income • Total operating income • Personnel expenses • General and administrative expenses • Depreciation, impairment and amortisation • Total operating expenses • Bank levies and regulatory fees • Operating profit before impairment losses and exceptional items • Operating (loss)/profit before exceptional items • Profit on disposal of property • (Loss)/profit before exceptional items • Total exceptional items

Business review – 1. Operating and financial review

Reconciliation between IFRS and management performance summary income statements

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

IFRS – summary income statement	2020 € m	2019 € m
Net interest income	1,872	2,076
Other income	501	579
Total operating income	2,373	2,655
Total operating expenses	(1,859)	(2,181)
Operating profit before impairment losses	514	474
Net credit impairment charge	(1,460)	(16)
Operating (loss)/profit	(946)	458
Associated undertakings	15	20
Profit on disposal of property	–	21
(Loss)/profit before taxation	(931)	499
Income tax credit/(charge)	190	(135)
(Loss)/profit for the year	(741)	364

Adjustments – between IFRS and management performance

Other income	**of which: exceptional items**				
	Loss on disposal of loan portfolios	1		40	
	Other	(3)	(2)	–	40
Total operating expenses	**of which: bank levies and regulatory fees**		115		104
	of which: exceptional items				
	Restitution costs	117		416	
	Restructuring costs	36		–	
	Impairment of intangibles	30		18	
	Covid product costs	22		–	
	Termination benefits	9		48	
	Provision for regulatory fines	–		78	
	Other	3	217	13	573
(Profit) on disposal of property	**of which: exceptional items**				
	Other	–	–	(21)	(21)

Management performance – summary income statement

Net interest income	1,872	2,076
Other income[1]	499	619
Total operating income[1]	2,371	2,695
Total operating expenses[1]	(1,527)	(1,504)
Bank levies and regulatory fees[1]	(115)	(104)
Operating profit before impairment losses and exceptional items[1]	729	1,087
Net credit impairment charge	(1,460)	(16)
Operating (loss)/profit before exceptional items[1]	(731)	1,071
Associated undertakings	15	20
Profit on disposal of property[1]	–	–
(Loss)/profit before exceptional items[1]	(716)	1,091
Total exceptional items[1]	(215)	(592)
(Loss)/profit before taxation	(931)	499
Income tax credit/(charge)	190	(135)
(Loss)/profit for the year	(741)	364

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

Business review – 2. Capital

Objectives*

The objectives of the Group's capital management policy are to at all times comply with regulatory capital requirements and to ensure that the Group has sufficient capital to cover the current and future risk inherent in its business and to support its future development. Detail on the management of capital and capital adequacy risk can be found in 'Risk management 2.3' on page 156.

Regulatory capital and capital ratios[1]

	CRD IV transitional basis		CRD IV fully loaded basis	
	31 December 2020 € m	31 December 2019 € m	31 December 2020 € m	31 December 2019 € m
Equity	**13,422**	14,230	**13,422**	14,230
Less: Additional Tier 1 Securities	**(1,115)**	(990)	**(1,115)**	(990)
Proposed ordinary dividend[2]	**–**	(217)	**–**	(217)
Regulatory adjustments:				
Intangible assets	**(485)**	(798)	**(485)**	(798)
Cash flow hedging reserves	**(540)**	(469)	**(540)**	(469)
IFRS 9 CET 1 transitional add-back	**796**	251	**–**	–
Pension	**(22)**	(31)	**(22)**	(31)
Deferred tax	**(1,654)**	(1,334)	**(2,721)**	(2,667)
Expected loss deduction	**–**	(8)	**–**	(8)
Calendar provisioning[3]	**(317)**	–	**(317)**	–
Other	**(38)**	(45)	**(38)**	(45)
	(2,260)	(2,434)	**(4,123)**	(4,018)
Total common equity tier 1 capital	**10,047**	10,589	**8,184**	9,005
Additional tier 1 capital				
Additional Tier 1 issuance	**1,115**	496	**1,115**	496
Instruments issued by subsidiaries that are given recognition in additional tier 1 capital	**–**	129	**–**	159
Total additional tier 1 capital	**1,115**	625	**1,115**	655
Total tier 1 capital	**11,162**	11,214	**9,299**	9,660
Tier 2 capital				
Subordinated debt	**1,500**	500	**1,500**	500
Instruments issued by subsidiaries that are given recognition in tier 2 capital	**19**	426	**24**	507
IRB Excess of provisions over expected losses eligible	**131**	–	**131**	–
IFRS 9 tier 2 transitional adjustment	**(131)**	–	**–**	–
Total tier 2 capital	**1,519**	926	**1,655**	1,007
Total capital	**12,681**	12,140	**10,954**	10,667
Risk-weighted assets				
Credit risk	**47,807**	46,811	**47,350**	46,689
Market risk	**429**	473	**429**	473
Operational risk	**4,686**	4,700	**4,686**	4,700
Credit valuation adjustment	**114**	137	**114**	137
Total risk-weighted assets	**53,036**	52,121	**52,579**	51,999
	%	%	**%**	%
Common equity tier 1 ratio	**18.9**	20.3	**15.6**	17.3
Tier 1 ratio	**21.0**	21.5	**17.7**	18.6
Total capital ratio	**23.9**	23.3	**20.8**	20.5

[1] Prepared under the regulatory scope of consolidation.

[2] 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.

[3] Calendar provisioning is a Supervisory Review and Evaluation Process ("SREP") recommendation to ensure minimum coverage levels on long term NPE exposures. The difference between the SREP recommended coverage levels and the IFRS 9 ECL coverage is taken as a CET1 deduction.

*Forms an integral part of the audited financial statements

Business review – 2. Capital

Capital requirements

The table below sets out the capital requirements at 1 January 2020, 31 December 2020 and the pro forma requirements for 31 December 2021. The table does not include Pillar 2 Guidance ("P2G") which is not publicly disclosed.

A suite of measures have been introduced to support the financial sector through the current COVID-19 pandemic. These include the reduction in the Countercyclical capital buffer ("CCyB") to zero by both the Central Bank of Ireland ("CBI") and the Bank of England ("BOE"). Other measures include amendments to the transitional rules for IFRS 9 in respect of COVID-19 related losses and the accelerated introduction of rules to allow the inclusion of prudentially valued software assets in capital.

On 1 January 2020 the Group's Pillar 2 Requirement ("P2R") reduced to 3% from 3.15% in 2019. Previously the P2R had to be met with CET1 only, post 8 April 2020 at least 56.25% of P2R (1.69% of RWA) must be CET1 and at least 75% (2.25% of RWA) must be Tier 1.

	Actual		Pro Forma
Regulatory Capital Requirements	1 Jan 2020	31 Dec 2020	31 Dec 2021
CET1 Requirements			
Pillar 1	4.50%	4.50%	4.50%
Pillar 2 requirement (P2R)	3.00%	1.69%	1.69%
Combined buffer requirement	3.90%	3.50%	4.00%
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%	0.00%	0.00%
UK exposures	0.20%	0.00%	0.00%
CET1 Requirement	**11.40%**	**9.69%**	**10.19%**
Pillar 1 AT1 / Tier 2	**3.50%**	**3.50%**	**3.50%**
P2R AT1 / Tier 2	**0.0%**	**1.31%**	**1.31%**
Total Capital Requirement	**14.90%**	**14.50%**	**15.00%**

The Group's minimum CET1 requirement is 9.69% at 31 December 2020 under CRD V Article 104a. Any shortfall in AT1 and Tier 2 must be held in CET1. Currently there is no shortfall.

The Other Systemically Important Institution ("O-SII") buffer of 1.0% will rise to 1.5% on 1 July 2021 and accordingly will increase the minimum CET1 requirements.

The minimum requirement for the total capital ratio is 14.5% at 31 December 2020 and will increase to 15.0% by the end of 2021.

Regulatory developments

Targeted Review of Internal Models (TRIM)

The Group has received and implemented decisions in relation to the TRIM process. The TRIM decision on the Group's Mortgage model resulted in a € 1.5 billion increase in RWA (-0.5% CET1). The TRIM decision on AIB's Corporate model resulted in a € 2.3 billion increase in RWA (-0.8% CET1) of which € 1.8 billion related to the leverage portfolio (-0.6% CET1).

Other IRB Models

The Group has submitted a redeveloped SME model for regulatory approval prior to deployment. In the interim a scalar has been applied to the existing SME model to bring RWAs in line with the redeveloped model resulting in increased RWA of € 0.6 billion (-0.2% CET1).

Articles 501 and 501a

The Group has started to avail of the capital reduction factors in Capital Requirements Regulation ("CRR") Articles 501 and 501a (+0.3% CET1) in 2020.

Calendar provisioning

Calendar provisioning is a SREP recommendation to ensure minimum coverage levels on long term NPE exposures. The difference between the SREP recommended coverage levels and the IFRS 9 ECL coverage is taken as a CET1 deduction (-0.6%).

Software

In accordance with Commission Delegated Regulation (EU) 2020/2176 the deduction for intangible assets has been reduced. The impact on CET1 net of associated RWA increase is +0.6%.

The combined impact of regulatory developments resulted in a CET1 reduction of 1.2%.

Capital ratios at 31 December 2020

Fully Loaded Ratio

The fully loaded CET1 ratio decreased to 15.6% at 31 December 2020 from 17.3% at 31 December 2019.

In addition to the above regulatory change impacts, the remaining 0.5% decrease is due to a loss after tax of € 0.7 billion (-1.4%) reflecting an ECL charge of € 1.5 billion, partially offset by the cancellation of the 2019 dividend (+0.4%) and RWA reductions due to reduced loans and advances to customers (+0.8% CET1). Finally other equity and RWA movements reduced CET1 by 0.3%.

The fully loaded total capital ratio increased to 20.8% from 20.5% at 31 December 2019. The increase in the ratio was driven by two new capital issuances comprising a € 0.6 billion AT1 and a € 1 billion Tier 2 securities, and IRB excess of provisions over expected losses. These were significantly offset by the CET1 movements outlined above and the redemption of the AT1 and Tier 2 capital issued in 2015 from Allied Irish Banks, p.l.c.

Transitional Ratio

The transitional CET1 ratio decreased to 18.9% at 31 December 2020 from 20.3% at 31 December 2019. This decrease is mainly driven by the fully loaded CET1 movements detailed above and an additional year's phasing of the deferred tax asset deduction, partially offset by the increase in the IFRS 9 transitional addback as part of the suite of measures to support the financial sector through the current COVID-19 pandemic.

At 31 December 2020, the transitional total capital ratio increased to 23.9% from 23.3% at 31 December 2019.

Leverage Ratio

Based on the full implementation of CRD IV, the fully loaded leverage ratio, under the Delegated Act implemented in January 2015, was 8.3% at 31 December 2020 (9.7% at 31 December 2019).

Total leverage exposures (transitional basis) increased by € 12.2 billion in the year mainly driven by increases in cash and balances at central banks.

Leverage Ratio Metrics	2020 € m	2019 € m
Total Exposure (Transitional Basis)	**113,344**	101,126
Total Exposure (Fully Loaded)	**111,378**	99,548
Tier 1 Capital (Transitional Basis)	**11,162**	11,214
Tier 1 Capital (Fully Loaded)	**9,299**	9,660
Leverage Ratio (Transitional Basis)	**9.8%**	11.1%
Leverage Ratio (Fully Loaded)	**8.3%**	9.7%

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. Initial assessments signal upward pressure on RWA mostly in relation to operational risk.

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

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

At 31 December 2020, the Group had a MREL ratio of 30% of RWAs.

The Group continued to work towards its MREL target in 2020 to ensure that there is sufficient loss absorption and re-capitalisation capability. The Group has now completed issuance of € 6 billion MREL eligible liabilities of which € 1.6 billion was issued in 2020.

The Single Resolution Board ("SRB") has provided the Group with its default formula for the MREL target calibration under the new BRRD II legislative framework to be complied with by 1 January 2022. The Group has estimated its January 2022 intermediate binding target is 27.1% of RWA including the combined buffer requirement.

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 final dividend in respect of 2019 was cancelled in line with regulatory guidance. No dividend is proposed for 2020.

Business review – 2. Capital

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).

AIB Group plc

All three rating agencies reaffirmed their ratings in 2020 and changed the outlook to stable from positive (Moody's) and to negative from stable (Fitch and S&P). The changed outlook reflects the expectation that the Irish and UK economies will contract as a result of the COVID-19 pandemic.

		31 December 2020	
Long term Ratings	**Moody's**	**S&P**	**Fitch**
Long term	**Baa2**	**BBB-**	**BBB**
Outlook	**Stable**	**Negative**	**Negative**
Investment grade	✓	✓	✓

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

Allied Irish Banks, p.l.c.

		31 December 2020	
Long term Ratings	**Moody's**	**S&P**	**Fitch**
Long term	**A2**	**BBB+**	**BBB+**
Outlook	**Stable**	**Negative**	**Negative**
Investment grade	✓	✓	✓

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

Return on Tangible Equity ("RoTE")*

The losses incurred in 2020 result in a negative RoTE of 11.2%.

Return on Tangible Equity (RoTE)	**2020**	2019
(Loss)/profit after tax	**(741)**	364
AT1 coupons paid	**(76)**	(37)
Attributable earnings	**(817)**	327
Average RWA	**52,289**	51,631
RWA * 14% target	**7,320**	7,228
Return on Tangible Equity	**(11.2)%**	4.5%

*RoTE is considered an Alternative Performance Measure.

As part of its strategy, the Group has set a medium term target for RoTE of greater than 8%.

Return on Assets

The Return on Assets (RoA) at 31 December 2020 is (0.7%) (2019: 0.4%).

Risk management

		Page
1	**Framework**	
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Risk management – 1. Framework

1. Introduction

Risk management is central to how the Group conducts its business and how it helps its customers to achieve their dreams and ambitions while safeguarding the Group. The following sections outline the Risk Management Framework in place throughout 2020.

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

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

The Group's Risk Management Framework has proven to be resilient throughout 2020 despite the impact of COVID-19 requiring major operational and business changes being implemented to support customers.

1.1 Risk management principles

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

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

1.2 Risk governance and oversight

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

1.2.1 Board of Directors

The Board of Directors is ultimately responsible and accountable for the effective management of risks and for the system of internal controls in the Group. The Board has delegated a number of risk governance responsibilities to various committees. The roles of the Board, the Board Audit Committee, the Board Risk Committee, the Remuneration Committee and the Nominations and Corporate Governance Committee are set out in the Governance and Oversight – Corporate Governance report on pages 178 to 187.

1.2.2 Executive Committee

The Executive Committee has primary authority and responsibility for the day-to-day operations of, and the development of strategy for the Group. While the Executive Committee has delegated its powers and authorities to other committees, it retains ultimate accountability for the functions delegated.

Group Risk Committee

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

The roles and responsibilities of the Group Risk Committee are:

- Approving risk frameworks, risk appetite statements, risk policies and limits to manage the risk profile of the Group;
- Reviewing the Group's risk profile (enterprise wide);
- Periodically reviewing the effectiveness of the Group's risk management policies for identifying, evaluating, monitoring, managing, and measuring significant risks;
- Providing oversight and challenge of regulatory, operational and conduct risk related matters;

- Providing oversight and challenge of credit risk management related matters and periodically reviewing the credit portfolio exposures and trends;
- Providing oversight and challenge of risk measurement matters;
- Overseeing the development of the Group's risk management culture;
- Monitoring and reviewing the Group's risk profile for equity risk and the business segment limits for equity risk;
- Advising the Executive Committee on the risk impact of strategic initiatives that the Group may be considering and determining whether the initiatives are within risk appetite; and
- Providing advice to the Board Risk Committee on risk governance, current and future risk exposures and risk appetite.

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

- The Group Credit Committee is responsible for the approval of material credit transactions in line with authority levels outlined in the Group Credit Risk policies, to review, approve or recommend to a higher authority Credit Risk Policies and to monitor and review credit management, performance and other credit matters that arise within the Group. The Group Credit Committee also reviews and challenges ECL levels for onward recommendation to the Board Audit Committee;
- The Regulatory and Conduct Risk Committee is responsible for the governance and oversight of regulatory and conduct risks;
- The Risk Measurement Committee is responsible for the governance, oversight and approval of all aspects of the Group's risk measurement systems, material model methodologies as well as the maintenance of existing material models; and
- The Operational Risk Committee is responsible for the governance and oversight of operational risks.

Group Asset and Liability Management Committee ("ALCo")

ALCo has been established as a sub-committee of the Executive Committee. ALCo is the Group's strategic and business decision making forum for balance sheet management matters. ALCo is tasked with decision-making in respect of the Group's balance sheet structure, including capital, funding, liquidity and market risks to ensure it enables the delivery of the Group's Strategic Plan. The Committee provides oversight of funding and liquidity, capital, market and equity/investments risk and balance sheet pricing in line with the relevant frameworks and policies across the Group and in accordance with Risk Appetite.

1.3 Three lines of defence model

The Group operates a three lines of defence model where each line plays a distinct role within the Group's wider risk governance, management, oversight and assurance responsibilities. The first line of defence lies with the business line managers who are required to have effective governance and controls in place for their business. The first line of defence comprises the revenue generating and client facing areas, along with all associated support functions. The second line of defence comprises the Risk function, headed by the Chief Risk Officer and oversees the first line, providing independent constructive challenge, setting the frameworks, policies and limits, consistent with the risk appetite of the Group. The third line of defence comprises Group Internal Audit who provide an independent view on the key risks facing the Group, and the adequacy and effectiveness of governance, risk management and the internal control environment in managing these risks.

The Board, Board Risk Committee ("BRC") and Board Audit Committee ("BAC") are ultimately responsible for ensuring the effective operation of the three lines of defence model. They are supported by the Executive Committee ("ExCo") and its sub-committees. The Terms of References for the BRC and BAC are available on the Group's website.

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

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

1.4 Risk strategy

Integration of key risk management processes

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

Group strategy

The Group's strategic ambition is to be at the heart of its customers' financial lives by meeting their evolving needs at every life-stage, always providing an exceptional customer experience, while maintaining a strong and resilient balance sheet and generating sustainable returns in a considered, transparent and controlled manner. The Group's strategy is underpinned by five strategic pillars which are the foundation for everything that the Group does. The strategy is defined within the boundaries of the Group's Risk Appetite Statement and approved by the Board. The Group's Risk Appetite Statement, defines the amount and type of risk that the Group is willing to accept, or to avoid, in pursuit of its strategic goals.

Risk management – 1. Framework

Risk strategy setting

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

1.5 Risk culture

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

1.6 Risk management lifecycle

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

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

1.6.1 Identification and assessment

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

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

Material risk assessment

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

Risk and control assessment

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

Setting risk appetite

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

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

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

- Aim to grow our business by identifying, understanding and managing all the risks that impact us, ensuring appropriate returns for risks and by building long term sustainable relationships with our customers which are resilient through the cycle;
- Have a low appetite for income volatility and target steady, sustainable earnings to enable appropriate regular dividend payments;
- Do not have an appetite for large proprietary market risk positions in our trading book;

- Accept the concentration risk arising from our focus on markets in Ireland and the UK. Within these markets we seek to avoid excessive concentrations to sectors or single-names and test repayment capacity in stress conditions;
- Seek to attract and retain skilled staff and place great emphasis on the integrity of staff and accountability for both inaction and actions taken, rewarding behaviours consistent with our brand values and code of conduct;
- Offer our customers transparent, consistent and fair products and services and seek always to deliver fair customer outcomes;
- Seek to maintain the highest level of availability of key services for our customers;
- Seek to comply with all relevant laws and regulations, our business is underpinned by a strong control framework;
- Seek to maintain a strong capital base that generates returns in line with stakeholder and market expectations. Consideration will be given to opportunities for inorganic growth that would support the Group in terms of scale and/or capability, where the Group has proven competence and capacity, and that maintain alignment with our qualitative risk appetite statements; and
- Seek resilient, diversified funding relying significantly on retail deposits.

Annual Financial Plan

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

Stress testing

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

In addition, ad hoc stress tests are undertaken as required to inform strategic decision making. Scenario testing is undertaken as part of the Group's recovery planning i.e. the means by which the Group assesses the key threats to its viability and the available mitigants to address them. The results of internal stress tests are challenged quarterly by the Risk function and reviewed by ALCo.

Internal Capital Adequacy Assessment Process ("ICAAP")

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

Internal Liquidity Adequacy Assessment Process ("ILAAP")

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

Recovery planning

The Group's recovery plan sets out the arrangements and measures that the Group could adopt in the event of severe financial stress to restore the Group to long term viability. A set of triggers are included in the Group's recovery plan, which presents the actions available to the Group to restore viability.

Resolution planning

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

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

The Single Resolution Board ("SRB") is the Group's resolution authority. The SRB and the National Resolution Authorities (Central Bank of Ireland for Ireland and Bank of England for the UK) draft the resolution plan for the Group. The resolution plan describes the Preferred Resolution Strategy ("PRS"), in addition to ensuring the continuity of the Group's critical functions and the identification and addressing of any impediments to the Group's resolvability.

Risk management – 1. Framework

The PRS for the Group is a single point of entry bail-in via AIB Group plc. The resolution authorities set the loss absorbing capacity requirements for Minimum Requirements for own funds and Eligible Liabilities, in addition to any work programmes required to mitigate any perceived impediments to resolvability. Senior management are responsible for implementing the measures that are needed to ensure the Group's resolvability and there are a number of governance fora such as subject matter working groups, Resolution Programme Board and Resolution Steering Committee that provides governance and oversight around resolution planning. Key deliverables to the SRB are approved by ALCo, ExCo (Group and UK) and Board (Group and UK).

1.6.2 Measurement and management

Risk measurement

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

Risk management

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

1.6.3 Monitoring, escalating and reporting

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

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

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

1.6.4 Testing and assurance

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

Testing

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

Integrated assurance

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

1.7 Risk management in action

This section describes the risk management approach adopted by the Group on key risk developments during 2020 including COVID-19, Sustainability and Climate Change, Cyber Risk and Information Security and Conduct.

1.7.1 COVID-19

Following the emergence of the global COVID-19 pandemic, a graduated response was mobilised by Risk from January 2020. Risk was involved in a range of COVID-19 related activities including the Group wide incident management process with Risk representatives on all work streams.

A separate risk working group was established in which a key output was a Risk specific critical activities assessment, which considered risk mitigation plans, business critical activities, as well as resourcing and remote working capability. In recognition of the significant volume of activities to be delivered in a compressed timeframe, and to ensure delivery of a co-ordinated response, a formal Risk COVID-19 Programme was established. This Programme was implemented within Risk to operate in an agile and forward looking manner. The Risk COVID-19 Programme focused on four key priorities.

Guiding and Protecting the Group and its customers in the design and deployment of product offerings and solutions;

Monitoring and Assessing the Group's risk profile with particular focus on credit risk appetite/early warning indicator monitoring, ECL analysis, sectoral categorisation and guidance;

Communicating and Engaging in a structured and controlled manner, both internally and with external stakeholders; and

Adapting current business processes and policies, as required to address the current operating environment, to ensure the operational resilience of the Group's key processes.

The Risk profile was managed through a number of activities including the development of a COVID-19 risk control assessment, management of the risk appetite, development of enhanced early warning indicators and key risk indicators and the development of new scenarios. The risks generated by COVID-19 will continue to be closely managed into 2021.

1.7.2 Sustainability and climate change

Sustainability is at the heart of the Group's agenda and is the fifth pillar of the Group's strategy. This section describes the related risk management activities during 2020.

The Group announced its commitment to net zero greenhouse gas emissions in its own operations by 2030, in customer portfolios by 2040 and in the agriculture sector by 2050. This is an ambitious commitment which places the Group at the forefront of Irish banks leading the way in supporting the transition to a low carbon economy in Ireland. However, it does not come without risk.

As part of its independent oversight, Risk reviewed the proposed ambition and associated targets. Risk identified the key inherent risks to achieving net zero and reported these to the Executive Committee to ensure full disclosure of the risks and challenges to the proposal.

The key risks identified with the net zero ambition included:

- Loss of income risk due to potential customer alienation as the Group changes the nature of how it lends, for example, if the Group limits new lending to A/B rated houses;
- Regulatory and Conduct Risk as a result of changing how the Group lends in the future which may be in contravention to current regulations or through non-voluntary loan portfolio sales;
- Credit risk as a result of customers taking on additional debt to retrofit homes or improve property/farms in the mortgage lending and agriculture sectors;
- Financial risk associated with entering into a long term renewable power supply contract (price uncertainty over an extended period);
- Operational risks as a result of not being able to measure, monitor and report on the progress of achieving net zero on an ongoing basis due to data constraints within the Group; and
- External risks as a result of construction of A/B rated houses not happening fast enough to meet our income targets.

The Group recognises that climate change is an important concern for the financial industry and society as a whole, and the Group continues to take steps to incorporate climate risk into the Group's risk management policies and processes. The Group have implemented specific sector exclusions into the Group Credit Risk Policy. The policy sets out the sectors to which the Group does not have an appetite to lend from a sustainable finance lens. These sectors can be viewed on the Group's website.

In line with the Group's sustainability strategy, the following initiatives continue to be embedded across the Group:

- Portfolios: The Group will incorporate climate risk considerations into customer credit assessments and will continue to monitor lending to exclude sectors. This will be further enhanced with the introduction of the European Banking Authority (EBA) Guidelines on Loan Origination and Monitoring which will be effective from 30 June 2021 for all new lending.
- Project Finance: To facilitate sustainable projects, the Group launched a € 5 billion Climate Action Fund in 2019 which supports renewable energy projects, low carbon offices and the construction of energy efficient homes. The Group continues to embed the framework for the identification and financing of sustainable long term projects. In addition, the Group continues to transition away from such financing that is not in keeping with its sustainability strategy.
- Green Bonds: In 2020, under the Group's Green Bond Framework the Group successfully raised € 1 billion which contributes to the financing of projects with clear environmental and climate change benefits. The Group continues to ensure alignment between this Framework and the forthcoming EU Taxonomy Regulation and EU Green Bond Standard.

1.7.3 Cyber risk and information security

This section outlines how the Group managed Cyber Risk in 2020 which is a sub-risk within Operational Risk and continues to be classified as a high risk as informed by the material risk assessment.

Globally, 2020 has seen a continued increase in cyber attacks across most sectors, using a combination of malware, hacking and denial of service techniques. Notably, fraudulent emails, text messages and websites with a COVID-19 theme have been used since the start of the pandemic to exploit people's fears of the virus and desire to learn more about it, in an attempt to dupe individuals into divulging confidential information to criminals.

Within the Group, cyber risk is captured as a key component of the overall Operational IT Framework. Information security is one of the five separately defined risk components and is concerned with managing the possibility of harm being caused to the Group or its customers as a result of a loss of the confidentiality, integrity or availability of information in all its forms.

Exposure to cyber risk is monitored by the Board through regular risk reporting which includes the cyber security key risk indicators (KRIs). Breaches of material (Level 1) KRIs are reported to the Central Bank of Ireland. Breaches of non-material (level 2) KRIs are reported to the Group Risk Committee and Board Risk Committee.

The monthly reporting of relevant KRIs includes, but is not limited to the below key threats:

- Distributed Denial of Service (DDoS) – Attempt to make an online service unavailable by overwhelming it with traffic from multiple sources;
- Malware – Targeted malicious emails purportedly from legitimate companies with the goal of installing malicious software on the user's machine;
- Social engineering – Employing deception, manipulation and intimidation to exploit users to gain information, e.g. phishing; and
- Hacking – Unauthorised individuals attempting to intentionally access information and cause harm.

The Group successfully adopted the EBA Guidelines on Information and Communication Technology (ICT) and Security Risk Management which became effective 30 June 2020. The guidelines establish requirements for credit institutions, investment firms and payment service providers (PSPs) on the mitigation and management of their ICT and security risks. This guidance also provide the institutions with a better understanding of supervisory expectations for the management of these risks, covering sound internal governance, information security requirements, ICT operations, project and change management and business continuity management.

Risk management – 1. Framework

The Group continues to monitor and contribute, where appropriate, to the development of the forthcoming regulations and guidelines including:

- The Network and Information Systems (NIS) Directive which sets out measures for a high common level of security of network and information systems across the EU;
- Guidelines on outsourcing to cloud service providers;
- Effective practices for Cyber Incident Response and Recovery;
- Principles for the Sound Management of Operational Risk and Operational Resilience; and
- Digital Operational Resilience Act (DORA) which aims to establish a comprehensive framework on digital operational resilience for EU financial institutions.

In addition, the Group regularly engages with both the Banking & Payments Federation of Ireland (BPFI) and the European Banking Federation (EBF) to contribute to regulatory consultations and requests for feedback to ensure alignment with the expectations of the Group's regulators.

1.7.4 Conduct

This section highlights Risk's response to the Group's solutions implemented in supporting its customers during 2020.

In March, the Group introduced solutions including payment breaks of three months for customers who were experiencing difficulties repaying their loans and mortgages due to the wider impacts of COVID-19 on their ability to meet their repayments. At the end of April, a further three month extension to the payment breaks was announced. The speed with which the customer solutions were designed and implemented ensured that the Group's customers were supported at the most critical time during COVID-19. Conduct Risk represented a priority for the Group as an increased number of customers required additional support, emphasising the importance of clear and effective customer engagement and proactive stakeholder engagement. The Group continued to respond to regulatory developments regarding payment breaks and customer solutions throughout the remainder of 2020 and in to 2021.

Regulatory Compliance prioritised risk assessments of COVID-19 solutions and measures designed to support the Group's customers and the economy through the unprecedented crisis. This included significant review and challenge of these measures to ensure key risks, mitigants and controls were sufficiently identified and communicated to all relevant governance fora up to and including Board as appropriate. The COVID-19 pandemic and the consequential requirement to provide appropriate timely solutions for customers resulted in an increased level of product governance activity and the solutions implemented were subject to robust scrutiny from Regulatory Compliance to ensure customers were being supported. Stakeholders across Risk were engaged in increased governance, product reviews, senior management reporting, solution assessments in order to consistently emphasise the customer protection agenda and ensure that solutions provided were in line with the conduct risk objectives for the Group.

Regulatory Compliance additionally played a significant role in the review and challenge of how the Group achieves compliance with the European Banking Authority (EBA) and Central Bank of Ireland (CBI) guidance, and proactively engaged with stakeholders across the Group in relation to action completion, solution implementation and the continued emphasis on prioritising good customer outcomes. This included participation at governance fora, detailed assessments of impacting regulatory requirements and clear communication of how to demonstrate compliance with these requirements and a conduct aware culture. Regulatory Compliance also actively participated in both internal working groups, providing challenge to business segments on customer solutions, and external engagements such as Banking and Payments Federation Ireland (BPFI) working groups in relation to the COVID-19 pandemic.

The regulatory scrutiny with regards of the Group's ability to respond to future prudential and customer impacts will continue throughout 2021, with a focus on the ongoing supports the Group have in place for customers in financial difficulty, as a result of the effects of COVID-19 and the regulatory enhancement of the Consumer Protection Framework.

Risk management – 2. Individual risk types

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Risk management – 2. Individual risk types

2.1 Credit risk

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

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

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

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

Credit risk management

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

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

The Group's credit risk framework as outlined on pages 80 to 86 supports these credit activities and encompasses a suite of credit policies and standards which support the credit risk sanctioning policies and policy guidance and provide a common and consistent approach to the management of credit risk.

Credit risk management response to COVID-19

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

The Group's focus continues to be on supporting its existing customers and ensuring they are provided with the appropriate measures (e.g. payment breaks) taking account of the current and expected financial impact and recovery outlook. As part of the Group's credit risk management response to COVID-19, a range of actions have been taken to ensure the appropriate measurement, classification, and reporting of its credit risk exposures during this time. These include:

- The development of a suite of additional guidance documents to support credit risk assessment and management activities, such as credit grading, staging, unlikely-to-pay testing, and taking account of COVID-19 sector risk and expected recovery outlook. This guidance supplements the Group's existing credit risk policies and frameworks.

2.1 Credit risk

Credit risk management response to COVID-19 *(continued)*

- Enhanced scope and frequency of portfolio asset quality monitoring, particularly focused on those sectors believed to be most impacted by COVID-19 (for example, hospitality, non-food retail, travel etc.).
- Proactive bottom-up reviews of individual cases, in addition to top-down portfolio/sector reviews, prioritising higher value exposures and the more vulnerable segments of the balance sheet.

COVID-19 continues to have a negative impact on the economy and the Group's loan book and asset quality.

Group Risk Appetite Statement

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

Credit risk principles and policy*

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

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

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

Credit approval overview

The Group operates credit approval criteria which:

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

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

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

Credit risk organisation and structure

The Group's credit risk management systems operate through a hierarchy of lending authorities. All customer loan requests are subject to a credit assessment process. The role of the Credit Risk function is to provide direction, independent oversight of and challenge to credit risk-taking.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk

Internal credit ratings*

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

Internal credit grading and scoring systems facilitate the early identification and management of any deterioration in loan quality. Changes in the objective information are reflected in the credit grade of the borrower with the resultant grade influencing the management of individual loans. In line with the Group's credit management lifecycle, heightened credit management and special attention is paid to lower quality performing loans or 'criticised' loans and non-performing/defaulted loans which are defined below.

Using internal models, the Group has designed and implemented a credit grading masterscale that gives it the ability to categorise credit risk across different rating models and portfolios in a consistent manner. The masterscale consolidates complex credit information into a single attribute, aligning the output from the risk models with the Group's Forbearance and Definition of Default and Credit Impairment policies. Masterscale grades are driven by grading model appropriated PDs combined with other asset quality indicators such as default, forbearance and arrears in order to provide the Group with a mechanism for ranking and comparing credit risk associated with a range of customers. The masterscale categorises loans into a broad range of grades which can be summarised into the following categories: strong/satisfactory grades; criticised grades; and non-performing/default loans. Page 110 and 111 sets out the profile of the Group's loan portfolio under each of the above grade categories.

Strong/satisfactory

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

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

Criticised

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

In addition to the internal credit ratings, 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 the current/recent arrears status or the current/recent forbearance status and macroeconomic factors to obtain the relevant IFRS 9 12 month and Lifetime PDs (i.e. point in time). The Group has set out its methodologies and judgements exercised in determining its expected credit loss ("ECL") under IFRS 9 on pages 95 to 107.

Non-performing/default

The Group's definition of default is aligned with the EBA 'Guidelines on the application of the definition of default' under Article 178 of Capital Requirements Regulation and ECB Banking Supervision Guidance to Banks on non-performing loans. Further enhancements were implemented in 2020 in compliance with Article 178(2)(d) of regulation (EU) no 575/2013 in relation to the approach to counting of material days past due. The Group has aligned the definitions of 'non-performing', 'classification of default' and IFRS 9 Stage 3 'credit impaired', with the exception of those loans which have been derecognised and newly originated in Stage 1 or POCI (purchased or originated credit impaired). This alignment ensures consistency with the Group's internal credit risk management and assessment practices.

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 material amount of principal, interest or fee has not been paid by a credit obligor on the due date; or
- The credit obligor was previously defaulted but remains forborne and is materially 30 days or more past due.

The Group's definition of financial distress and forbearance are included in the Group's Forbearance policy. Identification and treatment of non-performing exposures and unlikeliness to pay are included in the Group's Definition of Default and Credit Impairment policy.

*Forms an integral part of the audited financial statements

2.1 Credit risk

Internal credit ratings* *(continued)*

Non-performing/default *(continued)*

Non-performing loans are analysed in more granular detail by the following categories on page 114.

Unlikely to pay – Where the Group considers a credit obligor to be unlikely to pay his/her credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount.
Greater than 90 days past due – Credit obligor that is past due by 90 days or more on any material obligation.
Collateral disposals – Post restructure cases requiring asset disposal as part of the restructure agreement. These loans will remain as non-performing until the asset is sold and the loan cleared.
Non-performing loans probation – Where the credit obligor no longer has a default trigger, his/her credit obligations will remain in a non-performing probationary period, before moving to a performing classification, subject to meeting defined probation criteria.

Credit risk monitoring*

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

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

Changes in sectoral and single name concentrations are tracked on a regular basis highlighting changes to risk concentration in the Group's loan book. The Group allocates significant resources to ensure ongoing monitoring and compliance with approved risk limits. Credit risk, including compliance with key credit risk limits, is reported monthly. Once an account has been placed on a watch/early warning list, the exposure is carefully monitored and where appropriate, exposure reductions are effected. In addition, exceptions to credit policy are reviewed regularly.

As a matter of policy, unless pre-approved documented exceptions arise, all non-retail facilities are subject to a review on, at least, an annual basis, even when they are performing satisfactorily. Annual review processes are supplemented by more frequent portfolio and case review processes in addition to arrears or excess management processes. Borrowers with a criticised grade are subject to an 'unlikely to pay' test at the time of annual review, or earlier, if there is a material adverse change or event in their credit risk profile.

Through a range of forbearance solutions as outlined on page 144, the Group employs a dedicated approach to loan workout, monitoring and proactive management of non-performing loans. A specialised recovery function focuses on managing the majority of criticised loans and deals with customers in default, collection or insolvency. Their mandate is to support customers in difficulty while maximising the return on non-performing loans. Whilst the basic principles for managing weaknesses in corporate, commercial and retail exposures are broadly similar, the solutions reflect the differing nature of the assets.

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

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk – Credit exposure

Credit risk mitigants*

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

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

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

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

Collateral

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

The principal collateral types for loans and advances are:
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over moveable assets such as plant and machinery, marine vessels etc;
- Mortgage/legal charge over residential and commercial real estate; and
- Charges over financial instruments such as debt securities and equities.

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

Collateral is not usually held against loans and advances to banks, including central banks, except where securities are held as part of reverse repurchase or securities borrowing transactions or where a collateral agreement has been entered into under a master netting agreement or where the bank purchases covered bonds as part of its liquidity portfolio.

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

Methodologies for valuing collateral

Details on the methodologies applied and processes used to assess the value of property assets taken as collateral are described in the Property Valuation Policy and Property Valuation Guidance. Due to the COVID-19 pandemic the Group has updated property valuation guidance policies to assist case managers in determining market values given current COVID-19 related market uncertainty. For residential properties, a cautionary approach is applied to the use of comparable sales information in an area and indexation which may produce a skewed result as sales have slowed down. For commercial properties, a prudent approach is applied to rental level estimates and investment yields considering specific factors and variables of the property, as well as the sector within which the property operates.

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

In accordance with the Group's Property Valuation Policy and Guidelines, the Group employs a number of methods to assist in reaching appropriate valuations for property collateral held.

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

*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit exposure

Credit risk mitigants* *(continued)*

Methodologies for valuing collateral *(continued)*

The residual value analysis methodology assesses the value of the asset after meeting the incremental costs to complete the development. This approach looks at the cost of developing the asset to determine the residual value for the Group, including covering the costs to complete and additional funding costs. The key factors considered in this methodology include:

i. the development potential given the location of the asset;
ii. its current or likely near term planning status;
iii. levels of current and likely future demand;
iv. the relevant costs associated with the completion of the project; and
v. expected market prices of completed units.

If, following internal considerations which may include consultations with valuers, it is concluded that the optimal value for the Group will be obtained through the development/completion of the project, a residual value methodology is used. When, in the opinion of the Group, the land is not likely to be developed or it is non-commercial to do so, agricultural values may be applied. Alternative use value (subject to planning permission) may also be considered.

Independent professional internal valuations will be used in limited circumstances from January 2021 (e.g. agricultural land) using a desktop valuation approach by professional qualified internal valuers who are independent of the credit process. The assets being valued by this means must have an independent professional external valuation completed within the past 3 years.

In the context of other internal methodologies, appropriate yields are applied to current rentals in valuing investment property. When assessing properties that are used for operational business or trading purposes, these are generally valued by applying a multiple to stabilised EBITDA, e.g. hotels and nursing homes. For licensed premises, these are valued by applying a multiple to stabilised net turnover (average over three years), or if available stabilised EBITDA.

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

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

Collateral and ECLs

Applying one or a combination of the above methodologies, in line with the Group's Valuation Policy, has resulted in a wide range of discounts to original collateral valuations, influenced by the nature, status and year of purchase of the asset. The frequency and availability of such up-to-date valuations remain a key factor in ECLs determination. Additionally, relevant costs likely to be associated with the realisation of the collateral are taken into account in the cash flow forecasts. The spread of discounts is influenced by the type of collateral, e.g. land, developed land or investment property and also its location. The valuation arrived at, is therefore, a function of the nature of the asset, e.g. unserviced land in a rural area will most likely suffer a reduction in value if purchased at the height of a property boom.

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

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

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk – Credit exposure

Credit risk mitigants* *(continued)*

Summary of risk mitigants by selected portfolios

Set out below are details of risk mitigants used by the Group in relation to financial assets detailed in the maximum exposure to credit risk table on page 108.

Loans and advances to customers – residential mortgages

The following table shows the estimated fair value of collateral held for the Group's residential mortgage portfolio at 31 December 2020 and 2019:

	2020					2019				
	At amortised cost					At amortised cost				
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Fully collateralised[1]										
Loan-to-value ratio:										
Less than 50%	10,679	722	834	30	12,265	10,956	761	858	29	12,604
50% - 70%	8,163	610	472	64	9,309	8,421	674	514	67	9,676
71% - 80%	3,491	258	198	30	3,977	3,464	267	220	31	3,982
81% - 90%	3,294	193	127	25	3,639	2,933	201	149	25	3,308
91% - 100%	687	89	132	17	925	917	137	141	19	1,214
	26,314	1,872	1,763	166	30,115	26,691	2,040	1,882	171	30,784
Partially collateralised										
Collateral value relating to loans over 100% loan-to-value	151	55	155	7	368	232	81	201	10	524
Total collateral value	26,465	1,927	1,918	173	30,483	26,923	2,121	2,083	181	31,308
Gross residential mortgages	26,535	1,950	1,980	184	30,649	26,973	2,144	2,143	194	31,454
ECL allowance	(39)	(73)	(662)	(69)	(843)	(10)	(52)	(476)	(31)	(569)
Net residential mortgages	26,496	1,877	1,318	115	29,806	26,963	2,092	1,667	163	30,885

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

For residential mortgages, the Group takes collateral in support of lending transactions for the purchase of residential property. Collateral valuations are required at the time of origination of each residential mortgage. The value at 31 December 2020 and 2019 is estimated based on property values at origination or date of latest valuation and applying the CSO Residential Property Price Index (Republic of Ireland) and Nationwide House Price Index (United Kingdom) to these values to take account of price movements in the interim.

Loans and advances to customers – other

In addition to the credit risk mitigants outlined on the previous page, the Group, from time to time, enters reverse repurchase agreements with borrowers. At 31 December 2020, the Group had accepted collateral with a fair value of € 107 million (2019: € 86 million) in respect of reverse repurchase agreements.

Derivatives

Derivative financial instruments are recognised in the statement of financial position at their fair value. Those with a positive fair value are reported as assets which at 31 December 2020 amounted to € 1,424 million (2019: € 1,271 million) and those with a negative fair value are reported as liabilities which at 31 December 2020 amounted to € 1,201 million (2019: € 1,197 million).

The enforcement of netting agreements would potentially reduce the statement of financial position carrying amount of derivative assets and liabilities by € 804 million at 31 December 2020 (2019: € 575 million). The Group also has Credit Support Annexes ("CSAs") in place which provide collateral for derivative contracts. At 31 December 2020, € 450 million (2019: € 643 million) of CSAs are included within financial assets as collateral for derivative liabilities and € 257 million (2019: € 347 million) of CSAs are included within financial liabilities as collateral for derivative assets (note 42 to the consolidated financial statements). Additionally, the Group has agreements in place which may allow it to net the termination values of cross currency swaps upon occurrence of an event of default.

Loans and advances to banks

Interbank placings, including central banks, are largely carried out on an unsecured basis apart from reverse repurchase agreements and securities borrowings. The collateral received in respect of repurchase agreements at 31 December 2020 had a fair value of € 194 million (2019: € 151 million). The collateral received in respect of securities borrowings at 31 December 2020 had a fair value of € 510 million (2019: Nil).

Investment securities

At 31 December 2020, government guaranteed senior bank debt which amounted to € 294 million (2019: € 268 million) was held within the investment securities portfolio.

*Forms an integral part of the audited financial statements

2.1 Credit risk

Measurement, methodologies and judgements*

Introduction

The Group has set out the methodologies used and judgements exercised in determining its expected credit loss ("ECL") allowance for the year to 31 December 2020.

The Group, in estimating its ECL allowance does so in line with the expected credit loss impairment model as set out by the International Financial Reporting Standard 9 *Financial Instruments* ("the standard"). This model requires a more timely recognition of ECL across the Group. The standard does not prescribe specific approaches to be used in estimating ECL allowance, but stresses that the approach must reflect the following:

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

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

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

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

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

Bases of Measurement

Under the standard, there are two measurement bases:

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

Staging

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

Credit risk at origination

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

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

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

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

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Stage 1 characteristics

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

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

Stage 2 characteristics

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

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

SICR assessment

The Group's SICR assessment is determined based on both quantitative and qualitative measures:
Quantitative measure: This measure reflects an arithmetic assessment of the change in credit risk arising from changes in the probability of default. The Group compares each obligation's annualised average probability weighted residual lifetime probability of default ("LTPD") at origination (see 'Credit risk at origination') to its annualised average probability weighted residual LTPD at the reporting date. If the difference between these two LTPDs meets the quantitative definition of SICR, the Group transfers the financial obligation into Stage 2. Increases in LTPD may be due to credit deterioration of the individual obligation or due to macroeconomic factors or a combination of both. The Group has determined that an account had met the quantitative measure if the average residual LTPD at the reporting date was more than double the average residual LTPD at origination, and the difference between the LTPDs was at least 50bps or 85bps in the case of residential mortgages. The appropriateness of this threshold is under regular review by the Group.

Qualitative measure: This measure reflects the assessment of the change in credit risk based on the Group's credit management and the individual characteristics of the financial asset. This is not model driven and seeks to capture any change in credit quality that may not be already captured by the quantitative criteria. The qualitative assessment reflects pro-active credit management including monitoring of account activity on an individual or portfolio level, knowledge of client behaviour, and cognisance of industry and economic trends. As a result of COVID-19 a suite of additional guidance documents to support identification of significant increase in credit risk have been applied by the Group. This guidance supplements the Group's existing credit risk policies and frameworks.

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

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

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

Stage 3 characteristics

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

The key criteria resulting in a classification of default are:
- Where the Group considers a credit obligor to be unlikely to pay his/her credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount; or
- The credit obligor is 90 days or more past due on any material credit obligation (day count starts when any material amount of principal, interest or fee has not been paid by a credit obligor at the date it was due); or
- The credit obligor was previously defaulted but remains forborne and is materially 30 days or more past due.

The Group's definition of financial distress and forbearance are included in the Group's Forbearance policy. Identification of non-performing exposures and unlikeliness to pay are included in the Group's Definition of Default and Credit Impairment policy.

*Forms an integral part of the audited financial statements

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Purchased or originated credit impaired ("POCI")

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

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

Measurement of expected credit loss

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

i. Standard approach: This approach is used for the majority of exposures where each ECL input parameter (Probability of Default – PD, Loss Given Default – LGD, Exposure at Default – EAD, and Prepayments – PP) is developed in line with standard modelling methodology which is set out in the Group IFRS 9 ECL Model Framework and has been approved by the relevant governance forum. The Group's IFRS 9 models have been approved in line with the Group's Model Governance Framework. (An overview of credit risk models is outlined on pages 98 and 99).

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

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

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

iv. Management judgement: Where the estimate of ECL does not adequately capture all available forward looking information about the range of possible outcomes, or where there is a significant degree of uncertainty, management judgement may be considered appropriate for an adjustment to ECL. The management adjustment must consider all relevant and supportable information, including but not limited to, historical data analysis, predictive modelling and management experience. The methodology to incorporate the adjustment should consider the degree of over collateralisation (headroom) and should not result in a zero overall ECL unless there is sufficient headroom to support this. The key judgements in the 2020 year end ECL estimates are outlined on pages 105 to 107, 262 and 263.

Effective interest rate

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

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

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Risk management – 2. Individual risk types

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Policy elections and simplifications

Low credit risk exemption

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

Under IFRS 9, the credit risk on a financial instrument is considered low if:
- the financial instrument has a low risk of default;
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic business conditions in the longer term may, (but will not necessarily) reduce the ability of the borrower to fulfil its contractual cash flow obligations.

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

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

Short term cash

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

Lease receivables and trade receivables

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

Credit risk models

Probability of default

Probability of default ("PD") is the likelihood that an account or borrower defaults over an observation period, given that they are not currently in default. The PD modelling approach uses a combination of rating grades/scores obtained from credit risk models, as outlined on page 90, along with key factors such as the current/recent arrears status or the current/recent forbearance status and macroeconomic factors to obtain the relevant 12 month (Stage 1) and Lifetime (Stage 2) PD.

Loss given default

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

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

Retail portfolios

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

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

Non-retail portfolios

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

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

*Forms an integral part of the audited financial statements

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Exposure at default

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

Prepayments

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

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

Determining the period over which to measure ECL

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

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

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

Forward looking indicators in models

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

Write-offs

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

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

The contractual amount outstanding of loans written-off during the year that are still subject to enforcement activity are outlined on page 133 and relate to non-contracted write-offs, both full and partial.

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

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Macroeconomic scenarios and weightings

The macroeconomic scenarios used by the Group for ECL allowance calculation purposes are subject to the Group's governance process covering the development and approval of macroeconomic scenarios used for planning and internal stress testing purposes. The macroeconomic scenarios and attached probabilities are reviewed by the Asset and Liability Committee (ALCo) regularly, and such reviews took place more frequently during 2020 in response to economic developments. The macroeconomic scenarios are then reviewed by the Board Risk Committee (BRC) and approved for use by the Board. The scenario probabilities are approved by the Board Audit Committee (BAC). The parameters used within the Group's ECL models include macroeconomic factors which have been established as drivers of the default risk and loss estimates. Therefore, a different credit loss estimate is produced for each scenario based on a combination of these identified macroeconomic factors. The credit loss estimates for each scenario are then weighted by the assessed likelihood of occurrence of the respective scenarios to yield the ECL outcome.

Macroeconomic scenarios:

The onset of the COVID-19 pandemic and associated lockdown measures and restrictions on economic activity means that the scenarios in use for year-end 2020 have changed materially from those applied for the year-end 2019 outcomes. In order to reflect the range of possible outcomes as well as the significant uncertainty presented by the public health crisis and associated economic downturn, as at the reporting date, four scenarios have been used in the ECL calculation. These four scenarios consist of a base case scenario, along with three alternative scenarios (comprising one upside scenario and two downside scenarios). The inclusion of an extra downside scenario (i.e. an extended high unemployment scenario) was deemed necessary to ensure that the range of possible outcomes in relation to the ultimate recovery from the pandemic are captured. Non-linear effects are captured in the development of risk parameters as well as through the inclusion of both the single upside and two downside scenarios.

The Group's Economic Research Unit (ERU) provide the scenario forecasts over five years. These are then independently reviewed and challenged, on both a quantitative and qualitative basis, by the Group Risk function. The base case is benchmarked against the outlook available from official sources (e.g. ECB, Central Bank of Ireland, Bank of England, IMF, Department of Finance, ESRI etc.) to ensure it is appropriate. Upside and downside scenarios, relative to the base case, are provided to ensure a reasonable range of possible outcomes is available for the IFRS 9 process. These scenarios are benchmarked to alternative scenarios from official sources, where possible. The longer term economic projections (beyond five years) are sourced from a reputable external provider with the internal scenarios converging on a linear basis towards the external forecasts from years 5 to 8. External long term forecasts represent long term base line forecasts for the parameter/economy in question. The forecasted scenarios are kept under review by the Group ALCo and approved by the Board.

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

A post model adjustment has been applied due to the increased public health restrictions announced in early January 2021. This is not reflected in the scenarios below – further detail can be found on page 106.

Base case: This scenario assumes that further outbreaks of the virus occur in 2021 with associated public health containment measures but that the rate of infection declines over time reflecting advancements in treatments and better track and trace systems. It also assumes that a vaccine does not become widely available in 2021.

GDP growth in most economies is expected to recover strongly in 2021 and 2022 following declines in 2020. Growth returns to longer term trends from 2023 and beyond. In this scenario, economic activity returns to pre-pandemic levels of activity by end-2021 in Ireland and by mid-2023 in the UK. The quicker expected recovery in Ireland versus the UK is due to the resilience shown in a number of key sectors of the Irish economy in 2020 and the much smaller drop in Irish GDP in 2020.

The rise in unemployment has been mitigated in most European economies by government income support schemes. These support schemes have also resulted in increased uncertainty in relation to the true level of unemployment in economies. For Ireland, the Group's approach is to estimate the true underlying rate (i.e. the rate after the temporary government support schemes have ended). This is between the official unemployment rate and the Covid-adjustment unemployment rate published by the CSO. In this scenario, unemployment remains relatively high over the coming years, remaining above the 2019 rate out to 2025.

House prices have been more robust than expected throughout 2020. This is due to a combination of effects, predominantly continued under-supply while reduced income effects haven't materially reduced demand. In Ireland and the UK, house prices are still expected to fall in 2021 by c. 3%. This fall is much lower than would generally be associated with similar unemployment rates, demonstrating the unique impact of the virus on the economy. In this scenario further falls in commercial property prices are expected in Ireland and UK in 2021 before a rebound from 2022 onwards.

This scenario incorporates the EU/UK trade deal that was implemented on 1 January 2021. This mitigates many of the effects that would have been felt in the event of a no trade deal outcome. This scenario does reflect the increased non-tariff barriers that are in place as a result of the UK exiting the transition period on 31 December 2020.

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2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Macroeconomic scenarios and weightings *(continued)*

Downside 1 ('Lower growth in 2021'): This scenario reflects a situation with limited recovery in terms of GDP growth in 2021 from the significant downturn in 2020. This is reflected through the virus being more severe than expected in 2021, resulting in extensive containment measures remaining in place for a longer period of time than assumed in the base case. This holds back economic growth in 2021 and the additional scarring effects as a result of this results in growth being 3%-4% lower, versus the base case, across the main economies over the 2021-2025 period. In this scenario, economic activity does not return to pre-pandemic levels of activity until mid-2022 in Ireland and 2025 in the UK.

Unemployment is higher in 2021 by c. 2 percentage points versus the base case and remains higher than in the base case over the period to 2025 as a result of the additional scarring.

The recovery in house prices is slower than the base case, with growth in Ireland not seen until 2023 and house prices c. 5% lower by end-2025 compared to the base case.

Downside 2 ('Extended high unemployment'): This scenario reflects a situation where unemployment recovers very slowly and is still at 10% in Ireland in 2025. This is caused by very sluggish return to growth in major economies following a more persistent outbreak of the virus than expected in the base case. This stops growth in 2021 and slows down the recovery significantly, with cumulative growth over 2021-2025 being c. 8% lower than in the base case.

The implications for unemployment are very significant in this scenario, affecting sectors that have not been directly impacted from COVID-19 due to scarring effects in the wider economy. Unemployment peaks at 13.5% in 2021 but only slowly reducing to 10% in 2025, 4 percentage points higher than the base case.

House prices suffer large falls in 2021 to 2023 with prices only picking up from 2024. Under this scenario, house prices are c. 24% lower in 2025 than under the base case.

Upside ('Quick economic recovery'): This scenario reflects a much quicker economic recovery than outlined in the base case. The key trigger for this are advances in therapeutic measures against the virus, including a rapid and successful roll out of a vaccine. While unemployment remains elevated relative to pre-COVID-19 levels in the short term, by 2023 it has returned to below 6%.

Under this scenario, house prices also return more quickly as demand continues to be robust. By 2025 house prices are c. 9% higher than in the base case.

The table below sets out the five year average forecast for each of the key macroeconomic variables that are required to generate the scenarios or are material drivers of the ECL under (i) Base, (ii) Downside 1, (iii) Downside 2 and (iv) Upside scenarios at 31 December 2020 (average over 2021-2025) and at 31 December 2019 (average over 2020-2024).

	2020 5 year (2021-2025) average forecast				2019 5 year average forecast			
Macroeconomic factor (%)	**Base**	**Downside ('Lower growth in 2021')**	**Downside ('Extended high unemploy-ment')**	**Upside ('Quick economic recovery')**	Base	Downside ('disorderly' Brexit)	Downside ('global slowdown')	Upside
Republic of Ireland								
GDP growth	**3.7**	**3.0**	**2.0**	**4.4**	2.9	1.8	1.7	4.1
Residential property price growth	**1.7**	**0.8**	**(3.6)**	**3.4**	2.6	0.2	0.5	4.6
Unemployment rate	**7.2**	**8.9**	**11.9**	**6.6**	4.7	7.8	7.4	4.0
Commercial property price growth	**1.8**	**1.1**	**(3.8)**	**3.1**	2.0	(1.8)	(1.8)	3.9
Employment growth	**2.3**	**1.9**	**1.0**	**2.5**	1.7	0.6	0.6	2.5
Average disposable income growth	**1.8**	**1.4**	**1.3**	**2.5**	3.7	1.5	1.5	5.0
United Kingdom								
GDP growth	**2.9**	**2.3**	**1.1**	**3.7**	1.5	0.3	0.6	2.4
Residential property price growth	**1.3**	**0.4**	**(4.4)**	**2.9**	3.3	(2.6)	0.3	5.3
Unemployment rate	**5.6**	**6.8**	**10.1**	**4.6**	3.6	7.1	6.1	3.3
Commercial property price growth	**2.2**	**1.2**	**(3.9)**	**3.1**	2.6	(3.8)	(1.5)	5.9

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Macroeconomic scenarios and weightings *(continued)*

Additional information is provided in the table below which details the individual macroeconomic factor forecast for each year across the four scenarios, as at 31 December 2020. This is because, due to the increased variability as a result of COVID-19, the average for the five years 2021–2025 above does not provide sufficient insight for each factor across the impacted years.

	Estimate	Base					Downside 1 ('Lower growth in 2021')				
Macroeconomic factor	2020 %	2021 %	2022 %	2023 %	2024 %	2025 %	2021 %	2022 %	2023 %	2024 %	2025 %
Republic of Ireland											
GDP growth	(3.0)	5.0	4.5	3.5	3.0	2.7	1.0	5.0	3.5	3.0	2.7
Residential property price growth	(1.5)	(3.0)	3.0	3.0	3.0	2.5	(7.0)	–	5.0	3.0	3.0
Unemployment rate	10.4	10.0	7.5	6.4	6.1	5.9	12.0	9.6	8.3	7.6	7.2
Commercial property price growth	(9.0)	(4.0)	6.0	3.0	2.0	2.0	(9.0)	2.5	5.0	4.0	3.0
Employment growth	(5.0)	1.6	4.0	2.5	1.8	1.7	(1.0)	3.9	2.6	2.2	2.0
Average disposable income growth	7.1	(6.3)	6.9	0.5	5.6	2.5	(7.2)	5.8	0.7	4.7	2.9
United Kingdom											
GDP growth	(10.0)	6.5	3.0	2.0	1.7	1.5	2.5	3.5	2.0	1.8	1.6
Residential property price growth	5.0	(3.0)	1.5	2.5	3.0	2.5	(7.0)	(1.0)	3.5	3.5	3.0
Unemployment rate	4.8	7.0	6.0	5.3	5.0	4.8	9.0	7.0	6.5	6.0	5.7
Commercial property price growth	(12.0)	(3.0)	5.0	3.0	3.0	3.0	(9.0)	3.0	5.0	4.0	3.0

	Downside 2 ('Extended high unemployment')					Upside 1 ('Quick economic recovery')				
Macroeconomic factor	2021 %	2022 %	2023 %	2024 %	2025 %	2021 %	2022 %	2023 %	2024 %	2025 %
Republic of Ireland										
GDP growth	(1.5)	3.0	2.8	2.8	3.0	7.0	5.5	4.0	3.0	2.7
Residential property price growth	(12.0)	(10.5)	(2.5)	4.0	3.0	3.0	5.0	3.0	3.0	3.0
Unemployment rate	13.5	13.0	12.0	11.0	10.0	9.5	7.2	5.8	5.4	5.1
Commercial property price growth	(13.5)	(7.5)	(5.0)	4.0	3.0	3.0	4.0	3.0	3.0	2.5
Employment growth	(3.0)	1.7	2.1	2.1	2.2	2.1	3.9	2.8	2.0	1.8
Average disposable income growth	(6.0)	5.5	0.2	4.8	1.8	(4.5)	5.2	4.0	3.8	4.0
United Kingdom										
GDP growth	(0.5)	1.5	1.4	1.6	1.6	8.0	4.2	2.8	2.0	1.7
Residential property price growth	(15.0)	(9.0)	(6.0)	4.0	4.0	2.5	3.5	3.0	3.0	2.5
Unemployment rate	10.0	10.3	10.5	10.2	9.7	6.0	5.0	4.3	3.9	3.7
Commercial property price growth	(16.0)	(8.0)	(4.0)	4.0	4.5	3.0	4.0	3.0	3.0	2.5

The key changes to the scenario forecasts in the reporting period are driven by the COVID-19 pandemic. The extent of contagion and the wider economic impact of COVID-19 was not foreseen at the previous reporting period (31 December 2019). The severe and sudden shock to all economies has resulted in a significant re-assessment of the forecasts.

The four scenarios detailed above are used to reflect a representative sample of possible outcomes. The ECL allowance reflects a weighted average of the credit loss estimates under the four scenarios.

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

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

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2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Macroeconomic scenarios and weightings *(continued)*

These weightings are reviewed regularly by Group ALCo and adjusted where required. The key drivers of the weightings are:

- The higher weighting on the downside scenarios (versus the upside scenario) reflects the Group's view that risks remain skewed to the downside reflecting the continued inability of many countries to bring the virus under control, the potential for new mutations of the virus and the unknown medium and longer term economic impacts of the virus. Additionally, other risks remain which also support the Group's view that risks remain to the downside. These include the impacts of ongoing de-globalisation efforts, geopolitical risks and the timing of unwinding of central bank supports.
- The weighting on the downside scenarios have decreased since June 2020 (at June 2020, the downside scenarios had a weighting of 35% and the upside scenarios had a weighting of 10%). This is predominantly because of the development of multiple successful vaccines and the beginning of the roll-out in some economies prior to the year-end. This provides concrete evidence that restrictions may begin to be released more fully in 2021 than originally expected and allow economic activity to bounce back more sharply. Moreover, the resilience of a number of key sectors in the Irish economy, growth in house prices and the possible productivity gains from digital transformation provide support to the upside view.

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

Scenario	**Weighting 31 December 2020**		Weighting 31 December 2019
Base	50%	Base	50%
Downside 1 ('Lower growth in 2021')	25%	Downside ('disorderly' Brexit)	25%
Downside 2 ('Extended high unemployment')	5%	Downside ('global slowdown')	15%
Upside ('Quick economic recovery')	20%	Upside	10%

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

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Risk management – 2. Individual risk types

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Sensitivities

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

Relative to the base scenario, in the 100% downside 'Lower growth in 2021' and 'Extended high unemployment' scenarios, the ECL allowance increases by 9% and 25% respectively. In the 100% upside scenario, the ECL allowance declines by 6%, showing that the ECL impact of the two downside scenarios is greater than that of the upside scenario. For 31 December 2020, a 100% downside 'Lower growth in 2021' and 'Extended high unemployment' scenario sees a higher ECL allowance sensitivity of € 230 million and € 634 million respectively compared to base (€ 171 million and € 575 million respectively compared to reported). Higher relative impacts are observed for the AIB UK portfolio.

					ECL allowance at 31 December 2020
Loans and advances to customers	**Reported Total € m**	**100% Base Total € m**	**100% Downside Scenario ('Lower growth in 2021') Total € m**	**100% Downside Scenario ('Extended high unemployment') Total € m**	**100% Upside Scenario ('Quick economic recovery') Total € m**
Residential mortgages	**843**	**832**	**869**	**990**	**804**
Other personal	**234**	**229**	**245**	**271**	**223**
Property and construction	**396**	**383**	**444**	**529**	**337**
Non-property business	**1,037**	**1,011**	**1,113**	**1,257**	**950**
Total	**2,510**	**2,455**	**2,671**	**3,047**	**2,314**
Off-balance sheet loan commitments	**54**	**51**	**62**	**82**	**45**
Financial guarantee contracts	**29**	**28**	**31**	**39**	**25**
	2,593	**2,534**	**2,764**	**3,168**	**2,384**
Of which:					
AIB UK segment	**306**	**294**	**347**	**424**	**252**

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

*Forms an integral part of the audited financial statements

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Management judgements

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

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

The ECL allowance at 31 December 2020 includes the following management adjustments:

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

The Group's strategy is to deliver sustainable long term solutions and to work with customers through their financial difficulties. This has primarily been through work-out arrangements with customers, including arrears capitalisations, split mortgages, low fixed interest rate, voluntary sale for loss, negative equity trade down and positive equity solution or through loan recovery following realisation of collateral. The mortgage LGD model is based on empirical internal data for such resolved cases, and represents the Group's expected loss based on those expected work-out strategies. However, it is recognised that alternative recovery strategies, such as portfolio sales or securitisations, also need to be considered which were not envisaged at the time of model development. Accordingly, post model adjustments have been applied to certain cohorts of Stage 3 loans to reflect the potential resolution outcomes not currently considered within the modelled outcome.

The post model adjustments are calculated based on a range of alternative recovery assumptions. An independent external benchmark exercise has been undertaken to provide information to support the range of alternative recovery outcomes with reference to collateral values underpinning the loans and the underlying market conditions.

Mortgage post model adjustment – long term days past due

The initial cohort of loans to which the post model adjustment applies continues to be primarily those PDH loans in Stage 3 in deep arrears i.e. greater than 180 days past due. The cohort has been extended in 2020 to include certain loans less than 180 days past due. The majority of this cohort is part of loan sales, which are expected to be executed in the first quarter of 2021.

The Mortgage ECL allowance of € 816 million for residential mortgages in ROI at 31 December 2020 includes € 321 million as a result of this management adjustment. At 31 December 2019, the ECL allowance of € 552 million included a post model adjustment of € 208 million. The main drivers of movement in the post model adjustment to the 31 December 2020 are the impact of COVID-19 on the market outlook and the inclusion of certain loans less than 90 days past due. This has resulted in an additional income statement charge of € 119 million in 2020.

Mortgage post model adjustment – zero or low days past due non-performing exposures

Another cohort of loans to which a post model adjustment applies are also primarily PDH loans in Stage 3, displaying zero or low days past due and classified non-performing exposures under European Banking Authority definition of default guidelines. The main driver of this post model adjustment is the requirement for alternative recovery strategies for this cohort.

The ECL allowance for this cohort of residential mortgages in ROI at 31 December 2020 includes € 112 million as a result of this post model adjustment. Management have considered the potential solutions available in determining the ECL allowance, which has resulted in a € 91 million income statement charge for 2020. This includes a cohort of forbearance product loans in Stage 3 which were previously identified in 2019 as requiring an alternative treatment at loan expiry, which are now subsumed in this post model adjustment.

2. Lifetime interest only post model adjustment

A cohort of non-defaulted lifetime interest only mortgages were identified in 2019 for individual assessment to confirm likeliness to pay (31 December 2019: € 103 million). In the year to 31 December 2020, this cohort of loans has reduced to € 97 million, of which € 18 million has migrated to Stage 2 and € 21 million to Stage 3. The remaining loans within this cohort (€ 58 million) have been allocated to Stage 2, pending individual assessment, reflecting management's qualitative judgement of a significant increase in credit risk given the additional end of term risk not fully incorporated into modelled outcomes. This has resulted in a post model adjustment of € 9 million as at 31 December 2020 (31 December 2019: € 9 million), which has resulted in an income statement charge of € 1 million in 2020.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Management judgements *(continued)*

3. COVID-19 Modification Expiry post model adjustment

Retail – ROI Mortgage, Personal and SME loans

The performing ROI Mortgage, Personal and SME loans which had been granted COVID-19 short term modifications (e.g. payment breaks) during 2020 have been identified as requiring a temporary ECL post model adjustment due to the continued heightened risk of downward stage migration following the expiry of payment breaks.

The post model adjustment increases the ECL allowance on € 809 million of residential mortgages (Stage 1: € 643 million, Stage 2: € 166 million), € 104 million of personal loans (Stage 1: € 70 million, Stage 2: € 34 million), and € 639 million of business lending (Stage 1: € 439 million, Stage 2: € 200 million), which had received a COVID-19 modification during the course of 2020. It reflects the fact that following expiry of the temporary payment breaks, some of these borrowers will request or have received further support, e.g. forbearance, as these borrowers would otherwise be unable to maintain their prior contractual loan repayments. The ECL post model adjustment allows for early recognition of anticipated downward stage migrations and unlikeliness to pay outcomes following expiry of the temporary COVID-19 modifications, which are not currently reflected within the customers' credit grade or the probability of default assigned within the ECL model.

The post model adjustment amounts to a € 48 million income statement charge for the full year 2020 (Mortgages: € 11 million, Personal: € 5 million, Business: € 32 million) as informed by business management judgement on anticipated flows to forbearance and/or default following the payment break expiry, with due consideration for continued impacts of COVID-19 at year end and onward into 2021. The post model adjustment is temporary in nature and will be unwound in 2021 in line with the customer engagement and credit assessment process.

CIB SME

A similar situation to that outlined above in the Retail portfolio exist in relation to a cohort of SME loans (€ 355 million, Stage 2) within the CIB portfolio and an additional € 28 million charge was taken in the year to 31 December 2020 as a post model adjustment.

4. Macroeconomic post model adjustment

The Group has identified that a post model adjustment is required for its base case macroeconomic scenario projections for 2021. Due to the increased spread of the COVID-19 virus, both the UK and the Irish governments announced further lockdown requirements which came into effect in early January 2021. The extent of the restrictions have been much greater than those expected in the macroeconomic estimations, however, the efficacy and early roll out of vaccines as compared with the Group's base case provides an offset in terms of medium term outlook.

A quantitative and qualitative assessment has been carried out to review the adequacy of ECL allowance given the delay in economic recovery caused by these increased restrictions. From a quantitative perspective the Group has assessed that the restrictions could reduce its 2021 growth projections in Ireland by c. 2% and in the UK by c. 3.5% and increase its projections of Irish unemployment by c. 0.7% for 2021. These short term impacts are assessed to reverse over the medium term due to the improved vaccine outlook.

A quantitative assessment using model data and a qualitative review by credit portfolio management teams have identified the requirement for a € 30 million post model adjustment to capture the combined impact of these changes in outlook, of which € 19 million related to AIB UK.

5. Property and Construction portfolio post model adjustment

A review of the ECL model for the Property and Construction portfolio in ROI determined that the historically observed relationships between default rates and macroeconomic factors in the model are not fully reflective of expectations for a portion of the portfolio. While the modelled outcome suggested that certain cases had moved to Stage 2, expert credit judgement determined that a significant increase in credit risk had not occurred and that these cases, amounting to € 519 million, be retained in Stage 1. This resulted in € 9 million of modelled ECL being reversed.

6. Syndicated lending portfolio post model adjustment

A detailed review of the ECL model for the syndicated lending portfolio in the CIB business segment was carried out in late 2019 and it was determined that historically observed relationships between default rates and macroeconomic factors in the model needed to be revised. The post model adjustment increased modelled probabilities of default and hence ECL cover for both Stage 1 and Stage 2 assets based on more recent observed experience. The adjustment was reviewed in 2020 which resulted in an increase in the minimum ECL cover associated with Stage 1 assets in the portfolio whilst no change was made to the adjustment for Stage 2.

As a result, a post model adjustment of € 63 million has been applied as at 31 December 2020 to increase the ECL allowance to € 145 million (Stage 1: € 24 million and Stage 2: € 117 million and Stage 3: € 4 million). At 31 December 2019, a post model adjustment of € 16 million was applied to increase the ECL allowance to € 20 million (Stage 1: € 15 million and Stage 2: € 5 million). Further details on the syndicated lending portfolio are outlined an page 128.

*Forms an integral part of the audited financial statements

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Management judgements *(continued)*

7. AIB UK post model adjustment

The Group has identified that a post model adjustment of £ 95 million is required for the AIB UK Segment at 31 December 2020 (£ 15 million at 31 December 2019), which includes the £ 17 million (€ 19 million) for the macroeconomic post model adjustment noted earlier. This has resulted in an increase of £ 81 million during the year.

The Corporate portfolio required adjustments of £ 73 million to Stage 1 (£ 4,119 million) and Stage 2 (£ 1,013 million) loans to align modelled outcomes to expected credit losses derived from an agreed consensus forecast that includes the impact of COVID-19 restrictions on the macroeconomic environment.

£ 895 million of personal mortgage loans (Stage 1: £ 849 million and Stage 2: £ 46 million) have required an additional £ 4 million adjustment due to customers who have received payment deferrals. Consideration was given to how these cases may influence the probability of default. Further, cases with active payment deferrals are given elevated default rates for a single quarter when they return to single payments. The loss rates assigned to these cases are also increased.

Stage 3 loans (£ 451 million) took a post model adjustment of £ 18 million. This increase on ECL was due to a number of factors, being the proposed sale of non-performing PDH loans, the impact of a number of macroeconomic scenarios on Stage 3 ECLs and also due to a minimum LGD being applied to both Retail (5%) and Personal (1%) mortgage loans.

ECL governance

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

The key governance points in the ECL allowance approval process during 2020 were:

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

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

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

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk – Credit exposure overview

Maximum exposure to credit risk*

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

The following table sets out the maximum exposure to credit risk that arises within the Group and distinguishes between those assets that are carried in the statement of financial position at amortised cost and those carried at fair value at 31 December 2020 and 2019:

			2020			2019
Maximum exposure to credit risk	**Amortised cost[1] € m**	**Fair value[2] € m**	**Total € m**	Amortised cost[1] € m	Fair value[2] € m	Total € m
Balances at central banks[3]	**24,932**	**–**	**24,932**	11,323	–	11,323
Items in course of collection	**43**	**–**	**43**	57	–	57
Derivative financial instruments	**–**	**1,424**	**1,424**	–	1,271	1,271
Loans and advances to banks	**1,799**	**–**	**1,799**	1,478	–	1,478
Loans and advances to customers	**56,870**	**75**	**56,945**	60,811	77	60,888
Investment securities[4]	**3,603**	**15,675**	**19,278**	635	15,881	16,516
Included elsewhere:						
Trade receivables	**87**	**–**	**87**	495	–	495
Accrued interest	**212**	**–**	**212**	261	–	261
	87,546	**17,174**	**104,720**	75,060	17,229	92,289
Loan commitments and other credit related commitments	**12,504**	**–**	**12,504**	11,539	–	11,539
Financial guarantees	**722**	**–**	**722**	711	–	711
	13,226	**–**	**13,226**	12,250	–	12,250
Total	**100,772**	**17,174**	**117,946**	87,310	17,229	104,539

[1]All amortised cost items are loans and advances and investment securities which are in a 'held-to-collect' business model.

[2]All items measured at fair value except investment securities at FVOCI and cash flow hedging derivatives are classified as 'fair value through profit or loss'.

[3]Included within cash and balances at central banks of € 25,550 million (2019: € 11,982 million).

[4]Excluding equity shares of € 201 million (2019: € 815 million).

*Forms an integral part of the audited financial statements

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

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

The following table summarises financial instruments in the statement of financial position at 31 December 2020 and 2019:

	2020*				2019*			
			Statement of financial position	Income statement			Statement of financial position	Income statement
	Exposure	ECL allowance	Carrying amount	Net credit impairment (charge)	Exposure	ECL allowance	Carrying amount	Net credit impairment (charge)/ writeback
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Cash and balances at central banks	25,550	–	25,550	–	11,982	–	11,982	–
Items in course of collection	43	–	43	–	57	–	57	–
Loans and advances to banks	1,799	–	1,799	–	1,478	–	1,478	–
Loans and advances to customers:								
at amortised cost	59,380	(2,510)	56,870	(1,421)	62,049	(1,238)	60,811	(27)
at FVTPL	75	n/a	75	–	77	n/a	77	n/a
	59,455	(2,510)	56,945	(1,421)	62,126	(1,238)	60,888	(27)
Investment debt securities[1]	19,279	(1)	19,278	–	16,516	–	16,516	–
Loan commitments	12,504	(54)	(54)	(35)	11,539	(19)	(19)	6
Financial guarantee contracts	722	(29)	(29)	(4)	711	(23)	(23)	5
Total				(1,460)				(16)

[1]ECL allowance amounting to € 3 million (2019: € 4 million) included in carrying amount of investment securities at FVOCI.

There was a € 1,460 million net credit impairment charge in the year (2019: € 16 million charge). This comprised of a € 1,421 million charge on loans and advances to customers (net re-measurement of ECL allowance charge of € 1,493 million, offset by recoveries of amounts previously written-off of € 72 million) and a € 39 million charge for off-balance sheet exposures (2019: € 27 million charge, (net re-measurement € 117 million, recoveries € 90 million) and a € 11 million writeback for off-balance sheet exposures).

Further details on the net credit impairment charge in the year to 31 December 2020 are set out on pages 112 and 273.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk – Credit profile of the loan portfolio

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

The following table analyses loans and advances to customers at amortised cost by segment, internal credit ratings and ECL staging at 31 December 2020 and 2019:

Amortised cost					2020					2019
	Retail Banking	CIB	AIB UK	Group	Total	Retail Banking	CIB	AIB UK	Group	Total
Gross carrying amount	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Residential mortgages	28,949	610	1,090	–	30,649	29,565	632	1,257	–	31,454
Other personal	2,569	62	112	23	2,766	2,747	100	128	9	2,984
Property and construction	712	4,584	1,964	–	7,260	868	4,179	2,252	–	7,299
Non-property business	3,236	9,954	5,398	117	18,705	3,389	11,253	5,558	112	20,312
Total	35,466	15,210	8,564	140	59,380	36,569	16,164	9,195	121	62,049
Analysed by internal credit ratings[1]										
Strong	24,589	7,781	4,233	–	36,603	24,693	11,561	6,186	14	42,454
Satisfactory	5,544	4,898	3,214	140	13,796	6,034	4,220	2,437	107	12,798
Total strong/satisfactory	30,133	12,679	7,447	140	50,399	30,727	15,781	8,623	121	55,252
Criticised watch	1,654	1,429	567	–	3,650	1,856	173	246	–	2,275
Criticised recovery	628	307	47	–	982	938	193	44	–	1,175
Total criticised	2,282	1,736	614	–	4,632	2,794	366	290	–	3,450
Non-performing	3,051	795	503	–	4,349	3,048	17	282	–	3,347
Gross carrying amount	35,466	15,210	8,564	140	59,380	36,569	16,164	9,195	121	62,049
Analysed by ECL staging										
Stage 1	29,500	9,364	6,709	140	45,713	30,698	15,680	8,224	121	54,723
Stage 2	2,924	5,132	1,352	–	9,408	2,836	467	689	–	3,992
Stage 3	2,858	714	503	–	4,075	2,841	17	282	–	3,140
POCI	184	–	–	–	184	194	–	–	–	194
Total	35,466	15,210	8,564	140	59,380	36,569	16,164	9,195	121	62,049
ECL allowance – statement of financial position										
Stage 1	136	90	55	–	281	65	45	31	–	141
Stage 2	209	523	113	–	845	151	23	28	–	202
Stage 3	1,044	144	127	–	1,315	796	1	67	–	864
POCI	69	–	–	–	69	31	–	–	–	31
Total	1,458	757	295	–	2,510	1,043	69	126	–	1,238
ECL allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	0.5	1.0	0.8	–	0.6	0.2	0.3	0.4	–	0.3
Stage 2	7.1	10.2	8.4	–	9.0	5.3	5.0	4.1	–	5.1
Stage 3	36.5	20.2	25.1	–	32.3	28.0	10.1	23.6	–	27.5
POCI	37.5	–	–	–	37.5	16.1	–	–	–	16.1
Income statement	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net re-measurement of ECL allowance	545	740	208	–	1,493	77	21	19	–	117
Recoveries of amounts previously written-off	(67)	–	(5)	–	(72)	(87)	–	(3)	–	(90)
Net credit impairment charge/(writeback)	478	740	203	–	1,421	(10)	21	16	–	27
	%	%	%	%	%	%	%	%	%	%
Net credit impairment charge/ (writeback) on average loans	1.33	4.65	2.31	–	2.34	(0.03)	0.13	0.19	–	0.04

[1]Further analysis of internal credit grade profile by ECL staging is set out on pages 113 and 114.

2.1 Credit risk – Credit profile of the loan portfolio

The following table analyses loans and advances to customers at FVTPL by segment and internal credit ratings at 31 December 2020 and 2019:

FVTPL

	2020					2019				
	Retail Banking	CIB	AIB UK	Group	Total	Retail Banking	CIB	AIB UK	Group	Total
Carrying amount	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Property and construction	–	75	–	–	75	–	77	–	–	77
Total	–	75	–	–	75	–	77	–	–	77
Analysed by internal credit ratings										
Strong	–	75	–	–	75	–	77	–	–	77
Satisfactory	–	–	–	–	–	–	–	–	–	–
Total strong/satisfactory	–	75	–	–	75	–	77	–	–	77
Criticised watch	–	–	–	–	–	–	–	–	–	–
Criticised recovery	–	–	–	–	–	–	–	–	–	–
Total criticised	–	–	–	–	–	–	–	–	–	–
Non-performing	–	–	–	–	–	–	–	–	–	–
Total	–	75	–	–	75	–	77	–	–	77

Gross loans and advances to customers

Gross loans and advances to customers reduced by € 2.7 billion in the year to 31 December 2020. Of the total portfolio of € 59.5 billion, € 59.4 billion is measured at amortised cost with the remaining € 0.1 billion being measured at fair value through profit or loss. The reduction in the year was due to redemptions net of interest credited and foreign exchange movements exceeding new lending activity. Overall, from a segment perspective, the reduction in the total portfolio was experienced by Retail Banking which decreased by € 1.1 billion, CIB which decreased by € 1.0 billion and AIB UK which decreased by € 0.6 billion. The level of new lending activity in 2020 of € 9.2 billion has been impacted by the COVID-19 pandemic. As a result, new lending activity is € 3.1 billion or 25% lower than 2019 (2019: € 12.3 billion), as reduced demand was experienced across all asset classes. The reduction in new lending in Retail Banking and AIB UK reflected lower economic activity, while new lending in CIB was lower across all business areas with syndicated lending most impacted as a result of the Group's reduced risk appetite.

Of the total loans to customers of € 59.5 billion, € 50.5 billion or 85% are rated as either 'strong' or 'satisfactory' which is a decrease of € 4.9 billion (2019: € 55.3 billion or 89%), and was evidenced across all segments. The 'criticised' classification includes 'criticised watch' of € 3.6 billion and 'criticised recovery' of € 1.0 billion, the total of which has increased by € 1.2 billion in the year. The total performing book has decreased by € 3.7 billion to € 55.1 billion or 93% of gross loans and advances to customers (2019: € 58.8 billion or 95%).

The COVID-19 pandemic has also had a significant negative impact on the credit quality of the total portfolio. Stage 2 loans have increased by € 5.4 billion to € 9.4 billion. The increase was driven by net transfers to Stage 2 of € 8.3 billion, predominately from Stage 1, which was slightly offset by redemptions net of interest credited of € 1.9 billion. The transfers to Stage 2 reflect the downward revision of the macroeconomic forecasts and the contraction of the economy as a result of the COVID-19 pandemic and the subsequent impact of cases migrating to Stage 2 following case assessments.

Stage 3 loans increased by € 0.9 billion to € 4.1 billion. The increase was primarily as a result of net transfers to Stage 3 of € 1.5 billion which was offset by redemptions net of interest credited of € 0.5 billion. The transfers to Stage 3 were due to cases migrating from Stage 2 to Stage 3, particularly those identified as directly impacted by COVID-19 in the non-property business and property portfolios.

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 (€ 0.1 billion) or POCI (€ 0.2 billion). Non-performing loans have increased by € 1.0 billion to € 4.3 billion or 7.3% of gross loans and advances to customers (31 December 2019: € 3.3 billion and 5.4%). The increase reflects € 0.8 billion of net underlying flow to non-performing loans, primarily due to higher property and non-property business non-performing loans.

The characteristics of each stage including the Group's approach to identifying significant increase in credit risk are outlined on page 96. This incorporates additional forward looking information including the Group's macroeconomic forecasts in addition to the quantitative and qualitative information utilised in determining the internal credit ratings.

Risk management – 2. Individual risk types

2.1 Credit risk – Credit profile of the loan portfolio

ECL allowance

The ECL allowance on loans and advances to customers increased by € 1.3 billion to € 2.5 billion in the year as Stage 2 and Stage 3 ECL allowance increased from € 0.2 billion to € 0.8 billion and € 0.9 billion to € 1.3 billion respectively. The increase in Stage 2 was primarily as a result of net stage transfers and re-measurements within stage of € 0.4 billion and the downward revision of the macroeconomic forecasts which accounted for a further € 0.2 billion. The increase in Stage 3 was also primarily as a result of net stage transfers and re-measurements within Stage of € 0.4 billion and a further € 0.2 billion reflecting the impact of management judgements specifically relating to the Mortgage portfolio. The total ECL cover rate has increased from 2.0% at 31 December 2019 to 4.2% at 31 December 2020.

Income statement

There was a € 1,460 million net credit impairment charge for the year to 31 December 2020 (2019: € 16 million net credit impairment charge).

This comprised of a € 1,421 million charge on loans and advances to customers and a € 39 million charge for off-balance sheet exposures (2019: credit impairment charge of € 27 million and a writeback of € 11 million respectively).

The € 1,421 million charge comprised a € 1,493 million ECL net re-measurement allowance partially offset by € 72 million of recoveries of amounts previously written-off (2019: € 27 million charge comprising € 117 million charge offset by € 90 million of recoveries).

There were three key drivers which contributed to the € 1,493 million gross charge; stage migration and re-measurement within stage accounted for € 654 million as a result of credit downgrades in high impacted sectors due to COVID-19, post model adjustments to appropriately reflect expected COVID-19 impacts as outlined under the management judgements section resulted in a € 438 million charge and the change in macroeconomic factors and probability weightings across economic scenarios used in ECL reporting resulted in a further € 401 million charge. The ECL allowance movements are outlined on pages 134 to 138.

Stage migration from individual case assessment of exposures in high impacted COVID-19 sectors impacted the ECL charge. Throughout the year, credit reviews were conducted across the case managed portfolio which led to a number of credit downgrades contributing to a charge due to underlying credit management activity of € 654 million. € 161 million was as a result of net transfers from Stage 1 to 2 and € 103 million net transfers to Stage 3. Borrowers in the non-property business asset class were particularly impacted, accounting for € 199 million of the total € 264 million charge due to stage migration. There was a € 406 million charge due to net ECL re-measurements within stage.

As outlined under the management judgements section on pages 105 to 107, the impact of the changes to the ROI PDH mortgage post model adjustments resulted in an additional € 210 million charge. Post model adjustments in relation to COVID-19 modified loans to cater for the higher likelihood of default for those seeking modifications resulted in an impact of € 76 million. The UK post model adjustment also resulted in an additional £ 55 million charge reflecting managements view of likely sector specific default rates as a result of COVID-19. The remaining charge of € 91 million due to post model adjustments primarily relates to the Syndicated lending portfolio and an adjustment which has been applied to the base case macroeconomic scenario projections.

The onset of the COVID-19 pandemic and associated lockdown measures and restrictions on economic activity has resulted in a material change in the macroeconomic scenarios used in comparison to the 2019 assumptions. Details on the changes to the macroeconomic scenarios and weightings are outlined on pages 100 to 103. The revision of the macroeconomic factors and probability weightings has led to significant changes in the ECL across the Group's loan portfolio. This has resulted in a € 401 million charge. The impact was mainly observed in Stage 2 (€ 227 million) and Stage 1 (€ 129 million) with a € 37 million impact in Stage 3. The property (€ 121 million), mortgage (€ 121 million) and non-property (€ 110 million) asset classes were predominately impacted.

Recoveries of amounts previously written-off of € 72 million (2019: € 90 million) included € 56 million recoveries (2019: € 63 million) which reflects cash recoveries against legacy non-performing exposures in line with the Group's resolution strategies.

2.1 Credit risk – Credit profile of the loan portfolio

Internal credit grade profile by ECL staging

The table below analyses the internal credit grading profile by ECL staging for loans and advances to customers at 31 December 2020 and 2019:

Amortised cost

	2020*					2019*				
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Total										
Strong	35,341	1,257	–	5	36,603	42,123	329	–	2	42,454
Satisfactory	9,411	4,384	–	1	13,796	11,346	1,452	–	–	12,798
Total strong/satisfactory	44,752	5,641	–	6	50,399	53,469	1,781	–	2	55,252
Criticised watch	834	2,814	–	2	3,650	1,111	1,163	–	1	2,275
Criticised recovery	27	953	–	2	982	119	1,048	–	8	1,175
Total criticised	861	3,767	–	4	4,632	1,230	2,211	–	9	3,450
Non-performing	100	–	4,075	174	4,349	24	–	3,140	183	3,347
Gross carrying amount	45,713	9,408	4,075	184	59,380	54,723	3,992	3,140	194	62,049
ECL allowance	(281)	(845)	(1,315)	(69)	(2,510)	(141)	(202)	(864)	(31)	(1,238)
Carrying amount	45,432	8,563	2,760	115	56,870	54,582	3,790	2,276	163	60,811
Analysis by asset class										
Residential mortgages										
Strong	23,478	318	–	5	23,801	23,766	162	–	2	23,930
Satisfactory	2,654	574	–	1	3,229	2,795	610	–	–	3,405
Total strong/satisfactory	26,132	892	–	6	27,030	26,561	772	–	2	27,335
Criticised watch	395	602	–	2	999	405	668	–	1	1,074
Criticised recovery	6	456	–	2	464	4	704	–	8	716
Total criticised	401	1,058	–	4	1,463	409	1,372	–	9	1,790
Non-performing	2	–	1,980	174	2,156	3	–	2,143	183	2,329
Gross carrying amount	26,535	1,950	1,980	184	30,649	26,973	2,144	2,143	194	31,454
ECL allowance	(39)	(73)	(662)	(69)	(843)	(10)	(52)	(476)	(31)	(569)
Carrying amount	26,496	1,877	1,318	115	29,806	26,963	2,092	1,667	163	30,885
Other personal										
Strong	1,243	51	–	–	1,294	1,312	29	–	–	1,341
Satisfactory	885	154	–	–	1,039	1,074	106	–	–	1,180
Total strong/satisfactory	2,128	205	–	–	2,333	2,386	135	–	–	2,521
Criticised watch	70	84	–	–	154	117	103	–	–	220
Criticised recovery	2	43	–	–	45	–	50	–	–	50
Total criticised	72	127	–	–	199	117	153	–	–	270
Non-performing	1	–	233	–	234	1	–	192	–	193
Gross carrying amount	2,201	332	233	–	2,766	2,504	288	192	–	2,984
ECL allowance	(41)	(51)	(142)	–	(234)	(21)	(40)	(114)	–	(175)
Carrying amount	2,160	281	91	–	2,532	2,483	248	78	–	2,809
Property and construction										
Strong	2,981	757	–	–	3,738	4,983	78	–	–	5,061
Satisfactory	1,175	924	–	–	2,099	1,313	166	–	–	1,479
Total strong/satisfactory	4,156	1,681	–	–	5,837	6,296	244	–	–	6,540
Criticised watch	71	317	–	–	388	114	115	–	–	229
Criticised recovery	2	78	–	–	80	86	68	–	–	154
Total criticised	73	395	–	–	468	200	183	–	–	383
Non-performing	90	–	865	–	955	9	–	367	–	376
Gross carrying amount	4,319	2,076	865	–	7,260	6,505	427	367	–	7,299
ECL allowance	(75)	(133)	(188)	–	(396)	(31)	(26)	(132)	–	(189)
Carrying amount	4,244	1,943	677	–	6,864	6,474	401	235	–	7,110

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk – Credit profile of the loan portfolio

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

	2020*					2019*				
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Non-property business										
Strong	7,639	131	–	–	7,770	12,062	60	–	–	12,122
Satisfactory	4,697	2,732	–	–	7,429	6,164	570	–	–	6,734
Total strong/satisfactory	12,336	2,863	–	–	15,199	18,226	630	–	–	18,856
Criticised watch	298	1,811	–	–	2,109	475	277	–	–	752
Criticised recovery	17	376	–	–	393	29	226	–	–	255
Total criticised	315	2,187	–	–	2,502	504	503	–	–	1,007
Non-performing	7	–	997	–	1,004	11	–	438	–	449
Gross carrying amount	12,658	5,050	997	–	18,705	18,741	1,133	438	–	20,312
ECL allowance	(126)	(588)	(323)	–	(1,037)	(79)	(84)	(142)	–	(305)
Carrying amount	12,532	4,462	674	–	17,668	18,662	1,049	296	–	20,007

Non-performing exposures ("NPE") to customers

The table below analyses non-performing loans and advances to customers by asset class at 31 December 2020 and 2019:

					2020
Non-performing loans	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
At amortised cost					
Collateral disposals	111	8	43	16	178
Unlikely to pay (including > 90 days past due)	1,813	207	419	789	3,228
Non-performing loans probation	232	19	493	199	943
Total gross carrying amount at amortised cost	2,156	234	955	1,004	4,349
Total carrying amount at FVTPL	–	–	–	–	–
Total non-performing loans and advances to customers	2,156	234	955	1,004	4,349
Total ECL allowance on non-performing loans and advances to customers	730	143	210	324	1,407
Non-performing loans as % of total loans and advances to customers	7.0%	8.5%	13.2%	5.4%	7.3%

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

Non-performing loans have increased by € 1.0 billion or 30% to € 4.3 billion in the year. The increase reflects € 0.8 billion of net underlying flow to non-performing loans, primarily due to higher property and non-property business non-performing loans. A further € 0.3 billion (of which € 0.1 billion exited default in the year) reflects amendments made to the Group's definition of default exit criteria, and the alignment of arrears days past due (DPD) count methodology to the European Banking Authority (EBA) convention.

*Forms an integral part of the audited financial statements

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

Loans and advances to customers – Residential mortgages

Residential mortgages amounted to € 30.6 billion at 31 December 2020, with the majority (96%) relating to residential mortgages in the Republic of Ireland and the remainder relating to the United Kingdom. This compares to € 31.5 billion at 31 December 2019, of which 96% related to residential mortgages in the Republic of Ireland. The split of the residential mortgage portfolio was owner-occupier € 28.5 billion and buy-to-let € 2.1 billion (2019: owner-occupier € 29.0 billion and buy-to-let € 2.5 billion).

The current impact of COVID-19 across the portfolio is dependent on the borrower's sector of employment. Further impact of COVID-19 on employment levels will become clear as government supports are withdrawn and businesses re-open.

At 31 December 2020, the ECL allowance for the Group's residential mortgages portfolio totalled € 0.8 billion, or 2.8% total cover rate.

During 2020, there was a net credit impairment charge of € 306 million to the income statement. This was primarily impacted by a € 245 million charge relating to post model adjustments, of which € 210 million related to the ROI PDH mortgage post model adjustments, which reflects higher charges on legacy non-performing exposures. A further € 121 million charge was a result of the revised macroeconomic assumptions. These charges were partially offset by a € 25 million writeback as a result of net stage transfers and re-measurements within stage. In addition, the Group recovered € 33 million on loans previously written-off.

Residential mortgages – page 116

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

Republic of Ireland residential mortgages – pages 117 to 121

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

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

Risk management – 2. Individual risk types

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

Loans and advances to customers – Residential mortgages *(continued)*

The following table analyses the residential mortgage portfolio at amortised cost by segment, internal credit ratings and ECL staging at 31 December 2020 and 2019:

					2020*					2019*
	Retail Banking	CIB	AIB UK	Group	Total	Retail Banking	CIB	AIB UK	Group	Total
Gross carrying amount	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Owner occupier	27,051	452	1,005	–	28,508	27,368	457	1,157	–	28,982
Buy-to-let	1,898	158	85	–	2,141	2,197	175	100	–	2,472
Total	28,949	610	1,090	–	30,649	29,565	632	1,257	–	31,454
Analysed by internal credit ratings										
Strong	22,648	545	608	–	23,801	22,684	574	672	–	23,930
Satisfactory	2,856	43	330	–	3,229	2,975	38	392	–	3,405
Total strong/satisfactory	25,504	588	938	–	27,030	25,659	612	1,064	–	27,335
Criticised watch	928	7	64	–	999	986	9	79	–	1,074
Criticised recovery	443	10	11	–	464	703	8	5	–	716
Total criticised	1,371	17	75	–	1,463	1,689	17	84	–	1,790
Non-performing	2,074	5	77	–	2,156	2,217	3	109	–	2,329
Gross carrying amount	28,949	610	1,090	–	30,649	29,565	632	1,257	–	31,454
Analysed by ECL staging										
Stage 1	25,043	534	958	–	26,535	25,296	592	1,085	–	26,973
Stage 2	1,824	71	55	–	1,950	2,044	37	63	–	2,144
Stage 3	1,898	5	77	–	1,980	2,031	3	109	–	2,143
POCI	184	–	–	–	184	194	–	–	–	194
Total	28,949	610	1,090	–	30,649	29,565	632	1,257	–	31,454
ECL allowance – statement of financial position										
Stage 1	34	1	4	–	39	9	–	1	–	10
Stage 2	66	5	2	–	73	50	1	1	–	52
Stage 3	641	–	21	–	662	461	–	15	–	476
POCI	69	–	–	–	69	31	–	–	–	31
Total	810	6	27	–	843	551	1	17	–	569
ECL allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	0.1	0.1	0.4	–	0.1	–	–	0.1	–	–
Stage 2	3.6	6.8	4.9	–	3.7	2.4	3.6	2.4	–	2.4
Stage 3	33.8	–	26.6	–	33.4	22.7	2.5	13.5	–	22.2
POCI	37.5	–	–	–	37.5	16.1	–	–	–	16.1
Income statement	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net re-measurement of ECL allowance	322	4	13	–	339	129	(1)	1	–	129
Recoveries of amounts previously written-off	(31)	–	(2)	–	(33)	(36)	–	–	–	(36)
Net credit impairment charge/(writeback)	291	4	11	–	306	93	(1)	1	–	93
	%	%	%	%	%	%	%	%	%	%
Net credit impairment charge/(writeback) on average loans	1.00	0.64	0.95	–	0.99	0.31	(0.12)	0.07	–	0.29

*Forms an integral part of the audited financial statements

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

Loans and advances to customers – Republic of Ireland residential mortgages

The following table analyses the Republic of Ireland residential mortgage portfolio at amortised cost by ECL staging at 31 December 2020 and 2019:

	2020*			2019*		
	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Gross carrying amount	**27,503**	**2,056**	**29,559**	27,825	2,372	30,197
Analysed as to ECL staging						
Stage 1	**24,082**	**1,495**	**25,577**	24,132	1,756	25,888
Stage 2	**1,611**	**284**	**1,895**	1,748	333	2,081
Stage 3	**1,631**	**272**	**1,903**	1,757	277	2,034
POCI	**179**	**5**	**184**	188	6	194
Total	**27,503**	**2,056**	**29,559**	27,825	2,372	30,197
ECL allowance – statement of financial position						
Stage 1	**29**	**6**	**35**	8	1	9
Stage 2	**51**	**20**	**71**	34	17	51
Stage 3	**553**	**88**	**641**	397	64	461
POCI	**66**	**3**	**69**	28	3	31
Total	**699**	**117**	**816**	467	85	552
Republic of Ireland residential mortgages at amortised cost	**26,804**	**1,939**	**28,743**	27,358	2,287	29,645
ECL allowance cover percentage	**%**	**%**	**%**	%	%	%
Stage 1	**0.1**	**0.4**	**0.1**	–	0.1	–
Stage 2	**3.1**	**7.1**	**3.7**	2.0	5.0	2.5
Stage 3	**33.9**	**32.5**	**33.7**	22.6	23.1	22.7
POCI	**37.0**	**56.0**	**37.5**	14.9	55.0	16.1
Income statement	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Net re-measurement of ECL allowance	**284**	**42**	**326**	137	(9)	128
Recoveries of amounts previously written-off	**(26)**	**(5)**	**(31)**	(26)	(10)	(36)
Net credit impairment charge/(writeback)	**258**	**37**	**295**	111	(19)	92
	%	**%**	**%**	%	%	%
Net credit impairment charge/(writeback) on average loans	**0.93**	**1.67**	**0.99**	0.40	(0.69)	0.30

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

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

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

Residential mortgages in Ireland amounted to € 29.6 billion at 31 December 2020 compared to € 30.2 billion at 31 December 2019. The decrease in the portfolio was primarily due to loan repayments exceeding new lending. Total drawdowns during the year were € 2.4 billion (2019: € 3.0 billion), of which 98% were by owner occupiers, whilst the weighted average indexed loan-to-value for new residential mortgages was 69%. New lending in the period decreased by 21% impacted by COVID-19 restrictions, the prevailing uncertainty and precautionary consumer behaviour.

The split of the Irish residential mortgage portfolio is 93% owner-occupier and 7% buy-to-let and comprises 25% tracker rate, 45% variable rate and 30% fixed rate mortgages.

Non-performing loans decreased from € 2.2 billion at 31 December 2019 to € 2.1 billion at 31 December 2020. However, € 3.1 billion of the mortgage portfolio received COVID-19 support payment moratoria. A post model adjustment allows for the Group's additional risk within these cases receiving payment break moratoria and the remaining portfolio continues to perform strongly.

Income statement

There was a net credit impairment charge of € 295 million to the income statement in the year compared to a net credit impairment charge of € 92 million in 2019. € 210 million of the total € 295 million charge specifically related to the ROI PDH mortgage post model adjustments for the cohorts identified in long term days past due (€ 119 million) and zero or low days past due (€ 91 million). The remaining charge was predominately driven by the revised macroeconomic assumptions.

The ECL allowance provision cover level at 31 December 2020 for the Irish residential mortgage portfolio is 2.8% (2019: 1.8%). For the Stage 3 element of the Irish residential mortgage portfolio, € 0.6 billion of ECLs are held providing Stage 3 cover of 34% (2019: € 0.5 billion and 23% respectively).

Residential mortgage arrears

Total loans in arrears (including non-performing loans) by value decreased by 32% during the year, a decrease of 34% in the owner-occupier portfolio and a decrease of 13% in the buy-to-let portfolio. The total reduction in residential mortgage arrears was influenced by the availability of payment break options introduced specifically to support customers in response to COVID-19. The decrease in arrears was also impacted by the alignment of the arrears DPD count methodology to the EBA convention.

The number of loans in arrears (based on number of accounts) greater than 90 days was 4.4% at 31 December 2020 and remains below the industry average of 6.4%[(1)]. For the owner-occupier portfolio, the number of loans in arrears greater than 90 days at 4.1% were below the industry average of 5.4%[(1)]. For the buy-to-let portfolio, loans in arrears greater than 90 days at 6.7% were below the industry average of 13.6%[(1)].

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

Forbearance

Irish residential mortgages subject to forbearance measures decreased by € 0.4 billion from € 2.5 billion at 31 December 2019 to € 2.1 billion at 31 December 2020. Payment break options introduced specifically to support customers in response to COVID-19 and which met the definition of general payment moratoria as outlined in the relevant EBA Guidelines are not reported as forbearance measures.

Details of forbearance measures are set out on pages 144 to 146.

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

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

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

The following table profiles the Republic of Ireland residential mortgage portfolio by the indexed loan-to-value ratios and the weighted average loan-to-value ratios at 31 December 2020 and 2019:

	2020*					2019*				
	At amortised cost					At amortised cost				
	Stage 1	Stage 2	Stage 3	POCI	Overall total	Stage 1	Stage 2	Stage 3	POCI	Overall total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Less than 80%	21,567	1,559	1,461	124	24,711	21,997	1,660	1,533	125	25,315
81-100%	3,853	275	251	42	4,421	3,678	331	276	46	4,331
100-120%	103	39	99	7	248	149	63	125	9	346
Greater than 120%	50	21	78	2	151	60	25	90	1	176
Total with LTVs	25,573	1,894	1,889	175	29,531	25,884	2,079	2,024	181	30,168
Unsecured	4	1	14	9	28	4	2	10	13	29
Total	25,577	1,895	1,903	184	29,559	25,888	2,081	2,034	194	30,197
Of which:										
Owner occupier										
Less than 80%	20,183	1,325	1,282	123	22,913	20,409	1,409	1,340	124	23,282
81-100%	3,773	247	195	42	4,257	3,553	282	232	45	4,112
100-120%	89	28	86	7	210	128	45	109	9	291
Greater than 120%	35	11	61	1	108	40	12	73	1	126
Total with LTVs	24,080	1,611	1,624	173	27,488	24,130	1,748	1,754	179	27,811
Unsecured	2	–	7	6	15	2	–	3	9	14
Total	24,082	1,611	1,631	179	27,503	24,132	1,748	1,757	188	27,825

The weighted average indexed loan-to-value of the stock of residential mortgages at 31 December 2020 was 57% (2019: 57%), new residential mortgages issued during the year was 69% (2019: 68%) and Stage 3 residential mortgages was 61% (2019: 63%).

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

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

Republic of Ireland residential mortgages – aged analysis

The following table provides an age profile of the Republic of Ireland residential mortgage portfolio by ECL staging at 31 December 2020 and 2019:

	2020					2019				
	At amortised cost					At amortised cost				
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Not past due	25,575	1,852	779	155	28,361	25,808	1,797	683	148	28,436
1 - 30 days	2	21	22	1	46	80	215	100	14	409
31 - 60 days	–	19	27	2	48	–	52	73	4	129
61 - 90 days	–	3	8	–	11	–	17	59	4	80
91 - 180 days	–	–	39	1	40	–	–	130	4	134
181 - 365 days	–	–	114	4	118	–	–	126	4	130
Over 365 days	–	–	914	21	935	–	–	863	16	879
Total gross carrying amount of residential mortgages	25,577	1,895	1,903	184	29,559	25,888	2,081	2,034	194	30,197
ECL allowance	(35)	(71)	(641)	(69)	(816)	(9)	(51)	(461)	(31)	(552)
Carrying value	25,542	1,824	1,262	115	28,743	25,879	2,030	1,573	163	29,645
Of which:										
Owner-occupier										
Not past due	24,080	1,574	674	151	26,479	24,057	1,490	575	143	26,265
1 - 30 days	2	17	16	1	36	75	195	91	14	375
31 - 60 days	–	17	26	2	45	–	47	66	4	117
61 - 90 days	–	3	6	–	9	–	16	56	4	76
91 - 180 days	–	–	35	1	36	–	–	119	4	123
181 - 365 days	–	–	83	4	87	–	–	114	4	118
Over 365 days	–	–	791	20	811	–	–	736	15	751
Total	24,082	1,611	1,631	179	27,503	24,132	1,748	1,757	188	27,825

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

Republic of Ireland residential mortgages – properties in possession[1]

The Group seeks to avoid repossession through working with customers. However, in situations where an agreement cannot be reached, the Group proceeds with the repossession of the property or the appointment of a receiver. The Group uses external agents to realise the maximum value as soon as is practicable. Where the Group believes that the proceeds of sale of a property will comprise only part of the recoverable amount of the loan against which it was being held as security, the customer remains liable for the outstanding balance and the remaining loan continues to be recognised on the statement of financial position.

The number (stock) of properties in possession at 31 December 2020 and 2019 is set out below:

	2020		2019	
	Stock	Balance outstanding € m	Stock	Balance outstanding € m
Owner-occupier	432	100	492	112
Buy-to-let	16	3	23	5
Total	448	103	515	117

[1]The number of residential properties in possession relates to those held as security for residential mortgages only.

The stock of residential properties in possession decreased by 67 properties in 2020 (2019: 78 properties). This decrease relates to the disposal of 93 properties (2019: 231 properties) which were offset by the addition of 39 properties, the majority of which were voluntary surrenders or abandonments (2019: 180 properties). In addition, a further 13 properties were removed from the stock in 2020 (2019: 27 properties), mainly due to inclusions in 2019 loan sales and disposals put on hold by the Group.

The disposal of 93 residential properties in the Republic of Ireland resulted in a total loss on disposal of € 7 million at 31 December 2020 (before ECL allowance) and compares to 31 December 2019 when 231 residential properties were disposed of resulting in a total loss of € 28 million. COVID-19 impacted the closing of sales in 2020. Losses on the sale of such properties are recognised in the income statement as part of the net credit impairment losses.

Republic of Ireland residential mortgages – repossessions disposed of

The following table analyses the disposals of repossessed properties for the years ended 31 December 2020 and 2019:

					2020
	Number of disposals	Outstanding balance at repossession date € m	Gross sales proceeds on disposal € m	Costs to sell € m	Loss[1] on sale € m
Owner-occupier	90	21	16	2	7
Buy-to-let	3	1	1	–	–
Total	93	22	17	2	7

					2019
	Number of disposals	Outstanding balance at repossession date € m	Gross sales proceeds on disposal € m	Costs to sell € m	Loss[1] on sale € m
Owner-occupier	228	54	27	1	28
Buy-to-let	3	1	1	–	–
Total	231	55	28	1	28

[1]Before ECL allowance.

Risk management – 2. Individual risk types

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

Loans and advances to customers – Other personal

The following table analyses other personal lending at amortised cost by segment, internal credit ratings and ECL staging at 31 December 2020 and 2019:

					2020*					2019*
	Retail Banking	CIB	AIB UK	Group	Total	Retail Banking	CIB	AIB UK	Group	Total
Gross carrying amount	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Credit cards	558	6	22	–	586	676	7	31	–	714
Loans/overdrafts	2,011	56	90	23	2,180	2,071	93	97	9	2,270
Total	2,569	62	112	23	2,766	2,747	100	128	9	2,984
Analysed by internal credit ratings										
Strong	1,179	35	80	–	1,294	1,205	42	94	–	1,341
Satisfactory	973	19	24	23	1,039	1,099	50	22	9	1,180
Total strong/satisfactory	2,152	54	104	23	2,333	2,304	92	116	9	2,521
Criticised watch	149	2	3	–	154	210	5	5	–	220
Criticised recovery	40	4	1	–	45	46	3	1	–	50
Total criticised	189	6	4	–	199	256	8	6	–	270
Non-performing	228	2	4	–	234	187	–	6	–	193
Gross carrying amount	2,569	62	112	23	2,766	2,747	100	128	9	2,984
Analysed by ECL staging										
Stage 1	2,032	47	99	23	2,201	2,297	90	108	9	2,504
Stage 2	310	13	9	–	332	264	10	14	–	288
Stage 3	227	2	4	–	233	186	–	6	–	192
POCI	–	–	–	–	–	–	–	–	–	–
Total	2,569	62	112	23	2,766	2,747	100	128	9	2,984
ECL allowance – statement of financial position										
Stage 1	40	–	1	–	41	21	–	–	–	21
Stage 2	50	1	–	–	51	39	1	–	–	40
Stage 3	139	1	2	–	142	111	–	3	–	114
POCI	–	–	–	–	–	–	–	–	–	–
Total	229	2	3	–	234	171	1	3	–	175
ECL allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	1.9	–	1.0	–	1.8	0.9	0.3	0.3	–	0.9
Stage 2	16.0	10.5	–	–	15.4	14.7	7.1	3.2	–	13.9
Stage 3	61.2	53.1	44.7	–	60.9	59.9	–	57.0	–	59.8
POCI	–	–	–	–	–	–	–	–	–	–
Income statement	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net re-measurement of ECL allowance	91	1	–	–	92	33	(1)	–	–	32
Recoveries of amounts previously written-off	(12)	–	–	–	(12)	(22)	–	–	–	(22)
Net credit impairment charge/(writeback)	79	1	–	–	80	11	(1)	–	–	10
	%	%	%	%	%	%	%	%	%	%
Net credit impairment charge(writeback)/ on average loans	3.05	1.42	–	–	2.87	0.37	(0.96)	0.30	–	0.32

*Forms an integral part of the audited financial statements

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

Loans and advances to customers – Other personal *(continued)*

At 31 December 2020, the other personal lending portfolio of € 2.8 billion comprises of € 2.2 billion in loans and overdrafts and € 0.6 billion in credit card facilities (2019: total € 3.0 billion and € 2.3 billion and € 0.7 billion respectively). Despite the impact of COVID-19, the credit quality of the portfolio has remained stable throughout the year, with 16% categorised as less than satisfactory, of which defaulted loans amounted to € 0.2 billion (2019: 16% and € 0.2 billion).

The demand for personal loans, which accounts for the largest portion of the portfolio, reduced significantly in the second quarter of the year due to COVID-19 resulting in a decrease in new lending of € 0.2 billion or 10% to € 0.9 billion in 2020 versus the level of lending experienced in 2019 (€ 1.1 billion). The current impact of COVID-19 across the portfolio is dependent on the borrower's sector of employment. Further impact of COVID-19 on employment levels will become clear as government supports are withdrawn and businesses re-open. New term lending volumes in the final quarter of 2020 indicated a return to pre-COVID-19 application activity.

Stage 3 loans, predominately in Retail Banking increased by € 41 million in 2020, primarily due to COVID-19. At 31 December 2020, the ECL allowance cover was 8% with Stage 3 cover at 61% (31 December 2019: 6% and 60% respectively).

The net credit impairment charge in the income statement amounted to € 80 million for the year to 31 December 2020 compared to € 10 million charge for the year to 31 December 2019. The charge was mainly impacted by the revised macroeconomic assumptions which accounted for € 49 million and net stage transfers and re-measurements within stage which resulted in a further € 23 million charge.

Risk management – 2. Individual risk types

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

Loans and advances to customers – Property and construction

The following table analyses property and construction lending at amortised cost by segment, internal credit ratings and ECL staging at 31 December 2020 and 2019:

					2020*					2019*
Gross carrying amount	**Retail Banking € m**	**CIB € m**	**AIB UK € m**	**Group € m**	**Total € m**	Retail Banking € m	CIB € m	AIB UK € m	Group € m	Total € m
Investment:										
Commercial investment	**353**	**3,109**	**723**	**–**	**4,185**	488	2,956	750	–	4,194
Residential investment	**127**	**633**	**673**	**–**	**1,433**	129	498	747	–	1,374
	480	**3,742**	**1,396**	**–**	**5,618**	617	3,454	1,497	–	5,568
Land and development:										
Commercial development	**93**	**275**	**37**	**–**	**405**	99	213	28	–	340
Residential development	**51**	**447**	**120**	**–**	**618**	61	431	160	–	652
	144	**722**	**157**	**–**	**1,023**	160	644	188	–	992
Contractors	**88**	**42**	**119**	**–**	**249**	91	81	124	–	296
Housing associations	**–**	**78**	**292**	**–**	**370**	–	–	443	–	443
Total	**712**	**4,584**	**1,964**	**–**	**7,260**	868	4,179	2,252	–	7,299
Analysed by internal credit ratings										
Strong	**120**	**2,617**	**1,001**	**–**	**3,738**	158	3,510	1,393	–	5,061
Satisfactory	**185**	**1,125**	**789**	**–**	**2,099**	212	548	719	–	1,479
Total strong/satisfactory	**305**	**3,742**	**1,790**	**–**	**5,837**	370	4,058	2,112	–	6,540
Criticised watch	**109**	**240**	**39**	**–**	**388**	150	21	58	–	229
Criticised recovery	**29**	**42**	**9**	**–**	**80**	46	94	14	–	154
Total criticised	**138**	**282**	**48**	**–**	**468**	196	115	72	–	383
Non-performing	**269**	**560**	**126**	**–**	**955**	302	6	68	–	376
Gross carrying amount	**712**	**4,584**	**1,964**	**–**	**7,260**	868	4,179	2,252	–	7,299
Analysed by ECL staging										
Stage 1	**315**	**2,350**	**1,654**	**–**	**4,319**	424	4,077	2,004	–	6,505
Stage 2	**137**	**1,755**	**184**	**–**	**2,076**	151	96	180	–	427
Stage 3	**260**	**479**	**126**	**–**	**865**	293	6	68	–	367
POCI	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Total	**712**	**4,584**	**1,964**	**–**	**7,260**	868	4,179	2,252	–	7,299
ECL allowance – statement of financial position										
Stage 1	**13**	**51**	**11**	**–**	**75**	4	20	7	–	31
Stage 2	**15**	**108**	**10**	**–**	**133**	15	4	7	–	26
Stage 3	**99**	**54**	**35**	**–**	**188**	105	–	27	–	132
POCI	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Total	**127**	**213**	**56**	**–**	**396**	124	24	41	–	189
ECL allowance cover percentage	**%**	**%**	**%**	**%**	**%**	%	%	%	%	%
Stage 1	**3.9**	**2.2**	**0.7**	**–**	**1.7**	1.1	0.5	0.4	–	0.5
Stage 2	**11.2**	**6.2**	**5.2**	**–**	**6.4**	9.8	4.2	3.5	–	5.9
Stage 3	**38.1**	**11.2**	**27.9**	**–**	**21.7**	35.6	5.0	39.6	–	35.9
POCI	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Income statement	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m	€ m
Net re-measurement of ECL allowance	**19**	**195**	**31**	**–**	**245**	(34)	7	–	–	(27)
Recoveries of amounts previously written-off	**(13)**	**–**	**(1)**	**–**	**(14)**	(19)	–	–	–	(19)
Net credit impairment charge/(writeback)	**6**	**195**	**30**	**–**	**231**	(53)	7	–	–	(46)
	%	**%**	**%**	**%**	**%**	%	%	%	%	%
Net credit impairment charge/(writeback) on average loans	**0.78**	**4.48**	**1.43**	**–**	**3.20**	(4.00)	0.17	0.01	–	(0.62)

*Forms an integral part of the audited financial statements

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

Loans and advances to customers – Property and construction *(continued)*

The property and construction portfolio consists of € 7.3 billion in loans and advances to customers measured at amortised cost together with € 0.1 billion of loans measured at FVTPL (total € 7.4 billion).

The portfolio measured at amortised cost amounted to 12% of total loans and advances to customers. The portfolio comprised of 77% investment loans (€ 5.6 billion), 14% land and development loans (€ 1.0 billion) and 9% other property and construction loans (€ 0.6 billion). The CIB and AIB UK segments continue to account for the majority of this portfolio at 63% and 27% respectively.

The total portfolio remained unchanged in the year as new lending of € 1.4 billion was mainly offset by redemptions of € 1.3 billion. The reduction in new lending was predominately in the CIB segment which reduced by € 0.5 billion in the year. At 31 December 2020, € 5.8 billion of the portfolio was in a strong/satisfactory grade, which is a decrease of € 0.7 billion in the year. The level of non-performing loans have increased by € 0.6 billion in the year as a result of downward grade migration mainly due to the impact of COVID-19.

Property and construction loans measured at FVTPL reduced by € 2 million to € 75 million in the year.

There was a net credit impairment charge of € 231 million to the income statement in the year to 31 December 2020. This comprises a net re-measurement charge of € 245 million offset by recoveries of previously written-off loans of € 14 million. The net re-measurement charge of € 245 million was impacted by the revised macroeconomic assumptions which accounted for € 121 million and net stage transfers and re-measurements within stage of € 100 million.

The ECL allowance for the portfolio totalled € 0.4 billion providing ECL allowance cover of 5%, reflecting the € 1.6 billion increase in Stage 2 loans. For the Stage 3 portfolio, the ECL allowance cover is 22% (2019: € 0.2 billion, 3% and 36% respectively). Commercial Investment in the retail sector, including shopping centres in particular, have been adversely impacted by COVID-19, with 82% of the Group's € 1.5 billion exposure to this sector now designated Stage 2 or Stage 3, with an associated ECL of € 0.1 billion.

Investment

Investment property loans amounted to € 5.6 billion at 31 December 2020 (2019: € 5.6 billion) of which € 4.2 billion related to commercial investment. The geographic profile of the investment property portfolio is predominately in the Republic of Ireland (€ 3.8 billion) and the United Kingdom (€ 1.4 billion).

At 31 December 2020, there was a net credit impairment charge of € 168 million to the income statement on the investment property element of the property and construction portfolio (2019: € 47 million writeback).

Land and development

At 31 December 2020, land and development loans amounted to € 1.0 billion (2019: € 1.0 billion) of which € 0.1 billion related to loans in the Retail Banking segment, € 0.7 billion in the CIB segment and € 0.2 billion in the AIB UK segment. Construction activity stalled on both residential and commercial sites during the first COVID-19 lockdown in the first half of 2020. However, in the second half of 2020, all development sites to which the Group provides development finance reopened and activity recommenced.

The income statement net credit impairment charge for the year was € 41 million (2019: € 17 million writeback).

Contractors

At 31 December 2020, loans to contractors decreased in the year to € 0.2 billion (2019: € 0.3 billion). However, there was a net credit impairment charge of € 22 million in the year (2019: € 18 million charge).

Risk management – 2. Individual risk types

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

Loans and advances to customers – Non-property business

The following table analyses non-property business lending at amortised cost by segment, internal credit ratings and ECL staging at 31 December 2020 and 2019:

					2020*					2019*
Gross carrying amount	**Retail Banking € m**	**CIB € m**	**AIB UK € m**	**Group € m**	**Total € m**	Retail Banking € m	CIB € m	AIB UK € m	Group € m	Total € m
Agriculture	1,202	365	104	–	1,671	1,203	435	103	–	1,741
Energy	17	749	1,049	–	1,815	19	604	868	–	1,491
Manufacturing	200	2,023	324	–	2,547	211	2,572	360	–	3,143
Distribution:										
Hotels	153	1,148	891	–	2,192	157	1,231	824	–	2,212
Licensed premises	185	213	103	–	501	203	215	114	–	532
Retail/wholesale	496	1,031	340	–	1,867	552	1,130	342	–	2,024
Other distribution	86	193	147	–	426	83	230	176	–	489
	920	2,585	1,481	–	4,986	995	2,806	1,456	–	5,257
Transport	224	1,184	421	–	1,829	213	1,287	435	–	1,935
Financial	16	360	137	117	630	21	389	248	106	764
Other services	657	2,688	1,882	–	5,227	727	3,160	2,088	6	5,981
Total	3,236	9,954	5,398	117	18,705	3,389	11,253	5,558	112	20,312
Analysed by internal credit ratings										
Strong	642	4,584	2,544	–	7,770	646	7,435	4,027	14	12,122
Satisfactory	1,530	3,711	2,071	117	7,429	1,748	3,584	1,304	98	6,734
Total strong/satisfactory	2,172	8,295	4,615	117	15,199	2,394	11,019	5,331	112	18,856
Criticised watch	468	1,180	461	–	2,109	510	138	104	–	752
Criticised recovery	116	251	26	–	393	143	88	24	–	255
Total criticised	584	1,431	487	–	2,502	653	226	128	–	1,007
Non-performing	480	228	296	–	1,004	342	8	99	–	449
Gross carrying amount	3,236	9,954	5,398	117	18,705	3,389	11,253	5,558	112	20,312
Analysed by ECL staging										
Stage 1	2,110	6,433	3,998	117	12,658	2,681	10,921	5,027	112	18,741
Stage 2	653	3,293	1,104	–	5,050	377	324	432	–	1,133
Stage 3	473	228	296	–	997	331	8	99	–	438
POCI	–	–	–	–	–	–	–	–	–	–
Total	3,236	9,954	5,398	117	18,705	3,389	11,253	5,558	112	20,312
ECL allowance – statement of financial position										
Stage 1	49	38	39	–	126	31	25	23	–	79
Stage 2	78	409	101	–	588	47	17	20	–	84
Stage 3	165	89	69	–	323	119	1	22	–	142
POCI	–	–	–	–	–	–	–	–	–	–
Total	292	536	209	–	1,037	197	43	65	–	305
ECL allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	2.3	0.6	1.0	–	1.0	1.2	0.2	0.5	–	0.4
Stage 2	12.0	12.4	9.1	–	11.6	12.5	5.3	4.6	–	7.5
Stage 3	34.8	39.1	23.3	–	32.4	36.0	14.4	21.9	–	32.4
POCI	–	–	–	–	–	–	–	–	–	–
Income statement	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net re-measurement of ECL allowance	113	540	164	–	817	(51)	16	18	–	(17)
Recoveries of amounts previously written-off	(11)	–	(2)	–	(13)	(10)	–	(3)	–	(13)
Net credit impairment charge/(writeback)	102	540	162	–	804	(61)	16	15	–	(30)
	%	%	%	%	%	%	%	%	%	%
Net credit impairment charge/(writeback) on average loans	3.12	4.97	3.00	–	4.10	(1.61)	0.15	0.29	–	(0.14)

*Forms an integral part of the audited financial statements

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

Loans and advances to customers – Non-property business *(continued)*

The non-property business portfolio includes small and medium enterprises ("SMEs") which are reliant on the domestic economies in which they operate. In addition to SMEs, the portfolio also includes exposures to larger corporate and institutional borrowers which are impacted by global economic conditions. The majority of the portfolio exposure is to Irish borrowers with the UK and USA being the other main geographic concentrations. The portfolio decreased by 8% (€ 1.6 billion) to € 18.7 billion in the year to 31 December 2020. The reduction was primarily due to redemptions exceeding new drawdowns due to reduced demand for credit across all segments resulting in new lending of € 4.5 billion (2019: € 6.2 billion). The non-property business portfolio amounted to 32% of total Group loans and advances to customers at 31 December 2020 (2019: 33%).

COVID-19 has had a material negative impact on the asset quality of the non-property business portfolio. Timing of recovery is dependent on sector specific dynamics. Loans graded as strong/satisfactory decreased in the year from 93% to 81%, as repayments exceeded new drawdowns coupled with downward grade migration mainly due to the impact of COVID-19. The downward grade migration has resulted in an increase in the level of less than satisfactory grades (including defaulted loans) from € 1.5 billion at 31 December 2019 to € 3.5 billion at 31 December 2020.

Additional disclosures on the non-property business portfolio are outlined on the following page.

The following are the key themes within the main sub-sectors of the non-property business portfolio:

- The agriculture sub-sector represents 9% of the portfolio at € 1.7 billion. The sector proved resilient through COVID-19. Average farm incomes rose and increased margins were reported across the majority of farm sectors (excluding tillage sector, which was impacted by weather). Year-on-year exports declined modestly, but increases were noted for the dairy, sheep and pigs sub-sectors. To date, there has been no notable increase in request for cash flow/working capital support as a consequence of market factors;
- The energy sector comprises 10% of the portfolio at € 1.8 billion. This sector has seen a growth of € 0.3 billion in the year to 31 December 2020 reflecting strong growth in renewable energy lending;
- The hotels sub-sector comprises 12% of the portfolio at € 2.2 billion. This sector has been severely impacted by the Government measures to contain COVID-19. In Ireland and the UK, hotels were either closed or operating at significantly reduced occupancy from mid-March for a significant proportion of the year. As such, key operating metrics were weaker for 2020 and are projected to remain weak in 2021. The outlook remains uncertain at this juncture and is intrinsically linked to the successful execution of the vaccine programme. Occupancy may be slow to recover to pre-COVID-19 levels, particularly for those most reliant on international tourism;
- The licensed premises sub-sector comprises 3% of the portfolio at € 0.5 billion. Similar to hotels, this sector has been severely negatively impacted by the Government measures to contain the COVID-19 pandemic. Licensed premises were either closed or operating at significantly reduced capacity in Ireland from mid-March with some establishments unable to open during the year due to their lack of a food offering. Similar to hotels, the outlook remains uncertain and is contingent on the successful execution of the vaccine programme in order for social restrictions to be eased and licenced premises to resume trade;
- The retail/wholesale sub-sector comprises 10% of the portfolio at € 1.9 billion. Many non-grocery retailers have also been severely negatively impacted by COVID-19. There has been an increase in online purchasing during this period which has accelerated this competitive challenge to 'Brick and Mortar Retail'. With unemployment levels elevated, consumer confidence may be slow to recover. Grocery retail/wholesale continued to operate with some businesses experiencing increases in revenue and profitability despite some increases in costs;
- The other services sub-sector comprises 28% of the portfolio at € 5.2 billion, which includes businesses such as solicitors, accounting, audit, tax, computer services, research and development, consultancy, hospitals, nursing homes and plant and machinery. Performance across this sub-sector has been mixed depending on the COVID-19 impact to specific sub-sectors in 2020; and
- The remaining sectors in the portfolio include; manufacturing (€ 2.5 billion), transport (€ 1.8 billion) and financial (€ 0.6 billion). Performance across these sectors has been mixed depending on COVID-19 impact to specific sectors in 2020.

There was a net credit impairment charge of € 804 million to the income statement for the year to 31 December 2020. This comprises a net re-measurement charge of € 817 million offset by recoveries of previously written-off loans of € 13 million. The net re-measurement charge of € 817 million was impacted by net stage transfers and re-measurements within stage which accounted for € 572 million. Post model adjustments resulted in a further € 174 million charge primarily relating to the UK (€ 52 million), the syndicated lending portfolio (€ 59 million) and the COVID-19 modifications (€ 46 million). In addition, the revised macroeconomic assumptions accounted for € 110 million.

The ECL allowance for the portfolio totalled € 1.0 billion providing ECL allowance cover of 6%. For the Stage 3 portfolio, the ECL allowance cover is 32% (2019: € 0.3 billion, 2% and 32% respectively).

Risk management – 2. Individual risk types

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

Loans and advances to customers – Non-property business *(continued)*

Additional disclosures

The following table provides further analyses by industry sector of the non-property business portfolio, by gross carrying amount and ECL allowance on 31 December 2020 and 2019. Given the international profile of the Syndicated International Finance (SIF) business, all exposures within this business unit are reported separately.

								2020
	Analysed by ECL stage profile			Gross carrying amount	Analysed by ECL stage profile			ECL allowance
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	1,183	365	94	1,642	13	20	32	65
Energy	1,700	47	15	1,762	10	3	2	15
Manufacturing	1,050	431	71	1,552	6	29	25	60
Distribution:								
Hotels	321	1,573	223	2,117	9	237	40	286
Licensed premises	113	242	146	501	6	39	53	98
Retail/Wholesale	1,017	442	143	1,602	20	51	46	117
Other distribution	200	69	19	288	2	9	12	23
	1,651	2,326	531	4,508	37	336	151	524
Transport	878	379	69	1,326	5	18	35	58
Financial	373	29	9	411	2	2	4	8
Other services	2,948	767	193	3,908	30	63	70	163
Total	9,783	4,344	982	15,109	103	471	319	893
SIF	2,875	706	15	3,596	23	117	4	144
Total	12,658	5,050	997	18,705	126	588	323	1,037

								2019
	Analysed by ECL stage profile			Gross carrying amount	Analysed by ECL stage profile			ECL allowance
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	1,452	177	78	1,707	7	10	23	40
Energy	1,436	15	4	1,455	4	1	2	7
Manufacturing	1,568	131	57	1,756	5	8	24	37
Distribution:								
Hotels	1,865	203	21	2,089	8	10	7	25
Licensed premises	448	56	28	532	7	12	8	27
Retail/Wholesale	1,351	183	114	1,648	12	19	28	59
Other distribution	275	37	10	322	2	1	6	9
	3,939	479	173	4,591	29	42	49	120
Transport	1,174	35	30	1,239	3	3	6	12
Financial	552	9	3	564	2	1	2	5
Other services	3,940	236	93	4,269	14	14	36	64
Total	14,061	1,082	438	15,581	64	79	142	285
SIF	4,680	51	–	4,731	15	5	–	20
Total	18,741	1,133	438	20,312	79	84	142	305

The Syndicated International Finance ("SIF") business unit, which is a specialised lending unit within CIB, is involved in participating in the provision of finance to US and European corporations for mergers, acquisitions, buy-outs and general corporate purposes. The SIF non-property lending loan portfolio totalled € 3.6 billion at 31 December 2020 (31 December 2019: € 4.8 billion of which € 0.1 billion property and construction). The SIF non-property portfolio has reduced by € 1.1 billion in the year through a combination of individual asset sales for credit management purposes and net loan repayments.

At 31 December 2020, 96% of the SIF lending portfolio is in a strong/satisfactory grade (31 December 2019: 99%). 89% of the SIF portfolio is rated by S&P, with 67% rated B+ or above, 19% rated B and 3% rated B- or below. The majority of the loans (57%) are to large borrowers with EBITDA > € 250 million. Exposures are well diversified by name and sector with the top 20 borrowers accounting for 26% of total exposure. 63% of the borrowers in this portfolio are domiciled in the USA, 3% in the UK, and 34% in the Rest of the World (31 December 2019: 65% in the USA, 4% in the UK and 31% in the Rest of the World (primarily Europe) respectively).

At 31 December 2020, there was a net credit impairment charge of € 195 million on the SIF portfolio. The charge was driven by downward grade migration in addition to the SIF post model adjustment as outlined on page 106 which resulted in a € 59 million charge in the year.

2.1 Credit risk – Credit profile of the loan portfolio

The following tables set out the concentration of credit by industry sector and geography for loans and advances to customers and loan commitments and financial guarantee contracts issued together with the related ECL allowance analysed by the ECL stage profile at 31 December 2020 and 2019:

Gross exposures to customers

									2020
	At amortised cost								At FVTPL
	Gross carrying amount			Analysed by ECL stage profile					
Concentration by industry sector	Loans and advances to customers € m	Loan commitments and financial guarantees issued € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Total € m
Non-property business:									
Agriculture	1,671	607	2,278	1,740	439	99	–	2,278	–
Energy	1,815	919	2,734	2,607	91	36	–	2,734	–
Manufacturing	2,547	1,593	4,140	3,346	707	87	–	4,140	–
Distribution	4,986	1,271	6,257	2,773	2,911	573	–	6,257	–
Transport	1,829	506	2,335	1,810	452	73	–	2,335	–
Financial	630	570	1,200	1,095	96	9	–	1,200	–
Other services	5,227	2,114	7,341	5,977	1,139	225	–	7,341	–
Property and construction	7,260	1,940	9,200	5,977	2,321	902	–	9,200	75
Residential mortgages	30,649	837	31,486	27,354	1,956	1,992	184	31,486	–
Other personal	2,766	2,869	5,635	4,837	556	242	–	5,635	–
Total	59,380	13,226	72,606	57,516	10,668	4,238	184	72,606	75
Concentration by location[1]									
Republic of Ireland	45,917	10,328	56,245	44,535	8,102	3,424	184	56,245	75
United Kingdom	8,879	2,502	11,381	9,087	1,689	605	–	11,381	–
North America	2,304	103	2,407	1,971	419	17	–	2,407	–
Rest of the World	2,280	293	2,573	1,923	458	192	–	2,573	–
	59,380	13,226	72,606	57,516	10,668	4,238	184	72,606	75

ECL allowance

								2020
	At amortised cost							
	Gross carrying amount			Analysed by ECL stage profile				
Concentration by industry sector	Loans and advances to customers € m	Loan commitments and financial guarantees issued € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Non-property business:								
Agriculture	66	4	70	15	23	32	–	70
Energy	15	2	17	12	3	2	–	17
Manufacturing	84	8	92	15	50	27	–	92
Distribution	590	17	607	42	412	153	–	607
Transport	63	2	65	10	20	35	–	65
Financial	22	1	23	4	15	4	–	23
Other services	197	12	209	43	92	74	–	209
Property and construction	396	30	426	82	140	204	–	426
Residential mortgages	843	–	843	39	73	662	69	843
Other personal	234	7	241	42	56	143	–	241
Total	2,510	83	2,593	304	884	1,336	69	2,593
Concentration by location[1]								
Republic of Ireland	2,000	67	2,067	214	609	1,175	69	2,067
United Kingdom	322	12	334	61	130	143	–	334
North America	61	2	63	15	43	5	–	63
Rest of the World	127	2	129	14	102	13	–	129
	2,510	83	2,593	304	884	1,336	69	2,593

[1]Based on country of risk.

Risk management – 2. Individual risk types

2.1 Credit risk – Credit profile of the loan portfolio

Gross exposures to customers

	At amortised cost								2019 At FVTPL
	Gross carrying amount			Analysed by ECL stage profile					
Concentration by industry sector	Loans and advances to customers € m	Loan commitments and financial guarantees issued € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Total € m
Non-property business:									
Agriculture	1,741	547	2,288	1,993	213	82	–	2,288	–
Energy	1,490	633	2,123	2,104	15	4	–	2,123	–
Manufacturing	3,143	1,461	4,604	4,352	180	72	–	4,604	–
Distribution	5,257	1,307	6,564	5,840	532	192	–	6,564	–
Transport	1,936	576	2,512	2,438	41	33	–	2,512	–
Financial	764	497	1,261	1,248	9	4	–	1,261	–
Other services	5,981	1,953	7,934	7,514	295	125	–	7,934	–
Property and construction	7,299	1,646	8,945	8,054	460	431	–	8,945	77
Residential mortgages	31,454	866	32,320	27,816	2,151	2,158	195	32,320	–
Other personal	2,984	2,764	5,748	5,119	429	200	–	5,748	–
Total	62,049	12,250	74,299	66,478	4,325	3,301	195	74,299	77
Concentration by location[1]									
Republic of Ireland	46,893	9,496	56,389	49,820	3,424	2,951	194	56,389	77
United Kingdom	9,589	2,253	11,842	10,735	777	330	–	11,842	–
North America	3,192	120	3,312	3,249	61	2	–	3,312	–
Rest of the World	2,375	381	2,756	2,674	63	18	1	2,756	–
	62,049	12,250	74,299	66,478	4,325	3,301	195	74,299	77

ECL allowance

	At amortised cost							2019
	Gross carrying amount			Analysed by ECL stage profile				
Concentration by industry sector	Loans and advances to customers € m	Loan commitments and financial guarantees issued € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Non-property business:								
Agriculture	40	2	42	8	11	23	–	42
Energy	7	1	8	4	1	3	–	8
Manufacturing	41	3	44	8	12	24	–	44
Distribution	125	4	129	34	45	50	–	129
Transport	14	1	15	6	3	6	–	15
Financial	6	–	6	3	1	2	–	6
Other services	72	5	77	24	17	36	–	77
Property and construction	189	20	209	34	26	149	–	209
Residential mortgages	569	–	569	10	52	476	31	569
Other personal	175	6	181	23	43	115	–	181
Total	1,238	42	1,280	154	211	884	31	1,280
Concentration by location[1]								
Republic of Ireland	1,087	34	1,121	103	173	814	31	1,121
United Kingdom	125	7	132	35	29	68	–	132
North America	15	–	15	9	6	–	–	15
Rest of the World	11	1	12	7	3	2	–	12
	1,238	42	1,280	154	211	884	31	1,280

[1]Based on country of risk.

2.1 Credit risk – Credit profile of the loan portfolio

Aged analysis of contractually past due loans and advances to customers

The following table shows aged analysis of contractually past due loans and advances to customers by industry sector analysed by ECL staging and segment at 31 December 2020 and 2019. The aged analysis of the contractually past due loans at 31 December 2020 have been prepared under the EBA DPD counter which reflects changes to materiality threshold and count methodology. The comparable analysis for 31 December 2019 was prepared under the Basel DPD counter.

At amortised cost

							2020
Industry sector	**1–30 days € m**	**31–60 days € m**	**61–90 days € m**	**91–180 days € m**	**181–365 days € m**	**> 365 days € m**	**Total € m**
Non-property business:							
Agriculture	18	6	1	3	7	17	52
Energy	–	–	–	–	–	2	2
Manufacturing	2	8	1	3	1	14	29
Distribution	103	73	23	43	37	40	319
Transport	4	7	7	3	1	6	28
Financial	1	1	–	–	–	2	4
Other services	17	22	10	11	13	29	102
Property and construction	26	18	8	15	63	172	302
Residential mortgages	49	51	11	42	124	968	1,245
Other personal	37	12	9	19	42	117	236
Total gross carrying amount	257	198	70	139	288	1,367	2,319
ECL staging							
Stage 1	68	–	–	–	–	–	68
Stage 2	109	88	28	–	–	–	225
Stage 3	79	108	42	138	285	1,345	1,997
POCI	1	2	–	1	3	22	29
	257	198	70	139	288	1,367	2,319
Segment							
Retail Banking	165	111	40	102	216	1,275	1,909
CIB	23	46	5	9	48	7	138
AIB UK	69	41	25	28	24	85	272
Group	–	–	–	–	–	–	–
	257	198	70	139	288	1,367	2,319
As a percentage of total gross loans at amortised cost	%	%	%	%	%	%	%
	0.43	0.33	0.12	0.23	0.49	2.30	3.90

At FVTPL

Industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Property and construction	–	–	–	–	–	–	–
Total at FVTPL	–	–	–	–	–	–	–
Segment	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Retail Banking	–	–	–	–	–	–	–
	–	–	–	–	–	–	–
As a percentage of total gross loans at FVTPL	%	%	%	%	%	%	%
	–	–	–	–	–	–	–

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

Risk management – 2. Individual risk types

2.1 Credit risk – Credit profile of the loan portfolio

Aged analysis of contractually past due loans and advances to customers *(continued)*

At amortised cost

							2019
Industry sector	1–30 days € m	31–60 days € m	61–90 days € m	91–180 days € m	181–365 days € m	> 365 days € m	Total € m
Non-property business:							
Agriculture	29	2	2	3	6	12	54
Energy	4	–	–	–	–	4	8
Manufacturing	7	1	3	3	4	7	25
Distribution	37	4	2	5	7	31	86
Transport	3	1	–	1	1	4	10
Financial	1	–	–	–	1	2	4
Other services	26	3	4	10	8	20	71
Property and construction	33	15	3	12	12	141	216
Residential mortgages	416	136	86	141	141	912	1,832
Other personal	82	21	16	27	42	71	259
Total gross carrying amount	638	183	116	202	222	1,204	2,565
ECL staging							
Stage 1	196	–	–	–	–	–	196
Stage 2	300	90	33	–	–	–	423
Stage 3	127	89	79	198	217	1,187	1,897
POCI	15	4	4	4	5	17	49
	638	183	116	202	222	1,204	2,565
Segment							
Retail Banking	551	164	106	185	200	1,114	2,320
CIB	41	2	–	–	1	–	44
AIB UK	46	17	10	17	21	90	201
Group	–	–	–	–	–	–	–
	638	183	116	202	222	1,204	2,565
As a percentage of total gross loans at amortised cost	%	%	%	%	%	%	%
	1.03	0.29	0.19	0.33	0.36	1.94	4.14

At FVTPL

Industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Property and construction	–	–	–	–	–	–	–
Total at FVTPL	–	–	–	–	–	–	–
Segment	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Retail Banking	–	–	–	–	–	–	–
	–	–	–	–	–	–	–
As a percentage of total gross loans at FVTPL	%	%	%	%	%	%	%
	–	–	–	–	–	–	–

In order to fully align to EBA guidelines on default, DPD materiality thresholds and DPD day count conventions, the aged analysis of the contractually past due loans at 31 December 2020 have been prepared under the EBA DPD counter which was implemented in the second quarter of 2020. The comparable analysis for 31 December 2019 was prepared under the Basel DPD counter. The new EBA DPD counter reflects changes to materiality threshold and count methodology.

At 31 December 2020, total loans past due reduced by € 0.3 billion to € 2.3 billion or 3.9% of total loans and advances to customers (2019: € 2.6 billion or 4.1%). The reduction was predominately in the 1-30 days past due category which decreased by € 0.4 billion primarily as a result of the new EBA DPD counter, however, this also resulted in a € 0.2 billion increase in the greater than 365 days category. The overall reduction in the total loans past due was also influenced by the availability of payment break options introduced specifically to support customers in response to COVID-19.

Residential mortgage loans which were past due at 31 December 2020 amounted to € 1.2 billion. This represents 54% of total loans which were past due (2019: € 1.8 billion or 71%). The reduction in the level of residential mortgage loans in early arrears (less than 30 days past due) reflects continued active management of cases and the aforementioned new EBA DPD counter.

Non-property business loans which were past due represent 23% or € 0.5 billion (2019: 10% or € 0.3 billion), with property and construction at 13% or € 0.3 billion (2019: 8% or € 0.2 billion), and other personal at 10% or € 0.2 billion (2019: 10% or € 0.3 billion).

All loans past due by 90 days or more on any material obligation are considered non-performing/defaulted.

2.1 Credit risk – Credit profile of the loan portfolio

Loans written-off and recoveries of previously written-off loans

The following table analyses loans written-off and recoveries of previously written-off loans by geography and industry sector for the years ended 31 December 2020 and 2019:

	2020		2019	
Concentration by industry sector	**Loans written-off € m**	**Recoveries of amounts previously written-off € m**	Loans written-off € m	Recoveries of amounts previously written-off € m
Non-property business:				
Agriculture	**–**	**2.2**	0.1	4.0
Energy	**–**	**0.2**	0.3	0.1
Manufacturing	**14.3**	**1.4**	1.9	1.1
Distribution	**10.7**	**4.7**	19.4	3.6
Transport	**1.5**	**0.7**	2.1	0.8
Financial	**–**	**–**	–	0.5
Other services	**11.1**	**4.2**	10.9	2.4
Property and construction	**19.8**	**13.6**	100.2	19.4
Residential mortgages	**60.4**	**33.3**	188.3	35.7
Other personal	**33.0**	**11.6**	38.6	22.1
Total	**150.8**	**71.8**	361.8	89.7
Concentration by location[1]				
Republic of Ireland	**113.3**	**65.7**	236.6	85.3
United Kingdom	**24.6**	**5.4**	96.6	4.0
Rest of the World	**12.9**	**0.7**	28.6	0.4
	150.8	**71.8**	361.8	89.7

[1]By country of risk

The contractual amount outstanding of loans written-off during the year that are subject to enforcement activity amounted to € 23 million (2019: € 202 million) which includes both full and partial write-offs. Total cumulative non-contracted loans written-off at 31 December 2020 amounted to € 1,730 million (2019: € 1,919 million).*

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk – Credit profile of the loan portfolio

Gross loans[1] and ECL movements

The following tables set out the movements in the gross carrying amount and ECL allowance for loans and advances to customers by ECL staging between 1 January 2020 and 31 December 2020 and the corresponding movements between 1 January 2019 and 31 December 2019.

Accounts that triggered movements between Stage 1 and Stage 2 as a result of failing/curing a quantitative measure only (as disclosed on page 96) and that subsequently reverted within the year to their original stage, are excluded from 'Transferred from Stage 1 to Stage 2' and 'Transferred from Stage 2 to Stage 1'. The Group believes this presentation aids the understanding of the underlying credit migration.

Gross carrying amount movements – total

					2020*
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
At 1 January	54,723	3,992	3,140	194	62,049
Transferred from Stage 1 to Stage 2	(11,954)	11,954	–	–	–
Transferred from Stage 2 to Stage 1	2,534	(2,534)	–	–	–
Transferred to Stage 3	(459)	(1,483)	1,942	–	–
Transferred from Stage 3	105	352	(457)	–	–
New loans originated/top-ups	8,578	–	–	–	8,578
Redemptions/repayments	(8,911)	(2,224)	(616)	(17)	(11,768)
Interest credited	1,471	285	72	8	1,836
Write-offs	–	–	(148)	(3)	(151)
Derecognised due to disposals	(221)	(214)	(86)	–	(521)
Exchange translation adjustments	(651)	(120)	(23)	–	(794)
Impact of model, parameter and overlay changes	519	(519)	–	–	–
Other movements	(21)	(81)	251	2	151
At 31 December 2020	45,713	9,408	4,075	184	59,380

					2019*
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
At 1 January	51,693	5,290	5,541	236	62,760
Transferred from Stage 1 to Stage 2	(3,287)	3,287	–	–	–
Transferred from Stage 2 to Stage 1	3,070	(3,070)	–	–	–
Transferred to Stage 3	(254)	(655)	909	–	–
Transferred from Stage 3	120	447	(567)	–	–
New loans originated/top-ups	12,110	–	–	2	12,112
Redemptions/repayments	(11,124)	(1,111)	(790)	(17)	(13,042)
Interest credited	1,736	169	83	9	1,997
Write-offs	–	–	(357)	(5)	(362)
Derecognised due to disposals	(326)	(47)	(1,673)	(6)	(2,052)
Exchange translation adjustments	521	40	17	–	578
Impact of model, parameter and overlay changes	333	(333)	–	–	–
Other movements	131	(25)	(23)	(25)	58
At 31 December 2019	54,723	3,992	3,140	194	62,049

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

*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit profile of the loan portfolio
Gross loans and ECL movements *(continued)*

ECL allowance movements – total

					2020*
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
At 1 January	141	202	864	31	1,238
Transferred from Stage 1 to Stage 2	(110)	305	–	–	195
Transferred from Stage 2 to Stage 1	78	(112)	–	–	(34)
Transferred to Stage 3	(42)	(197)	382	–	143
Transferred from Stage 3	10	33	(83)	–	(40)
Net re-measurement	(61)	362	105	–	406
New loans originated/top-ups	82	–	–	–	82
Redemptions/repayments	(9)	(89)	–	–	(98)
Impact of model and overlay changes	74	144	187	33	438
Impact of credit or economic risk parameters	129	227	37	8	401
Income statement net credit impairment charge	151	673	628	41	1,493
Write-offs	–	–	(148)	(3)	(151)
Derecognised due to disposals	(5)	(18)	(34)	–	(57)
Exchange translation adjustments	(2)	(8)	(7)	–	(17)
Other movements	(4)	(4)	12	–	4
At 31 December 2020	281	845	1,315	69	2,510

					2019*
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
At 1 January	171	271	1,566	31	2,039
Transferred from Stage 1 to Stage 2	(33)	235	–	–	202
Transferred from Stage 2 to Stage 1	59	(211)	–	–	(152)
Transferred to Stage 3	(10)	(93)	203	–	100
Transferred from Stage 3	10	21	(86)	–	(55)
Net re-measurement	(73)	(22)	(17)	2	(110)
New loans originated/top-ups	40	–	–	–	40
Redemptions/repayments	(14)	(15)	–	(1)	(30)
Impact of model and overlay changes	(4)	5	72	3	76
Impact of credit or economic risk parameters	1	10	32	3	46
Income statement net credit impairment charge/(writeback)	(24)	(70)	204	7	117
Write-offs	–	–	(357)	(5)	(362)
Derecognised due to disposals	(4)	(2)	(557)	(2)	(565)
Exchange translation adjustments	2	2	5	–	9
Other movements	(4)	1	3	–	–
At 31 December 2019	141	202	864	31	1,238

Total exposures to which an ECL applies decreased during the year by € 2.7 billion from € 62.1 billion as at 1 January 2020 to € 59.4 billion as at 31 December 2020.

Stage transfers are a key component of ECL allowance movements (i.e. Stage 1 to Stage 2 to Stage 3 and vice versa) in addition to the net re-measurement of ECL due to change in risk parameters within a stage. An ECL impact of € 0.3 billion due to Stage transfers and € 0.4 billion due to net re-measurement within stage occurred due to underlying credit management activity, such as credit grading and unlikely to pay testing.

The updated macroeconomic forecasts and scenario probability weightings resulted in a charge of € 0.4 billion. This ECL movement is presented separately within 'Impact of credit or economic risk parameters'. This impact was most significant within the mortgage, property and non-property business portfolios accounting for an increase in ECL stock of € 0.1 billion in each portfolio.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk – Credit profile of the loan portfolio

Gross loans and ECL movements *(continued)*

The gross loan transfers from Stage 1 to Stage 2 of € 12.0 billion are due to underlying credit management activity where a significant increase in credit risk occurred at some point during the year through either the quantitative or qualitative criteria for stage movement and incorporates loans which transferred due to the impact of the updated macroeconomic forecasts. The main driver of the total movements to Stage 2 was the doubling of PDs, subject to 50 bps (85 bps for the Mortgage portfolio). 44% of the movements relied on a qualitative or backstop indicator of significant increase in credit risk (e.g. forbearance or movement to a watch grade) of which 2% was caused solely by the backstop of 30 days past due. Of the € 12.0 billion which transferred from Stage 1 to Stage 2 in the year approximately € 8.0 billion is reported as Stage 2 at 31 December 2020.

Where a movement to Stage 2 is triggered by multiple drivers simultaneously these are reported in the following order: quantitative; qualitative; backstop.

Similarly, transfers from Stage 2 to Stage 1 of € 2.5 billion represent those loans where the triggers for significant increase in credit risk no longer apply or loans that have fulfilled a probation period. These transfers include loans which have been upgraded through normal credit management process.

Transfers from Stage 2 to Stage 3 of € 1.5 billion represent those loans that defaulted during the year. These arose in cases where it was determined that the customers were unlikely to pay their credit obligations in full without the realisation of collateral regardless of the existence of any past due amount or the number of days past due. In addition, transfers also include all credit obligors that are 90 days or more past due on a material obligation. Of the transfers from Stage 2 to Stage 3 € 0.7 billion had transferred from Stage 1 to Stage 2 earlier in the year.

Transfers from Stage 3 to Stage 2 of € 0.4 billion were mainly driven by resolution activity with the customer, through either restructuring or forbearance previously granted and which subsequently adhered to default probation requirements. As part of the credit management practices, active monitoring of loans and their adherence to default probation requirements is in place.

The enhancement of the Group's definition of default, including the alignment of arrears DPD count methodology to EBA convention, resulted in a net impact of an increase of Stage 3 gross loans of € 0.2 billion and a reduction within Stage 1 and Stage 2 gross loans of € 0.1 billion respectively which are reflected within other movements.

Model and overlay changes resulted in an ECL charge of € 0.4 billion and further detail on the changes is outlined within the Management Judgements section on pages 105 to 107.

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

Stage 1 loans decreased by € 9.0 billion in the year to € 45.7 billion with an ECL of € 0.3 billion and resulting cover of 0.6% (31 December 2019: 0.3%). The decrease in gross loans was primarily on foot of transfers to Stage 2 while the increase in cover was primarily due to the impact of the updated macroeconomic forecasts and scenario probability weightings.

Stage 2 loans increased by € 5.4 billion in the year to € 9.4 billion with an ECL of € 0.8 billion and resulting cover of 9.0% (31 December 2019: 5.1%). This was driven by the recognition of loans for which a significant increase in credit risk had occurred either through underlying credit management activity or due to the updated macroeconomic forecasts and scenario probability weightings.

Stage 3 exposures increased by € 0.9 billion in the year with the ECL cover increasing from 27.5% to 32.3%. The key driver was the deterioration in repayment capacity due to the impact of COVID-19 leading to loans deemed unlikely to pay without realisation of security and loans which had reached 90 days past due. The increase in cover reflects the impact of the updated macroeconomic forecasts and scenario probability weightings and the increase in ECL attributable to the ROI PDH mortgage post model adjustments.

Further details on stage movements by asset class are set out in the following tables:

2.1 Credit risk – Credit profile of the loan portfolio

Gross loans[1] and ECL movements *(continued)*

The following tables set out the movements in the gross carrying amount and ECL allowance for loans and advances to customers by asset class and ECL staging for the year to 31 December 2020 and 2019:

Gross carrying amount movements – Asset class

2020

	Residential mortgages					Other personal				Property and construction					Non-property business			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At 1 January	26,973	2,144	2,143	194	31,454	2,504	288	192	2,984	6,505	427	367	–	7,299	18,741	1,133	438	20,312
Transferred from Stage 1 to Stage 2	(1,812)	1,812	–	–	–	(438)	438	–	–	(3,189)	3,189	–	–	–	(6,515)	6,515	–	–
Transferred from Stage 2 to Stage 1	1,692	(1,692)	–	–	–	175	(175)	–	–	265	(265)	–	–	–	402	(402)	–	–
Transferred to Stage 3	(31)	(281)	312	–	–	(13)	(98)	111	–	(195)	(431)	626	–	–	(220)	(673)	893	–
Transferred from Stage 3	23	210	(233)	–	–	3	25	(28)	–	23	33	(56)	–	–	56	84	(140)	–
New loans originated/top-ups	2,470	–	–	–	2,470	841	–	–	841	1,172	–	–	–	1,172	4,095	–	–	4,095
Redemptions/repayments	(3,427)	(261)	(224)	(17)	(3,929)	(1,067)	(156)	(49)	(1,272)	(755)	(479)	(94)	–	(1,328)	(3,662)	(1,328)	(249)	(5,239)
Interest credited	682	50	25	8	765	180	33	9	222	146	54	12	–	212	463	148	26	637
Write-offs	–	–	(57)	(3)	(60)	–	–	(33)	(33)	–	–	(20)	–	(20)	–	–	(38)	(38)
Derecognised due to disposals	–	–	–	–	–	–	–	–	–	–	–	(10)	–	(10)	(221)	(214)	(76)	(511)
Exchange translation adjustments	(58)	(5)	(5)	–	(68)	(6)	(1)	–	(7)	(112)	(14)	(4)	–	(130)	(475)	(100)	(14)	(589)
Impact of model, parameter and overlay changes	–	–	–	–	–	–	–	–	–	519	(519)	–	–	–	–	–	–	–
Other movements	23	(27)	19	2	17	22	(22)	31	31	(60)	81	44	–	65	(6)	(113)	157	38
At 31 December 2020	26,535	1,950	1,980	184	30,649	2,201	332	233	2,766	4,319	2,076	865	–	7,260	12,658	5,050	997	18,705

2019

	Residential mortgages					Other personal				Property and construction					Non-property business			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At 1 January	25,617	3,441	3,023	234	32,315	2,334	398	343	3,075	6,200	415	1,187	2	7,804	17,542	1,036	988	19,566
Transferred from Stage 1 to Stage 2	(1,197)	1,197	–	–	–	(387)	387	–	–	(438)	438	–	–	–	(1,265)	1,265	–	–
Transferred from Stage 2 to Stage 1	1,935	(1,935)	–	–	–	276	(276)	–	–	220	(220)	–	–	–	639	(639)	–	–
Transferred to Stage 3	(30)	(247)	277	–	–	(12)	(85)	97	–	(104)	(90)	194	–	–	(108)	(233)	341	–
Transferred from Stage 3	17	306	(323)	–	–	3	22	(25)	–	41	49	(90)	–	–	59	70	(129)	–
New loans originated/top-ups	3,116	–	–	2	3,118	1,043	–	–	1,043	1,897	–	–	–	1,897	6,054	–	–	6,054
Redemptions/repayments	(3,529)	(394)	(309)	(17)	(4,249)	(996)	(145)	(66)	(1,207)	(1,649)	(156)	(272)	–	(2,077)	(4,950)	(416)	(143)	(5,509)
Interest credited	689	79	36	9	813	190	31	9	230	197	14	18	–	229	660	45	20	725
Write-offs	–	–	(183)	(5)	(188)	–	–	(39)	(39)	–	–	(100)	–	(100)	–	–	(35)	(35)
Derecognised due to disposals	(17)	(21)	(382)	(4)	(424)	(14)	(5)	(128)	(147)	(47)	(14)	(594)	(2)	(657)	(248)	(7)	(569)	(824)
Exchange translation adjustments	55	5	7	–	67	7	2	–	9	111	5	8	–	124	348	28	2	378
Impact of model, parameter and overlay changes	303	(303)	–	–	–	4	(4)	–	–	3	(3)	–	–	–	23	(23)	–	–
Other movements	14	16	(3)	(25)	2	56	(37)	1	20	74	(11)	16	–	79	(13)	7	(37)	(43)
At 31 December 2019	26,973	2,144	2,143	194	31,454	2,504	288	192	2,984	6,505	427	367	–	7,299	18,741	1,133	438	20,312

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

2.1 Credit risk – Credit profile of the loan portfolio

Gross loans and ECL movements *(continued)*

ECL allowance movements – Asset class

2020

	Residential mortgages					Other personal				Property and construction					Non-property business			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At 1 January	10	52	476	31	569	21	40	114	175	31	26	132	–	189	79	84	142	305
Transferred from Stage 1 to Stage 2	(17)	53	–	–	36	(7)	29	–	22	(33)	39	–	–	6	(53)	184	–	131
Transferred from Stage 2 to Stage 1	23	(47)	–	–	(24)	3	(5)	–	(2)	15	(20)	–	–	(5)	37	(40)	–	(3)
Transferred to Stage 3	–	(20)	49	–	29	(1)	(34)	50	15	(28)	(46)	90	–	16	(13)	(97)	193	83
Transferred from Stage 3	3	12	(31)	–	(16)	–	7	(16)	(9)	1	4	(8)	–	(3)	6	10	(28)	(12)
Net re-measurement	(18)	(34)	2	–	(50)	(18)	(11)	26	(3)	(5)	60	31	–	86	(20)	347	46	373
New loans originated/top-ups	4	–	–	–	4	15	–	–	15	42	–	–	–	42	21	–	–	21
Redemptions/repayments	(3)	(3)	–	–	(6)	(2)	(2)	–	(4)	10	(38)	–	–	(28)	(14)	(46)	–	(60)
Impact of model and overlay changes	10	19	183	33	245	5	4	–	9	7	3	–	–	10	52	118	4	174
Impact of credit or economic risk parameters	28	40	45	8	121	24	23	2	49	37	107	(23)	–	121	40	57	13	110
Income statement net credit impairment charge	30	20	248	41	339	19	11	62	92	46	109	90	–	245	56	533	228	817
Write-offs	–	–	(57)	(3)	(60)	–	–	(33)	(33)	–	–	(20)	–	(20)	–	–	(38)	(38)
Derecognised due to disposals	–	–	–	–	–	–	–	–	–	–	–	(6)	–	(6)	(5)	(18)	(28)	(51)
Exchange translation adjustments	–	–	(1)	–	(1)	–	–	–	–	–	(1)	(3)	–	(4)	(2)	(7)	(3)	(12)
Other movements	(1)	1	(4)	–	(4)	1	–	(1)	–	(2)	(1)	(5)	–	(8)	(2)	(4)	22	16
At 31 December 2020	39	73	662	69	843	41	51	142	234	75	133	188	–	396	126	588	323	1,037

2019

	Residential mortgages					Other personal				Property and construction					Non-property business			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At 1 January	8	51	623	31	713	29	52	172	253	41	36	403	–	480	93	132	368	593
Transferred from Stage 1 to Stage 2	(2)	35	–	–	33	(10)	76	–	66	(4)	21	–	–	17	(17)	103	–	86
Transferred from Stage 2 to Stage 1	4	(25)	–	–	(21)	12	(48)	–	(36)	4	(28)	–	–	(24)	39	(110)	–	(71)
Transferred to Stage 3	–	(9)	25	–	16	(1)	(32)	46	13	(5)	(10)	47	–	32	(4)	(42)	85	39
Transferred from Stage 3	1	7	(30)	–	(22)	1	4	(12)	(7)	2	3	(16)	–	(11)	6	7	(28)	(15)
Net re-measurement	(1)	(24)	25	2	2	(16)	(8)	16	(8)	(7)	2	(39)	–	(44)	(49)	8	(19)	(60)
New loans originated/top-ups	1	–	–	–	1	16	–	–	16	6	–	–	–	6	17	–	–	17
Redemptions/repayments	–	(1)	–	(1)	(2)	(1)	(1)	–	(2)	(5)	(2)	–	–	(7)	(8)	(11)	–	(19)
Impact of model and overlay changes	(2)	11	71	3	83	(8)	(2)	1	(9)	–	(1)	1	–	–	6	(3)	(1)	2
Impact of credit or economic risk parameters	–	7	29	3	39	–	–	(1)	(1)	–	2	2	–	4	1	1	2	4
Income statement net credit impairment charge/(writeback)	1	1	120	7	129	(7)	(11)	50	32	(9)	(13)	(5)	–	(27)	(9)	(47)	39	(17)
Write-offs	–	–	(183)	(5)	(188)	–	–	(39)	(39)	–	–	(100)	–	(100)	–	–	(35)	(35)
Derecognised due to disposals	–	–	(84)	(2)	(86)	–	(1)	(67)	(68)	(3)	–	(177)	–	(180)	(1)	(1)	(229)	(231)
Exchange translation adjustments	–	–	1	–	1	–	–	–	–	–	–	4	–	4	2	2	–	4
Other movements	1	–	(1)	–	–	(1)	–	(2)	(3)	2	3	7	–	12	(6)	(2)	(1)	(9)
At 31 December 2019	10	52	476	31	569	21	40	114	175	31	26	132	–	189	79	84	142	305

2.1 Credit risk – Credit profile of the loan portfolio

Movements in off-balance sheet exposures

The following tables set out the movements in the nominal amount and ECL allowance for loan commitments and financial guarantees by ECL staging for the year to 31 December 2020 and 2019:

Nominal amount movements

								2020*
	Loan commitments				Financial guarantees			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At 1 January	11,098	323	118	11,539	657	11	43	711
Transferred from Stage 1 to Stage 2	(647)	647	–	–	(112)	112	–	–
Transferred from Stage 2 to Stage 1	158	(158)	–	–	3	(3)	–	–
Transferred to Stage 3	(35)	(12)	47	–	(1)	–	1	–
Transferred from Stage 3	27	3	(30)	–	3	1	(4)	–
Net movement	658	310	(3)	965	(6)	26	(9)	11
At 31 December 2020	11,259	1,113	132	12,504	544	147	31	722

								2019*
	Loan commitments				Financial guarantees			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At 1 January	10,688	296	123	11,107	691	31	58	780
Transferred from Stage 1 to Stage 2	(241)	241	–	–	(5)	5	–	–
Transferred from Stage 2 to Stage 1	170	(170)	–	–	16	(16)	–	–
Transferred to Stage 3	(39)	(7)	46	–	(3)	–	3	–
Transferred from Stage 3	11	4	(15)	–	–	–	(1)	(1)
Net movement	509	(41)	(36)	432	(44)	(9)	(26)	(79)
Derecognised due to disposals	–	–	–	–	2	–	9	11
At 31 December 2019	11,098	323	118	11,539	657	11	43	711

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk – Credit profile of the loan portfolio

Movements in off-balance sheet exposures *(continued)*

ECL allowance movements

	2020*							
	Loan commitments				Financial guarantees			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At 1 January	10	8	1	19	3	2	18	23
Transferred from Stage 1 to Stage 2	(7)	18	–	11	(1)	6	–	5
Transferred from Stage 2 to Stage 1	10	(8)	–	2	2	(2)	–	–
Transferred to Stage 3	–	(1)	2	1	–	(1)	2	1
Transferred from Stage 3	–	–	–	–	–	1	(2)	(1)
Net re-measurement	7	13	1	21	(1)	3	(3)	(1)
Income statement (credit)/charge	10	22	3	35	–	7	(3)	4
Other movements	–	–	–	–	–	(1)	3	2
At 31 December 2020	20	30	4	54	3	8	18	29

	2019*							
	Loan commitments				Financial guarantees			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At 1 January	13	11	1	25	3	1	29	33
Transferred from Stage 1 to Stage 2	(4)	24	–	20	–	1	–	1
Transferred from Stage 2 to Stage 1	8	(26)	–	(18)	1	(1)	–	–
Transferred to Stage 3	–	(2)	1	(1)	–	–	–	–
Transferred from Stage 3	–	–	–	–	–	–	–	–
Net re-measurement	(6)	(1)	–	(7)	(2)	–	(4)	(6)
Income statement (credit)/charge	(2)	(5)	1	(6)	(1)	–	(4)	(5)
Derecognised due to disposals	–	–	–	–	–	–	(5)	(5)
Other movements	(1)	2	(1)	–	1	1	(2)	–
At 31 December 2019	10	8	1	19	3	2	18	23

The internal credit grade profile of loan commitments and financial guarantees is set out in the following table:

	2020* € m	2019* € m
Strong	8,187	8,230
Satisfactory	4,445	3,642
Criticised watch	413	197
Criticised recovery	18	19
Default	163	162
Total	13,226	12,250

Non-performing off-balance sheet commitments

Total non-performing off-balance sheet commitments amounted to € 163 million (2019: € 162 million).

*Forms an integral part of the audited financial statements

2.1 Credit risk – Investment securities

The following table categorises the debt securities portfolio by contractual residual maturity and weighted average yield at 31 December 2020 and 2019:

										2020
	Within 1 year		After 1 but within 5 years		After 5 but within 10 years		After 10 years		Total	
	€ m	Yield %	€ m	Yield %	€ m	Yield %	€ m	Yield %	€ m	Yield %
At FVOCI										
Irish Government securities	1,804	(0.4)	1,458	3.0	1,727	0.9	432	0.4	5,421	1.0
Euro government securities	122	1.8	807	1.6	348	0.3	–	–	1,277	1.2
Non Euro government securities	13	0.9	70	0.6	12	0.1	–	–	95	0.6
Supranational banks and government agencies	244	1.2	205	1.4	476	0.1	255	2.6	1,180	1.1
Collateralised mortgage obligations	–	–	–	–	5	2.3	329	1.4	334	1.4
Other asset backed securities	–	–	–	–	–	–	85	0.2	85	0.2
Euro bank securities	799	0.6	3,286	0.4	1,088	0.2	–	–	5,173	0.4
Non Euro bank securities	247	0.9	1,271	1.3	102	1.6	–	–	1,620	1.2
Euro corporate securities	–	–	189	0.8	203	0.9	5	0.7	397	0.8
Non Euro corporate securities	–	–	39	2.3	54	2.7	–	–	93	2.5
Total at FVOCI	3,229	0.2	7,325	1.3	4,015	0.6	1,106	1.2	15,675	0.9
At amortised cost										
Irish Government securities	–	–	–	–	1,637	0.2	657	0.6	2,294	0.3
Euro government securities	–	–	–	–	70	0.2	20	1.1	90	0.4
Non Euro government securities	–	–	–	–	55	0.4	–	–	55	0.4
Supranational banks and government agencies	–	–	–	–	175	0.2	33	0.3	208	0.2
Asset backed securities	–	–	–	–	82	1.8	645	1.9	727	1.9
Euro bank securities	–	–	–	–	87	0.1	–	–	87	0.1
Euro corporate securities	–	–	3	1.0	104	1.8	–	–	107	1.8
Non Euro corporate securities	–	–	15	3.0	20	3.6	–	–	35	3.4
Total at amortised cost	–	–	18	2.7	2,230	0.3	1,355	1.2	3,603	0.7

										2019
	Within 1 year		After 1 but within 5 years		After 5 but within 10 years		After 10 years		Total	
	€ m	Yield %	€ m	Yield %	€ m	Yield %	€ m	Yield %	€ m	Yield %
At FVOCI										
Irish Government securities	1,217	4.4	1,349	3.2	1,710	0.9	1,020	0.9	5,296	2.3
Euro government securities	115	2.4	1,155	1.6	260	0.5	8	0.7	1,538	1.4
Non Euro government securities	21	3.3	124	2.0	67	1.5	–	–	212	2.0
Supranational banks and government agencies	111	0.8	438	1.3	92	1.0	393	2.8	1,034	1.8
Collateralised mortgage obligations	–	–	–	–	7	2.1	215	2.4	222	2.3
Other asset backed securities	–	–	–	–	–	–	106	0.1	106	0.1
Euro bank securities	988	0.8	3,433	0.5	922	0.6	–	–	5,343	0.6
Non Euro bank securities	54	1.1	1,454	1.7	146	2.1	–	–	1,654	1.7
Euro corporate securities	–	–	100	0.5	257	1.0	18	1.2	375	0.9
Non Euro corporate securities	6	1.3	11	2.1	84	2.8	–	–	101	2.6
Total at FVOCI	2,512	2.6	8,064	1.4	3,545	0.9	1,760	1.5	15,881	1.5
At amortised cost										
Asset backed securities	–	–	–	–	30	2.9	561	2.2	591	1.6
Euro corporate securities	–	–	–	–	14	1.6	–	–	14	3.4
Non Euro corporate securities	–	–	10	3	20	3.6	–	–	30	2.2
Total at amortised cost	–	–	10	3	64	2.8	561	2.2	635	2.3

Risk management – 2. Individual risk types

2.1 Credit risk – Investment securities *(continued)*

Debt securities and related ECL analysed by IFRS 9 staging at 31 December 2020 and 2019*

	2020*				2019*			
	Stage 1 € m	**Stage 2 € m**	**Stage 3 € m**	**Total € m**	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At amortised cost – gross	**3,604**	**–**	**–**	**3,604**	635	–	–	635
ECL allowance	**(1)**	**–**	**–**	**(1)**	–	–	–	–
At amortised cost – carrying value	**3,603**	**–**	**–**	**3,603**	635	–	–	635
At FVOCI – carrying value	**15,675**	**–**	**–**	**15,675**	15,881	–	–	15,881
ECL allowance (included in carrying value)	***(3)***	**–**	**–**	***(3)***	*(4)*	–	–	*(4)*
Total carrying value	**19,278**	**–**	**–**	**19,278**	16,516	–	–	16,516

Debt securities at FVOCI

Debt securities held at fair value through other comprehensive income ("FVOCI") decreased to € 15.7 billion (nominal € 14.9 billion) at 31 December 2020 from a fair value of € 15.9 billion (nominal € 15.1 billion) at 31 December 2019. The main drivers were a decrease in bank securities of € 0.2 billion, a decrease in government securities of € 0.2 billion, an increase in supra and government agency securities of € 0.1 billion and an increase in asset backed securities of € 0.1 billion.

Debt securities at amortised cost

In addition to the existing business model Hold-to-Collect-and-Sell ("HTCS") within Treasury, the Group introduced a new business model Hold-to-Collect ("HTC"). This business model reflects the updated strategy to invest in long term high quality bonds to maturity for yield enhancement purposes given the increasingly liability led nature of the balance sheet. On 1 January 2020, the Group transferred Irish Government securities with a fair value of € 614 million out of HTCS to HTC with an amortised cost of € 577 million which had met the criteria for inclusion under this business model. The HTC portfolio within Treasury at 31 December 2020 amounts to € 2,734 million of the total debt securities at amortised cost.

*Forms an integral part of the audited financial statements

2.1 Credit risk

Credit ratings

External credit ratings of financial assets*

The following table sets out the credit quality of financial assets based on external credit ratings at 31 December 2020 and 2019. These include loans and advances to banks, investment debt securities and trading portfolio financial assets. Information on the credit ratings for loans and advances to customers where an external credit rating is available is disclosed on page 128.

											2020
	At amortised cost					At FVOCI					Total
	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m	€ m
AAA/AA	**733**	**–**	**295**	**510**	**1,538**	**5,032**	**37**	**1,227**	**419**	**6,715**	**8,253**
A/A-	**1,134**	**–**	**2,314**	**212**	**3,660**	**1,380**	**257**	**5,527**	**–**	**7,164**	**10,824**
BBB+/BBB/BBB-	**18**	**–**	**38**	**5**	**61**	**381**	**165**	**1,219**	**–**	**1,765**	**1,826**
Sub investment	**1**	**73**	**–**	**–**	**74**	**–**	**31**	**–**	**–**	**31**	**105**
Unrated	**–**	**69**	**–**	**–**	**69**	**–**	**–**	**–**	**–**	**–**	**69**
Total	**1,886**	**142**	**2,647**	**727**[1]	**5,402**	**6,793**	**490**	**7,973**[2]	**419**	**15,675**	**21,077**
Of which: Stage 1	**1,886**	**142**	**2,647**	**722**	**5,397**	**6,793**	**490**	**7,973**	**419**	**15,675**	**21,072**
Stage 2	**–**	**–**	**–**	**5**	**5**	**–**	**–**	**–**	**–**	**–**	**5**
Stage 3	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

										2019
	At amortised cost				At FVOCI					Total
	Bank € m	Corporate € m	Other € m	Total € m	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m	€ m
AAA/AA	840	–	383	1,223	5,257	31	1,277	328	6,893	8,116
A/A-	592	–	198	790	1,396	209	5,420	–	7,025	7,815
BBB+/BBB/BBB-	45	–	10	55	344	208	1,383	–	1,935	1,990
Sub investment	1	44	–	45	–	28	–	–	28	73
Unrated	–	–	–	–	–	–	–	–	–	–
Total	1,478	44	591[1]	2,113	6,997	476	8,080[2]	328	15,881	17,994
Of which: Stage 1	1,478	44	591	2,113	6,997	476	8,080	328	15,881	17,994
Stage 2	–	–	–	–	–	–	–	–	–	–
Stage 3	–	–	–	–	–	–	–	–	–	–

[1]Relates to asset backed securities
[2]Includes supranational banks and government agencies.

Large exposures

The Group Large Exposure Policy sets out maximum exposure limits to, or on behalf of, a customer or a group of connected customers.

At 31 December 2020, the Group's top 50 drawn exposures amounted to € 4.7 billion, and accounted for 7.8% (2019: € 4.7 billion and 7.6%) of the Group's on-balance sheet total gross loans and advances to customers. In addition, these customers have undrawn facilities amounting to € 862 million (2019: € 485 million). No single customer exposure exceeded regulatory requirements.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk

Additional credit quality and forbearance disclosures on loans and advances to customers

Forbearance*

Overview

Forbearance occurs when a customer is granted a temporary or permanent concession or an agreed change to the existing contracted terms of a facility ('forbearance measure'), for reasons relating to the actual or apparent financial stress or distress of that customer. This also includes a total or partial refinancing of existing debt due to a customer availing of an embedded forbearance clause(s) in their contract. A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable to meet their credit obligations to the Group in compliance with the existing agreed contracted terms and conditions. A concession or an agreed change to the contracted terms can be of a temporary (e.g. interest only) or permanent (e.g. term extension) nature.

The Group uses a range of initiatives to support its customers. The Group considers requests from customers who are experiencing cash flow difficulties on a case by case basis in line with the Group's Forbearance Policy and relevant procedures, and completes an affordability/repayment capacity assessment taking account of factors such as current and likely future financial circumstances, the customer's willingness to resolve such difficulties, and all relevant legal and regulatory obligations to ensure appropriate and sustainable measures are put in place.

Group credit policies, supported by relevant processes and procedures, are in place which set out the policy rules and principles underpinning the Group's approach to forbearance, ensuring the forbearance measure(s) provided to customers are affordable and sustainable, and in line with relevant regulatory requirements. Key principles include supporting viable Small Medium Enterprises ("SMEs"), and providing support to enable customers remain in their family home, whenever possible. The Group has implemented the standards for the Codes of Conduct in relation to customers in actual or apparent financial stress or distress, as set out by the Central Bank of Ireland ("the Central Bank"), ensuring these customers are dealt with in a professional and timely manner.

A request for forbearance is a trigger event for the Group to undertake an assessment of the customer's financial circumstances prior to any decision to grant a forbearance measure. This may result in the downgrading of the credit grade assigned and an increase in the expected credit loss. Facilities to which forbearance has been applied continue to be classified as forborne until the forbearance measures expire or until an appropriate probation period has passed.

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

Mortgage portfolio

Under the mandate of the Central Bank's Code of Conduct on Mortgage Arrears ("CCMA"), the Group introduced a four-step process called the Mortgage Arrears Resolution Process, or MARP. This process aims to engage with, support and find resolution for mortgage customers (for their primary residence only) who are in arrears, or are at risk of going into arrears.

The four step process is summarised as follows:
- Communications – We are here to listen, support and provide advice;
- Financial information – To allow us to understand the customer's finances;
- Assessment – Using the financial information to assess the customer's situation; and
- Resolution – We work with the customer to find an appropriate resolution.

The core objective of the process is to determine appropriate and sustainable solutions that, where possible, help to keep customers in their family home. In addition to relevant short term measures (such as interest only and capital and interest moratorium), this includes long term forbearance measures which have been devised to assist existing Republic of Ireland primary residential mortgage customers in financial difficulty. This process may result in debt write-off, where appropriate. The types of existing long term forbearance solutions currently include; arrears capitalisation, term extension, low fixed interest rate solution, positive equity sustainable solution, split mortgages, negative equity trade down, mortgage to rent and voluntary sale for loss.

Non-mortgage portfolio

The Group also has in place forbearance measures for customers in the non-mortgage portfolio who are in financial difficulty. This approach is based on customer affordability and sustainability and applying the following core principles:
- Customers must be treated objectively and consistently;
- Customer circumstances and debt obligations must be viewed holistically; and
- Solutions will be appropriately provided where customers are co-operative, and are willing but unable to pay.

The forbearance process is one of structured engagement to assess the long term levels of sustainable and unsustainable debt. The commercial aspects of this process require that customer affordability is viewed comprehensively, to include all available sources of finance for debt repayment, including unencumbered assets.

Types of non-mortgage forbearance include short term measures (such as interest only and capital and interest moratorium) and long term measures (such as term extension, debt consolidation, and collateral disposal). This process may result in debt write-off, where appropriate.

See accounting policy (s) 'Impairment of financial assets' in note 1 to the consolidated financial statements.

*Forms an integral part of the audited financial statements

2.1 Credit risk

Additional credit quality and forbearance disclosures on loans and advances to customers

Forbearance

The following tables set out the internal credit ratings and ECL staging of forborne loans and advances to customers at 31 December 2020 and 2019:

					2020
	At amortised cost				
Analysed by forbearance type	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Temporary forbearance	1,033	46	154	414	1,647[1]
Permanent forbearance	1,146	94	171	334	1,745[2]
	2,179	140	325	748	3,392
Analysed by internal credit ratings					
Strong	–	–	–	–	–
Satisfactory	–	–	–	–	–
Total strong/satisfactory	–	–	–	–	–
Criticised watch	–	–	–	–	–
Criticised recovery	466	45	80	393	984
Total criticised	466	45	80	393	984
Non-performing	1,713	95	245	355	2,408
Gross carrying amount	2,179	140	325	748	3,392
Analysed by ECL staging					
Stage 1	8	2	92	20	122
Stage 2	457	43	78	376	954
Stage 3	1,537	95	155	352	2,139
POCI	177	–	–	–	177
Total	2,179	140	325	748	3,392
ECL allowance	631	63	85	193	972

					2019
	At amortised cost				
Analysed by forbearance type	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Temporary forbearance	989	31	57	126	1,203[1]
Permanent forbearance	1,594	100	253	301	2,248[2]
	2,583	131	310	427	3,451
Analysed by internal credit ratings					
Strong	–	–	–	–	–
Satisfactory	–	–	–	–	–
Total strong/satisfactory	–	–	–	–	–
Criticised watch	–	–	–	–	–
Criticised recovery	716	51	154	255	1,176
Total criticised	716	51	154	255	1,176
Non-performing	1,867	80	156	172	2,275
Gross carrying amount	2,583	131	310	427	3,451
Analysed by ECL staging					
Stage 1	7	1	95	40	143
Stage 2	704	50	68	226	1,048
Stage 3	1,681	80	147	161	2,069
POCI	191	–	–	–	191
Total	2,583	131	310	427	3,451
ECL allowance	439	49	61	74	623

[1] Of which: interest only € 1,002 million, reduced payment € 171 million, payment moratorium € 413 million (2019: € 731 million, € 227 million, € 132 million respectively).

[2] Of which: arrears capitalisation and term extension € 898 million, restructure € 274 million, low fixed interest rate € 149 million (2019: € 1,210 million, € 322 million, € 173 million respectively).

Risk management – 2. Individual risk types

2.1 Credit risk

Additional credit quality and forbearance disclosures on loans and advances to customers

Forbearance

Republic of Ireland residential mortgages

The Group has a Mortgage Arrears Resolution Strategy ("MARS") for dealing with mortgage customers in actual or apparent financial difficulty, which builds on and formalises the Group's Mortgage Arrears Resolution Process. The core objectives of MARS are to ensure that arrears solutions are sustainable in the long term and that they comply with the spirit and the letter of all relevant regulatory requirements. MARS includes long term forbearance measures which have been devised to assist existing Republic of Ireland primary residential mortgage customers in financial difficulty.

Under the definition of forbearance, which complies with that prescribed by the European Banking Authority, facilities subject to forbearance measures remain in forbearance stock for a minimum period of two years from the date forbearance is granted regardless of the forbearance type. Therefore, cases that receive a short term forbearance measure, such as interest only and return to a full principal and interest repayment schedule at the end of the interest only period, will remain in the stock of forbearance for at least two years following the return to full principle and interest.

The stock of loans subject to forbearance measures decreased by € 0.4 billion from € 2.5 billion at 31 December 2019 to € 2.1 billion at 31 December 2020. This decrease was driven by customers exiting the forbearance probation period. Payment break options introduced specifically to support customers in response to COVID-19 and which met the definition of general payment moratoria as outlined in the relevant EBA Guidelines are not reported as forbearance measures.

2.2 Funding and liquidity risk

Liquidity risk is the risk that the Group will not be able to fund its assets and meet its payment obligations as they fall due, without incurring unacceptable costs or losses. Liquidity risk arises from differences in timing between cash inflows and outflows and can increase due to the unexpected lengthening of maturities or non-repayment of assets, a sudden withdrawal of deposits or the inability to refinance maturing debt.

Funding is the means by which liquidity is generated, e.g. secured or unsecured, wholesale, corporate or retail. In this respect, funding risk is the risk that a specific form of liquidity cannot be obtained at an acceptable cost. Funding risk can occur where there is an over-reliance on a particular type of funding, a funding gap or a concentration of wholesale funding maturities.

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.

Identification and assessment

Funding and liquidity risk is identified and assessed using a range of liquidity stress testing scenarios and ensuring adherence to limits based on both internal limits and the regulatory defined liquidity ratios, the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). Liquidity stress testing consists of applying severe but plausible stresses to the Group's liquidity buffer through time in order to simulate a survival period. The LCR is designed to promote short term resilience of the Group's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. The NSFR has a time horizon of one year and has been developed to promote a sustainable maturity structure of assets and liabilities. These metrics are key risk metrics for the Group and are monitored against Board approved limits.

Management and measurement*

The Internal Liquidity Adequacy Assessment Process (''ILAAP'') is fully integrated and embedded in the strategic, financial and risk management processes of the Group. An ILAAP Framework and supporting policies are in place which sets out the key processes, governance arrangements and roles and responsibilities which support the ILAAP. Embedding of the ILAAP is facilitated through liquidity and funding planning, the setting of risk appetite and risk adjusted performance monitoring. In addition to the Group's Funding and Liquidity Plan, a Contingency Funding Plan is in place which identifies and quantifies actions which are available to the Group in order to mitigate against the impact of a stress event. Trigger points at which these actions will be considered are also identified. A further set of triggers and liquidity options are set out in the Group's recovery plan, which presents the actions available to the Group to restore viability in the event of extreme stress. Finally, the Group has an approved liquidity cost-benefit allocation mechanism in place by which funding costs, benefits and risks are reflected in the Group's business lines.

Monitoring, escalating and reporting

The Group funding and liquidity position is reported regularly to the Finance and Risk functions, Group Asset and Liability Committee ("ALCo"), Group Risk Committee ("GRC") and Board Risk Committee ("BRC"). In addition, the Executive Committee and the Board are briefed on funding and liquidity on an ongoing basis. On an annual basis, the Board attests to the Group's liquidity adequacy via the liquidity adequacy statement as part of ILAAP. The Group's ILAAP encompasses all aspects of funding and liquidity management, including planning, analysis, stress testing, control, governance, policy and contingency planning. This document is submitted to the Joint Supervisory Team and forms the basis of their supervisory review and evaluation process.

2020 developments in response to COVID-19

Precautionary saving, lower consumer expenditure and weak loan demand due to the COVID-19 pandemic, had the impact of increasing the Group's surplus liquidity position in 2020. Due to the high level of uncertainty regarding funding and liquidity developments at the outset of the pandemic, the Group activated it's Contingency Funding Plan ("CFP") which has since been deactivated. In addition, the Group engaged in the following activities:

- Enhanced funding and liquidity monitoring and reporting through daily updates provided to the COVID-19 Liquidity Working Group. Key outputs were reported to ALCo and wider COVID-19 incident management response teams.
- The suite of liquidity stress tests performed to assess the full range of potential adverse outcomes was broadened to consider the pandemic.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.2 Funding and liquidity risk *(continued)*

Management of the Group liquidity pool

The Group manages the liquidity pool on a centralised basis. The composition of the liquidity pool is subject to limits recommended by the Risk function and approved by the Board. The liquidity pool assets primarily comprise government guaranteed bonds, balances with central banks and internal and external covered bonds.

At 31 December 2020, the Group held € 53,816 million (2019: € 32,045 million) in qualifying liquid assets "QLA"[1]/contingent funding of which € 10,028 million (2019: € 2,617 million) was not available due to repurchase, secured loans and other restrictions. The available Group liquidity pool is held to cover contractual and stress outflows. At 31 December 2020, the Group liquidity pool was € 43,788 million (2019: € 29,428 million). During 2020, the liquidity pool ranged from € 29,176 million to € 45,241 million (2019: € 23,420 million to € 30,206 million) and the average balance was € 38,118 million (2019: € 26,754 million).

[1]QLA is an asset that can be readily converted into cash, either with the market or with the monetary authorities, and where there is no legal, operational or prudential impediments to their use as liquid assets.

The Group's liquidity pool increased in 2020 by € 14,360 million which was predominantly due to an increase in customer deposits in Ireland, proceeds from net retained covered bonds and securitisations, proceeds received from the sale of a portfolio of distressed loans and customer loan redemptions during the period offset by the maturity of senior debt and the Group engaging in securities financing activities where cash was exchanged for non QLA securities.

Composition of the Group liquidity pool

The following table shows the composition of the Group's liquidity pool at 31 December 2020 and 2019. The liquidity amounts shown in the table represent the clean prices after deduction of the ECB haircut.

	2020				2019			
		Liquidity pool (ECB eligible)	High Quality Liquid Assets (HQLA)[1] in the liquidity pool			Liquidity pool (ECB eligible)	High Quality Liquid Assets (HQLA)[1] in the liquidity pool	
	Liquidity pool € m	€ m	Level 1 € m	Level 2 € m	Liquidity pool € m	€ m	Level 1 € m	Level 2 € m
Cash and deposits with central banks	19,973[2]	–	22,506[2]	–	7,502[2]	–	9,897[2]	–
Total government bonds	5,952	5,345	5,582	370	6,506	5,444	6,101	405
Other:								
Covered bonds	3,656	2,796	2,206	1,450	4,576	3,761	3,079	1,409
Other[3]	14,207	11,523	50	363	10,844	8,007	100	356
Total other	17,863	14,319	2,256	1,813	15,420	11,768	3,179	1,765
Total	43,788	19,664	30,344	2,183	29,428	17,212	19,177	2,170
Of which:								
EUR	41,274				26,217			
GBP	1,247				1,549			
USD	1,263				1,655			
Other	4				7			

[1]Level 1 – High Quality Liquid Assets ("HQLAs") include amongst others, domestic currency (euro) denominated bonds issued or guaranteed by European Economic Area ("EEA") sovereigns, very highly rated covered bonds, other very highly rated sovereign bonds and unencumbered cash at central banks. Level 2 – HQLAs include highly rated sovereign bonds, highly rated covered bonds and certain other strongly rated securities.

[2]For Liquidity Coverage Ratio ("LCR") purposes, assets outside the Liquidity function's control can qualify as HQLAs in so far as they match outflows in the same jurisdiction. For the Group, this means that UK HQLAs (cash held with the Bank of England) can qualify up to the amount of 30 days UK outflows under LCR but are not included in the Group's calculation of available QLA stocks.

[3]Includes unsecured bank bonds and self-issued covered bonds arising from the securitisation of residential mortgage assets.

2.2 Funding and liquidity risk *(continued)*

Other contingent liquidity

The Group has access to other unencumbered assets providing a source of contingent liquidity which are not in the Group's liquidity pool. However, these assets may be monetised in a stress scenario to generate liquidity through use as collateral for secured funding or outright sale.

Liquidity stress testing

Liquidity stress testing is a key component of the ILAAP framework. The Group undertakes liquidity stress testing that includes both firm specific and systemic risk events and a combination of both as a key liquidity control. Stressed assumptions are applied to the Group's liquidity buffer and liquidity risk drivers. This estimates the potential impact of a range of stress scenarios on the Group's liquidity position including its available liquid assets and contingent liquidity. The purpose of these tests is to ensure the continued stability of the Group's liquidity position within the Group's pre-defined liquidity risk tolerance levels. Liquidity stress test results are reported to the ALCo, Executive Committee and Board.

The Group also monitors a suite of Recovery Plan Triggers and Early Warning Indicators in order to identify the potential emergence of a liquidity stress. As part of its contingency and recovery planning, the Group has identified a suite of potential funding and liquidity options which could be exercised to help the Group to restore its liquidity position on the occurrence of a major stress event.

Liquidity regulation

The Group is required to comply with the liquidity requirements of the Single Supervisory Mechanism/Central Bank of Ireland and also with the requirements of local regulators in jurisdictions in which it operates. In addition, the Group is required to carry out liquidity stress testing capturing firm specific, systemic risk events and a combination of both. The Group adheres to these requirements.

Liquidity metrics	31 December 2020 %	31 December 2019 %
Liquidity Coverage Ratio	**193**	157
Net Stable Funding Ratio	**148**	129
Loan to Deposit Ratio	**69**	85

The Group monitors and reports its current and forecast position against CRD IV and other related liquidity metrics and has fully complied with the minimum LCR requirement of 100% during 2020.

The calculated NSFR is based on the current Basel standard. The second Capital Requirements Regulation (CRR2), published 27 June 2019, introduces a binding NSFR requirement of 100% and comes into force in June 2021.

Risk management – 2. Individual risk types

2.2 Funding and liquidity risk *(continued)*

Funding structure*

The Group's funding strategy is to deliver a sustainable, diversified and robust customer deposit base at economic pricing and to further enhance and strengthen the wholesale funding franchise with appropriate access to term markets to support core lending activities. The strategy aims to deliver a solid funding structure that complies with internal and regulatory policy requirements and reduces the probability of a liquidity stress, i.e. an inability to meet funding obligations as they fall due.

	31 December 2020		31 December 2019	
Sources of funds	**€ m**	**%**	€ m	%
Customer accounts	**81,972**	**77**	71,803	76
Of which:				
Euro	**67,998**		58,507	
Sterling	**12,207**		11,316	
US dollar	**1,561**		1,803	
Other currencies	**206**		177	
Deposits by central banks and banks – secured	**4,473**	**4**	294	–
– unsecured	**217**	**–**	529	1
Asset covered securities ("ACS")	**2,275**	**2**	3,025	3
Senior debt	**3,175**	**3**	3,806	4
Capital	**14,971**	**14**	15,529	16
Total source of funds	**107,083**	**100**	94,986	100
Other	**3,302**		3,576	
	110,385		98,562	

Customer deposits represent the largest source of funding for the Group with the core retail franchises and accompanying deposit base in both Ireland and the UK providing a stable and reasonably predictable source of funds. Customer accounts increased by € 10,169 million in 2020 predominantly due to COVID-19 related dynamics of precautionary savings and lower consumer consumption. This was mainly reflected in a € 9,491 million increase in Euro deposits, primarily in current and demand deposit accounts. Whilst there was a decrease in the value of both GBP and USD deposits of € 836 million due to currency movements this was more than absorbed by an underlying increase in GBP deposits of € 1,583 million on a constant currency basis.

The Group participated in the ECB three year Targeted Long Term Refinancing Operation III ("TLTRO III"). These ECB operations are aimed to support the continued access of firms and households to bank credit by applying favourable interest rates to TLTRO III operations of participating banks subject to achieving prescribed lending targets and have the option of early repayment after the first year. Secured deposits by central banks and banks increased by € 4,179 million to € 4,473 million predominantly due to the Group's € 4 billion drawdown in TLTRO III operations.

During 2020, senior debt decreased € 631 million primarily reflecting a € 500 million maturity and a € 131 million USD foreign currency translation decrease. Outstanding asset covered securities ("ACS") at 31 December 2020 decreased € 750 million to € 2,275 million due to a contractual maturity. For further details on debt securities, see 'Debt securities in issue' (note 33) to the consolidated financial statements.

During 2020, capital decreased € 558 million to € 14,971 million primarily driven by losses incurred during the year (31 December 2019: € 15,529 million). Within this, the Group issued € 625 million (nominal value) of AT1 Perpetual Contingent Temporary Write-Down Securities in June 2020 and fully redeemed the € 500 million AT1 Perpetual Contingent Temporary Write-Down Securities issued in 2015. For further details on these capital items, see 'Other equity interests' (note 39) and 'Non-controlling interests in subsidiaries' (note 40) in the consolidated financial statements. In addition, subordinated debt increased € 251 million primarily reflecting a € 1 billion Tier 2 issuance offset by a € 750 million maturity – for further details see 'Subordinated liabilities and other capital instruments' (note 37) to the consolidated financial statements.

*Forms an integral part of the audited financial statements

2.2 Funding and liquidity risk *(continued)*

Composition of wholesale funding[1]

At 31 December 2020, total wholesale funding outstanding was € 11,690 million (2019: € 8,953 million). € 912 million of wholesale funding matures in less than one year (2019: € 1,779 million). € 10,778 million of wholesale funding has a residual maturity of over one year (2019: € 7,174 million).

Outstanding wholesale funding comprised € 6,748 million in secured funding (2019: € 3,319 million) and € 4,942 million in unsecured funding (2019: € 5,634 million).

									2020
	< 1 month € m	1–3 months € m	3–6 months € m	6–12 months € m	Total < 1 year € m	1–3 years € m	3–5 years € m	> 5 years € m	Total € m
Deposits by central banks and banks	387	25	–	–	412	4,278	–	–	4,690
Senior debt	–	–	–	–	–	1,111	2,064	–	3,175
ACS	–	500	–	–	500	1,750	–	25	2,275
Subordinated liabilities and other capital instruments	–	–	–	–	–	–	–	1,550	1,550
Total 31 December	387	525	–	–	912	7,139	2,064	1,575	11,690
Of which:									
Secured	170	525	–	–	695	6,028	–	25	6,748
Unsecured	217	–	–	–	217	1,111	2,064	1,550	4,942
	387	525	–	–	912	7,139	2,064	1,575	11,690

									2019
	< 1 month € m	1–3 months € m	3–6 months € m	6–12 months € m	Total < 1 year € m	1–3 years € m	3–5 years € m	> 5 years € m	Total € m
Deposits by central banks and banks	351	–	178	–	529	294	–	–	823
Senior debt	–	500	–	–	500	–	1,916	1,390	3,806
ACS	–	–	–	750	750	1,250	1,000	25	3,025
Subordinated liabilities and other capital instruments	–	–	–	–	–	–	–	1,299	1,299
Total 31 December	351	500	178	750	1,779	1,544	2,916	2,714	8,953
Of which:									
Secured	–	–	–	750	750	1,544	1,000	25	3,319
Unsecured	351	500	178	–	1,029	–	1,916	2,689	5,634
	351	500	178	750	1,779	1,544	2,916	2,714	8,953

[1]The maturity analysis has been prepared using the residual contractual maturity of the liabilities.

Risk management – 2. Individual risk types

2.2 Funding and liquidity risk *(continued)*

Currency composition of wholesale debt

At 31 December 2020, 84% (2019: 76%) of wholesale funding was in euro with the remainder held in GBP and USD. The Group manages cross-currency refinancing risk against foreign exchange cash flow limits.

	2020					2019				
	EUR € m	GBP € m	USD € m	Other € m	Total € m	EUR € m	GBP € m	USD € m	Other € m	Total € m
Deposits by central banks and banks	4,342	283	65	–	4,690	287	313	223	–	823
Senior debt	1,750	–	1,425	–	3,175	2,249	–	1,557	–	3,806
ACS	2,275	–	–	–	2,275	3,025	–	–	–	3,025
Subordinated liabilities and other capital instruments	1,511	39	–	–	1,550	1,260	39	–	–	1,299
Total wholesale funding	9,878	322	1,490	–	11,690	6,821	352	1,780	–	8,953
% of total funding	%	%	%	%	%	%	%	%	%	%
	84	3	13	–	100	76	4	20	–	100

Encumbrance

An asset is defined as encumbered if it has been pledged as collateral, and as a result is no longer available to the Group to secure funding, satisfy collateral needs or to be sold. The Group manages encumbrance levels to ensure that the Group has sufficient contingent collateral to maximise balance sheet flexibility.

The Group's encumbrance ratio remained stable at 11% at 31 December 2020 (2019: 11%) with € 12,971 million of the Group's assets encumbered (2019: € 11,572 million). The encumbrance level is based on the amount of assets that are required in order to meet regulatory and contractual commitments.

Central Bank refinancing operations and interbank repurchase agreements

The following table analyses the interbank repurchase agreements and central bank refinancing operations as at 31 December 2020 and 2019:

	2020				2019			
	<1 month € m	1–3 months € m	>3 months € m	Total € m	<1 month € m	1–3 months € m	>3 months € m	Total € m
Highly liquid	170	25	3,924	4,119	–	–	–	–
Less liquid	–	–	354	354	–	–	–	–
Maturity profile	170	25	4,278	4,473	–	–	–	–

2.2 Funding and liquidity risk *(continued)*

Financial assets and financial liabilities by contractual residual maturity*

The following table analyses financial assets and financial liabilities by contractual residual maturity at 31 December 2020 and 2019:

						2020
	On demand	<3 months but not on demand	3 months to 1 year	1–5 years	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets						
Derivative financial instruments[1]	–	103	56	372	893	1,424
Loans and advances to banks[2]	1,052	584	163	–	–	1,799
Loans and advances to customers[2]	2,829	1,598	1,867	16,664	36,497	59,455
Investment securities[3]	–	689	2,540	7,343	8,706	19,278
Other financial assets	–	365	–	–	–	365
	3,881	3,339	4,626	24,379	46,096	82,321
Financial liabilities						
Deposits by central banks and banks	212	200	–	4,278	–	4,690
Customer accounts	69,302	8,392	2,961	1,291	26	81,972
Derivative financial instruments	–	20	42	197	942	1,201
Debt securities in issue	–	500	–	4,925	25	5,450
Subordinated liabilities and other capital instruments	–	–	–	–	1,550	1,550
Other financial liabilities	970	–	–	–	–	970
	70,484	9,112	3,003	10,691	2,543	95,833

						2019
	On demand	<3 months but not on demand	3 months to 1 year	1–5 years	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets						
Derivative financial instruments[1]	–	50	36	292	893	1,271
Loans and advances to banks[2]	1,325	152	1	–	–	1,478
Loans and advances to customers[2]	3,147	1,297	2,068	17,323	38,291	62,126
Investment securities[3]	–	322	2,190	8,073	5,931	16,516
Other financial assets	–	890	–	–	–	890
	4,472	2,711	4,295	25,688	45,115	82,281
Financial liabilities						
Deposits by central banks and banks	351	–	178	294	–	823
Customer accounts	57,954	9,008	3,615	1,160	66	71,803
Derivative financial instruments	–	126	140	166	765	1,197
Debt securities in issue	–	500	750	4,167	1,414	6,831
Subordinated liabilities and other capital instruments	–	–	–	–	1,299	1,299
Other financial liabilities	1,004	–	–	–	–	1,004
	59,309	9,634	4,683	5,787	3,544	82,957

[1]Shown by maturity date of contract.
[2]Shown gross of expected credit losses.
[3]Excluding equity shares.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.2 Funding and liquidity risk *(continued)*

Financial liabilities by undiscounted contractual maturity*

The balances in the table below include the undiscounted cash flows relating to principal and interest on financial liabilities and as such will not agree directly with the balances on the consolidated statement of financial position. All derivative financial instruments have been analysed based on their contractual maturity undiscounted cash flows.

In the daily management of liquidity risk, the Group adjusts the contractual outflows on customer deposits to reflect the inherent stability of these deposits. Offsetting the liability outflows are cash inflows from the assets on the statement of financial position. Additionally, the Group holds a stock of high quality liquid assets, which are held for the purpose of covering unexpected cash outflows.

The following table analyses, on an undiscounted basis, financial liabilities by remaining contractual maturity at 31 December 2020 and 2019:

						2020
	On demand	<3 months but not on demand	3 months to 1 year	1–5 years	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Financial liabilities						
Deposits by central banks and banks	212	200	(15)	4,237	–	4,634
Customer accounts	69,302	8,393	2,966	1,293	26	81,980
Derivative financial instruments	–	67	179	562	371	1,179
Debt securities in issue	–	533	85	5,215	31	5,864
Subordinated liabilities and other capital instruments	–	–	28	153	1,847	2,028
Other financial liabilities	970	–	–	–	–	970
	70,484	9,193	3,243	11,460	2,275	96,655

						2019
	On demand	<3 months but not on demand	3 months to 1 year	1–5 years	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Financial liabilities						
Deposits by central banks and banks	351	5	181	297	–	834
Customer accounts	57,954	9,032	3,624	1,164	66	71,840
Derivative financial instruments	–	166	252	439	357	1,214
Debt securities in issue	–	563	822	4,556	1,449	7,390
Subordinated liabilities and other capital instruments	–	–	82	200	1,466	1,748
Other financial liabilities	1,004	–	–	–	–	1,004
	59,309	9,766	4,961	6,656	3,338	84,030

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2.2 Funding and liquidity risk *(continued)*

Financial liabilities by undiscounted contractual maturity* *(continued)*

The undiscounted cash flows potentially payable under guarantees and similar contracts

The undiscounted cash flows potentially payable under guarantees and similar contracts, included below within contingent liabilities, are classified on the basis of the earliest date the facilities can be called. The Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet their obligations. The Group expects that most guarantees it provides will expire unused.

The Group has given commitments to provide funds to customers under undrawn facilities. The undiscounted cash flows have been classified on the basis of the earliest date that the facility can be drawn. The Group does not expect all facilities to be drawn, and some may lapse before drawdown – for further details see 'Contingent liabilities and commitments' (note 43) to the consolidated financial statements.

The following table analyses undiscounted cash flows potentially payable under guarantees and similar contracts at 31 December 2020 and 2019:

						2020
	On demand	<3 months but not on demand	3 months to 1 year	1–5 years	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Contingent liabilities	722	–	–	–	–	722
Commitments	12,504	–	–	–	–	12,504
	13,226	–	–	–	–	13,226

						2019
	On demand	<3 months but not on demand	3 months to 1 year	1–5 years	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Contingent liabilities	711	–	–	–	–	711
Commitments	11,539	–	–	–	–	11,539
	12,250	–	–	–	–	12,250

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

The following table analyses gross loans and advances to customers by contractual residual maturity and interest rate sensitivity at 31 December 2020 and 2019. Overdrafts, which in the aggregate represent approximately 1% of the portfolio at 31 December 2020, are classified as repayable within one year. Approximately 23% of the Group's loan portfolio is provided on a fixed rate basis. Fixed rate loans are defined as those loans for which the interest rate is fixed for the full term of the loan. The interest rate risk exposure is managed within agreed policy parameters. The geographical concentrations are based primarily on the location of the office recording the transaction.

							2020
	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Ireland	12,506	38,251	50,757	5,444	12,212	33,101	50,757
United Kingdom	1,005	7,568	8,573	850	4,330	3,393	8,573
Rest of the World	–	125	125	–	122	3	125
Total	13,511	45,944	59,455	6,294	16,664	36,497	59,455

							2019
	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Ireland	9,946	42,794	52,740	5,515	12,583	34,642	52,740
United Kingdom	902	8,325	9,227	997	4,626	3,604	9,227
Rest of the World	–	159	159	–	114	45	159
Total	10,848	51,278	62,126	6,512	17,323	38,291	62,126

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.3 Capital adequacy risk*

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

Identification and assessment

Capital adequacy risk is primarily evaluated through the annual financial planning and ICAAP processes where the level of capital required to support growth plans and meet regulatory requirements is assessed over the three year planning horizon. Plans are assessed across a range of scenarios ranging from base case and moderate downside scenarios to a severe but plausible stress using the Group's stress testing methodologies. The impact of changing regulatory requirements, changes in the risk profile of the Group's balance sheet and other internal factors, and changing external risks are regularly assessed by first line of defence and second line of defence teams via regular monitoring of performance against the agreed financial plan, monthly capital updates to ALCo and Group Risk Committees and are also assessed via quarterly internal stress testing. An annual material risk assessment is conducted to identify all relevant (current and anticipated) material risks which are then assessed from a capital perspective.

The Board reviews and approves the ICAAP on an annual basis and is also responsible for signing a capital adequacy statement attesting that the Board has reviewed and is satisfied with the capital adequacy of the Group.

Management and measurement

The ICAAP is fully integrated and embedded in the strategic, financial and risk management processes of the Group. An ICAAP Framework is in place which sets out the key processes, governance arrangements and roles and responsibilities which support the ICAAP. Embedding of the ICAAP is facilitated through capital planning, the setting of risk appetite and risk adjusted performance monitoring. In addition to the capital plan, a capital contingency plan is in place which identifies and quantifies actions which are available to the Group in order to mitigate against the impact of a stress event. Trigger points at which these actions will be considered are also identified. A further set of triggers and capital options are set out in the Group's recovery plan, which presents the actions available to the Group to restore viability in the event of extreme stress. Finally, the Group has an approved capital allocation mechanism in place which seeks to ensure that capital is allocated on a risk-adjusted basis.

The Group uses risk adjusted return on capital for capital allocation purposes and as a behavioural driver of sound risk management. The use of risk adjusted return on capital for portfolio management and in lending decisions continues to be an area of focus and a key consideration for pricing of lending products, both at portfolio level and individually for large transactions.

Monitoring, escalating and reporting

The Group monitors its capital adequacy on a monthly basis when a capital reporting pack is presented to senior executives and Board Committees setting out the evolution of the Group's capital position. Monthly monitoring of the risk profile including performance against Risk Appetite is presented to the Board Risk Committee and Board via the CRO Report. The output of quarterly stress tests is reviewed by ALCo and on an annual basis an ICAAP Report is produced which is a comprehensive analysis of the Group's capital position in base and stress scenarios over a three year horizon. The ICAAP document is reviewed and approved by the Board and is submitted to the Joint Supervisory Team, where it forms the basis of their supervisory review and evaluation process.

2020 developments in response to COVID-19

A number of actions were taken throughout 2020 in response to the COVID-19 pandemic. These included: (i) more frequent review of the calibration of key Capital Risk - Risk Appetite Statement metrics to reflect changes in regulatory requirements and the external environment; (ii) increased stress testing and sensitivity analysis covering a broader range of scenarios reflecting the high level of uncertainty regarding the potential path of the pandemic and (iii) more frequent reforecasting of base case financial and capital plans to the Board.

Further detail on the Group's capital management, together with its overall capital position can be found in the capital management section of the Annual Financial Report 2020.

*Forms an integral part of the audited financial statements

2.4 Financial risks (a) Market risk

Market risk refers to the risk of income and capital losses arising from adverse movements in wholesale market prices. The Group is exposed to market risk through the following wholesale market risk factors: interest rates, foreign exchange rates, equity prices, inflation rates and credit spreads. Changes in customer behaviours and the relationship between wholesale and retail rates give rise to changes in the Group's exposure to market risk factors and are also an important component of market risk.

The Group assumes market risk as a result of its banking and trading book activities. The main components of market risk are:

- Credit spread risk is the exposure of the Group's financial position to adverse movements in the credit spreads of bonds held in the hold-to-collect-and-sell ("HTCS") securities portfolio. Credit spreads are defined as the difference between bond yields and interest rate swap rates of equivalent maturity. The HTCS bond portfolio is the principal source of credit spread risk. The Group also monitors the credit spread risk in its hold-to-collect ("HTC") bond portfolio;
- Interest rate risk in the banking book ("IRRBB") is the current or prospective risk to both the earnings and capital of the Group as a result of adverse movements in interest rates. Changes in interest rates impact the underlying value of the Group's assets, liabilities and off-balance sheet instruments and, hence, its economic value (or capital position). Similarly, interest rate changes will impact the Group's net interest income (NII) through interest-sensitive income and expense effects; and
- The Group also assumes market risk through its trading book activities which relate to all positions in financial instruments (principally derivatives) that are held with trading intent or in order to hedge positions held with trading intent. Risks associated with valuation adjustments such as credit value adjustment ("CVA") and funding value adjustment ("FVA") are managed by the trading unit in the Group's Treasury function.

Identification and assessment

Market risk is identified and assessed using portfolio sensitivities, Value at Risk ("VaR") and stress testing. Interest rate gaps and sensitivities to various risk factors are measured and reported on a daily basis. In terms of the VaR metric, the Group calculates a daily historical simulation VaR to a 95% confidence level, using a one day holding period and based on one year of historic data. The Group's VaR models are regularly back-tested to ensure robustness. In addition to VaR, Capital at Risk ("CaR") is also measured to a one year[1] time horizon, a 99% confidence level and a longer set of data.

Management and measurement*

Market risk is managed against a range of Board approved VaR limits which cover market risk in the trading book, interest rate risk in the banking book and credit spread risk in the banking book. The Board approved limits are supplemented by a range of ALCo approved limits which include VaR limits, nominal and sensitivity limits and 'stop loss' limits.

The Group operates a three lines of defence model for risk management. For market risk the first line comprises the Finance and Treasury functions who report to the CFO. The Group's Finance function is responsible for the identification, measurement and reporting of the Group's aggregate market risk profile.

The Group's Treasury function is responsible for managing market risk that has been transferred to it by the customer facing businesses and the Group's Asset and Liability Management ("ALM") function which exists within Finance. Treasury also has a mandate to trade on its own account in selected wholesale markets with risk tolerances approved on an annual basis through the Group's Risk Appetite process.

The first line documents an annual Market Risk Strategy and Appetite statement as part of the annual financial planning cycle which ensures market risk aligns with the Group's strategic business plan.

The Financial Risk function, reporting to the CRO, is responsible for the development of the market risk measurement methodologies. It proposes and maintains the Market Risk Management Framework and Policies as the basis of the Group's control architecture for market risk activities, including the annual agreement of market risk limits (subject to the Board approved Risk Appetite Statement).

The third line of defence comprises Group Internal Audit which provides third line assurance on market risk.

Credit risk issues inherent in the market risk portfolios are also subject to the credit risk framework that is described in Section 2.1.

[1]The Capital at Risk on core trading book positions is assessed using a ten day horizon, with the exception of FX which is assessed using a one year horizon.

2020 developments in response to COVID-19

In response to the COVID-19 pandemic, the Group reacted in the following manner in respect of market risk management activities:

- The Group engaged in enhanced market risk monitoring through daily updates provided to the COVID-19 Working Group. Key outputs were reported to ALCo and the wider Group-wide COVID-19 management response team.
- Additional temporary metrics appropriate to specific market risks were implemented to assist dynamic management of these risks given the market volatility.
- The suite of market risk stress tests performed to assess the full range of potential adverse outcomes was broadened to include the pandemic.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.4 Financial risks (a) Market risk *(continued)*

Monitoring, escalating and reporting*

On a daily basis front office and risk functions receive a range of valuation, sensitivity and market risk measurement reports, while ALCo receives a monthly market risk commentary and summary risk profile. Market risk exposures are reported to the Group Risk Committee ("GRC") and Board Risk Committee ("BRC") on a monthly basis through the CRO Report.

The following table sets out financial assets and financial liabilities at 31 December 2020 and 2019 subject to market risk analysed between trading and non-trading portfolios, showing the principal market risks to which the assets and liabilities are exposed:

				2020
		Market risk measures		
	Carrying amount € m	Trading portfolios € m	Non-trading portfolios € m	Risk factors
Assets subject to market risk				
Cash and balances at central banks	25,550	–	25,550	Interest rate, foreign exchange
Derivative financial instruments	1,424	650	774	Interest rate, foreign exchange, credit spreads, equity, inflation swap rates
Loans and advances to banks	1,799	–	1,799	Interest rate, foreign exchange
Loans and advances to customers	56,945	–	56,945	Interest rate, foreign exchange
Investment securities	19,479	–	19,479	Interest rate, foreign exchange, credit spreads, equity
Liabilities subject to market risk				
Deposits by central banks and banks	4,690	–	4,690	Interest rate, foreign exchange
Customer accounts	81,972	–	81,972	Interest rate, foreign exchange
Derivative financial instruments	1,201	646	555	Interest rate, foreign exchange, credit spreads, equity, inflation swap rates
Debt securities in issue	5,450	–	5,450	Interest rate, credit spreads, foreign exchange
Subordinated liabilities and other capital instruments	1,550	–	1,550	Interest rate, credit spreads

				2019
		Market risk measures		
	Carrying amount € m	Trading portfolios € m	Non-trading portfolios € m	Risk factors
Assets subject to market risk				
Cash and balances at central banks	11,982	–	11,982	Interest rate, foreign exchange
Derivative financial instruments	1,271	592	679	Interest rate, foreign exchange, credit spreads, equity, inflation swap rates
Loans and advances to banks	1,478	–	1,478	Interest rate, foreign exchange
Loans and advances to customers	60,888	–	60,888	Interest rate, foreign exchange
Investment securities	17,331	–	17,331	Interest rate, foreign exchange, credit spreads, equity
Liabilities subject to market risk				
Deposits by central banks and banks	823	–	823	Interest rate, foreign exchange
Customer accounts	71,803	–	71,803	Interest rate, foreign exchange
Derivative financial instruments	1,197	771	426	Interest rate, foreign exchange, credit spreads, equity, inflation swap rates
Debt securities in issue	6,831	–	6,831	Interest rate, credit spreads, foreign exchange
Subordinated liabilities and other capital instruments	1,299	–	1,299	Interest rate, credit spreads

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2.4 Financial risks (a) Market risk *(continued)*

Market risk profile

The table below shows the sensitivity of the Group's banking book to an immediate and sustained 100 basis point movement in interest rates in terms of the impact on net interest income on a forward looking basis over a twelve month period assuming no change in the balance sheet:

Sensitivity of projected net interest income to interest rate movements	2020 € m	2019 € m
+ 100 basis point parallel move in all interest rates	**219**	234
– 100 basis point parallel move in all interest rates	**(202)**	(274)

The above sensitivity table is computed under the assumption that all market rates (Euribors/Swaps) move upwards or downwards in parallel, however, for upward rates only, the ECB refinancing rate increases by 50% of the market rates. In the downward scenario market interest rates are floored at -1%, consistent with EBA IRRBB guidance.

The downward interest rate sensitivity decreased during the year as a result of development of the sensitivity model in 2020 including the remodelling of market interest rate floors. This is somewhat offset by balance sheet changes over the year resulting in additional reserve balances held at the Central Bank. Further, structural hedges were executed in 2020 to provide protection to falling interest rates.

The above analysis is subject to certain simplifying assumptions such as all interest rate movements occurring simultaneously. Additionally, it is assumed that no management action is taken in response to the rate movements.

The following table summarises the Group's interest rate VaR profile to a 95% confidence level with a one day holding period for the financial years to 31 December 2020 and 2019. The Group recognises the limitations of VaR models, and supplements its VaR measures with stress tests which draw from a longer set of historical data and also with sensitivity measures.

	VaR (trading book)*		VaR (banking book)*		Total VaR*	
	2020 € m	2019 € m	2020 € m	2019 € m	2020 € m	2019 € m
Interest rate risk						
1 day holding period:						
Average	**0.6**	0.3	**9.8**	8.3	**10.5**	8.6
High	**1.1**	0.9	**13.2**	10.8	**14.0**	11.2
Low	**0.3**	0.2	**7.0**	5.1	**7.7**	5.4
At 31 December	**0.3**	0.4	**7.8**	9.8	**8.2**	9.8

The following table sets out the VaR for foreign exchange rate and equity risk for the financial years to 31 December 2020 and 2019:

	Foreign exchange rate risk*		Equity risk*	
	VaR (trading book)		VaR (trading book)	
	2020 € m	2019 € m	2020 € m	2019 € m
1 day holding period:				
Average	**0.09**	0.17	**0.03**	0.02
High	**0.38**	0.80	**0.22**	0.03
Low	**0.02**	0.08	**0.01**	–
At 31 December	**0.03**	0.10	**0.03**	–

The low level of VaR in the trading book throughout 2020 is as a result of very small discretionary positions managed by Treasury. The higher banking book interest rate VaR is as a result of a more substantial level of interest rate risk existing in the Group's banking book.

Interest rate sensitivity*

The net interest rate sensitivity of the Group at 31 December 2020 and 2019 is illustrated in the following table. The table sets out details of those assets and liabilities whose values are subject to change as interest rates change within each contractual repricing time period. Details regarding assets and liabilities which are not sensitive to interest rate movements are included within non-interest bearing or trading captions. The table shows the sensitivity of the statement of financial position at one point in time and is not necessarily indicative of positions at other dates. In developing the classifications used in the table, it has been necessary to make certain assumptions and approximations in assigning assets and liabilities to different repricing categories.

The fair value of derivative financial instruments is included within other assets and other liabilities as interest rate insensitive. However, some derivative instruments are derived from interest sensitive financial instruments, and are shown separately below.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.4 Financial risks (a) Market risk – Interest rate sensitivity *(continued)*

	0<1 Month € m	1<3 Months € m	3<12 Months € m	1<2 Years € m	2<3 Years € m	3<4 Years € m	4<5 Years € m	5 years + € m	Non-interest bearing € m	Trading € m	2020* Total € m
Assets											
Loans and advances to banks	830	544	163	–	–	–	–	–	262	–	1,799
Loans and advances to customers	37,706	8,554	3,265	1,932	2,571	2,076	2,577	864	(2,600)	–	56,945
Investment securities	2,328	1,306	2,490	1,530	2,301	1,523	901	6,899	201	–	19,479
Other assets	24,933	–	–	–	–	–	–	–	6,579	650	32,162
Total assets	65,797	10,404	5,918	3,462	4,872	3,599	3,478	7,763	4,442	650	110,385
Liabilities											
Deposits by central banks and banks	4,665	25	–	–	–	–	–	–	–	–	4,690
Customer accounts	37,777	848	2,853	775	157	224	4	23	39,311	–	81,972
Debt securities in issue	–	500	–	750	2,110	1,565	500	25	–	–	5,450
Subordinated liabilities and other capital instruments	–	–	–	–	–	500	–	1,050	–	–	1,550
Other liabilities	–	–	–	–	–	–	–	–	2,656	646	3,302
Equity	–	–	–	–	–	–	–	–	13,421	–	13,421
Total liabilities and equity	42,442	1,373	2,853	1,525	2,267	2,289	504	1,098	55,388	646	110,385
Derivatives affecting interest rate sensitivity	6,804	(589)	(1,549)	(114)	(1,317)	(1,312)	(539)	(1,384)	–	–	
Interest sensitivity gap	16,551	9,620	4,614	2,051	3,922	2,622	3,513	8,049	(50,946)	4	
Cumulative interest sensitivity gap	16,551	26,171	30,785	32,836	36,758	39,380	42,893	50,942	(4)	–	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	15,000	7,823	2,420	1,660	3,578	2,337	3,292	6,490	(42,700)	(2)	
Cumulative interest sensitivity gap	15,000	22,823	25,243	26,903	30,481	32,818	36,110	42,600	(100)	(102)	
($ in euro equivalents)	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	
Interest sensitivity gap	304	433	227	26	24	3	(49)	56	(1,583)	(3)	
Cumulative interest sensitivity gap	304	737	964	990	1,014	1,017	968	1,024	(559)	(562)	
(£ in euro equivalents)	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	
Interest sensitivity gap	1,280	1,358	1,967	365	320	282	270	1,503	(7,205)	11	
Cumulative interest sensitivity gap	1,280	2,638	4,605	4,970	5,290	5,572	5,842	7,345	140	151	
(Other currencies in euro equivalents)	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	
Interest sensitivity gap	(33)	6	–	–	–	–	–	–	542	(2)	
Cumulative interest sensitivity gap	(33)	(27)	(27)	(27)	(27)	(27)	(27)	(27)	515	513	

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2.4 Financial risks (a) Market risk – Interest rate sensitivity *(continued)*

											2019*
	0<1 Month	1<3 Months	3<12 Months	1<2 Years	2<3 Years	3<4 Years	4<5 Years	5 years +	Non-interest bearing	Trading	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Assets											
Loans and advances to banks	1,072	151	1	–	–	–	–	–	254	–	1,478
Loans and advances to customers	42,957	8,592	2,567	2,113	1,624	1,465	2,100	798	(1,328)	–	60,888
Investment securities	1,850	1,623	2,086	1,249	1,492	2,314	1,586	4,316	815	–	17,331
Other assets	11,322	–	–	–	–	–	–	–	6,951	592	18,865
Total assets	57,201	10,366	4,654	3,362	3,116	3,779	3,686	5,114	6,692	592	98,562
Liabilities											
Deposits by central banks and banks	645	–	178	–	–	–	–	–	–	–	823
Customer accounts	33,478	1,142	3,635	639	201	155	9	–	32,544	–	71,803
Debt securities in issue	–	500	750	500	750	2,167	1,639	525	–	–	6,831
Subordinated liabilities and other capital instruments	–	–	750	–	–	–	500	49	–	–	1,299
Other liabilities	–	–	–	–	–	–	–	–	2,805	771	3,576
Equity	–	–	–	–	–	–	–	–	14,230	–	14,230
Total liabilities and equity	34,123	1,642	5,313	1,139	951	2,322	2,148	574	49,579	771	98,562
Derivatives affecting interest rate sensitivity	10,343	(2,109)	(1,928)	(666)	46	(1,438)	(1,565)	(2,683)	–	–	
Interest sensitivity gap	12,735	10,833	1,269	2,889	2,119	2,895	3,103	7,223	(42,887)	(179)	
Cumulative interest sensitivity gap	12,735	23,568	24,837	27,726	29,845	32,740	35,843	43,066	179	–	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	12,666	6,350	194	2,259	1,936	2,696	3,008	6,610	(34,892)	266	
Cumulative interest sensitivity gap	12,666	19,016	19,210	21,469	23,405	26,101	29,109	35,719	827	1,093	
($ in euro equivalents)	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	
Interest sensitivity gap	186	449	(127)	87	(80)	59	(58)	(24)	(2,138)	(2)	
Cumulative interest sensitivity gap	186	635	508	595	515	574	516	492	(1,646)	(1,648)	
(£ in euro equivalents)	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	
Interest sensitivity gap	(87)	4,011	1,203	543	263	140	153	637	(6,429)	(444)	
Cumulative interest sensitivity gap	(87)	3,924	5,127	5,670	5,933	6,073	6,226	6,863	434	(10)	
(Other currencies in euro equivalents)	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	
Interest sensitivity gap	(30)	23	(1)	–	–	–	–	–	572	1	
Cumulative interest sensitivity gap	(30)	(7)	(8)	(8)	(8)	(8)	(8)	(8)	564	565	

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.4 Financial risks (a) Market risk *(continued)*

Interest rate benchmark reform

Authorities and regulators are facilitating the market's transition from interbank offered rates, referred to as "IBOR" benchmark rates (e.g. LIBOR), to alternative Risk Free Rates (RFRs) by the end of 2021. While it is expected that most reforms affecting the Group will be completed by the end of 2021, consultations and possible regulatory changes are still in progress.

The transition not only impacts financial market participants, but also many of the Group's customers who have an IBOR referenced in their contract. IBORs are extensively embedded within the Group's processes, hence, this transformation will have far reaching impacts in terms of pricing, operations, risk, accounting, data and technology infrastructure, along with potential conduct risk implications. The Group also has cash flow and fair value hedge accounting relationships that are linked to various IBORs.

In terms of exposures, IBORs are referenced by a significant cohort of the Group's portfolio, including derivative and bond transactions in the Treasury function and loans and deposits in the corporate and institutional businesses. Given the role of derivatives portfolios in supporting interest rate risk management activities, both in terms of the Group's structural risk positions and providing solutions to customers, the notional volumes involved are large. The Group does not consider there to be risk in respect of the Euro Interbank Offered Rate (EURIBOR) arising from IBOR because the EURIBOR calculation methodology changed during 2019 and the reform of EURIBOR is complete.

The Group has established a bank-wide Interest Rate Benchmark Reform Transition Programme ("the Programme") with sponsorship from the Chief Financial Officer. The Programme spans all business lines and has cross-functional support. The Programme is overseen by a steering committee, chaired by a senior Treasury executive, supported by a Project Management layer and working groups comprising representation from customer-facing businesses, Finance, Treasury, Risk, Compliance, Legal, Operations and Customer and Strategic Affairs. It is organised into four main workstreams, namely:

- Business readiness;
- Technology;
- Contract re-papering; and
- Customer communications and conduct.

The Programme aims to drive strategic execution and identify, manage and resolve key risks and issues as they arise. The Programme is structured to deliver IBOR transition by the regulators' deadline of 31 December 2021, with actions focused on customer awareness and business readiness activities. The Group is actively engaging with its counterparties to transition or include appropriate fallback provisions and transition mechanisms in its floating rate assets and liabilities with maturities after 2021, when most IBORs are expected to cease to be published.

During 2020, the Group has successfully delivered alternative RFR product capabilities and alternatives to LIBOR across loans and derivatives. Good progress has been made in relation to client outreach and the Group has been actively engaging with customers and counterparties to transition or include the appropriate fallback provisions. The Group has in place detailed plans, processes and procedures to support the transition for the remainder of 2021. Following the progress made during 2020, the Group continues to deliver technology and business process changes to ensure operational readiness in preparation for LIBOR cessation and transitions to RFRs that will be necessary during 2021 in line with official sector expectations and milestones.

The table below sets out a profile of the Group's benchmark reform exposures at 31 December 2020.

	Loans and advances		Deposits		Debt securities (assets)		Derivatives	
	Number of contracts	Nominal € m	Number of contracts	Nominal € m	Number of contracts	Nominal € m	Number of contracts	Notional € m
GBP LIBOR	1,490	6,460	19	26	34	457	875	15,976
USD LIBOR	376	2,377	3	–	73	596	133	3,473
Included for information								
EURIBOR	2,119	8,206	4	130	125	1,163	914	29,300
Total	3,985	17,043	26	156	232	2,216	1,922	48,749

The Group early adopted in 2019 the 'Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform – Phase 1' issued in September 2019. For further details see note 1 accounting policy (q). The Group will adopt in 2021 'Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate benchmark Reform – Phase 2', issued In August 2020. For further details see note 1 accounting policy (ad).

2.4 Financial risks (a) Market risk *(continued)*

Structural foreign exchange risk

Structural foreign exchange risk is the exposure of the Group's capital ratios to changes in exchange rates and results from net investment in subsidiaries, associates and branches, the functional currencies being currencies other than euro. The Group is exposed to foreign exchange risk as it translates foreign currencies into Euro at each reporting period and the currency profile of the Group's capital may not necessarily match that of its assets and risk-weighted assets.

Exchange differences on structural exposures are recognised in 'other comprehensive income' in the financial statements. The Group ALCo monitors structural foreign exchange risk and the foreign exchange sensitivity of consolidated capital ratios. This impact is measured in terms of basis point sensitivities using scenario analysis.

The table below shows the sensitivity of the Group's fully loaded CET1 ratio to a hypothetical and sustained movement in GBP/EUR and USD/EUR foreign exchange rates.

	31 December	
Sensitivity of CET1 fully loaded capital to foreign exchange movements (unaudited)	**2020**	2019
+ 10% move in GBP and USD FX rates	**(0.17%)**	(0.20%)
– 10% move in GBP and USD FX rates	**0.16%**	0.19%

The above analysis is subject to certain simplifying assumptions such as GBP/EUR and USD/EUR foreign exchange rates moving in the same direction and at the same time.

2.4 Financial risks (b) Pension risk

Pension risk is the risk that:

- The funding position of the Group's defined benefit schemes would deteriorate to such an extent that additional contributions would be required to cover its funding obligations towards current and former employees;
- The capital position of the Group is negatively affected as funding deficits will be fully deductible from regulatory capital; and
- There could be a negative impact on industrial relations if the funding level of the scheme was to deteriorate significantly.

Risk identification and assessment

The IAS 19 valuation of the pension scheme assets and liabilities may vary which could impact on the Group's capital. The Group works with the Trustees of each scheme to monitor the performance of investments and estimates of future liability to identify deficits.
Given that variability in the value of the pension scheme assets and liabilities can impact on the Group's capital, the key processes through which pension risk is evaluated are the Internal Capital Adequacy Assessment Process ("ICAAP") as well as quarterly internal stress tests and monthly reporting of pension risk against risk appetite.

The Group maintains a number of defined benefit pension schemes for current and former employees. All defined benefit schemes operated by the Group closed to future accrual no later than the 31 December 2013 and staff transferred to defined contribution schemes for future pension benefits.

Each scheme has a separate trustee board and the Group has agreed funding plans to deal with deficits where they exist. As part of any funding agreement, the Group engages with each trustee regarding an appropriate investment strategy to reduce the risk in that scheme.

Irish schemes that are deemed to have a deficit under the Minimum Funding Standard must prepare funding plans to address this situation in a timely manner and submit them to the Pensions Authority for approval.

Management and measurement*

The ability of the pension schemes to meet the projected pension payments is managed by the Trustees through the active management of the investment portfolios. Although the Group has interaction with the trustees, it cannot direct the investment strategy of the schemes.

The Group has developed a strategy for each of its defined benefit schemes which include the following steps;

1. All defined benefit schemes are closed to future accrual.
2. They have funding plans (or are funded as required for the US schemes) and each defined benefit scheme has an investment strategy in place.
3. All schemes have a strategy of de-risking in line with their regulatory requirements and funding plans, taking into account the nature of their liabilities.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.4 Financial risks (b) Pension risk *(continued)*

Independent actuarial valuations for the AIB Group Irish Pension Scheme and the AIB Group UK Pension Scheme are carried out on a triennial basis by the Schemes' actuary, Mercer. The most recent valuation of the Irish scheme was carried out at 30 June 2018 and reported the scheme to be in surplus. No deficit funding is required at this time as the Irish scheme meets the minimum funding standard. The most recent valuation of the UK scheme was carried out at 31 December 2017. The next actuarial valuation of the UK scheme as at 31 December 2020 is due to be completed by no later than 31 December 2021. The Group and the Trustee of the UK scheme agreed funding payments under an arrangement agreed in December 2019 which is described below.

In December 2019, the Group agreed a revised funding arrangement for the UK scheme with the Scheme Trustee to support the purchase of the pensioner buy-in policy in respect of the pensioner members and an assured payment policy ("APP") in respect of the deferred members. A contribution of £ 30.5 million was made in 2020. Under this funding arrangement, the Group also expects to make payments of £ 18.5 million each year during 2021 to 2023, with a final balancing payment, which is currently expected to be c. £ 50 million, to be made in 2024/early 2025.

Monitoring, escalating and reporting*

Pension risk is monitored and controlled in line with the requirements of the Group's pension risk framework and policy. The surplus or deficit is monitored on a monthly basis by the Group's risk team and is currently reported monthly in both the financial risk report to the Group Assets and Liabilities Committee (''ALCo'') and the Group Chief Risk Officer report.

Pension risk is also included in the quarterly internal stress test. The output of quarterly stress tests is reviewed by ALCo and on an annual basis an ICAAP Report is produced which is a comprehensive analysis of the Group's capital position in base and stress scenarios over a three year horizon. This document is reviewed and approved by the Board and is submitted to the Joint Supervisory Team.

The pension capital at risk exposure is measured and reported monthly in the CRO report against a Group Risk Appetite Statement watch trigger. While the Group has taken certain risk mitigating actions, a level of volatility associated with pension funding remains due to potential financial market fluctuations and possible changes to pension and accounting regulations.

2.5 Operational risk

Operational risk is the risk arising from inadequate or failed internal processes, people and systems, or from external events. This includes legal risk – the potential for loss arising from the uncertainty of legal proceedings and potential legal proceedings, but excludes strategic and reputational risk.

Identification and assessment

Risk and Control Assessment ("RCA") is a core process in the identification and assessment of operational risk across the Group. The process serves to ensure that key risks are proactively identified, evaluated, monitored and reported, and that appropriate action is taken. Self-assessment of risks is completed at business unit level and is recorded on SHIELD which is the Group's governance, risk and compliance system. SHIELD provides all areas with one consistent view of the operational risks, controls, actions and events across the Group. RCAs are regularly reviewed and updated by business unit management. A materiality matrix is in place to enable the scoring of risks, and action plans must be developed to provide mitigants for the more significant risks.

Management and measurement

Each business area is primarily responsible for managing its own risks. The Operational Risk Framework includes policies specific to key operational risks (such as information security including cyber risk, continuity and resilience, and third party management among others) to ensure an effective and consistent approach to operational risk management across the Group. The Group also requires all business areas to undertake risk assessments and establish appropriate internal controls, in order to ensure that all components, taken together, deliver the control objectives of key risk management processes. The role of operational risk is to review operational risk management activities across the Group including setting policy and promoting best practice disciplines, augmented by an independent second line assurance process which sits within the Compliance function. In addition, an insurance programme is in place, including a self-insured retention, to cover a number of risk events which would fall under the operational risk umbrella. These include financial lines policies (comprehensive crime/computer crime/cyber/professional indemnity/civil liability; employment practices liability; directors and officers liability and a suite of general insurance policies to cover such things as property and business interruption, terrorism, combined liability and personal accident).

*Forms an integral part of the audited financial statements

2.5 Operational risk *(continued)*

Monitoring, escalating and reporting

The primary objective of operational risk reporting is to provide the Board with a timely and pertinent update on the Operational Risk profile. A secondary objective is to provide senior management with an overview of the operational risk profile, in order to support the effective management of risks. The profile update details the current status of the Group's key operational risks and includes an overview of current trends and an update on recent significant events and any remediation actions/lessons identified following events. In addition, the Group Risk Committee receive summary information on the Group's operational risk profile on a regular basis through the CRO report.

2020 developments in response to COVID-19

The 2020 developments in operational risk management were focused on the Group's response to the COVID-19 pandemic. Changes implemented as a result of COVID-19 to support delivery of customer services have presented challenges to operational risk management and measurement. In the initial stages of the response, the Group invoked its incident management framework to ensure the safety of its people and customers and to manage the disruption caused by the public health response to the Group's customers, suppliers and staff. Areas of focus in the Group's response to the pandemic included the roll-out of new processes and procedures to support implementation of COVID-19 payment breaks, enhanced oversight of third party service providers to ensure continuity of service provision and the implementation of measures to enable social distancing at all the Group's buildings. The Group's operational resilience has been demonstrated throughout this period and will remain a key area of focus in the months ahead.

Additionally, the Group has enabled a sustainable remote working capability for all staff members. Significant effort and resources continue to be committed to ensure the Group's operational resilience and continuity in the delivery of its services as well as risk management approach and systems remain robust in light of challenges presented. As the impact of COVID-19 across wider society continues to evolve, the Group expects the evolution of risk management and systems to continue and remain confident that the Group can ensure the control environment remains robust.

2.6 Regulatory compliance risk

Regulatory compliance risk is defined as the risk of legal or regulatory sanctions or failure to protect market integrity which could result in material financial loss or reputational damage. Failure to comply with laws, regulations, or rules, for example Data Protection, Anti-Money Laundering, Countering Terrorist Financing, Financial Sanctions and Modern Slavery, as well as internal standards and codes of conduct, could result in regulatory sanction or detrimental customer impact.

Identification and assessment

The Regulatory Compliance function is specifically responsible for independently identifying and assessing current and forward looking compliance obligations, as well as financial crime regulation and regulation on privacy and data protection. Regulatory Compliance undertakes a periodic detailed assessment of the key compliance risks and associated mitigants. The Regulatory Compliance function operates a risk framework approach that is used in collaboration with business units to identify, assess and manage key compliance risks at business unit level. These risks are incorporated into the risk control assessments for the relevant business unit.

Management and measurement

The Board, operating through the Board Risk Committee, approves the Group's Regulatory Compliance Risk Management Framework and its mandate for the Regulatory Compliance function.

The primary role of the Regulatory Compliance function is to provide direction and advice to enable management to discharge its responsibility for managing the Group's compliance risks. The principal compliance risk mitigants are risk identification, assessment, measurement and the establishment of suitable controls at business level.

Monitoring, escalating and reporting

Group Risk Assurance, within Regulatory Compliance undertakes risk-based assurance of compliance with relevant policies, procedures and regulatory obligations. Assurance can be undertaken by either standalone independent assurance teams, or in collaboration with other control functions such as Group Internal Audit and/or Operational Risk.

Risk prioritised annual assurance plans are prepared with assurance reviews undertaken on both a business unit and a process basis. The annual assurance plan is reviewed regularly, and updated to reflect changes in the risk profile from emerging risks, changes in risk assessments and new regulatory 'hotspots'. Issues emerging from assurance activity are escalated for management attention, and action plans and implementation dates are agreed. The implementation of these action plans is monitored by Group Risk Assurance.

Regulatory Compliance report to the Chief Risk Officer and independently to the Board, through the Board Risk Committee, on the effectiveness of the processes established to ensure compliance with laws and regulations within its scope.

Risk management – 2. Individual risk types

2.6 Regulatory compliance risk *(continued)*

2020 developments in response to COVID-19

Recognising the exceptional circumstances created by the COVID-19 pandemic, and the subsequent profound societal, financial and economic impacts, the Group understood the need to provide customer centric solutions at speed. The Group's payment break solutions supported impacted customers in the form of either postponement or reduction in repayments on their existing lending facilities (mortgage, personal and business lending drawn down pre 3 March 2020), with no adverse impacts to them as a result. These solutions were initially available for a three month period, internally referred to as Payment Break One (PB1). This was then extended for an additional three month period as required by the ECB (announced 18 June 2020), expiring 30 September 2020. Given this extension all customers in receipt of PB1 were eligible to apply for a second payment break (PB2), with these solutions being available to all customers who deemed their COVID-19 financial impact to be short term in nature i.e. post the expiry date of their PB1/PB2 solution the customer expects to be able to resume normal repayments.

Regulatory Compliance provided significant input to the assessment of COVID-19 solutions and measures designed to support the Group's customers and the economy through this unprecedented crisis. To that end, Regulatory Compliance reviewed and challenged the solutions presented by the business areas to ensure key regulatory and conduct risks, mitigants and controls are identified and communicated to all relevant governance fora up to and including Board as appropriate. Throughout this period, Regulatory Compliance continuously monitored the impact on Risk Appetite Statement metrics. In addition, Group Risk Assurance provided end-to-end assurance over key elements of the customer journey across the payment break solutions offered within Mortgages, SME, Personal, FSG and CIB business streams, as well as the completion of four COVID-19 Targeted Control Assessment reviews.

The Group actively monitored regulatory correspondence and guidance issued to the industry. In addition, bilateral engagement between the Group and its Regulators took place throughout the COVID-19 pandemic and Regulatory Compliance actively participated in related Banking & Payments Federation of Ireland (BPFI) Working Groups. Regulatory Compliance continue to closely monitor developments related to COVID-19 and is committed to protecting and supporting the Group's customers.

2.7 Conduct risk

Conduct risk is defined as the risk that inappropriate actions or inactions by the Group cause poor and unfair customer outcomes or market instability.

Identification and assessment

All first line business unit management and staff are responsible and accountable for the identification, assessment, management, monitoring and reporting of the conduct risks that arise within their areas of responsibility. Group Conduct complete horizon scanning and benchmarking to identify future conduct risk considerations within business/regulatory environments. In addition, Regulatory Compliance identify upstream conduct risk and communicate to the relevant business areas. Identified conduct risks and driving factors are reviewed on an annual basis as part of the material risk assessment process.

Conduct risks are identified, monitored and managed in line with the risk and control assessment guidelines which provides documentary evidence of risk assessments, determines the risk profile of the business, drives risk management and actions plans (including KRI development and reporting) and maintains a risk register of group material risks. The risk and control assessment guidelines have identified a number of key conduct risks relating to customer satisfaction, employee behaviour and clients, business and product practice.

The Group has also identified a number of driving factors pertaining to conduct risk and these are reviewed on an annual basis as part of the material risk assessment process. These include, inter alia:

- The pace and complexity of changing industry best practice and clarifications received in relation to regulatory expectations can drive an accelerated process for changing products, practices, services and cultures;
- Changing expectations from society on banks can influence the conduct decisions by the appropriate authorities;
- Increased competition in terms of resources, skills, industry participants, remuneration practices and customers bases;
- Negative macroeconomic environment can result in unexpected bank and/or employee behaviour and potential increased market instability; and
- Climate change-related risks (both physical and transition) may result in poor customer outcomes (e.g. products not aligned to climate risk drivers).

2.7 Conduct risk *(continued)*

Management and measurement

The below outlines the management and measurement of conduct risk:

- The Group Conduct Committee together with divisional segment committees have responsibility for the Group's consumer protection agenda;
- Group Conduct provides independent oversight and governance of conduct risk across the Group and is a mandatory approver of product/propositions proposals, training and awareness building;
- An approved Group conduct strategy, aligned with the Group's purpose, strategy and core values, is supported by the annual business segment action plans, delivering against key strategic objectives, ensuring continued progress on embedding conduct and meeting evolving regulatory expectations;
- The processes to address complex and less complex complaints are differentiated with business areas managing and addressing the more straightforward complaints while complex complaints are increasingly addressed centrally via the Group's Customer Care Centre of Excellence;
- Trends and themes are monitored (including social media) and root cause analysis conducted of underlying issues, and
- The Group Head of Conduct is a member of a number of key working groups and fora regarding the management and measurement of conduct risk, and provides challenge on Risk Appetite Statement metrics, customer solutions and the resolution of materialised conduct risks.

Monitoring, escalating and reporting

The below outlines how conduct risk is monitored, escalated and reported:

- Segment conduct dashboards measure key management information trends under the five key conduct risk areas, as reflected in the Group conduct strategy; and
- The Group Conduct Committee together with Segment Conduct Committees (operating to standard terms of reference) actively drive the conduct agendas and manage conduct risk within their businesses. Conduct risks are assessed and monitored across the Group in line with risk management procedures, with annual business attestation provided by senior management.

2020 developments in response to COVID-19

As the Group identified and implemented steps to support and protect its customers, the shortened timeframe for design, implementation and execution elevated the risk of unintended consequences that could lead to customer outcomes which may have future unknown impacts. A number of potential conduct risk drivers, including remote working, personal data breaches, increased processing of special category data (both customer and employee) and managing customer rights were overseen and monitored throughout the COVID-19 pandemic. Regulatory Compliance monitored and reported the impact of COVID-19 on the Risk Appetite Statement metrics, taking into account key factors including the volume of customer engagements, the increased number of vulnerable customers and the range of measures taken to assist good customer outcomes and market stability.

2.8 People and culture risk

People and culture risk is the risk to achieving the Group's strategic objectives as a result of an inability to recruit, retain or develop resources, or as a result of behaviours associated with low levels of employee engagement. It also includes the risk that the business, financial condition and prospects of the Group are materially adversely affected as a result of inadvertent or intentional behaviours or actions taken or not taken by employees that are contrary to the overall strategy, culture and values of the Group.

Identification and assessment

The Group identifies and reviews employee satisfaction and engagement which are indicators of culture throughout the year. Due to the disruption of the working environment as a result of COVID-19 there was additional staff engagement activities in place including regular staff check-in's and a staff engagement survey was carried out in both the first and second half of 2020 which continues to show high staff satisfaction levels. A detailed Wellness Programme operated throughout the year and the launch in 2020 to all staff of the PepTalk Wellness App with specific content for the Group has significantly enhanced the wellness offering.

The Group continues on its Culture Evolution Program and progress has been made throughout the year with a number of initiatives taken place including Culture Unfreezing Workshops and a roll-out of updated values. The Group continues to be an active member of the Irish Banking Culture Board.

Risk management – 2. Individual risk types

2.8 People and culture risk *(continued)*

The Group's performance is heavily dependent on the talents and efforts of highly skilled individuals, and the continued ability of the Group to compete effectively and implement its strategy depends on its capability to attract new employees and retain and motivate existing employees. Competition from within the financial services industry, including from other financial institutions and FinTechs as well as from businesses outside the financial services industry for key employees is intensifying. Under the terms of the recapitalisation of the Group by the Government, the Group is required to comply with certain executive pay and compensation arrangements, including a cap on salaries as well as a ban on bonuses and similar incentive-based compensation applicable to employees of Irish banks who have received financial support from the Government.

The Group uses the Aspire Performance Management Programme ("Aspire") to facilitate quality performance discussions with staff that contribute to delivering the Group's strategic ambitions. Aspire is designed to allow employees identify "What" personal and business objectives are to be achieved and "How" they will behave in the delivery of those objectives. The Board assesses the Aspire outputs on completion. Aspire allows the Group embrace the right behaviours and outcomes with equal weighting, to achieve the Group's strategic ambition.

Management and measurement

In 2017 the Group launched its 'Purpose', which is supported and embedded by a clear set of values. These values drive and influence activities of all employees, guiding the Group's dealings with customers, each other and all stakeholders. The Group's Code of Conduct, incorporating the risk culture principles, places great emphasis on the integrity of employees and accountability for both actions taken and inaction. The Code sets out how employees are expected to behave in terms of the business, customer and employee. The Code is supported by a range of employee policies, including 'Conflicts of Interest' and 'Speak up'. The Group has a disciplinary policy which clearly lays out the consequences of inappropriate behaviours.

The Group's 'Speak up' policy and process also provides those working for the Group with a protected channel for raising concerns, which is at the heart of fostering an open and transparent working culture. The Group's iLearn training portal, provides employees with dedicated and bespoke curricula that allow teams and individuals to invest in themselves.

Monitoring, escalating and reporting

The Group has made significant progress in increasing engagement and awareness of the Group's risk management activities by embedding the Risk Appetite Statement in policies and frameworks of the Group.

The Group, through the Board Audit Committee, reports and monitors issues raised through a number of channels including conflicts of interest, disciplinary policy and speak up policy. The Board monitors and reviews progress and oversight of senior management in relation to the Group's people and culture ambitions through a number of datasets including iConnect, the strategy scorecard and a culture dashboard.

2020 developments in response to COVID-19

COVID-19 presented unique challenges during 2020 including the vast majority of staff members working from home and significant changes to the working environment to facilitate those that needed to attend branches and offices. The Group rolled out new and enhanced teleconferencing facilities, provided laptops to staff working remotely and as mentioned before, invested significantly in the wellness of employees with a number of initiatives including the rollout of the PepTalk app. Additionally the Group entered into a 'Right to Disconnect' agreement with the Financial Services Union, believed to be the first of its kind in Ireland. The Group continues the ongoing engagement of staff through regular engagement via email and videos from the Chief Executive Officer, Chief People Officer and local business leaders.

2.9 Business model risk

The risk of not achieving the agreed strategy or approved business plan either as a result of an inadequate implementation plan, or failure to execute the implementation plan as a result of inability to secure the required investment, or due to factors in the economic, political, competitive or regulatory environment. This also includes the risk of implementing an unsuitable strategy, or maintaining an obsolete business model, in light of known internal and external factors.

Identification and assessment

The Group identifies and assesses business model risk as part of its integrated planning process, which encapsulates strategic, business and financial planning. This process drives delivery of strategic objectives aligned to the Group's risk appetite and enables measurable business objectives to be set for management aligned to the short, medium and long term strategy of the Group. The outcomes of these processes form the basis of the Group's Internal Capital Adequacy Assessment Process ("ICAAP") and Internal Liquidity Adequacy Assessment Process ("ILAAP").

2.9 Business model risk *(continued)*

The Group reviews underlying assumptions on its external operating environment and, by extension, its strategic objectives on a periodic basis, the frequency of which is determined by a number of factors including the speed of change of the economic environment, changes in the financial services industry and the competitive landscape, regulatory change and deviations in actual business outturn from strategic targets. In normal circumstances, this is annually. The Group's business and financial planning process supports the Group's strategy. Every year, the Group prepares three-year business plans at a Group level based on macroeconomic and market forecasts across a range of scenarios (including a range of "downside" scenarios). The plan includes an evaluation of planned performance against a suite of key metrics, supported by detailed analysis and commentary on underlying trends and drivers, across income statement, balance sheet and business targets. This assessment includes, but is not limited to discussion on new lending volumes and pricing, deposits volumes and pricing, other income, cost management initiatives and credit performance. The plan is subject to robust review and challenge through the governance process including an independent second line of defence review and challenge by the Risk function. The Group plan is supported by detailed business unit plans. Each business unit plan is aligned to the Group strategy and risk appetite. The business plan typically describes the market in which the segment operates, market and competitor dynamics, business strategy, financial assumptions underpinning the strategy, actions/investment required to achieve financial outcomes and any risks/opportunities to the strategy.

Management and measurement

At a strategic level, the Group manages business model risk within its risk appetite framework, by setting limits in respect of measures such as financial performance, portfolio concentration and risk-adjusted return. At a more operational level, the risk is mitigated through periodic monitoring of variances to plan. Where performance against plan is outside agreed tolerances or risk appetite metrics, proposed mitigating actions are presented and evaluated, and tracked thereafter. During the year, periodic forecast updates for the full year financial outcome may also be produced. The frequency of forecast updates during each year will be determined based on prevailing business conditions.

At an individual level, planning targets translate into accountable objectives to enable performance tracking across the Group and to facilitate formulation and review of Executive Committee performance scorecards.

Monitoring, escalating and reporting

Performance against plan is monitored at segment level on a monthly basis and reported to senior management teams within the business. At an overall Group level, performance against plan is monitored as part of the CFO report which is discussed at Executive Committee and Board on a monthly basis. Monthly monitoring of the risk profile via the CRO report, including performance against risk appetite is presented to the Board Risk Committee and Board.

2020 developments in response to COVID-19

A number of actions were taken throughout 2020 in response to the COVID-19 pandemic. These included: (i) more frequent monitoring of certain key Risk Appetite Statement metrics and Early Warning Indicators ("EWIs"); (ii) more frequent review and reforecasting of financial and capital plans reported to the Board and independently reviewed by the second line of defence; (iii) early review of the calibration of key Risk Appetite Statement metrics to reflect changes in the external environment and a conservative risk posture; and (iv) increased stress testing and sensitivity analysis covering a broader range of scenarios reflecting the high level of uncertainty. The Group's reforecasting and stress testing activity assessed the key business model risks, including increased macroeconomic risks primarily relating to the path of the pandemic but also to Brexit uncertainty, the impact of surplus liquidity on the Group's NIM, challenges posed by a continued low interest rate environment, continued increase in competition and reduced profitability.

2.10 Model risk

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

Identification and assessment

The Board has ultimate accountability for ensuring that models used by the Group are fit for purpose, meet all jurisdictional regulatory and accounting standards, and ensuring that there is clarity on the model risk strategy and framework. It is responsible for the appointment of organisational structures to implement and manage the model risk framework and for ensuring that there are appropriate policies in place relating to capital assessment, measurement and allocation.

Operating to the principles outlined in the model risk framework supports the Group's strategic objectives and provides comfort to the Board on the integrity and completeness of the model risk governance.

Risk management – 2. Individual risk types

2.10 Model risk *(continued)*

Management and measurement

The Group mitigates model risk by having a framework, policies and standards in place in relation to model development, operation, and validation together with suitable resources. The Group Model Risk Management Framework is designed to ensure that model risk in the Group is properly identified and managed across each step of the model lifecycle within an appropriate control framework.

The framework, which is aligned to the Group Risk Appetite Framework and the Group Risk Management Framework, describes the key processes undertaken and reports produced in support of the framework. Models are built by suitably qualified analytical personnel, informed by relevant business, risk and finance functions. They use the best available data, both internal and external, and industry standard techniques.

All models are validated by an appropriately qualified team, which is independent of the model build process. Where issues are identified, appropriate mitigants are applied. This can include temporary post model adjustments which are put in place until a model is re-developed.

Group Internal Audit act as the "third line of defence" providing independent assurance to the Board Audit Committee and the Board on the adequacy, effectiveness and sustainability of the governance, risk management and control framework in place for model risk through their periodic review of the model risk management processes.

Monitoring, escalating and reporting

The Risk Measurement Committee and its sub-committee, the Model Risk Committee, are the primary committees for overseeing model risk in the Group. Depending on materiality, outcomes of validation and other reviews are brought to relevant committees for oversight to ensure all models remain fit for their intended use and that any issues are appropriately escalated. An overall assessment of model risk is performed on a quarterly basis and is reported to the Group Risk Committee and Board Risk Committee. As a material risk, the status of model risk is reported on a monthly basis in the CRO report.

2020 developments in response to COVID-19

During 2020, two significant areas of challenge for model risk as a result of COVID-19 were the re-prioritisation of activities for business subject matter experts to support the roll-out of new customer solutions (e.g. payment breaks) and away from providing business support for model developments, and understanding the impact of COVID-19 on the performance of risk models.

These risks were mitigated by re-planning activities appropriately in order to ensure the Group's model development priorities were reviewed and that model developments continued on an appropriate timeline. Additionally, ongoing monitoring of models continued through 2020 to ensure that any changes in model performance as a result of COVID-19 were identified. Specifically in relation to ECL, post model adjustments have been made to appropriately reflect management's best estimate of the economic implications arising from COVID-19, including where model limitations exist. See pages 105 and 106 for more details on the post model adjustments that have been applied.

Governance and oversight

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Governance and oversight – Group Directors' report *for the financial year ended 31 December 2020*

The Directors of AIB Group plc ('the Company') present their report and the audited financial statements for the financial year ended 31 December 2020. The Statement of Directors' Responsibilities is shown on page 214.

For the purposes of this report 'AIB Group' or 'the Group' comprises the Company and its subsidiaries in the financial year ended 31 December 2020.

Results

The Group's loss attributable to the ordinary shareholders of the Company amounted to € 769 million and was arrived at as shown in the consolidated income statement on page 227.

Dividend

In response to a European Central Bank recommendation issued on 27 March 2020, the dividend for 2019 was withdrawn from the 2020 AGM and subsequently cancelled by the Directors. The Directors do not recommend payment of a dividend for the year under review.

Going concern

The financial statements for the financial year ended 31 December 2020 have been prepared on a going concern basis as the Directors are satisfied, having considered the principal risks and uncertainties impacting the Group, that it has the ability to continue in business for the period of assessment. The period of assessment used by the Directors is 12 months from the date of approval of these annual financial statements.

In making their assessment, the Directors considered a wide range of information relating to present and future conditions. These included financial plans covering the period 2021 to 2023, liquidity and funding forecasts and capital resources projections, all of which were prepared under base and stress scenarios.

In addition, the Directors considered the principal risks and uncertainties which could materially affect the Group's future business performance and profitability and which are outlined on pages 50 to 53.

Directors Compliance Statement

As required by section 225(2) of the Companies Act 2014, the Directors acknowledge that they are responsible for securing the Company's compliance with its relevant obligations (as defined in section 225(1) and section 1374). The Directors confirm that:

(a) a compliance policy statement (as defined in section 225(3)(a)) has been drawn up that sets out the Company's policies and, in the Directors' opinion, is appropriate to ensure compliance with the Company's relevant obligations;
(b) appropriate arrangements or structures that are, in the Directors' opinion, designed to secure material compliance with the relevant obligations have been put in place; and
(c) a review of those arrangements or structures has been conducted in the financial year to which this report relates.

Capital

Information on the structure of the Company's share capital, including the rights and obligations attaching to each class of shares, is set out in the Schedule on pages 175 to 177 and is part of note 38 to the consolidated financial statements.

Accounting policies

The principal accounting policies, together with the basis on which the financial statements have been prepared, are set out in note 1 to the consolidated financial statements.

Review of principal activities

The statement by the Deputy Chair on pages 8 and 9, the review by the Chief Executive Officer on pages 10 to 17, and the operating and financial review on pages 60 to 74 contain an overview of the development of the business of the Group during the year, of recent events, and of likely future developments.

Directors

At 31 December 2020, the Board of Directors of the Company was comprised of Mr Brendan McDonagh, Mr Basil Geoghegan, Dr Colin Hunt, Ms Sandy Kinney Pritchard, Ms Carolan Lennon, Ms Elaine MacLean, Ms Helen Normoyle, Ms Ann O'Brien, and Mr Ranjit (Raj) Singh.

The following Board changes occurred with effect from the dates shown:

- Mr Richard Pym resigned as Independent Non-Executive Director and Chair on 6 March 2020.
- Mr Thomas (Tom) Foley resigned as Independent Non-Executive Director on 29 April 2020.
- Mr Tomás O'Midheach resigned as Executive Director on 4 November 2020.
- Mr Fergal O'Dwyer was appointed as Independent Non-Executive Director on 22 January 2021.

The Group is in the process of identifying the next Chair and an announcement will be made in due course.

A short biographical note on each Director is provided on pages 54 and 55.

The appointment and replacement of Directors, and their powers, are governed by law and the Constitution of the Company, and information on these is set out in the Schedule on pages 175 to 177.

Directors' and Secretary's Interests in the share capital

The interests of the Directors and the Group Company Secretary in the share capital of the Company are shown in the Corporate Governance Remuneration statement on page 207.

Directors' Remuneration

The Group's policy with respect to Directors' remuneration is included in the Corporate Governance Remuneration statement on pages 201 to 207. Details of the total remuneration of the Directors in office during 2020 and 2019 are shown in the Corporate Governance Remuneration statement on pages 201 to 207.

Non-Financial Statement

Regulations on non-financial information, which were transposed into Irish law by the European Union (disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 as amended by Statutory Instrument No. 410 of 2018, require that the Group reports on specific topics such as: environmental matters; social and employee matters; respect for human rights; and bribery and corruption ('key non-financial matters'). The Group is committed to maintaining sustainable and ethically responsible corporate and social practices in every aspect of its business. The table included on pages 40 to 43 of the Annual Financial Report, together with the information it refers to, is intended to assist shareholders to understand the Group's position on key non-financial matters. A description of the Group's business model is included on pages 4 to 6 of the Annual Financial Report and the table on pages 50 to 53 summarises the linkage between the Group's strategic pillars, the principal risks and uncertainties, and the Group's material risks. The material risks primarily impacted by key non-financial matters include operational risk, credit risk, people and culture risk, regulatory compliance risk and conduct risk. Further details of the Group's risk management governance and organisational framework can be found on pages 80 to 86.

Substantial interests in the share capital

At 31 December 2020, the Company had been notified of the following substantial interests:

- the Minister for Finance in Ireland holds 1,930,436,543 ordinary shares representing 71.12% of the total voting rights attached to the issued share capital.
- Massachusetts Financial Services Company holds 111,747,946 ordinary shares representing 4.11% of the total voting rights attached to the issued share capital.

There were no other interests disclosed to the Company in accordance with the Market Abuse Regulation and Part 5 of the Transparency Regulations and the related transparency rules during the period from 31 December 2020 to 4 March 2021.

Corporate governance

The Directors' Corporate Governance report is set out on pages 178 to 187 and forms part of this report. Additional information, disclosed in accordance with the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006, is included in the Schedule to the Group Directors' report on pages 175 to 177.

In accordance with Section 1097 and 1551 of the Companies Act 2014, the Directors confirm that a Board Audit Committee is established. Details on the Board Audit Committee's membership and activities are shown on pages 188 to 192.

Political donations

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

Accounting records

The measures taken by the Directors to secure compliance with the Company's obligation to keep adequate accounting records include the use of appropriate systems and procedures, incorporating those set out within 'Internal controls' in the Corporate Governance report on pages 209 and 210, and the employment of competent persons. The accounting records are kept at the Company's Registered Office at 10 Molesworth Street, Dublin 2, Ireland and at the principal addresses outlined on page 369.

Principal risks and uncertainties

Information concerning the principal risks and uncertainties facing the Group, as required under the terms of the European Accounts Modernisation Directive (2003/51/EEC) (implemented in Ireland by the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005), is set out on pages 50 to 53.

Branches outside the State

The Company has not established any branches since incorporation. However, the Company's principal operating subsidiary, Allied Irish Banks, p.l.c., established branches in the United Kingdom and the United States of America.

Governance and oversight – Group Directors' report *for the financial year ended 31 December 2020*

Auditor

The auditor, Deloitte Ireland LLP ("Deloitte"), were appointed to the Group on 20 June 2013 following shareholder approval at the 2013 Annual General Meeting on that date. Furthermore, Deloitte were re-appointed as auditor of the Company at the last Annual General Meeting held on 29 April 2020 and shall hold office until the conclusion of the next Annual General Meeting of the Company pursuant to section 382 of the Companies Act 2014. Their continued appointment will be proposed to the shareholders for approval at the next Annual General Meeting. Deloitte have indicated a willingness to continue in office in accordance with section 383(2) of the Companies Act 2014.

Statement of relevant audit information

Each of the persons who is a Director at the date of approval of this report confirms that:

(a) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

(b) the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 330 of the Companies Act 2014.

Other information

Other information relevant to the Group Directors' report may be found in the following pages of the report:

	Page
2020 Results – Financial Performance	2
Risk management	79 to 170
Non-adjusting events after the reporting period	351

The Group Directors' report for the financial year ended 31 December 2020 comprises these pages and the sections of the report referred to under 'Other information' above, which are incorporated into the Group Directors' report by reference.

Brendan McDonagh
Deputy Chair

Colin Hunt
Chief Executive Officer

4 March 2021

Governance and oversight – Schedule to the Group Directors' report *for the financial year ended 31 December 2020*

Additional information required to be contained in the Directors' Annual Report by the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006.

As required by these Regulations, the information contained below represents the position of the Company as of 31 December 2020.

Capital structure

The authorised share capital of the Company is € 2,500,000,000 divided into 4,000,000,000 ordinary shares of € 0.625 each ('Ordinary Shares'). The issued share capital of the Company is 2,714,381,237 Ordinary Shares of € 0.625 each.

Rights and obligations of each class of share

The following rights attach to Ordinary Shares:

- the right to receive duly declared dividends, in cash or, where offered by the Directors, by allotment of additional Ordinary Shares;
- the right to attend and speak, in person or by proxy, at general meetings of the Company;
- the right to vote, in person or by proxy, at general meetings of the Company having, in a vote taken by a show of hands, one vote, and, on a poll, a vote for each Ordinary Share held;
- the right to appoint a proxy, in the required form, to attend and/or vote at general meetings of the Company;
- the right to receive, (by post or electronically), at least 21 days before the Annual General Meeting, a copy of the Directors' and Auditor's reports accompanied by copies of the balance sheet, profit and loss account and other documents required by the Companies Act to be annexed to the balance sheet or such summary financial statements as may be permitted by the Companies Act;
- the right to receive notice of general meetings of the Company; and
- in a winding-up of the Company, and subject to payments of amounts due to creditors and to holders of shares ranking in priority to the Ordinary Shares, repayment of the capital paid up on the Ordinary Shares and a proportionate part of any surplus from the realisation of the assets of the Company.

There is, attached to the Ordinary Shares, an obligation for the holder, when served with a notice from the Directors requiring the holder to do so, to inform the Company in writing within not more than 14 days after service of such notice, of the capacity in which the shareholder holds any share of the Company and, if such shareholder holds any share other than as beneficial owner, to furnish in writing, so far as it is within the shareholder's knowledge, the name and address of the person on whose behalf the shareholder holds such share or, if the name or address of such person is not forthcoming, such particulars as will enable or assist in the identification of such person, and the nature of the interest of such person in such share. Where the shareholder served with such notice (or any person named or identified by a shareholder on foot of such notice) fails to furnish the Company with the information required within the time period specified, the shareholder shall not be entitled to attend meetings of the Company, nor to exercise the voting rights attached to such share, and, if the shareholder holds 0.25% or more of the issued Ordinary Shares, the Directors will be entitled to withhold payment of any dividend payable on such shares, and the shareholder will not be entitled to transfer such shares except by sale through a Stock Exchange to a bona fide unconnected third party. Such sanctions will cease to apply after not more than seven days from the earlier of receipt by the Company of notice that the member has sold the shares to an unconnected third party or due compliance, to the satisfaction of the Company, with the notice served as provided for above.

Restrictions on the transfer of shares

Save as set out below, there are no limitations in Irish law or in the Company's Constitution on the holding of Ordinary Shares, and there is no requirement to obtain the approval of the Company, or of other holders of Ordinary Shares, for a transfer of Ordinary Shares.

The Ordinary Shares are, in general, freely transferable, but the Directors may decline to register a transfer of Ordinary Shares upon notice to the transferee, within two months after the lodgement of a transfer with the Company, in the following cases:

i. a lien held by the Company on the shares;
ii. a purported transfer to an infant or a person lawfully declared to be incapable for the time being of dealing with their affairs; or
iii. a single transfer of shares which is in favour of more than four persons jointly.

Ordinary Shares held in certificated form are transferable upon production to the Company's Registrar of the original share certificate and the usual form of stock transfer duly executed by the holder of the shares.

Shares held in uncertificated form are transferable in accordance with the rules or conditions imposed by the operator of the relevant system that enables title to the Ordinary Shares to be evidenced and transferred without a written instrument, and in accordance with the Companies Act 2014.

The rights attaching to Ordinary Shares remain with the transferor until the name of the transferee has been entered on the Register of Members of the Company.

Exercise of rights of shares in employee share schemes

The AIB Approved Employee Profit Sharing Scheme 1998 and the Allied Irish Banks, p.l.c. Share Ownership Plan (UK) provide that voting rights in respect of shares held in trust for employees who are participants in those schemes are, on a poll, to be exercised only in accordance with any directions in writing by the employees concerned to the Trustees of the relevant scheme. Following the establishment of the Company, the shares previously held in trust in Allied Irish Banks, p.l.c. were exchanged, on a one-for-one basis, for new shares in the Company.

Governance and oversight – Schedule to the Group Directors' report *for the financial year ended 31 December 2020*

Deadlines for exercising voting rights

Voting rights at general meetings of the Company are exercised when the Chair puts the resolution at issue to a vote of the meeting. A vote decided by a show of hands is taken forthwith. A vote taken on a poll for the election of the Chair or on a question of adjournment is also taken forthwith, and a poll on any other question is taken either immediately or at such time (not being more than 30 days from the date of the meeting at which the poll was demanded or directed) as the Chair of the meeting directs. Where a person is appointed to vote for a shareholder as proxy, the instrument of appointment must be received by the Company not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the appointed proxy proposes to vote, or, in the case of a poll, not less than 48 hours before the time appointed for taking the poll.

Rules concerning amendment of the Company's Constitution

As provided in the Companies Act 2014, the Company may, by special resolution, alter or add to its Constitution. A resolution is a special resolution when it has been passed by not less than three-fourths of the votes cast by shareholders entitled to vote and voting in person or by proxy, at a general meeting at which not less than 21 clear days' notice specifying the intention to propose the resolution as a special resolution, has been duly given. A resolution may also be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given if it is so agreed by a majority in number of the members having the right to attend and vote at any such meeting, being a majority together holding not less than 90% in nominal value of the shares giving that right.

Rules concerning the appointment and replacement of Directors of the Company

- Other than in the case of a casual vacancy, Directors are appointed on a resolution of the shareholders at a general meeting, usually the Annual General Meeting.
- No person, other than a Director retiring at a general meeting is eligible for appointment as a Director without a recommendation by the Directors for that person's appointment unless, not less than 42 days before the date of the general meeting, written notice by a shareholder duly qualified to be present and vote at the meeting of the intention to propose the person for appointment, and notice in writing signed by the person to be proposed of willingness to act, if so appointed, have been given to the Company.
- A shareholder may not propose himself or herself for appointment as a Director.
- The Directors have the power to fill a casual vacancy or to appoint an additional Director (within the maximum number of Directors fixed by the Company in a general meeting), and any Director so appointed holds office only until the conclusion of the next Annual General Meeting following his/her appointment, when the Director concerned shall retire, but shall be eligible for reappointment at that meeting.
- One-third of the Directors for the time being (or, if their number is not three or a multiple of three, not less than one-third) are obliged to retire from office at each Annual General Meeting on the basis of the Directors who have been longest in office since their last appointment. While not obliged to do so, the Directors have, in recent years, adopted the practice of all (those wishing to continue in office) offering themselves for re-election at the Annual General Meeting.
- A person is disqualified from being a Director, and their office as a Director ipso facto vacated, in any of the following circumstances:
  - if at any time the person has been adjudged bankrupt or has made any arrangement or composition with his/her creditors generally;
  - if found to no longer have adequate decision making capacity in accordance with law;
  - if the person be prohibited or restricted by law from being a Director;
  - if, without prior leave of the Directors, he/she be absent from meetings of the Directors for six successive months (without an alternate attending) and the Directors resolve that his/her office be vacated on that account;
  - if, unless the Directors or a court otherwise determine, he/she be convicted of an indictable offence;
  - if he/she be requested, by resolution of the Directors, to resign his/her office as Director on foot of a unanimous resolution (excluding the vote of the Director concerned) passed at a specially convened meeting at which every Director is present (or represented by an alternate) and of which not less than seven days' written notice of the intention to move the resolution and specifying the grounds therefore has been given to the Director; or
  - if he/she has reached an age specified by the Directors as being that at which that person may not be appointed a Director or, being already a Director, is required to relinquish office and a Director who reaches the specified age continues in office until the last day of the year in which he/she reaches that age.
- In addition, the office of Director is vacated, subject to any right of appointment or reappointment under the Company's Constitution, if:
  - not being a Director holding for a fixed term an executive office in his/her capacity as a Director, he/she resigns their office by a written notice given to the Company, upon the expiry of such notice; or
  - being the holder of an executive office other than for a fixed term, the Director ceases to hold such executive office on retirement or otherwise; or
  - the Director tenders his/her resignation to the Directors and the Directors resolve to accept it; or
  - the Director ceases to be a Director pursuant to any provision of the Company's Constitution.

- Notwithstanding anything in the Company's Constitution or in any agreement between the Company and a Director, the Company may, by ordinary resolution of which extended notice has been given in accordance with the Companies Act 2014, remove any Director before the expiry of his/her period of office.

- The Minister for Finance has the power to nominate two Non-Executive Directors in accordance with the Relationship Framework between the Group and the State and certain provisions as outlined therein. The Relationship Framework is available on the Group's website at https://aib.ie/investorrelations.

The powers of the Directors

Under the Company's Constitution, the business of the Company is to be managed by the Directors, who may exercise all the powers of the Company subject to the provisions of the Companies Act, the Constitution of the Company, and to any directions given by special resolution of a general meeting. The Company's Constitution further provides that the Directors may make such arrangements as may be thought fit for the management, organisation and administration of the Company's affairs, including the appointment of such executive and administrative officers, managers and other agents as they consider appropriate, and may delegate to such persons (with such powers of sub-delegation as the Directors shall deem fit) such functions, powers and duties as the Directors may deem requisite or expedient.

Governance and oversight – Corporate Governance report

> 2020 was an unprecedented year for the Group. The Board recognises the resilience and commitment of our colleagues to delivering for our customers and other stakeholders during these times.

Brendan McDonagh,
Deputy Chair

Deputy Chair's introduction

Dear Shareholder,

On behalf of the Board, I am pleased to present our Corporate Governance Report for 2020. This report should be read in conjunction with the 'Governance in Action' section at the start of this Annual Financial Report and the Board Committee Reports which follow.

Further information on governance practices in place in the Group are available on the Group's website (www.aib.ie/investorrelations).

This report provides statements of compliance with our key corporate governance requirements and is presented under the headings of the UK Corporate Governance Code 2018.

The Board continually seeks to adhere to the various applicable requirements as well as the underlying principles and ways of working recommended by those requirements to enhance accountability and transparency and ensure the Group's stakeholders are at the fore of the Board's decision making.

I am pleased that, in spite of the unprecedented events of 2020, the Board and the Group has operated within an effective and robust corporate governance environment.

Brendan McDonagh
Deputy Chair

Corporate Governance Framework

Statements of Compliance

This report, in conjunction with the Statement of Directors' Responsibilities, Corporate Governance Remuneration Statement, Risk Governance section of the Risk Management Framework report and the Statement on Internal Control sets out the Group's approach to governance in practice, the work of the Board and its Committees and explains how the Group applied the principles of the Central Bank of Ireland's Corporate Governance Requirements for Credit Institutions 2015 (the '2015 Requirements'), European Union (Capital Requirements) Regulations 2014 (S.I. 158/2014) ('CRD') and UK Corporate Governance Code 2018 (the 'Code') during 2020 under the headings prescribed under the Code. Further detail is set out below.

Central Bank of Ireland's Corporate Governance Requirements for Credit Institutions 2015 and European Union (Capital Requirements) Regulations 2014

As a financial holding company, AIB Group plc is not directly required to comply with the 2015 Requirements (which are publicly available on www.centralbank.ie). However, Allied Irish Banks, p.l.c., the principal subsidiary of AIB Group plc, is a credit institution and is subject to the 2015 Requirements, including compliance with requirements specifically relating to 'high impact institutions' and additional corporate governance obligations on credit institutions deemed significant for the purposes of the CRD (which is publicly available on www.irishstatutebook.ie).

As the governance structures of AIB Group plc and Allied Irish Banks, p.l.c. are mirrored and acknowledging the importance of adherence to the 2015 Requirements, the compliance status of Allied Irish Banks, p.l.c. and the applicable corporate governance aspects of the CRD is noted herein.

Allied Irish Banks, p.l.c. complied with all of the 2015 Requirements and with the corporate governance aspects of the CRD with the exception of the 2015 Requirement 8.1 that there "shall be a Chairman appointed to the Board". Mr Richard Pym retired as Chair in March 2020. There is a search process underway for the identification and appointment of a successor and an announcement will be made in due course. The Deputy Chair has, at the Board's request, carried out the role and responsibilities of a Chair in the period since and has undertaken to continue to do so until such time as an individual, approved to hold the role of Chair of the Board under the Central Bank of Ireland's Fitness and Probity Standards, is in role.

UK Corporate Governance Code 2018

AIB Group plc, by virtue of its primary listing on the Main Securities Market of the Euronext Dublin Stock Exchange and its premium listing on the Main Market of the London Stock Exchange, is subject to the provisions of the Code (which is publicly available on www.frc.org.uk). Throughout the year ended 31 December 2020, the Group applied the principles and complied with all provisions of the Code other than in instances related to Section 5: Remuneration, in particular Principles R and Provisions 36, 37 and 38. The rationale for this, along with a material enhancement to existing processes, are set out below:

Provisions to "Explain" under the Code "Comply or Explain" process	Rationale
Principle R: Exercise of independent judgement and discretion when authorising remuneration outcomes. **Provision 36:** Remuneration schemes should promote long term shareholdings by executive directors that support alignment with long term shareholder interests. **Provision 37:** Remuneration schemes and policies should enable the use of discretion to override formulaic outcomes. **Provision 38:** The pension contribution rates for executive directors, or payments in lieu, should be aligned with those available to the workforce.	Due to certain agreements in place with the Irish State, variable remuneration structures are not generally permitted and, as such, Principle R and certain associated provisions (particularly Provisions 36 and 37) are outside of the Board's sphere of influence or control. Further detail on the background to these restrictions be found in the Corporate Governance Remuneration Statement on pages 201 to 207. In relation to Provision 38, the current pension arrangements are considered to be fair due to the remuneration restrictions in place at this time. The rates of contribution for Executive Directors and all employees are fully transparent and are set out in the Corporate Governance Remuneration Statement on pages 201 to 207.

Provision materially enhanced throughout 2020	Rationale
Provision 5: Workforce engagement mechanisms.	In addition to the many existing avenues for workforce engagement in place across the Group and to further strengthen the Group's compliance with Provision 5, the Board has designated Ms Elaine MacLean as the Non-Executive Director who will engage directly with employees, on behalf of the Board, in order to enhance the 'employee voice' at the Board table when making decisions. As part of the role, Ms MacLean will provide updates to the Board on her engagement with the workforce at regular intervals.

Irish Corporate Governance Annex

Additional obligations apply to the Group under the Irish Corporate Governance Annex (publicly available on www.ise.ie), which applies to relevant Irish companies with a primary listing on the Main Securities Market of the Euronext Dublin Stock Exchange. The Group is fully compliant with the Irish Corporate Governance Annex.

Board Leadership and Company Purpose

Role of the Board

The Group is headed by an effective Board which is collectively responsible for the long term, sustainable success of the Group, generating value for shareholders and contributing to wider society. The Board, including the Chief Executive Officer, is supported by the Executive Committee, being the most senior management committee of the Group. The Executive Committee has primary responsibility for the day-to-day operations of, and the development of strategy for the Group.

The Board supports, and strives to operate in accordance with, the Group's purpose and values at all times and challenges Management as to whether the purpose, values and strategic direction of the Group align with its desired culture, or if they do not, whether there are options to mitigate negative stakeholder impacts.

The Board ensures a clear division of responsibilities between the Chair, who is responsible for the overall leadership of the Board and for ensuring its effectiveness, and the CEO, who manages and leads the business. No one individual has unfettered powers of decision. Key roles and responsibilities are clearly defined, documented and communicated to key stakeholders via the Group's website. The Board is supported in executing its duties by a number of Board and Advisory Committees.

Whilst arrangements have been made by the Directors for the delegation of the management, organisation and administration of the Group's affairs, certain matters are reserved specifically for decision by the Board which are reviewed at least annually to ensure they remain relevant and are available at https://aib.ie/investorrelations/about-aib/corporate-governance.

Governance and oversight – Corporate Governance report

Board Focus

Supporting our customers and our employees through the COVID-19 pandemic dominated the Board agenda through the majority of the year. Notwithstanding that, the Board continued to execute its business as usual duties, and also focused on a number of additional ad hoc matters. The following is a high level overview of material matters considered by the Board throughout the year:

Financial
- 2021-2023 Financial Plan
- 2019 results and analyst presentations
- Dividend considerations
- Macroeconomic environment
- Expected Credit Losses
- ICAAP/ILAAP
- Quarterly Trading Updates
- 2020 Half-Yearly Financial Report

Regulatory
- FSPO decision upholding a customer compliant re tracker mortgages and its subsequent application to wider cohort of customers
- Regulatory engagement updates
- Outcome of Supervisory Review and Evaluation Process
- Related Party Lending
- Market Abuse Regulation
- Anti-Money Laundering and Criminal Terrorist Financing Updates
- PSD2 Implementation

Strategy
- Oversight of the Group's response to COVID-19 to include Policy Derogations
- Open Banking Programme
- Strategic Review and new Medium Term Targets including Property strategy
- NPE Strategy
- Brexit
- Central Securities Depository Migration and related Extraordinary General Meeting
- Business Credit Accounting Programme
- Sustainability ambition

Governance
- External Board Effectiveness Evaluation
- Establishment of Technology and Data Advisory Committee
- Corporate Governance Frameworks
- Board Succession including Chair Search

Culture and Values
- People updates
- Culture Evolution Programme Updates
- Sustainability Report and Conference
- Employee communication and COVID-19 related supports
- Vulnerable Customer Programme

Risk Management
- Group Risk Appetite Statement
- Material Risk Assessments
- Recovery Planning and Resolution
- Risk Policies and Frameworks
- Pillar 3 Reporting
- Cyber Security and E-Fraud Reports

Regular Updates
- Executive Management Update
- Business and Financial Performance
- Tracker Mortgage Review Programme
- Chair's Activities
- Board Committee Updates
- Group Company Secretary Updates

Matters considered by the Board Committees, which in certain cases were also considered by the Board as a whole, are detailed in individual Board Committee reports which follow over pages 188 to 200.

Conflicts of Interest

The Board approved Code of Conduct and Conflicts of Interest Policy sets out how actual, potential or perceived conflicts of interest are to be evaluated, reported and managed to ensure that Directors act, and are seen to act, at all times in the best interests of the Group and its stakeholders. Executive Directors, as employees of the Group, are also subject to the Group's Code of Conduct and Conflicts of Interests Policy for employees.

Stakeholder Engagement

The five principal stakeholder groups in AIB are Customers, Employees, Investors, Society, and the Group's Regulators. In order for the Group to meet its responsibilities to its stakeholders, the Board strives to ensure effective engagement with these parties.

The Group engages with stakeholders through various means such as face-to-face meetings including scheduled meetings and out of course meetings on specific topics, research, media engagement, the Group's in-house experts liaising directly with associated business, public or charitable groups and participation in expert fora and events. Extensive stakeholder engagement was previously undertaken in 2019 as part of the Group's sustainability materiality exercise and work continues to deliver against the sustainability strategy, operating framework and plan developed from the results of this exercise.

The Annual General Meeting ('AGM') is an opportunity for shareholders to hear directly from the Board on the Group's performance and strategic direction and, importantly, to ask questions. Details in relation to the 2021 AGM along with other shareholder-related information can be found on page 361 and on the Group's website at http://aib.ie/investorrelations.

Further details on the Group's stakeholder engagement can be found on pages 46 and 47.

Relationship with the Irish State

The Group received significant support from the Irish State (the 'State') in the context of the financial crisis due to its systemic importance to the Irish financial system. Following a reduction in its shareholding during 2017, the State now holds 71.12% of the issued ordinary shares of AIB Group plc.

The relationship between the Group and the State is governed by a Relationship Framework. Within the Relationship Framework, with the exception of a number of important items requiring advance consultation with or approval by the State, the Board retains responsibility and authority for all of the operations and business of the Group in accordance with its legal and fiduciary duties and retains responsibility and authority for ensuring compliance with the regulatory and legal obligations of the Group.

In considering the matters reserved for the Board, it should be noted that certain of those matters require advance consultation with, or consent from, the Minister for Finance. The conditions under which such prior consultation or approvals are required are outlined in the Relationship Framework which is available on the Group's website at https://aib.ie/investorrelations/about-aib/relationship-with-irish-state.

Division of Responsibilities

Key Roles and Responsibilities

Chair and Deputy Chair

The Chair leads the Board, setting its agenda, ensuring Directors receive adequate and timely information, facilitating the effective contribution of Non-Executive Directors and ensuring the ongoing training and development of all Directors.

The Deputy Chair deputises for the Chair and is available to the Directors for consultation and advice.

Mr Brendan McDonagh, in his capacity as Deputy Chair, has led the Board since Mr Richard Pym's retirement on 6 March 2020 and has delegated authority from the Board to carry out the duties of the Chair as required. The search process to identify the next Chair of the Board is ongoing.

Mr McDonagh's biographical details are available on page 54.

Senior Independent Director

Ms Carolan Lennon succeeded Mr Tom Foley as Senior Independent Director on his retirement on 29 April 2020. As Senior Independent Director, Ms Lennon acts as a conduit for the views of shareholders and is available as an alternate point of contact to address any concerns or issues they feel have not been adequately dealt with through the usual channels of communication. Ms Lennon is leading the process to identify the next Chair of the Board. Her biographical details are available on page 54.

Independent Non-Executive Director

Independent Non-Executive Directors represent a key layer of oversight, scrutinising the performance of Management in meeting agreed objectives and monitoring against performance. Biographical details are available for each Independent Non-Executive Director on pages 54 and 55.

Chief Executive Officer (CEO)

Dr Colin Hunt manages the Group on a day-to-day basis and makes decisions on matters affecting the operation, performance and strategy of the Group's business. The Executive Committee assists and advises him in reaching decisions on the Group's strategy, governance and internal controls, performance and risk management. Dr Hunt was appointed with effect from 8 March 2019 and his biographical details are available on page 55.

Group Company Secretary

The Directors have access to the advice and services of Mr Conor Gouldson, the Group Company Secretary, who advises the Board on all governance matters, ensuring that Board procedures are followed and that the Group is in compliance with applicable rules and regulations. Mr Gouldson was appointed with effect from 1 May 2020, replacing Ms Helen Dooley who resigned from the role as of that date. Ms Dooley continues in her role as Group General Counsel and member of the Executive Committee.

Board and Advisory Committees

The Board is assisted in the discharge of its duties by a number of Board Committees, whose purpose is to consider, in greater depth than would be practicable at Board meetings, matters for which the Board retains responsibility. Each Committee operates under terms of reference approved by the Board and their terms of reference are available on the Group's website at http://aib.ie/investorrelations.

The governance structure is available on page 44 and reports from the Board Audit Committee, the Board Risk Committee, the Nomination and Corporate Governance Committee and the Remuneration Committee are presented later in this Annual Financial Report.

In addition to the four main Board Committees, the Board has a Sustainable Business Advisory Committee and, in 2020, established a Technology and Data Advisory Committee. Each of the advisory committees comprise of Non-Executive Directors and members of senior management from relevant business areas.

The Sustainable Business Advisory Committee supports the execution of the Group's sustainability strategy. Its remit includes the development and safeguarding of the Group's 'social license to operate', such that the Group plays its part in helping its customers prosper as an integral component of the Group's business and operations. The Chair of the Sustainable Business Advisory Committee provides a brief overview of the Committee's work throughout 2020 below.

"Creating a more sustainable future for the Group and the communities in which we operate in Ireland continues to be a key area of focus for AIB and the Board. Work on the current sustainability plan commenced in 2019 with extensive stakeholder engagement. Feedback from that materiality exercise helped inform the development of the Group's sustainability strategy, operating framework and plan and we are now in the process of delivering against these items. Over the past year we have made considerable progress in reducing the carbon footprint of our own operations as well as advancing products that enable our customers to make the same journey. We have also made a significant commitment to being carbon neutral by 2030, using a net-zero approach, and set out an ambition for 70% of new lending to be green in that timeframe too.

Notwithstanding our progress and industry recognition, we know that we can and must do more to advance the sustainability agenda. Sustainability forms a central part of AIB's strategy and as Chair of the Sustainable Business Advisory Committee my role, and the role of the Committee, has been to ensure that behind the strategy is a plan of action that is delivering and is continually tested and challenged to drive meaningful change."

Helen Normoyle, Chair of the Sustainable Business Advisory Committee

Governance and oversight – Corporate Governance report

The Technology and Data Advisory Committee was constituted in September 2020 in recognition of the Group's substantial investment into areas touching on or impacted by technology and data as agreed under the Annual Investment Plan in the short to medium term. The Committee is appointed by the Board to assist in fulfilling its oversight responsibilities by reviewing and challenging the strategy, governance and execution of such matters. The Committee met three times in 2020 and, inter alia, reviewed the proposals to deliver a new business credit accounting platform across the Group and focused on reviewing the technology and data elements of the Group Strategy and Investment Planning proposals. The Chair of the Technology and Data Advisory Committee provides a brief overview of the Committee's work throughout 2020 below.

"The growing complexity of technology and data requirements continues to place increasing obligations on the Board. To ensure the Board has sufficient oversight of, and insight into, such matters as well as being appropriately positioned to make key related decisions, I was delighted to take the lead on the establishment of the Technology and Data Advisory Committee and be appointed its Chair.

I envisage that through the Committee's work, supported by the established Management teams, we will continue to assist the Board by providing appropriate oversight and constructive challenge of the strategy, operational effectiveness and governance of technology and data matters. I am pleased that, in the relatively short timeframe since the Committee was established in September 2020, we have gained a deeper understanding of many of the key technology and data related initiatives underway across the Group and, as a result, the Committee was well positioned to support the Board in reviewing related proposals through the 2020 Strategy review cycle."

Ann O'Brien, Chair of the Technology and Data Advisory Committee

Board Meetings

In 2020, 29 Board meetings were held being a substantial increase on previous years. The Chair and the Chairs of each Committee ensure Board and Committee meetings are structured to facilitate open discussion, constructive challenge and debate. The Board receives a comprehensive Executive Management report each month. The remainder of its agenda is built from the indicative annual work programme which includes strategic items, any activities out of the ordinary course of business, requested in depth reviews and scheduled updates on key projects. There is a set escalation process in place through Executive and Board Committees which ensures the Board receives the necessary information at the appropriate time to enable the right decisions to be taken. The Chair leads the agenda setting process, supported by the CEO and Group Company Secretary.

In its work, the Board is supported by its Committees which make recommendations where appropriate on matters delegated to them under their respective Terms of Reference. Each Committee Chair provides an update to the Board on matters discussed or decided at the preceding Committee meeting.

Attendance at the Board and Board Committee meetings is outlined below. The Non-Executive Directors also met throughout the year, in the absence of Executive Directors or other members of Management.

	Board		Board Audit Committee		Board Risk Committee		Nomination and Corporate Governance Committee		Remuneration Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Brendan McDonagh	29	29	16	16	12	12	15	14	6	5
Carolan Lennon	29	29			12	12				
Helen Normoyle	29	29					9	9		
Sandy Kinney Pritchard	29	29	16	16	12	12				
Ann O'Brien	29	28	9	9					6	6
Raj Singh	29	29			12	12				
Elaine MacLean	29	25					15	13	6	5
Basil Geoghegan	29	29	16	16	12	12				
Colin Hunt	29	29								
Former Directors										
Richard Pym *resigned 6 March*	6	6					2	2	2	2
Tom Foley *resigned 29 April*	13	13	6	6			4	4		
Tomás O'Midheach *resigned 4 November*	26	26								

Professional Development and Continuous Education Programme

The Board's professional development and continuous education programme continued in 2020 albeit in a virtual setting with a number of training sessions held during the year. Training topics included BCBS 239 Regulation, Internal Rating Based Models, Cyber Security Strategy, Resolution Planning, Safety and Wellbeing, Anti-Money Laundering and Fraud, Regulatory Accounting requirements, Directors' Duties and the Market Abuse Regulations. Directors also have access to an online Corporate Governance Library and a suite of AIB Group specific online training courses.

A structured induction programme is ready to be delivered on the appointment of any incoming Director to include a series of meetings with senior management, relevant briefings together with any specific additional training identified during the course of the appointment of the individual.

Access to Advice

There is a procedure in place to enable the Directors to take independent professional advice, at the Group's expense, on matters concerning their role as Directors. The Group holds insurance cover to protect Directors and Officers against liability arising from legal actions brought against them in the course of their duties.

Composition, Succession and Evaluation

Board Composition

At 31 December 2020, the Board consisted of eight Non-Executive Directors and one Executive Director, being the Chief Executive Officer.

A number of Board changes occurred during 2020 and to date in 2021 which are detailed on page 172.

In addition to the appointment of Mr Fergal O'Dwyer in January 2021, there are a number of other search processes underway to identify new Directors. A number of these searches have resulted in the selection of new Directors for whom regulatory fitness and probity assessments are ongoing. Further details will be announced in due course as appropriate.

Board Succession Planning and Appointments

The review of the appropriateness of the composition of the Board and Board Committees is a continuous process, and recommendations are made based on merit and objective criteria, having regard to the collective skills, experience, independence and knowledge of the Board along with its diversity requirements. The Board Succession Plan is reviewed alongside the Board Skills Matrix by the Nomination and Corporate Governance Committee at each scheduled meeting to allow for proactive and continuous succession planning and, in turn, the timely commencement of Director search processes. The Board Succession Plan details planned Board composition as well as Board Committee membership, the likely tenure of Non-Executive Directors and upcoming actions to be undertaken.

In addressing appointments to the Board, a role profile for the proposed new Directors is prepared by the Group Company Secretary on the basis of the criteria laid down by the Nomination and Corporate Governance Committee, taking into account the existing skills and expertise of the Board and the anticipated time commitment required. The services of experienced third party professional search firms are retained for Non-Executive Director appointments where required and deemed necessary by the Nomination and Corporate Governance Committee. In all Director recruitment activity, the Group ensures a formal and rigorous process.

Prior to a recommendation for appointment of any given candidate, a comprehensive due diligence process is undertaken, which includes the candidate's self-certification of probity and financial soundness, external checks and enhanced due diligence. The due diligence process enables the Nomination and Corporate Governance Committee to satisfy itself as to the candidate's independence, fitness and probity, and capacity to devote sufficient time to the role. A final recommendation is made to the Board by the Nomination and Corporate Governance Committee.

The Relationship Framework specified by the Minister for Finance (the 'Minister'), which governs the relationship between AIB and the Minister, on behalf of the Irish State as shareholder, requires the Group to consult with the Minister before appointing, reappointing or removing the Chair or Chief Executive Officer and in respect of any other proposed Board appointments. A Board-approved Policy is in place for the assessment of the suitability of members of the Board, which outlines the Board appointment process, and is in compliance with applicable joint guidelines issued by the European Securities and Markets Authority and the European Banking Authority.

Governance and oversight – Corporate Governance report

Q&A with Fergal O'Dwyer, Non-Executive Director

Q: What did you think of the appointment, on-boarding and induction process to date?
A: In summary the appointment, on-boarding and induction process has been very comprehensive, open and co-operative with all members of the Board and the Executive Committee working closely with me.

I formally joined the Board as a Non-Executive Director at the end of January 2021 on receipt of the necessary regulatory approval. This was after a comprehensive process which began with initial interviews in late March 2020. It progressed to more detailed interviews, all virtual, with 5 of my fellow Board members including the Deputy Chair and Chair of the Board Audit Committee. The interviews were two-way discussions around mutual suitability for the role and were both open and probing. Having been given due consideration by the Nomination and Corporate Governance Committee, in June 2020, I was offered the role subject to the required regulatory process which I found to be necessarily comprehensive and thorough.

From November 2020, I was pleased to be invited by the Deputy Chair and Chair of the Board Audit Committee to attend and observe a number of Board, Audit and Joint Audit and Risk committee meetings which included the November Group Strategy review. Attendance at these meetings was invaluable to me as it gave me great insight into the current challenges and opportunities for the Group, allowed me to meet my fellow Board members and the Executive Committee and introduced to me the culture that exists within the Group.

Separately I have had quite a number of induction sessions with each member of the Executive Committee and other senior management members, with summary papers around what is "front of mind" acting as very useful agendas for these meetings. As a non-banker, further training around retail and corporate banking is also in hand.

I am conscious that the above process has required a significant time commitment from my fellow Board members and Executive Committee and I thank them for their time, input, co-operation and openness.

Q: As a new director what were your first impressions of AIB and its culture?
A: There have been numerous first impressions for me as a new Director of AIB – here are the stand-out ones:

- How backing customers, colleagues and communities is front of mind for the Board and Management whilst streamlining and simplifying processes and maintaining a strong balance sheet. All papers presented to the Board or its various committees are linked directly to particular aspects of the Group's five Strategic Pillars with a clear governance pathway detailing accountability and ownership for implementation.
- The passion, ability and commitment that is brought to the Group by a relatively new Management team with a diverse range of experience, both from within the financial services sector and other industries.
- The focus on risk and the clear separation of the three lines of defence relating to risk. Related to this is the importance and significance of the Group Risk function or second line of defence. I am comforted that, where relevant, papers travelling to the Board or its Committees are supported by a separate paper from the second line of defence with their formal conclusions on the topic being discussed.
- The ongoing commitment of investment to maintain and further develop a modern, resilient and flexible IT infrastructure in order to deliver the most digitally-enabled offering within the Irish banking market.
- The willingness of our people to co-operate and participate openly in ongoing supervisory engagement, including on-site inspections, thematic reviews and regular engagement with our regulators and the Board and senior management.
- The collegiality that exists within and between the Board and the Executive Committee. Yes, there is challenge and yes there is pushback but the culture is one of openness and transparency.

I am excited about working with my colleagues on the Board and the Executive Committee as AIB continues to grow and develop in the years ahead.

Terms of appointment

Non-Executive Directors are generally appointed for a three year term, with the possibility of renewal for a further three years on the recommendation of the Nomination and Corporate Governance Committee. Any additional term beyond six years will be subject to annual review and approval by the Board. In accordance with practice in recent years and the provisions of the Code, all Directors submit themselves for re-election at each Annual General Meeting. Details on the length of tenure of each Director is available from their appointment dates included in their biographies on pages 54 and 55.

Letters of appointment, as well as dealing with terms of appointment and appointees' responsibilities, stipulate that a specific time commitment is required from Directors. Copies of Directors' letters of appointment are available to shareholders for inspection at the Annual General Meeting and at the Registered Office during business hours on request from the Group Company Secretary.

Time commitment

Non-Executive Directors are required to devote such time as is necessary for the effective discharge of their duties. The estimated minimum time commitment set out in the terms of appointment is 30 to 60 days per annum including attendance at Committee meetings.

Before being appointed, Directors disclose details of their other significant commitments along with a broad indication of the time absorbed by such commitments. Before accepting any additional external commitments, including other directorships that might impact on the time available to devote to their role, the agreement of the Chair and the Group Company Secretary, and in certain cases the Board as a whole and/or the Central Bank of Ireland, must be sought.

Balance and Independence

Responsibility has been delegated by the Board to the Nomination and Corporate Governance Committee for ensuring an appropriate balance of experience, skills and independence on the Board. Non-Executive Directors are appointed so as to provide strong and effective leadership and appropriate challenge to Management.

The independence of each Non-Executive Director is considered by the Nomination and Corporate Governance Committee prior to appointment and reviewed annually thereafter. It was determined that the following Non-Executive Directors in office during 2020, namely, Mr Tom Foley, Mr Basil Geoghegan, Ms Sandy Kinney Pritchard, Ms Carolan Lennon, Ms Elaine MacLean, Mr Brendan McDonagh, Ms Helen Normoyle, Ms Ann O'Brien and Mr Ranjit (Raj) Singh were independent in character and judgement and free from any business or other relationship with the Group that could affect their judgement. Upon his appointment in January 2021, Mr Fergal O'Dwyer was also determined to be independent.

In determining that they should properly be considered to be independent, the Board gave due regard to the following matters: the nature and history of the shareholding and the alignment of the Irish State's interests with other shareholders, the nature of the individuals nominated and the process followed in identifying them for nomination, their performance and nature of their contribution to the business of and matters discussed at the Board and the Relationship Framework with the Irish State. The Board is satisfied that in carrying out their duties as Directors, Ms O'Brien and Mr Singh are able to exercise independent and objective judgement without external influence. The former Chair, Mr Richard Pym was determined as independent on appointment.

Diversity and Inclusion

Employee diversity and inclusion in the Group is addressed through policy, practices and values which recognise that a productive workforce comprises of different work styles, cultures, generations, genders and ethnic backgrounds. The Group has implemented a Diversity and Inclusion Code, further details of which can be found on page 41 of this Annual Financial Report. The Group opposes all forms of unlawful or unfair discrimination. The efficacy of related policy and practices and the embedding of the Group's values is overseen by the Board. The Board has also set medium term Diversity and Inclusion objectives, supported by short term activities and actions.

A formal Board Diversity Policy is in place which sets out the approach to diversity on the Board and is available on the Group's website at www.aib.ie/investorrelations.

The Nomination and Corporate Governance Committee (the "Committee") is responsible for developing measurable objectives to effect the implementation of this Policy and for monitoring progress towards achievement of the objectives. The Policy and performance relative to the target is reviewed annually by the Nomination and Corporate Governance Committee, in conjunction with Board succession and skills planning, and any proposed changes to the Policy are presented to the Board for approval.

The Board recognises that diversity in its widest sense is important, is inclusive of all individuals and is focused on ensuring a truly diverse board. The Board embraces the benefits of diversity among its members and through its succession planning, is committed to achieving the most appropriate blend and balance of diversity possible over time.

In terms of implementation of the Board Diversity Policy, the Committee reviews and assesses the Group Board composition and has responsibility for leading the process for identifying and nominating, for approval by the Board, candidates for appointment as directors. In reviewing the 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 and in consideration of the Group's future strategic plans. Where external search firms are engaged to assist in a candidate search, they are requested to aim for a fair representation of both genders to be included in the initial list of potential candidates so the Committee have a balanced list from which to select candidates for interview. All director search processes during 2020 have been conducted in line with the Policy.

At 31 December 2020, the percentage of females on the Board stood at 56% and thus exceeded the target of 30% set out in the Policy.

Governance and oversight – Corporate Governance report

Board Effectiveness

The Board conducts an annual evaluation of its effectiveness, and is required to have an external evaluation conducted once every three years. Having conducted internal evaluations in 2018 and 2019, an external evaluation was undertaken in 2020 facilitated by Praesta Ireland.

Praesta Ireland is an independent external consultancy firm, which has no other connection to the Group or individual Directors aside from providing leadership coaching services to the Group from time to time or where Praesta may have undertaken an evaluation for an external entity to which a Director was appointed. The evaluation and coaching services are provided independently by separate teams within Praesta Ireland.

The various phases of the external performance evaluation process which commenced in August and concluded in December 2020 are set out below. The evaluation included the Board and each of its Committees with the exception of the Technology and Data Advisory Committee due to its recent establishment. Overall, the final report was positive and demonstrated the strength of the Board and its Committees.

The process was facilitated by members of the Praesta Ireland team who:

- Met with the Deputy Chair to discuss the aims of the evaluation.
- Attended and observed a meeting of the Board of Directors.
- Reviewed a suite of key Board papers, governance documents and minutes.
- Held structured one-to-one interviews with all Board members and all members of the Executive team and the Group Company Secretary.
- Compiled and issued an extensive questionnaire to Board and Executive Committee members covering key aspects of Board effectiveness including the composition of the Board, the content of meetings, Board culture, dynamics and strategic focus.
- Prepared an Effectiveness Evaluation Report and reviewed it with the Deputy Chair.
- Prepared findings and proposed areas of enhancement.
- Presented the final report and agreed actions at the December Board meeting.

Arising from the evaluation process a number of recommendations were accepted by the Board and actions agreed which will be implemented throughout 2021 with regular check-ins to ensure progress is being made against these actions.

The main recommendations and actions arising from the Praesta Ireland evaluation included:

- Enhance reporting to the Board as to progress on the timely execution of the Group Strategy following the Board approval of the 2021–2023 Group Strategy in November 2020.
- Clarify and align as a Board on the desired outcomes for key stakeholder relationships.
- Increase the number of meetings attended by Non-Executive Directors only, with an open agenda, to help reflect on key issues as well as support greater alignment and cohesion as a group, particularly while working remotely. Strengthen Board connection as a collective group and with the Executive Committee particularly given the period of virtual attendance at meetings due to COVID-19 restrictions.
- Focus on how the Board agenda is set so that the right balance of attention on strategic, regulatory and commercial issues is maintained.
- Other recommendations reflected actions already underway, for example, building Board culture, the continuing enhancement of Board papers and the rollout of the Board Succession Plan.

The recommendations from the evaluation will be considered with regard to Board composition on an ongoing basis to ensure the current Board Succession Plan remains a live document. There were no significant skills gaps highlighted through the evaluation feedback beyond those already under consideration as part of the Board Succession Plan and ongoing search processes.

Alongside this process, the Deputy Chair conducted evaluations of individual performance of each of the Non-Executive Directors and also led a discussion in private on the performance of the Chief Executive Officer with the Non-Executive Directors in December 2020. The outcome of these evaluations was positive, noting that each Director continues to contribute effectively. The outcome also aligned to the findings of the external evaluation which noted the strength of the Board as a whole. Each of the Board Committees and the Sustainable Business Advisory Committee considered the Board Evaluation report insofar as it related to that particular committee and adopted any actions considered necessary.

The Board also reviewed the actions arising from the 2019 internal effectiveness evaluation and noted that each action had been satisfactorily completed. The existing Board priorities were maintained with some minor amendments to the descriptors to more accurately reflect the Group's current focus.

Audit, Risk and Internal Control

The Board has delegated responsibility for the consideration and approval of certain items pertaining to audit, risk and internal control to the Board Audit Committee and Board Risk Committee. Where required, topics will be referred onward to the Board as a whole for further discussion or approval. Information on the activities of the Board Audit Committee and Board Risk Committee can be found in their reports commencing on pages 188 and 193 respectively.

Remuneration

The Board has delegated responsibility for the consideration and approval of the remuneration arrangements of the Chair, Executive Directors, Executive Committee members, the Group Company Secretary and certain other senior executives to the Remuneration Committee. A group of senior management is responsible for recommending to the Board the fees to be paid to Non-Executive Directors within the limits set by shareholders in accordance with the Articles of Association. Information on the activities of the Remuneration Committee in 2020 can be found in the Remuneration report on pages 199 and 200.

Governance and oversight – Report of the Board Audit Committee

> In light of the COVID-19 pandemic, 2020 proved to be a challenging year for the Committee, however, it was one in which the resilience of the organisation was proven. Oversight of internal controls and credit risk alongside reviewing the Group's financial performance was a key consideration.

Sandy Kinney Pritchard,
Committee Chair

Chair's Overview

I am pleased to report on how the Board Audit Committee ("the Committee") has discharged its responsibilities for the year ended 31 December 2020. This report outlines the key areas of judgement regarding financial reporting including the conclusions reached by the Committee. It also provides a overview of other material matters within the Committee's remit.

In what was an unprecedented year, the Committee spent a significant amount of time assessing the impact of COVID-19 on the Group's credit risk profile. The calculation of credit impairment allowances proved demanding given the ongoing macroeconomic uncertainty and evolving consensus. The modelling of the impact under IFRS 9 has presented challenges for banks given the impact on economies coupled with the substantial government supports underpinning recovery. The output of the ECL models resulted in a significant charge. These modelled outcomes were adjusted where appropriate to overcome the absence of historic data reference points and to address idiosyncratic outcomes in particular industry sectors resulting from COVID-19 impacts.

This resulted in a full year charge of € 1.46 billion. The Committee is satisfied with the overall level of ECL allowances and the process undertaken by Management in its determination. Additional assurance was provided by the internal and external auditors, giving comfort to the Committee in terms of the robustness of the quantitative IFRS 9 model assessment as well as assurance that post model adjustments were appropriately applied.

Oversight of the Group's Internal Audit function is at the core of the Committees responsibility. I am happy to report that the selected candidate for the Group Head of Internal Audit role, referred to in the 2019 Annual Financial Report, received the necessary regulatory approval and was formally appointed in April 2020. I would also like to express my gratitude to the interim Group Head of Internal Audit for his professionalism, support and contribution during his time in that role.

Committee Membership

The Committee is currently comprised of five Non-Executive Directors, all of whom are considered by the Board to be independent and whom the Board have deemed have the skills, competence and recent and relevant financial experience to enable the Committee to discharge its responsibilities. Upon his retirement, and following a seven year tenure, Mr Tom Foley left the Committee in April 2020. I would like to take this opportunity to thank Tom for his significant contribution. We were also pleased to welcome Ms Ann O'Brien to the Committee in May, and Mr Fergal O' Dwyer to the Committee upon his appointment to the Board in early 2021. To ensure co-ordination of the work of the Committee with the Board Risk Committee, three members of the Committee are also members of the Board Risk Committee, thus promoting effective oversight of risk and finance considerations. Further to this common membership, a number of joint meetings of the Committee and the Board Risk Committee were held during the year. The biographies of the Committee members are set out on pages 54 and 55, with details of each Committee's membership outlined on pages 182.

The Chief Financial Officer, Chief Risk Officer, Group Head of Internal Audit and the Lead External Audit Partner from Deloitte normally attend all Committee meetings.

A primary role for the Committee is to consider, upon assessment of the significant matters of accounting judgement, whether or not this annual report, taken as a whole, is considered to be a fair, balanced and understandable assessment of the Group's financial position, and provides the necessary information for shareholders and stakeholders to assess the Group's strategy, performance and risks. The Committee is satisfied that based on in depth discussion and review with Management, that this Annual Financial Report meets these requirements.

Looking forward, in 2021, the Committee agreed with Management that a priority will be further calibration of ECL models and to address the unique nature of the COVID-19 economic scenarios and inherent data limitations.

The Committee will also continue to apply enhanced oversight to the effectiveness of the Group's internal controls and financial reporting systems with particular regard to the challenges presented by the COVID-19 pandemic.

I would like to take this opportunity to thank my fellow Committee colleagues for their continued support and diligence during this challenging year.

Sandy Kinney Pritchard
Committee Chair

Financial Reporting – Activities for the year

A key responsibility for the Committee is the consideration of significant matters relating to the Annual Financial Report and in particular, key accounting judgements and disclosures which are subject to in-depth discussion with Management and Deloitte. These judgements are set out below and are disclosed in detail within Note 2 "Critical accounting judgements and estimates" on page 261, Note 36 "Provisions for liabilities and commitments" on page 301 and Note 43 "Contingent liabilities and commitments" on page 322.

Key Issue	Committee Consideration	Committee Conclusion
IFRS 9 and the Impairment of Financial Assets	Expected Credit Losses ("ECL") are modelled based on a range of forward looking information, which is reflective of Management's view of potential future economic scenarios. The process for undertaking this assessment is complex in nature, and requires a significant degree of subjective judgement. The COVID-19 pandemic presented an additional challenge to this assessment. The key judgements applied by the Group in estimating ECL are as follows: • determining the criteria for a significant increase in credit risk and for being classified as credit impaired; • the definition of default; • choosing the appropriate models and assumptions for measuring ECL, e.g. PD, LGD and EAD and the parameters to be included within the models; • determining the life of a financial instrument and therefore, the period over which to measure ECL; • establishing the number and relative weightings for forward looking scenarios for each asset class and ECL; • assessing the sensitivity of ECL outcomes to different economic scenarios and specific cohorts to ensure related risks are captured within the overall outcome; • determining post-model adjustments using an appropriate methodology; and • assessing the impact of forbearance strategies on cash flows and therefore, the ECL allowance for restructured loans. In assessing these key judgements, the Committee received regular updates from Management on the quarterly ECL outcome. Following the onset of COVID-19, the Committee held a number of joint meetings with the Board Risk Committee in order to review, challenge and subsequently approve the proposed changes to the macroeconomic scenarios in use in the ECL models, as well as the weightings applied to those scenarios and the appropriateness of same. These scenarios matured to reflect a range of possible outcomes, including the potential future impact of COVID-19 and of Brexit. The Committee also considered the appropriateness of adjustments made to the modelled outcome, which were supported by reasonable information known at the reporting date, which had not been incorporated into the initial modelled outcome due to limitations in the risk measurement methodology. The Committee reviewed regular reports from the Risk function on the outcome of assurance processes relating to ECL levels and the strength of the underlying governance in place to support the ECL calculation. The Committee has also reviewed the credit risk sensitivities and disclosures in the Risk Management section of this report, and is satisfied that these disclosures are fair, balanced and understandable.	The Committee agreed with Management that in 2021, a priority will be further calibration of ECL models and to address the unique nature of the COVID-19 economic scenarios and inherent data limitations. Following detailed assessment of the conclusions made by Management, and the approval of the underlying scenarios applied therein, the Committee is satisfied that the judgements and assumptions utilised in determining the total ECL provision of € 2,510 million at year end 31 December 2020 are appropriate.

Governance and oversight – Report of the Board Audit Committee

Key Issue	Committee Consideration	Committee Conclusion
Going concern and long term viability (refer to the Viability Statement on pages 208 and 209)	The Committee considered management's assessment of the appropriateness of preparing the financial statements of the Group for the year ended 31 December 2020 on a going concern basis. In making this assessment, matters considered by the Committee included the strong capital base of the Group, noting that capital and liquidity ratios remained above minimum mandatory requirements, as well as the known and anticipated impact of COVID-19 on profitability levels. The Committee also considered the evidence presented by Management in order to enable the Directors to make a Viability Statement for the Group for a specified period, taking account its current position, the prevailing economic and trading conditions and principal risks facing the Group.	The Committee recommended to the Board that the financial statements be prepared on a going concern basis, in the absence of any material uncertainties or doubts as to the Group's ability to continue as a going concern. Based on the assessment undertaken, the Committee agreed the appropriate timeframe for the Viability Statement, and recommended the Viability Statement to the Board for approval.
Retirement Benefit Obligations	There is a significant degree of judgement in the calculation of retirement benefit liabilities. The Committee gave due consideration to the reasonableness of defined benefit obligations and of the underlying actuarial assumptions in use, including the discount rate, inflation rates and pensions in payments increases, and approved these assumptions as inputs in the calculation of the IAS 19 Pensions position for the Irish Defined Benefit pension schemes.	Based on the work performed, the Committee is satisfied that the assumptions supporting the retirement benefit obligations are reasonable.
Deferred Taxation	The Group has recognised deferred tax assets for unutilised losses of € 2,763 million. The recognition of deferred tax assets is reliant on the assessment of future profitability of the Group, and significant judgements being made as to the projection of long term future profitability due to the period over which recovery extends. The Committee noted that the reduced forecast profitability levels resulted in an increase to the period of utilisation of the deferred tax asset. It is assessed that it will take in excess of 25 years for the deferred tax assets to be utilised. In considering the utilisation period the Committee noted that this is subject to economic growth rates and the effect of idiosyncratic or market wide effects that may impact the Group's long term profitability. In assessing the recognition of the deferred tax assets, the Committee considered a range of evidence presented by Management. Whilst it was noted that COVID-19 resulted in an unprecedented shock to financial performance in the year, materially impacting profitability in the near term, a number of positive indicators were also observed. The Committee also considered the outcome of the annual planning process, and assessed if the current financial plans, approved by the Board, support the profitability assumptions that the Group relies upon to validate its recognition policy.	In light of the evidence presented by Management, the Committee reaffirmed their support of the recognition policy in place for the deferred tax assets, and agreed that the assumptions used by Management in assessing the recognition of the deferred tax assets are reasonable.
Provisions for liabilities and commitments	The Group recognises liabilities where it has present legal or constructive obligations as a result of past events and, it is more likely than not, that these obligations will result in an outflow of resources to settle the obligations and the amount can be reliably estimated. Details of the Group's provisions for liabilities and commitments are shown in note 36 to the financial statements. Significant management judgement and significant estimation is required in this process which, of its nature, may require revisions to earlier judgements and estimates as matters progress towards resolution particularly in establishing provisions and the range of reasonably possible losses. Certain matters are progressing and a range of outcomes are possible, however, the provisions in place at 31 December 2020 reflect Managements best estimate.	Based on the assessments undertaken, the Committee is satisfied that the provision for liabilities and commitments is reasonable, and reflective of the related uncertainties and the judgemental nature of key assumptions.

Key Issue	Committee Consideration	Committee Conclusion
Impairment of investments in subsidiaries	Investments in subsidiaries are reviewed for impairment when there are indications that impairment losses may have occurred. If any such indications exist, the Company undertakes an impairment review. The Company tested its investment in Allied Irish Banks, p.l.c. for impairment at 31 December 2020 as the carrying value was above the fair value, and assessed an impairment charge of € 3,134 million. Testing for impairment requires significant estimation and judgement. The Committee considered the key assumptions utilised by Management in arriving at this impairment charge, including the discount and growth rates applied.	On consideration of the reports submitted by Management, the Committee is satisfied that the judgements utilised to support the impairment calculation are reasonable.
Assessment of Contingent Liabilities and associated disclosures	Chargeback risk has been identified in 2020 as a contingent liability as the impact of COVID-19 could result in certain merchants' inability to deliver goods/services to cardholders. The Committee considered the nature, scale and mitigations in place for the Group in relation to the potential chargeback risk exposure. Details are set out within Note 43, "Contingent Liabilities and Commitments".	Based on the work performed, the Committee is satisfied that the disclosures provided with regard to this contingent liability are appropriate.

Other Key Areas of Focus

Financial Reporting

In addition to the key accounting judgements set out above, the Committee also reviewed the Half-Yearly Financial Report, and recommended that report to the Board on the basis that the information therein was fair, balanced and understandable. As part of the review of both this Annual Financial Report and the Half-Yearly Financial Report, the Committee considered decisions and proposals of the Group Disclosure Committee, in advance of making any recommendations. The Committee also reviewed the year end 2019 and Half-Yearly 2020 Pillar 3 disclosures, as well as the Pillar 3 Policy, and made positive recommendations to the Board in that regard.

Internal Audit

The Committee is responsible for making recommendations in relation to the Group Head of Internal Audit, including the appointment, replacement and remuneration, in conjunction with the Remuneration Committee, and confirming the Group Head of Internal Audit's independence. Following the selection of an internal candidate in 2019, regulatory approval was received and an appointment was made to the Group Head of Internal Audit role in April 2020. The Chair of the Committee met regularly with the Group Head of Internal Audit between scheduled meetings of the Committee to discuss material audit issues arising. The Group Head of Internal Audit has unrestricted access to the Chair of the Board Audit Committee.

Over the year, the Committee provided assurance to the Board regarding the independence and performance of the Group Internal Audit function. In terms of the work schedule of the Group Internal Audit function, the Committee monitored progress against the agreed 2020 audit plan, as well as actions taken by Management to address the issues raised through that audit work. Following the onset of COVID-19, the Group Head of Internal Audit worked closely with the Committee to review the changes in the Group's risk profile and revise the internal audit plan accordingly. A further revision of the audit plan was undertaken for the remainder of 2020 and was subsequently approved by the Committee in July.

The Committee also considered the annual and half-year internal audit opinion in relation to the overall control environment, as well as enhancements to the methodology utilised to arrive at that assessment. Other material items for approval included the Group Internal Audit Charter and the approach to compliance with Article 191 of the Capital Requirements Regulation, including the output of the Annual General Risk Assessment relating to Internal Models.

In December 2020, the Committee considered and approved the 2021 annual internal audit plan, with reference to the material risks of the business and the ongoing uncertainty arising due to COVID-19. It also approved the adequacy of resources allocated to the Group Internal Audit function by the Group.

Governance and oversight – Report of the Board Audit Committee

External Audit

Deloitte were appointed as the Group's Auditor in 2013. In line with the relevant EU regulatory requirements, and strong corporate governance practices, the next tendering process for a new Group Auditor will be no later than 2023.

The Committee provided oversight in relation to the Auditor's effectiveness and relationship with the Group including agreeing the Auditor's terms of engagement and monitoring the independence and objectivity of the Auditor. The remuneration of the Auditor was also considered by the Committee and recommended to the Board for approval. To help ensure the objectivity and independence of the Auditor, the Committee has a policy on the engagement of the Auditor to supply non-audit services, which outlines the types of non-audit fees for which the use of the Auditor is pre-approved or requires specific approval. In line with that Policy, the Committee reviewed the level of non-audit fees paid to the Auditor throughout the year. Further details on the approach can be found at the Group's website at: https://aib.ie/investorrelations

In addition, the Committee provided oversight in monitoring the effectiveness of the policy for the employment of individuals previously employed by the Auditor. This policy was established in 2016 in accordance with the EU Audit Regulations 537/2014 and Directive 2014/56/EU, which was transposed into Irish law on 25 July 2018. The Committee received an update on the application of that policy, and used this information to facilitate its considerations as to the Auditor's independence and objectivity in respect of the audit.

The Committee considered the scope of the detailed plan in respect of the half-yearly review and the annual audit. The Committee also considered the Auditor's findings, conclusions and recommendations arising from their work. The Committee satisfied itself with regard to the Auditor's effectiveness, independence and objectivity through a number of mechanisms during the year. These included consideration of the work undertaken, confidential discussions with the Auditor and feedback received from Management.

On the basis of the above, and the Committee's determination of the Auditor's effectiveness, independence and objectivity, the Committee recommends that Deloitte should be reappointed as Auditor at the Annual General Meeting on 6 May 2021.

Speak Up and Code of Conduct

The Committee is responsible for ensuring that appropriate arrangements are in place by which employees may, in confidence, raise concerns regarding possible improprieties in financial reporting or other matters. To this end, the Committee Chair, as "Speak Up" Champion, and the wider Committee oversaw the embedding of enhancements to the governance structures in place to support the Group's "Speak Up" arrangements throughout the year. The Committee received regular reports from Management regarding the operation of the "Speak Up" policy, as well as all other whistleblowing options available in the Group. The Committee also considered reports on the operation of the Code of Conduct across the Group, and approved an enhanced Code of Conduct Framework.

Internal Controls

The importance of a strong control environment, and the assessment by the Committee of the effectiveness of these controls, is central to ensuring that the interests of shareholders and other stakeholders are appropriately protected. In light of the significant changes to work practices in 2020, the operation of these controls was of utmost importance and required a degree of dynamism and flexibility throughout the year. To that end, the Committee considered reports and presentations from Management on matters relating to the effectiveness of the control environment, including the key internal controls in respect of fraud prevention and detection.

The Committee received reports from the Chief Financial Officer, aligned to the half-yearly and year-end reporting timelines, regarding the operation and effectiveness of the system of controls over financial reporting. The Committee also reviewed and approved the Directors' statements concerning internal controls to be included in this annual report.

Throughout the year, the Committee also maintained focus on continued enhancements to the three lines of defence model. The Committee monitored progress against a number of "Key Control Enhancement Themes", each of which is owned by an accountable Executive Committee member.

The Committee was satisfied with the assessments of the control environment and specifically the impact of the COVID-19 pandemic on the efficacy of control effectiveness.

Subsidiary Oversight

The Committee received an annual report from the audit committees of each of AIB Group (UK) p.l.c., EBS d.a.c. and AIB Mortgage Bank u.c., and also regularly reviewed the minutes of the audit committees to ensure effective oversight and awareness of any issues or emerging challenges. Furthermore, the Committee Chair worked closely with the audit committee Chairs throughout the year on matters of relevance, including Expected Credit Losses, Third Party Management oversight and escalation mechanisms, as well as the work of the Group Internal Audit function.

Governance and oversight – Report of the Board Risk Committee

"The COVID-19 pandemic had a significant impact on credit quality. The Group's capital strength allowed us to react and provide compliant, timely and customer focused solutions to those seeking support."

Brendan McDonagh,
Committee Chair

Chair's Overview

On behalf of the Board Risk Committee ('the Committee'), I am pleased to report on the Committee's activities during the financial year ended 31 December 2020. The purpose of this report is to provide an insight into the workings of, and key matters considered by, the Committee during the course of 2020.

The Committee continued to discharge its roles and responsibilities throughout the year, with detailed consideration given to a wide range of existing and emerging risks facing the Group, not least of all, the emergence of the COVID-19 pandemic and the continued uncertainty posed by the UK withdrawal from the European Union along with the impact of these events on the Group's risk profile. A summary of the key areas of focus for the Committee throughout 2020 has been set out for your information below.

Committee Membership

The Committee currently consists of five Non-Executive Directors, all considered by the Board to be independent. The biographies of the Committee members are set out on pages 54 and 55.

To ensure co-ordination between the work of the Committee and that of the Board Audit Committee, Ms Sandy Kinney Pritchard, Mr Basil Geoghegan and I sit on both the Board Audit and Board Risk Committees. To ensure the Group's remuneration policies and practices are consistent with and promote sound and effective risk management, I also sit on the Remuneration Committee. Details of each Committee's membership and records of attendance at meetings are outlined on page 182. The Committee held a number of joint meetings with the Board Audit Committee and the Remuneration Committee throughout the year.

The Chief Risk Officer, Chief Financial Officer, Group Head of Internal Audit, the lead External Audit partner and the Chair of AIB Group (UK) p.l.c. are invited to attend all meetings of the Committee.

Looking forward, the Committee's focus in 2021 will continue to be on ensuring appropriate oversight of the Group's risk appetite, risk management structure, frameworks and policies, as well as challenging whether the management controls in place are adequately robust to ensure the Group achieves its overall purpose and strategic goals in an appropriately risk controlled manner. The Committee will also continue to exercise oversight of compliance by the Group with its regulatory obligations. As COVID-19 persists into 2021, the Committee will continue to focus on the associated risks, their management and mitigation by the Group, particularly as they relate to Credit Risk, Business Model Risk, People and Culture Risk and the operational challenges arising as a consequence, as well as the Group's capacity to deliver the strategic change agenda.

I would like to take this opportunity to thank my fellow Committee members and Executive colleagues for their steadfast commitment in what has been another busy year for the Committee.

Brendan McDonagh
Committee Chair

Governance and oversight – Report of the Board Risk Committee

Key Areas of Focus

COVID-19 – Credit Risk

The emergence of the COVID-19 pandemic in 2020 and the related risks and impacts on the Group, including its customers and employees, was an area of primary concern for the Committee. Consideration of the impact of COVID-19 on the credit risk profile was a key focus throughout 2020. Detailed portfolio reviews from first and second line Management enabled the Committee to continue to assess the overall quality of the credit portfolio, as well as allowing the Committee to focus on those sectors most severely impacted by COVID-19. The Committee assessed credit risk performance and trends, including the performance of significant credit transactions on a regular basis. The material impact of the effects of the pandemic on the asset quality profile were continually evaluated and resulted in a significant increase to the Group's Expected Credit Loss ("ECL") levels, which the Committee worked closely with the Board Audit Committee on throughout the year. The overlap in membership of both Committees further facilitated collaboration on this matter.

Coupled with taking a forward looking view on the risks associated with the credit profile, the Committee recognised the importance of strong customer engagement and active credit risk management, with a view to delivering the most appropriate customer outcomes in a suitably compliant manner. Acknowledging that the maintenance of an appropriate policy infrastructure and internal governance framework are of critical importance for the Group, throughout 2020 the Committee reviewed and recommended to the Board for approval appropriate amendments to a number of credit risk policies and frameworks to support the Group's delivery of payment break solutions for customers impacted by COVID-19. Following this, the Committee also gave consideration to the output of assurance reviews undertaken on the provision of such solutions to customers.

COVID-19 – People and Culture Risk and Operational Risk

Throughout 2020, the Committee continued to focus on the people and culture risk and operational risk profiles, recognising the challenges presented for employees in delivering the additional business demands and change in working environments and practices which arose as a result of COVID-19. This included the delivery of payment break solutions, alongside the strategic change agenda, and the delivery of regulatory change programmes. To this end, the Committee received regular reports regarding the status of people risk and the associated drivers across the Group, as well as the heightened operational risk profile and the mitigants in place to address concerns which Management reported throughout the year. The Committee reviewed the ongoing operational risk profile, including significant operational risk events and potential risks through the Chief Risk Officer Report.

Risk Appetite, Risk Profile and Risk Strategy

The Committee exercised oversight of the Group Risk Appetite Statement ("RAS") throughout the year, and made recommendations to the Board in that regard. This was delivered through the ongoing monitoring of the risk profile against agreed Group RAS Metrics. In response to COVID-19, the annual review cycle of the Group RAS was expedited, with a bi-annual review schedule introduced in order to appropriately reflect the significant deterioration in the macroeconomic environment, whilst ensuring alignment to the Group's strategic objectives. The Committee reviewed regular reports from the Chief Risk Officer which provided an overview of the status of the Group's key material risks, as well as emerging risk drivers. The Committee also considered and recommended the assessment of the material risks facing the Group to the Board for approval. In addition, the Committee gave consideration to the area of climate risk and sustainability in the context of the RAS and Material Risk Assessment, with climate risk considered an emerging risk driver, in terms of transition and physical risks which will have multiple impacts across the Group's material risks.

Business Model Risk

While the Group's business model is resilient over the longer term due to its strong capital position, digital proposition and leading franchise in Ireland, the Committee also focused on business model risk throughout 2020, given the challenges presented by COVID-19. This was mainly driven by the macroeconomic environment, the impact on ECLs as well as the lower interest rate environment which is likely to persist for longer. These events impacted the Group's overall financial position during 2020. The Committee received regular Management updates on the business model risk profile and Management actions being taken in this area. The Committee welcomed the improved trajectory by the end of the year with the delivery of the 2021-2023 Financial Plan and Strategy to ensure the Group meets its medium term financial targets. Business model risk will be an area of continued focus in 2021.

Conduct Risk	The area of conduct risk, including the impact of COVID-19 on the conduct risk environment, has been an area of attention for the Committee over the year. As part of the design of policy changes required to deliver COVID-19 product modifications and solutions, due consideration was given to the impact of same on the Group's customers. The Committee also considered the status of customer restitutions and continued to monitor the status of risk appetite limits, as well as customer complaint metrics.
Brexit	Due to the continuing uncertainty surrounding future trading agreements with the United Kingdom and the implementation of same, the Committee received regular updates on the Group's preparations for Brexit focusing on the proposed Product and Customer Solutions, Customer Engagement and Operational Contingency Planning. Given the uncertainty that existed throughout 2020 on the status of any future trading relationship, the Group developed a number of potential solutions and prepared for Brexit on a conservative basis. The Committee will continue to monitor the impact of Brexit on the Group's risk profile through business as usual reporting mechanisms.
Capital, Funding and Liquidity	Throughout 2020, the Committee assessed reports from Management, including quarterly internal stress tests, in order to ensure that the Group had appropriate buffers in place above the Group's own minimum capital and liquidity targets, as well as above regulatory requirements. To this end, the Committee reviewed and recommended as appropriate capital, funding and liquidity planning documentation, with particular reference to the contingent capital and the related Group-wide stress test scenarios. Following an in-depth review in conjunction with the Board Audit Committee, the Committee recommended macroeconomic scenarios including prolonged impacts of COVID-19 and a Brexit with and without any trade deal for use within the ICAAP and IFRS 9 models to the Board for approval. The Committee is satisfied that the capital and liquidity adequacy of the Group has been well demonstrated in a range of possible scenarios.
Regulatory Compliance Risk Management	Legal and regulatory compliance risk management continued to be a focus for the Committee in 2020. In addition to regular reporting from the Chief Risk Officer in relation to the regulatory compliance risk profile, the Committee received independent reports from the Money Laundering Reporting Officer regarding the status of the Anti-Money Laundering/Counter Terrorist Financing control environment, with significant attention given to the delivery of management actions in order to ensure that the Group keeps pace with the evolving threat landscape and the varied regulatory requirements within each jurisdiction in which it operates. Other areas of oversight focus included the status of the Payment Services Directive 2 ("PSD2") Strong Customer Authentication eCommerce programme and the embedding of the principles of BCBS 239, the Basel Committee on Banking Supervision's standard on data aggregation capabilities, risk management and risk reporting.
Regulatory Engagement	Throughout the year, the Committee reviewed quarterly reports regarding the status of Risk Mitigation Programme action plans, as well as the upstream regulatory horizon. The Committee also considered and recommended, as appropriate, Management action plans put in place to address findings identified as part of regulatory inspections. Consideration was also given to any relevant regulatory correspondence which required the Committee's attention.
Model Risk	During 2020, COVID-19 presented challenges to the performance of the Group's risk models. The Committee continued to receive regular reports from the Group Model Risk function and Independent Validation Team to review the quality of model performance. In addition, the Group continued to progress the redevelopment of its IRB models and the Committee received regular reports regarding the status of modelling capabilities across the Group, as well as progress against set deliverables, with focus on the impact of COVID-19 on model delivery.

Governance and oversight – Report of the Nomination and Corporate Governance Committee

> Looking ahead, the Committee's key priorities for 2021 will include concluding the Chair search and onboarding new Directors.

Elaine MacLean,
Committee Chair

Chair's Overview

Following my appointment during the year as Chair of the Nomination and Corporate Governance Committee (the "Committee"), I am pleased to present the report of the Committee for the year ended 31 December 2020. This report outlines the main areas of focus of the Committee in the past year and areas of priority going forward.

2020 was an extremely busy year for the Committee as we continued to progress the Board Succession Plan at pace through a number of Director searches. The importance of this work was brought into focus in recent years due to a number of Non-Executive Directors nearing the end of their respective terms concurrently. Therefore, the Committee's approach in 2020 was to ensure the risk of that situation reoccurring was mitigated through the enhancement of our Board Succession Plan to include staggered Board turnover going forward. We look forward to announcing the outcome of the ongoing searches in due course, as appropriate.

Notably for the Committee, the past year saw substantial change to the Committee with the retirements of Mr Richard Pym and Mr Tom Foley and I would like to thank them for their great contribution to the Committee's work over the years.

A summary of the key areas of focus for the Committee throughout 2020 is set out below.

Committee Membership

The Committee currently consists of three Non-Executive Directors considered by the Board to be independent. Ms Helen Normoyle joined myself and Mr Brendan McDonagh on the Committee on 22 May 2020. The biographies of the Committee members and a record of attendance at meetings are set out on pages 54, 55 and 182 respectively.

Mr Richard Pym stepped down from the Committee on 6 March 2020 and Mr Tom Foley on 29 April 2020.

The Chief Executive Officer and Chief People Officer normally attend Committee meetings except where the business of the meeting relates to their own successors. The Committee also met at regular intervals with no Management present.

Looking ahead, the Committee's key priorities for the year will include concluding the Chair search and onboarding a number of new directors. I would like to thank my fellow Committee members for their commitment through a busy and unusual year.

Elaine MacLean
Committee Chair

Key Areas of Focus

Board Succession

During 2020, the Committee recommended that a number of additional Non-Executive Directors and an Executive Director be appointed to the Board subject to the successful conclusion of the ongoing regulatory fitness and probity processes. In light of the anticipated duration for identifying and appointing preferred candidates, the Committee took a proactive approach to identifying roles which were scheduled to be progressed under the Board Succession Plan in the near term. The Committee believes this approach will ensure strong continuity of leadership and a robust succession plan for the Board in the future.

Each selected candidate was chosen with due regard to the Policy for Assessment of Suitability of members of the Board, the Board Diversity Policy, their skills and competencies and the collective suitability of the Board as a whole, as well as the outcome of the due diligence processes in place to support the assessment of fitness and probity. As a result of this work, Mr Fergal O'Dwyer was appointed as a Non-Executive Director on 22 January 2021. Further updates on the remaining appointees will be provided upon the conclusion of the respective regulatory processes as appropriate.

The Committee used the services of a number of external search agents during the year to support Director searches, namely Korn Ferry, MERC Partners Spencer Stuart and Egon Zehnder. The search firms have no other connection to the Group other than, from time to time, assisting with executive searches, providing leadership development and assessment services and leadership advisory services and in the case of Egon Zehnder, the Chair succession process as outlined below. The search firms have no other connection to individual directors other than, from time to time, assisting external entities, of which the individual directors may be a Director, in candidate searches or considering individual Directors as potential candidates for external roles.

The Committee reviewed and refreshed the Board Skills Matrix, considering the current skill and experience of the Board and taking a forward look at the future skillset of the Board should all ongoing regulatory fitness and probity processes be successful. The Committee is satisfied that the planned composition of the Board will be strongly positioned to support and lead the Group into the future.

Chair Search

Mr Richard Pym retired as Chair on 6 March 2020. While a process to identify his replacement commenced prior to his resignation, it has taken longer than anticipated and the process is ongoing. The search is being led by our Senior Independent Director, Ms Carolan Lennon and Egon Zehnder are engaged as the external search agents for this process. We are confident that a successor will be identified in the near term and further details will be announced as soon as available.

Executive Succession Planning

Executive succession planning continued to be a key focus in 2020 with the Committee considering the Executive succession plan on an ongoing basis. Such reviews included succession plans for the Executive Committee and a number of other senior roles across the Group. The Committee was satisfied with the work undertaken by Management to strengthen the Executive Committee succession plan.

The Committee highlighted the importance of a diverse pipeline to drive success into the future and was encouraged by the level of diversity on the Executive Committee, and within their succession pipelines.

In line with reporting requirements under the UK Code, at 31 December 2020, the gender balance of senior management, which for this purpose is considered to be the Executive Committee, was 56% female and 44% male and their direct reports was 43% female and 57% male.

Governance and oversight – Report of the Nomination and Corporate Governance Committee

Executive Appointments	Upon the resignation of Tomás O'Midheach, the Chief Operating Officer and Executive Director in November 2020, the Committee identified the most appropriate candidate for appointment as an Executive Director to the Board. The preferred candidate has been identified from within the current Executive Committee and will be announced as soon as the related fitness and probity regulatory process concludes. Additionally, the Committee considered the proposed job specifications and the preferred candidates for the roles of the Head of Compliance, Chief Operating Officer and Chief Technology Officer.
Directors Roles and Committee Composition	During the year, the Committee considered and made recommendations on a number of additional roles for Non-Executive Directors including the appointment of the Senior Independent Director, my appointment as Chair of the Nomination and Corporate Governance Committee and the composition of the Board and Advisory Committees generally. With particular reference to the role of Senior Independent Director which became vacant following the retirement of Mr Tom Foley in April 2020, the Committee considered the most appropriate successor from the current Board composition and agreed that Ms Carolan Lennon had the suitable skills and experience for the role. The current Committee memberships and any additional roles held by Directors are set out on pages 54 and 55.
Corporate Governance	The Committee undertook its annual schedule of work including a review of the independence and time commitment of the Board members and oversight of developments in best practice in relation to corporate governance generally. The Committee reviewed the Board Diversity Policy and we are pleased to report our continued progress against our set targets. The Committee also provided oversight of the 2020 externally facilitated Board effectiveness evaluation. Further details on these items, along with the Board's performance against its diversity targets, are contained in the Corporate Governance Report on pages 178 to 187.

Governance and oversight – Report of the Remuneration Committee

"The Committee continues to ensure our remuneration policy aligns with regulation and best practice guidance."

Elaine MacLean,
Committee Chair

Chair's Overview

I am pleased to present the report of the Remuneration Committee (the "Committee") for the year ended 31 December 2020. This report outlines the Group's current remuneration structure and the Committee's areas of priority for the year ahead. An overview of our key areas of focus for 2020 is also provided below.

The remuneration structure of the Group continues to be set against the backdrop of the remuneration restrictions contained in certain agreements with the Irish State following the State's recapitalisation of the Group in 2010 and 2011 and we await the outcome of the Minister for Finance's review on this matter. As a Committee, our desired remuneration policy continues to be the implementation of a competitive, market-aligned, performance-related remuneration model which is fully compliant with all relevant directives and guidelines and which aligns the interests of management and employees with those of shareholders.

Notwithstanding these limitations, the Committee continues to ensure our remuneration policy aligns with regulation and best practice guidance, and notably in 2020 the remuneration related sections of Statutory Instrument 81 of the Companies Act 2014. There is further detail on the Remuneration Policy and the Committee's oversight of it in the Corporate Governance Remuneration Statement which follows this report.

Committee Membership

The Committee currently consists of three Independent Non-Executive directors, namely myself, Mr Brendan McDonagh and Ms Ann O'Brien. To aid co-ordination between the work of the Committee and that of the Board Risk Committee, Mr Brendan McDonagh is a member of both. The biographies of the Committee members and a record of attendance at meetings are outlined on pages 54, 55 and 182 respectively.

Mr Richard Pym stepped down from the Committee on his retirement on 6 March 2020 and I would like to note my thanks for his contribution over his years of service.

We are supported in our work by our Group Reward colleagues and PricewaterhouseCoopers as our external remuneration consultants. Aside from their work supporting the Committee, PricewaterhouseCoopers provide a range of consultancy services to the Group and may, from time to time, provide services to individual Directors as part of directorship or executive roles held outside of the Group.

The Chief Executive Officer, the Chief People Officer, Head of Reward and other members of management are invited to attend the meetings where the agenda item is relevant and at the request of the Committee. The Chief Risk Officer is a permanent attendee except where the item of business relates to her own remuneration or that of her peers.

The Committee discharges its responsibilities whilst operating under the principle that no individual shall be involved in deciding their own remuneration. Furthermore, no member of management is permitted to attend where a matter for discussion relates to their own remuneration.

In 2021, the Committee will continue to oversee and, where required, challenge proposals to ensure the most appropriate remuneration structures are in place and are in line with the restrictions under which we operate. In all of our deliberations, we aim to create a structure which operates in the best interests of our employees, shareholders and other stakeholders.

Elaine MacLean
Committee Chair

Governance and oversight – Report of the Remuneration Committee

Key Areas of Focus

Compliance and Annual Matters for Review	During the year, the Committee completed each of its required annual reviews to include the Remuneration Policy, the process for identifying Material Risk Takers and a review of the limited variable commission schemes in operation across the Group. Each review was accompanied by an overview from the Risk function to aid the Committee in its oversight, review and challenge of the proposals. Further details on the Remuneration Policy and identification of Material Risk Takers is available in the Corporate Governance Remuneration Statement which follows this report.
Equal Pay and Gender Pay	The Committee received updates on reviews undertaken with regard to Equal Pay and Gender Pay. Following the reviews, the Committee was satisfied that the career structure in place in AIB provides a clear framework within which remuneration is managed in line with consistent policies and processes that are not influenced by gender. These topics will remain under review in line with the Group's diversity and inclusion agenda.
Industry Updates	In light of the COVID-19 pandemic, the Committee requested an update from the external remuneration consultants on the impact of the pandemic on remuneration structures in peer companies. The Committee will continue to keep this matter under consideration and recommend any changes or enhancements where appropriate.
Remuneration of Individuals	The Committee approved remuneration proposals for a number of existing and incoming Executive Committee members and Heads of Control Functions. The Committee members also approved the exit arrangements for outgoing Executive Committee members.

Directors' Remuneration

Details of the total remuneration of the Directors in office during 2020 and 2019 are shown in the Corporate Governance Remuneration Statement on pages 205 and 206.

Dr Hunt is a Non-Executive Director of The Ireland Funds, Irish Chapter. Dr Hunt is also a Non-Executive Director and President for 2021/2022 of the Institute of Bankers in Ireland. Both are registered charities and Dr Hunt receives no remuneration from either role.

During his tenure as an Executive Director, Mr O'Midheach did not hold any external Non-Executive Directorships.

Throughout 2020, all Executive Directors were fully compliant with the limitations on external directorships as detailed in CRD IV.

Governance and oversight – Corporate Governance Remuneration statement

Remuneration Constraints

The Group has been required to comply with certain executive pay and compensation restrictions following the Group's re-capitalisation by the Irish Government in 2010 and 2011. The application of market-aligned remuneration policies and practices are significantly constrained by the terms of Subscription and Placing Agreements entered into between AIB and the Irish Government. In particular, AIB is precluded from introducing any new bonus or incentive schemes, allowances or other fringe benefits without prior agreement with the State. Consequently, the absence of performance-based variable pay, combined with the requirement to operate within an overall cap on individual salaries and allowances of € 500,000, precludes AIB from aligning the remuneration of key executives and other key employees with the achievement of longer term customer, financial and strategic targets.

Remuneration Policy and Governance

The Group Remuneration Policy sets the framework for all remuneration related policies, procedures and practices for all employees and directors of the Group. The principal aim of the Remuneration Policy is to support AIB in becoming a bank to believe in, recognised for outstanding customer experience and superior financial performance.

The Remuneration Policy is designed to foster a truly customer focused culture; to create long term sustainable value for our customers and shareholders; to attract, develop and retain the best people and to safeguard the Group's capital, liquidity and risk positions. The Board recognises that the long term success of the Group is dependent on the talent of employees and, in particular, the ability to consistently perform at the highest level in the best interests of its customers.

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. The Group is committed to a simple, transparent and affordable reward structure which is fair, performance based, externally aligned and risk aligned.

The scope of the Remuneration Policy includes all financial benefits available to all employees and directors of the Group and extends to all areas, including all individual subsidiaries, entities, branches and to all employees of the Group, including at consolidated and sub-consolidated levels.

The Remuneration Policy is governed by the Remuneration Committee on behalf of the Board. The Committee is responsible for determining the Remuneration Policy and for overseeing its implementation. The Committee oversees the operation and effectiveness of the Remuneration Policy, including the process for the identification of material risk takers. The Committee's governance role in this respect is outlined in its Terms of Reference.

The Committee further ensures that the Remuneration Policy and practices are subject to a review at least annually, taking into account the alignment of remuneration to the Group's culture for all employees and executive directors. The annual review is informed by appropriate input from the Group's Risk and Internal Audit functions to ensure that remuneration policies and practices are operating as intended, are consistently applied across the Group and are compliant with regulatory requirements.

Taking into account the constraints on variable remuneration in place, the Group has historically and continues to comply with the UK Corporate Governance Code where such matters are within the Group's control, and uses the Code to inform the Group's decision making and disclosures. The Group acknowledges the implementation of the Shareholder Rights Directive II ("SRD II") in Ireland, and has complied with same to the extent applicable. The constraints on variable remuneration mean that some of the requirements of both the Code and of SRD II are not applicable to the Group at this time. This is something the Group will continue to keep under review.

The Remuneration Policy and the Committee's Terms of Reference have been updated to incorporate amendments relating to the UK Corporate Governance Code 2018. Regarding provision 40 of the Code, the Remuneration Policy sets the framework which underpins remuneration policies and practices equally for executive directors and all employees. In particular:

- Clarity – Remuneration arrangements are clearly outlined and the Policy is publicly available;
- Simplicity – The Group is committed to a simple reward structure as outlined in the Policy;
- Risk – The Group's fixed remuneration arrangements operate under strict remuneration constraints. If variable schemes were introduced in the future, the design of any such schemes would include a full risk assessment and discretionary flexibility to accommodate this requirement;
- Predictability – if variable schemes were introduced in the future, specific details, including worked examples, of future Director's remuneration would be included in any new proposed remuneration policy;
- Proportionality – The Group's existing remuneration structure does not provide for the awarding of material individual awards; and
- Alignment to culture – The Group does not currently operate any incentive schemes other than a small number of limited commission schemes.

Governance and oversight – Corporate Governance Remuneration statement

In relation to provision 41 of the Code:

- Executive director remuneration is governed by the policy and determined by the Committee;
- Career levels have been introduced with market related pay ranges for each level. All employees are mapped to a career level and associated pay range based on their level of accountability;
- The Report of the Remuneration Committee describes the operation of the policy;
- As the same remuneration restrictions remained in place and there were no material changes to remuneration policy during 2020, shareholder engagement was not required in this area;
- The Corporate Governance report references engagement with the workforce; and
- In the absence of variable remuneration, discretion is not a material factor.

It should be noted that some of the provisions of the Code (including provisions 36 and 37) are not currently applicable to the Group, as the Group does not operate variable incentive arrangements, other than a small number of limited commission schemes.

European Banking Authority (EBA) Guidelines

Remuneration policies, procedures and practices reflect the provisions, where applicable, of national and EU legislation, State Agreements and commitments provided to the Irish Government, the Capital Requirements Directive (CRD IV) and relevant guidelines issued by the European Banking Authority (EBA) and other regulatory authorities. In the absence of variable incentive schemes, there was little scope in practice to apply the provisions of the EBA Guidelines pertaining to variable remuneration. The Remuneration Policy incorporates the provisions of the EBA Guidelines in relation to the ongoing design, implementation and governance of remuneration.

Pillar 3 and Other Remuneration Disclosures

The Group publishes additional remuneration disclosures in the annual Group Pillar 3 Report. These disclosures provide further details in relation to the Group's decision making process and governance of remuneration, the link between pay and performance, the remuneration of those employees whose professional activities are considered to have a material impact on the Group's risk profile and the key components of the Group's remuneration structure. The Group's Pillar 3 Report is available on the Group website.

EBA remuneration benchmarking requirements require the Group to disclose remuneration data in respect of material risk takers and high earners (those earning above € 1 million) to the Central Bank of Ireland. The Group continued to comply with these reporting requirements during 2020. There were no employees whose total remuneration exceeded € 1 million during 2020.

The Group published its gender pay gap report for 2019 in 2020 in relation to its UK based employees. The disclosures are available on the AIB (GB) website, www.aibgb.co.uk.

Material Risk Takers

The Group is required to maintain a list of employees whose professional activities have a material impact on the Group's risk profile. The list of Material Risk Takers is prepared using a combination of qualitative and quantitative criteria in accordance with the relevant EU regulations and guidelines together with additional criteria specific to the Group's structure, business activities and risk profile. The list is prepared at Group, parent and subsidiary levels for the Republic of Ireland and the United Kingdom.

Group Risk provide an assessment of the risks impacting the Group and performance against the Group's Risk Appetite Statement to ensure that the Remuneration Policy is aligned with the Group's risk profile. The Chief Risk Officer reviews the list of Material Risk Takers in conjunction with Group Reward and provides the Committee with an annual assessment of the risks facing the Group to ensure that policies and practices are consistent with and promote sound and effective risk management.

Reward Structure and Operation in 2020

The continued existence of remuneration constraints significantly impedes the Group's ability to apply its desired remuneration policy and to implement market aligned remuneration policies and practices.

During 2020, remuneration across the Group continued to be principally comprised of fixed pay elements encompassing base salary, allowances and employer pension contributions. Base salary is the principal component of fixed remuneration and is designed to be fair and competitive and set according to appropriate salary ranges which reflect the size and level of responsibilities attaching to each role. Allowances mainly consist of non-pensionable cash allowances which are payable to eligible senior employees which recognise equivalent benefits and allowances available in the market. The Group operates defined contribution pension schemes which followed the closure of all Group defined benefit schemes to future accrual on 31 December 2013. Further details in respect of the Group's fixed pay elements are provided in the table below.

Increases to salary in 2020 were awarded following the annual pay review process, through promotion, progression and, in exceptional cases, through out-of-course increases to retain business critical staff and key skills.

For 2020 and in light of COVID-19, a decision was taken to award flat pay increases to our non-manager employees (Levels 1-3) and a smaller flat increase to managers (Level 4). Senior managers and above received no increase in 2020, irrespective of their performance. These increases represented a one year agreement with employee representatives arising from the recommendations of the Workplace Relations Commission (WRC). The next annual pay review is due to take place in April 2021. Recognition awards were awarded to all employees during 2020 (which they could choose to redeem for Appreciate programme points, or have a donation made to charity). There were two awards (€ 250 and € 125) with all employees receiving at least one award.

The remuneration of Executive Directors and members of ExCo was determined and approved by the Remuneration Committee within the remuneration constraints set by the State.

The Group operates three local business commission schemes. These schemes are designed to protect the rights and interests of customers via customer centric performance criteria, the prevention of conflicts of interest and the assessment and mitigation of risks to the customer. The maximum amount payable to any individual per year is € 20,000.

Remuneration of Executive Directors and ExCo

The remuneration of Executive Directors and members of the ExCo is determined on appointment by reference to external benchmarks to provide an appropriate level of competitive remuneration commensurate with the size and functional responsibilities attaching to their roles. Remuneration is approved by the Board following review and recommendation by the Group Remuneration Committee. Executive Directors will not participate in the decision making process around their own remuneration.

In line with current remuneration restrictions on the introduction of variable pay and a cap on individual salaries and allowances of € 500,000, which were established in 2010, remuneration principally consists of base salary, allowances and pension contributions. Allowances consist of non-pensionable cash allowances of up to € 30,000, subject to salary and allowances remaining within the € 500,000 cap, while employer pension contributions of 20% of base salary are payable in respect of Executive Directors and ExCo members.

Following a review of compliance with the UK Corporate Governance Code, the pension arrangements of Executive Directors and ExCo members were considered by the Committee and deemed to be appropriate, due to the remuneration restrictions in place at this time.

The Chief Executive Officer and the Chief Operating Officer were Executive Directors of the Group during 2020. In line with the cap on salaries and allowances imposed by existing remuneration restrictions, the Chief Executive Officer was paid a base salary of € 500,000 together with an employer pension contribution of 20% (€ 100,000) to a defined contribution scheme.

The Chief Operating Officer (also Deputy Chief Executive Officer) received a base salary of € 485,000, with a non-pensionable allowance of € 15,000 and an employer pension contribution of 20% (€ 97,000) to a defined contribution scheme.

There were no bonuses, shares or other incentive schemes paid or awarded to Executive Directors or ExCo members in 2020. The Committee undertakes a periodic review of the remuneration of Executive Directors and ExCo members against external benchmark data.

Governance and oversight – Corporate Governance Remuneration statement

Fixed Pay Elements

The principal fixed pay design elements are outlined below.

Pay Element	Rationale and alignment to Strategy	Design and Operation	Performance Assessment and Maximum Potential Value
Base Salary	To attract, motivate and retain the right calibre of individuals to support the Group's future success and growth.	Base salary is set according to appropriate salary ranges which reflect the size, skills and level of responsibilities attaching to each role. Base salaries are typically reviewed annually as part of the annual pay review process with increases taking effect from 1 April. Base salaries of Executive Directors and members of the ExCo are reviewed annually by the Remuneration Committee on behalf of the Board.	Increases in base salary are typically performance based, determined by performance against objectives which reflect the Group's strategy, goals and values and typically occur as part of the annual pay review process. Increases may also arise through progression and promotion and, in exceptional cases, through out-of-course increases to retain key talent and skills. Base salaries of all employees, including Executive Directors, are managed in accordance with existing remuneration restrictions. The annual base salary for each Executive Director is set out on page 205.
Allowances	To provide a contribution to market aligned benefits and allowances generally available in the market.	Non-pensionable cash allowances are provided to eligible employees according to their career level.	Non-pensionable allowances for senior career levels range from € 10,000 to € 20,000 per annum (£ 8,300 to £ 11,000 in the UK). Allowances of up to € 30,000 per annum (£ 14,000 in the UK) are payable to Executive Directors and ExCo members.
Pension	To enable employees plan for an appropriate standard of living in retirement.	Employees are entitled to participate in one of the Group's defined contribution schemes with a monthly contribution based on a percentage of base salary. Executive Directors and ExCo members are also entitled to participate in one of the Group's defined contribution schemes. In the UK, employees may elect to receive cash in lieu of their pension contribution.	A standard contribution of 10% of base salary is made plus an additional matching contribution of up to 8%, which can be availed of depending on the age of the employee. Executive Directors and ExCo members are entitled to an employer pension contribution of 20% of base salary.
Other Benefits	To provide affordable benefits in accordance with general market practice.	Benefits include medical insurance (US and UK employees only), income protection, death-in-service cover and free banking services. Relocation costs, including tax advice, accommodation and flight allowances, may be provided in line with market practice. The Remuneration Committee retains the right to provide additional benefits subject to current remuneration restrictions.	A functional car policy is in place based on role requirements. The Group does not provide company cars outside of the functional car policy. Executive Directors and ExCo members may occasionally avail of a pool car and driver.

Directors' remuneration*

The following tables detail the total remuneration of the Directors in office during 2020 and 2019:

						2020
Remuneration	Directors' fees Parent and Irish subsidiary companies[1] € 000	Directors' fees AIB Group (UK) p.l.c.[2] € 000	Salary € 000	Annual taxable benefits[3] € 000	Pension contribution[4] € 000	Total € 000
Executive Directors						
Colin Hunt			500	–	100	600
			500	–	100	600
Non-Executive Directors						
Basil Geoghegan	85					85
Sandy Kinney Pritchard	95					95
Carolan Lennon	100					100
Elaine McLean	81					81
Brendan McDonagh[1(a)]	220					220
(Deputy Chair)						
Helen Normoyle	78					78
Ann O'Brien	84					84
Raj Singh	80					80
	823					823
Former Directors						
Richard Pym[1(a)]	68					68
Tom Foley	56	56				112
Tomás O'Midheach			485	15	97	597
Anne Maher[5]						41
Total						2,241

[1]Fees paid to Non-Executive Directors in 2020 were as follows:

(a) Mr Richard Pym, Chair, was paid a non-pensionable flat fee of € 365,000 per annum in respect of his role as Chair pro rata to the date of his retirement. The Board resolved to pay additional remuneration of € 100,000 per annum to Mr Brendan McDonagh, Deputy Chair, reflecting the substantial additional work undertaken by him in the absence of the Chair of the Board until such time as a Chair is appointed and takes up the role;

(b) All other Non-Executive Directors were paid a basic, non-pensionable fee in respect of service as a Director of € 65,000 and additional non-pensionable remuneration in respect of other responsibilities, such as through the chairmanship or membership of Board Committees or the board of a subsidiary company or performing the role of Deputy Chair or, Senior Independent Director;

[2]Current or former Non-Executive Directors of AIB Group plc and Allied Irish Banks, p.l.c., as applicable, who also serve as Directors of AIB Group (UK) p.l.c. ("AIB UK") are separately paid a non-pensionable flat fee, which is independently agreed and paid by AIB UK, in respect of their service as a Director of that company. In that regard, Mr Tom Foley earned fees as quoted during 2020;

[3]'Annual taxable benefits' represents a non-pensionable cash allowance in lieu of company car, medical insurance and other contractual benefits;

[4]'Pension Contribution' represents agreed payments to a defined contribution scheme to provide post-retirement pension benefits for Executive Directors from normal retirement date. The fees of the Chair, Deputy Chair and Non-Executive Directors are non-pensionable; and

[5]Ms Anne Maher is a former Non-Executive Director of Allied Irish Banks, p.l.c. who has, since her resignation, continued as a Director of the Corporate Trustee of the AIB Irish Pension Scheme and of the AIB Defined Contribution Scheme, in respect of which she earned fees as quoted.

*Forms an integral part of the audited financial statements

Governance and oversight – Corporate Governance Remuneration statement

Directors' remuneration* *(continued)*

Remuneration	Directors' fees Parent and Irish subsidiary companies € 000	Directors' fees AIB Group (UK) p.l.c. € 000	Salary € 000	Annual taxable benefits € 000	Pension contribution € 000	2019 Total € 000
Executive Directors						
Colin Hunt			407	–	81	488
Tomás O'Midheach			379	22	76	477
			786	22	157	965
Non-Executive Directors						
Tom Foley	93	34				127
Basil Geoghegan	28					28
Sandy Kinney Pritchard	73					73
Carolan Lennon	80					80
Elaine MacLean	26					26
Brendan McDonagh *(Deputy Chair)*	109					109
Helen Normoyle	75					75
Ann O'Brien	51					51
Richard Pym *(Chair)*	365					365
Raj Singh	55					55
	955	34				989
Former Directors						
Simon Ball	47					47
Mark Bourke			105	–	17	122
Bernard Byrne			93	–	19	112
Peter Hagan	70					70
Anne Maher[5]						41
Jim O'Hara	98					98
Catherine Woods	147					147
Other						11
Total						2,602

*Forms an integral part of the audited financial statements

Directors' remuneration* *(continued)*

Interests in shares

The beneficial interests of the Directors and the Group Company Secretary in office at 31 December 2020, and of their spouses and minor children, in the Company's ordinary shares are as follows:

Ordinary shares	31 December 2020	1 January 2020
Directors:		
Basil Geoghegan	**9,835**	–
Colin Hunt	**22,500**	12,500
Sandy Kinney Pritchard	**10,000**	–
Carolan Lennon	**7,700**	7,700
Elaine MacLean	**–**	–
Brendan McDonagh	**20,000**	10,000
Helen Normoyle	**2,000**	2,000
Ann O'Brien	**–**	–
Raj Singh	**–**	–
Group Company Secretary:		
Conor Gouldson**	**15,210**	15,210

**On date of appointment or later

There is no requirement for Directors, or the Group Company Secretary, to hold shares in the Company.

The following table sets out the beneficial interests of the Directors and Executive Committee members of AIB as a group (including their spouses and minor children) at 31 December 2020:

Title of class	Identity of person or group	Number owned	Percent of class
Ordinary shares	Directors and Executive Committee members of AIB as a group	82,097	**0.0%*** **

***The total ordinary shares in issue at 31 December 2020, was 2,714,381,237.

Share options

No share options were granted or exercised during 2020, and there were no options to subscribe for ordinary shares outstanding in favour of the Executive Directors or Group Company Secretary at 31 December 2020.

Performance shares

There were no conditional grants of awards of ordinary shares outstanding to Executive Directors or the Group Company Secretary at 31 December 2020.

Apart from the interests set out above, the Directors and Group Company Secretary in office at 31 December 2020 and their spouses and minor children, have no other interests in the shares of the Company.

There were no changes in the interests of the Directors and the Group Company Secretary shown above between 31 December 2020 and 4 March 2021.

The year end closing price of the Company's ordinary shares on the Main Market of the Euronext Dublin Stock Exchange was € 1.681 per share.

Service contracts

All Executive Directors have a service contract whereas all Non-Executive Directors have a letter of appointment.

In respect of Executive Directors, no service contract exists between the Company and any Director which provides for a notice period from the Group of greater than one year.

Non-Executive Directors are appointed for an initial term of three years. Terms of office for Non-Executive Directors will not be extended beyond nine years in total unless the Board, on the recommendation of the Nomination and Corporate Governance Committee, concludes that such extension is necessary and appropriate.

All Directors, should they choose to stand, are subject to annual re-election by shareholders.

*Forms an integral part of the audited financial statements

Governance and oversight – Viability statement

Viability statement

In accordance with provision 31 of the UK Corporate Governance Code published in July 2018, the Directors have assessed the viability of the Group taking into account its current position, the prevailing economic and trading conditions and principal risks facing the Group over the next three years to 31 December 2023.

Horizon period

The Directors concluded that three years was an appropriate period to assess the viability of the Group for the following reasons:

- It is the same period used within the Group for strategic and financial planning process;
- The Group prepares its annual Internal Capital Adequacy Assessment (ICAAP) and Internal Liquidity Adequacy Assessment (ILAAP) on an annual basis using a three year time horizon;
- A three year time horizon is used for both internal and regulatory stress testing. Where certain impacts can be assessed reliably beyond the 3 year forecast horizon, a quantification is performed (for example the ECB Prudential provisioning backstop for non-performing exposures) and considered; and
- A three year time horizon is consistent with the internal risk management practices within the Group, including but not limited to: setting of the Risk Appetite, the Material Risk Assessment as well as Recovery and Resolution planning.

Considerations in assessing viability of the Group

Assessment of prospects

The assessment of the Group's prospects is built up based on the current financial position of the Group including its funding and liquidity and capital position. The Group's regulatory capital has increased on a transitional and fully loaded basis by € 541 million and € 287 million respectively from year end 2019, as issuance of new AT1 and Tier 2 capital instruments have more than offset the loss recorded for the year. The Group's transitional total capital ratio of 23.9% is comfortably above regulatory requirements as set out on pages 75 and 77. The Group's LCR of 193% and NSFR of 148% demonstrate a very strong liquidity position as described on pages 147 to 149.

In December 2020, the Group announced a refreshed strategy with a continued focus on simplifying, streamlining and strengthening the business, covering the period of assessment which is described on pages 22 to 35. The updated strategy was shaped by the challenges and emerging trends driven by recent global developments. The global pandemic provided the requirement and opportunity to revisit the three year strategy and the Group took a twin track approach throughout the year, navigating the COVID-19 pandemic, while also updating our strategic plan as the long-lasting impact of the pandemic became apparent. This resulted in the acceleration of our business transformation to better meet our customers' needs with a renewed focus on cost in a changed environment. The Board participated fully in the strategic process by means of regular updates during the year and an extended Board meeting in November 2020. As part of the development of the Group's Strategy, the Directors considered the risks facing the Group including those that would threaten the competitive position of the business, its operational capacity as well as the Group's governance and internal control systems.

Assessment of risks

During the year, the Directors rely on the following processes to identify and assess risks which could impact on the continued viability of the Group:

- The Group's Material Risk Assessment process seeks to ensure that all significant risks to which the Group is exposed have been identified and are being appropriately managed. New and emerging risks are also identified and mitigating actions are put in place.
- As part of the setting of the Group's risk appetite, consideration is given to the amount of risk the Group is willing to accept in pursuit of its strategic objectives.
- On a quarterly basis, internal stress testing of the Group's capital and liquidity position is performed. This is conducted using a variety of different macroeconomic scenarios.
- In recovery and resolution planning, consideration is given to market factors and the operational resiliency of the Group.
- The regular reporting of the Group's financial performance by the Chief Financial Officer and the reporting of the Group's risk profile by the Chief Risk Officer.
- The provision of independent and objective assurance of the adequacy of the design and operational effectiveness of the risk and control environment by Group Internal Audit to the Board Audit Committee.

A full description of the principal risks facing the Group is provided in the Risk management section – Individual risk types pages 87 to 170.

As part of the internal capital adequacy assessment process, material risks to the Group's financial performance are considered in terms of their potential impact on the Group's position. These risks are set out on page 156. Stress testing not only includes changes in macroeconomic forecasts but also other factors such as; financial crime losses, disruption to IT systems or cost of a cyber incident as well as financial loss arising from compliance or conduct issues.

Assessment of viability

The financial planning process is the main tool for assessing the continued financial prospects of the Group. The plan is a detailed three year financial forecast for each segment, and includes forecasts of operating results, headcount, investment expenditure and new strategic initiatives. Progress against the plan is reported monthly to the Executive Committee and the Board. Updated forecasts are prepared as required and mitigating management actions are taken where required.

The Board considers independent review of the plan by the Risk function covering the alignment of the plan with Group strategy and the risk appetite. This review also identifies the key risks to delivery of the Group's plan.

Governance and oversight – Viability statement / Internal controls

The plan uses the Group's base case forecast which includes the impacts of Brexit and COVID-19 but also includes consideration of downside scenarios. In 2020, the Group considered two downside scenarios; (i) a further wave of the virus hits in 2021 holding back growth in economic activity until 2022 and (ii) a severe but plausible scenario which is used for internal stress testing of the Group's capital position. The Group's severe scenario considers not only the impacts of significantly extended COVID-19 restrictions, but also wider economic and financial markets distress. In addition, the Group performs regular stress testing of its liquidity position, and during 2020 conducted specific liquidity stress tests in response to changing COVID-19 and Brexit conditions.

After assessing the Group's prospects, risks, and reviewing the financial plan as well as the results of stress testing scenarios, the Group continues to:

- Demonstrate internal capital generation through a return to profitability in each of the forecast years
- Remain in excess of its regulatory capital requirements; and
- Have significant liquidity over its liquidity coverage ratio and net stable funding ratio.

Statement of viability

On the basis of the above, the Directors believe, taking into account the Group's current position, and subject to the identified risks, the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period of assessment.

Internal controls

Directors' Statement on Risk management and Internal controls

The Board of Directors is responsible for the Group's system of internal control, which is designed to manage the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Group has implemented a framework and policy architecture covering business and financial planning, corporate governance and risk management. The system of internal controls is designed to ensure that there is thorough and regular evaluation of the Group's risks in order to react accordingly, rather than to eliminate risk. This is done through a process of identification, measurement, monitoring and reporting. This process includes an assessment of the effectiveness of internal controls, which was in place for the full year under review up to the date of approval of the statements, and which accords with the Central Bank of Ireland's Corporate Governance requirements for Credit Institutions 2015 and the UK Corporate Governance Code.

Supporting this process, the Group's system of internal controls is based on the following:

Board Governance and Oversight

- The Board has ultimate responsibility for reviewing the effectiveness of the system of internal control on a continuous basis and is supported by a number of sub-committees including Board Audit Committee ("BAC"), Board Risk Committee ("BRC"), Remuneration Committee, Sustainability Business Advisory Committee ("SBAC"), Technology and Data Advisory Committee ("TDAC"), and Nomination and Corporate Governance Committee.
- The BRC is appointed by the Board to assist the Board in fulfilling its oversight responsibilities. It is responsible for fostering sound risk governance across all of the Group's entities and operations (including all operations, legal entities and branches in ROI, the UK and USA) taking a forward looking perspective and anticipating changes in business conditions. The Committee discharges its responsibilities in ensuring that risks within the Group are appropriately identified, reported, assessed, managed and controlled to include commission, receipt and consideration of reports on key strategic and operational risk issues. It ensures that the Group's overall actual and future risk appetite strategy, taking into account all types of risks, are aligned with the business strategy, objectives, corporate culture and values of the institution while promoting a risk awareness culture within the Group.
- The BAC is appointed by the Board to assist it in fulfilling its oversight responsibilities in relation to the quality and integrity of the Group's accounting policies, financial and narrative reports, and disclosure practices. The Committee also ensures the effectiveness of the Group's internal control, risk management, and accounting and financial reporting systems and the adequacy of arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. It also ensures the independence and performance of the internal and external auditors.

Governance and oversight – Internal controls

- The Chief Financial Officer ("CFO"), the Chief Risk Officer ("CRO") and the Group Internal Auditor are invited to attend all meetings of the BAC and BRC.
- The Remuneration Committee is responsible for the design and implementation of the Group's overall Remuneration Policy for employees and directors, designed to support the long term business strategy, values and culture of the Group as well as to promote effective risk management and comply with applicable legal and regulatory requirements.
- The SBAC was established by the Board and Senior Executive Management to act as an Advisory Committee, supporting the execution of the Group's sustainable business strategy in accordance with the approved Group Strategic and Financial Plan. The Strategy includes the development and safe guarding of the Group's 'social licence to operate' through the demonstration of the Group's Purpose, such that the Group is actively seen as supporting Ireland's economic and social progress as an integral part of the Group's business and operations. In particular, the SBAC considers and advises on customers and conduct, communities/local markets, employees, environment, reputation and trust and external reporting.
- The TDAC recognises the substantial investment into Technology and Data as agreed under the Annual Investment Plan, coupled with major decision points in the near term, many of which have long term ramifications for the Group. The Committee was appointed by the Board to assist in fulfilling its oversight responsibilities by reviewing and challenging the strategy, governance and execution of matters relating to technology and data.
- The Nomination and Corporate Governance Committee's responsibilities include, amongst others, supporting and advising 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 the recommendations in this regard to the Board for its approval. It also supports and advises the Board in fulfilling its oversight responsibilities in relation to the composition of the Group's Executive Committee and the composition of the Boards of its licensed subsidiaries.

Executive risk management and controls

- The Executive Committee ("ExCo") is the most senior executive committee of the Group. Subject to financial and risk limits set by the Board, and excluding those matters which are reserved specifically for the Board, the ExCo has primary authority and responsibility for the day-to-day operations of, and the development of strategy for the Group. The ExCo works with and advises the CEO, ensuring a collaborative approach to decision making and collective ownership of strategy development and implementation, including promoting action to address performance issues as required.
- The Group Risk Committee ("GRC") was established by, and is accountable to, the ExCo to set policy and monitor all risk types across the Group and to enable delivery of the Group's risk strategy. It is the primary second line of defence risk management committee of the Group. It provides oversight and monitors strategic business initiatives that have material implications for the Group to ensure they align and are consistent with the Group's risk appetite and other risk policies as approved by the BRC.
- The Group Asset and Liability Committee ("ALCo") is a sub-committee of the ExCo and acts as the Group's strategic and business decision making forum for balance sheet management matters. It sets policy and is responsible for effective balance sheet management and alignment to Group strategy for funding and liquidity risk, market risk and capital adequacy risk.
- There is a centralised risk control function headed by the CRO, who is responsible for ensuring that risks are understood, managed, measured, monitored and reported on, and for reporting on risk mitigation actions.
- The Risk function is responsible for establishing and embedding risk management frameworks, ensuring that material risk policies are reviewed, and reporting on adherence to risk limits as set by the Board of Directors.
- The Group's risk profile is measured against its risk appetite on a monthly basis and exceptions are reported to the GRC and BRC through the monthly CRO report. Elements of the CRO report are also contained in the Executive Management Report reported to the full Group Board monthly. Material breaches of risk appetite are escalated to the Board and reported to the Central Bank of Ireland/Joint Supervisory Team ("JST").
- The centralised credit function is headed by a Chief Credit Officer who reports to the CRO.
- Compliance, which is part of the Risk function, provides interpretation and assessment of compliance risk, specifically, laws, regulations, rules and codes of conduct applicable to its banking activities.
- There is an independent Group Internal Audit function which is responsible for independently assessing the effectiveness of the Group's corporate governance, risk management and internal controls and reports directly to the Chair of the BAC.
- AIB employees who perform pre-approved controlled functions/controlled functions meet the required standards as outlined in AIB's Fitness and Probity programme.

For further information on the risk management framework of the Group, see pages 80 to 86 of this report.

In the event that material failings or weaknesses in the systems of risk management or internal control are identified, Management is required to attend the relevant Board forum to provide an explanation of the issue and to present a proposed remediation plan. Agreed remediation plans are tracked to conclusion, with regular status updates provided to the relevant Board forum.

Given the work of the Board, BRC, BAC and representations made by the ExCo during the year, the Board is satisfied that the necessary actions to address any material failings or weaknesses identified through the operation of the Group's risk management and internal control framework have been taken, or are currently being undertaken.

Taking this and all other information into consideration as outlined above, the Board is satisfied that there has been an effective system of control in place throughout the year.

Governance and oversight – Other governance information

Other governance information

Relations with shareholders

The Group has a number of procedures in place to allow its shareholders and other stakeholders to stay informed about matters affecting their interests. In addition to this Annual Financial Report, which is available on the Group's website at www.aib.ie/investorrelations and sent in hard copy to those shareholders who request it, the following communication tools are used by the Group:

Website

The Group's website, contains, for the years since 2000, the Annual Financial Report, the Half-Yearly Financial Report, and the Annual Report on Form 20-F for relevant years. In accordance with the Transparency (Directive 2004/109/EC) (Amendment) (No.2) Regulations 2015, this and all future Annual and Half-Yearly Financial Reports will remain available to the public for at least ten years. For the period 2008 to 2013, the Annual Financial Report and the Annual Report on Form 20-F were combined. The Group's presentation to fund managers and analysts of annual and half-yearly financial results are also available on the Group's website. None of the information on the Group's website is incorporated in, or otherwise forms part of, this Annual Financial Report.

Annual General Meeting ("AGM")

The AGM is an opportunity for shareholders to hear directly from the Board on the Group's performance and developments of interest for the year to date and, importantly, to ask questions.

All shareholders of the Company are invited to attend the AGM. Separate resolutions are proposed on each separate issue and voting is conducted by way of poll. The votes for, against and withheld on each resolution are subsequently published on the Group's website. It is usual for all Directors to attend the AGM and to be available to meet shareholders before and after the meeting. The Chair's of the Board Committees are available to answer questions about the Committee's activities. A help desk facility is available to shareholders joining. The Company's 2021 AGM is scheduled to be held on 6 May 2021. It is intended that Notice of the Meeting will be made available on the Group's website and sent in hard copy to those shareholders who request it, at least 20 working days before the meeting, in accordance with the Financial Reporting Council's Board Effectiveness guidelines. Due to ongoing COVID-19 restrictions, the location of the meeting and attendance options will be communicated with the distribution of the aforementioned Notice.

Governance and oversight – Supervision and Regulation

Throughout 2020, the Group continued to work with its regulators, which include the European Central Bank ("ECB"), the Central Bank of Ireland ("CBI"), the Prudential Regulation Authority ("PRA"), the Financial Conduct Authority ("FCA") in the United Kingdom ("UK"), the New York State Department of Financial Services ("NYSDFS") and the Federal Reserve Bank of New York in the United States of America ("USA") to focus on ensuring compliance with existing regulatory requirements together with the management of regulatory change.

AIB Group plc is the holding company of Allied Irish Banks, p.l.c. (the principal operating company of AIB Group) and as such AIB Group plc is subject to consolidated supervision with respect to Allied Irish Banks, p.l.c. and other credit institutions and investment firms in the Group.

Current climate of regulatory change

The level of regulatory change remained high in 2020 as the regulatory landscape for the banking sector continued to evolve. There was an increased focus on regulatory supervision of consumer protection and prudential obligations due to the impacts of COVID-19 on consumers and the economy.

The Regulatory focus on Conduct and Culture will continue in 2021 and beyond, with anticipated regulatory developments in the form of the Senior Executive Accountability Regime, and review of the Consumer Protection Code.

The Group is committed to proactively identifying regulatory obligations arising in each of the Group's operating markets in Ireland, the UK and the USA and ensuring the timely implementation of regulatory change.

Throughout 2020 the Group continued cross-functional programmes to ensure the Group met its new regulatory requirements. In particular, the Group focused on the EU directives on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing the 4th AML Directive, to be replaced by the 5th AML Directive in 2021; the PSD2 Regulatory Technical Standards; the Cross Border Fees Regulations; the EBA Guidelines on Loan Origination and Monitoring; Climate change/Sustainability; LIBOR transition; and the Credit Reporting Act 2013 with regard to the Central Credit Register.

Although 2021 will see a move to regulators and supervisors assessing how recent key regulatory requirements have been implemented, and that the Regulators' expectations in respect of COVID-19 have been met, the level of regulatory change is expected to remain at high levels in 2021 and beyond.

United Kingdom

During 2020, AIB Group (UK) p.l.c. continued to prioritise compliance with its regulatory obligations in Great Britain and Northern Ireland and will remain focused on this throughout 2021.

Regulatory change horizon – UK

On 31 December 2020, the UK left the Brexit transition phase and is no longer subject to EU regulation. Practically speaking, most of the EU regulation has been 'onshored' onto the UK statute book, with a few exceptions, and therefore the regulatory landscape remains much the same. In the future, however, we are likely to see regulatory divergence and AIB remains well placed to identify and implement any required changes.

2020 saw the implementation of the high cost of credit regulations limit the cost of credit, particularly for more vulnerable personal customers making use of unauthorised overdrafts. Secure Customer Authentication was introduced for Online banking channels in order to better protect customers from fraud. This will continue in 2021 as Secure Customer Authentication is implemented in relation to e-commerce using debit and credit cards.

In 2020, we saw a number of regulatory interventions to enable banks to assist customers through the COVID-19 pandemic. These interventions included mortgage payment breaks, interest free overdrafts, payment breaks for credit cards and government supported loan schemes to support business customers. AIB delivered all of these support mechanisms to our customers and this continues into the early part of 2021.

In addition, UK Regulators are placing a focus on enhancing operational resilience in the UK financial services sector and requiring banks to make plans to take account of climate change.

United States

Compliance with federal and state banking laws and regulations

AIB New York continues to prioritise compliance with its regulatory obligations in the USA and will remain focused on this throughout 2021. AIB New York will continue to maintain the Transaction Monitoring and Filtering Programme (DFS 504) and Cybersecurity (DFS 500) Programme and annually certify Compliance with these regulations to the NYSDFS.

The Regulatory focus on BSA/AML/OFAC, Climate Change, LIBOR Transition, Cybersecurity and conduct continues in 2021 and beyond, with anticipated regulatory developments in AML reform and Data privacy.

AIB New York will work closely with AIB Group on regulatory changes, in particular the LIBOR transition and Sustainability and the implementation of EU requirements taking into consideration the NYSDFS and FRB guidance/regulations.

Financial statements

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Statement of Directors' Responsibilities

The following statement which should be read in conjunction with the statement of Auditor's responsibilities set out with their Audit Report, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditors in relation to the financial statements.

The Directors are responsible for preparing the Annual Financial Report and the Group and Company financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU and Article 4 of the IAS Regulation and have elected to prepare the Company financial statements in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2014.

In preparing both the Group and Company financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2014. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and Company and to prevent and detect fraud and other irregularities. Under applicable law and corporate governance requirements, the Directors are also responsible for preparing the Directors' Report and the reports relating to the Directors' remuneration and corporate governance that comply with that law and the relevant listing rules of Euronext Dublin (the Irish Stock Exchange) and the UK Listing Authority.

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

Each of the Directors whose names and functions are listed on pages 54 and 55 confirm, to the best of their knowledge and belief, that:
- they have complied with the above requirements in preparing the financial statements;
- the Group financial statements, prepared in accordance with IFRSs as adopted by the EU and Article 4 of the IAS Regulation, give a true and fair view of the state of the Group's affairs as at 31 December 2020 and of its loss for the year then ended;
- the Company financial statements prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the state of the Company's affairs as at 31 December 2020;
- the Directors' report, Business review and Risk management sections, contained in the Annual Financial Report provide a fair review of the development and performance of the business and the financial position of the Group, together with a description of the principal risks and uncertainties faced by the Group; and
- the Annual Financial Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's and the Company's position and performance, business model and strategy.

For and on behalf of the Board

Brendan McDonagh
Deputy Chair

Colin Hunt
Chief Executive Officer

4 March 2021

Independent Auditor's Report

Independent auditor's report to the members of AIB Group plc

Report on the audit of the financial statements

Opinion on the financial statements of AIB Group plc (the 'Company')

In our opinion the Group and Company financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Group and Company as at 31 December 2020 and of the loss of the Group for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements we have audited comprise:

The Group financial statements:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated Statement of Financial Position;
- the Consolidated Statement of Changes in Equity;
- the Consolidated Statement of Cash Flow; and
- the related notes 1 to 56, including a summary of significant accounting policies as set out in note 1.

The Company financial statements:

- the Statement of Financial Position;
- the Statement of Changes in Equity;
- the Statement Cash Flow; and
- the related notes a to m, including a summary of significant accounting policies as set out in note a.

The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2014 and International Financial Reporting Standards (IFRS) as adopted by the European Union ("the relevant financial reporting framework").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are described below in the *"Auditor's responsibilities for the audit of the financial statements"* section of our report.

We are independent of the Group and Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Expected credit losses on loans and advances to customers; • Recognition of deferred tax asset; • Defined benefit obligations; • Provisions for FSPO decision and tracker mortgage examination; • IT systems and controls; and • Impairment of investment in subsidiary (Company only key audit matter). Within this report, any new key audit matters are identified with ⌃ and any key audit matters which are the same as the prior year are identified with ».
Materiality	We determined materiality for: – the Group to be € 55 million which is 0.4% of Total Equity of the Group; and – the Company to be € 54 million which is 0.7% of Total Equity of the Company.
Scoping	We focused the scope of our Group audit primarily on the audit work in AIB Group plc and four legal entities, all of which are subject to individual statutory audit work, whilst the other legal entities were subject to specified audit procedures, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations in those entities. These audits and specified audit procedures covered over 94% of the Group's total assets and 92% of the Group's total operating income.

Independent Auditor's Report

Significant changes in our approach

Impact of COVID-19 on our audit approach
The COVID-19 pandemic has had an impact on all elements of local and international economies. We have considered the impact of COVID-19 on the Group and Company's business as part of our audit risk assessment and planning. This assessment resulted in an increased audit scope on key audit areas including: consideration of changes in internal controls (including IT systems) as a result of the remote working environment; additional focus on the key judgements and estimates driving expected credit losses on loans and advances to customers; the impact of the Group and Company's revised profitability and growth forecasts covering the period 2021 to 2023 which have been revised downwards compared to previous years, on the accounting judgements and estimates associated with the recognition of deferred tax assets and on the potential impairment of investment in subsidiary which was identified as a Company only key audit matter.

Materiality
Given the significant economic shock caused by the COVID-19 pandemic on the Group and Company's financial performance, we have reviewed the benchmark utilised in determining materiality. While Profit before Tax was considered a suitable benchmark in previous years, following the losses recognised in the financial year, we determined materiality for the current year utilising a benchmark of Total Equity.

Conclusions relating to going concern

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

Our evaluation of the Directors' assessment of the Group and Company's ability to continue to adopt the going concern basis of accounting included consideration of the inherent risks to the Group's and Company's business model. We analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations twelve months from the date of approval of these annual financial statements. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- availability of funding and liquidity in the event of a market wide stress scenario including the longer term impacts of COVID-19 and post-Brexit EU/UK trade deal on the economy; and
- impact on regulatory capital requirements in the event of an economic slowdown or recession.

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

- evaluating the design and determining the implementation of key controls over the preparation of financial plans and budgets;
- assessing the Group and Company's Capital and Liquidity forecasts including under stressed scenarios;
- obtaining the updated financial planning exercise covering the period 2021 to 2023 undertaken by the Group in the second half of 2020. Growth assumptions and profitability levels underpinning the plan have been revised downwards compared to previous years reflecting the revised macroeconomic outlook;
- assessing whether the level of forecasted profits in the updated financial plan were appropriate by challenging the growth, profitability and economic assumptions within;
- testing the accuracy of Management's forecasting process by reviewing previous forecasts and comparing to actual results;
- challenging the key assumptions used in the Directors assessment of the Group and the Company's ability to continue as a going concern; and
- evaluating the adequacy of the relevant disclosures made in the financial statements.

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

In relation to the reporting on how the Group has applied the UK Corporate Governance Code and the Irish Corporate Governance Annex, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current financial year and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected credit losses on loans and advances to customers

Key audit matter description

In line with IFRS 9, losses on financial assets which are classified at amortised cost are recognised on an Expected Credit Loss ("ECL") basis. ECLs are required to incorporate forward looking information, reflecting Management's view of potential future economic environments. The complexity involved in the calculations require Management to develop methodologies involving the use of significant judgements.

The expected credit loss allowance on loans and advances to customers was € 2,510 million at 31 December 2020 (2019: € 1,238 million).

Measurement of the ECL allowance on loans and advances to customers is a key audit matter as the determination of assumptions for ECLs is highly subjective due to the level of judgement applied by Management. The most significant judgements include:

- Determining the criteria for a significant increase in credit risk ("SICR"), and for being classified as credit impaired;
- Accounting interpretations and assumptions used to build the models that calculate the ECL;
- The determination of key assumptions, including collateral valuation and cash flow timings, used in discounted cash flows ("DCFs") of individually assessed loans;
- The completeness and accuracy of data used to calculate the ECL;
- The completeness and valuation of post-model adjustments determined by Management for certain higher risk portfolios and to address known model limitations; and
- Establishing the number of forward looking macroeconomic scenarios and their relative weightings applied in measuring the ECL. This is highly subjective given that such assumptions are subject to significant uncertainty related to future economic outcomes, including the potential longer term impacts of COVID-19 and post-Brexit EU/UK trade deal on the economy. This results in a wide range of possible outcomes.

Please also refer to page 188 (Board Audit Committee Report), page 252 (Accounting Policy (s) – Impairment of financial assets), Note 2 – Critical accounting judgements and estimates, Note 13 – Net credit impairment charge and Note 23 – ECL allowance on financial assets.

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

We tested the operating effectiveness of key controls supporting the calculation of ECLs on loan and advances to customers, focusing on:

- model development, validation and approval to ensure compliance with IFRS 9 requirements;
- review and approval of key assumptions, judgements and macroeconomic forward looking information used in the models;
- the integrity of data used as input to the models, including the transfer of data between source systems and the ECL models;
- the application of SICR criteria and the definition of default used to determine stage outcomes;
- governance and approval of post-model adjustments recorded by Management;
- governance and approval of the output of IFRS 9 models; and
- front line credit monitoring and assessment controls, including annual case file reviews.

Our testing included an evaluation of the design and implementation of these key controls. Where control deficiencies were identified, we tested compensating controls implemented to produce the ECLs and financial statement disclosures. We also assessed Management review controls and governance controls, including attendance at and observation of Board Risk Committee and Group Credit Committee meetings.

We evaluated IT system controls including assessing data inputs and general IT controls. We tested the completeness and accuracy of key data inputs and reconciled to source systems, where appropriate.

We critically assessed the ECL models developed by the Group. In conjunction with Deloitte credit modelling specialists, we challenged judgements and assumptions supporting the ECL requirements of IFRS 9. These included assumptions used in the ECL models applied in stage allocation, calculation of lifetime probability of default and methods applied to derive loss given default rates. We evaluated the methodology and performed code reviews for a sample of models.

We assessed the reasonableness of forward looking information incorporated into the impairment calculations. We challenged the macroeconomic scenarios chosen and changes to the weightings applied. This included benchmarking the economic data used to recognised external data sources. We also considered the impact of key uncertainties, including the longer term impacts of COVID-19, as well as assumptions made by Management around an 'Extended high unemployment' scenario.

Independent Auditor's Report

	We considered material post-model adjustments applied by Management to address model and data limitations. We challenged the rationale for these adjustments and performed testing on their calculation and application. In examining a risk based sample of DCF individually assessed loan cases, we challenged Management on the judgements made regarding the application of the default policy, status of loan restructures, collateral valuation and realisation time frames and examined the credit risk functions analysis of data at a portfolio level. Where appropriate, this work involved assessing third party valuations of collateral, internal valuation guidelines derived from benchmark data, external expert reports on borrowers' business plans and enterprise valuations. This allowed us to determine whether appropriate valuation methodologies were used and to assess the objectivity of the external experts used. We considered significant items impacting the ECL allowance balance. This included non-contracted write-offs as well as recoveries on amounts previously written-off. We evaluated the adequacy of disclosures made in the financial statements. In particular, we focused on challenging Management that the disclosures were sufficiently clear in highlighting the significant uncertainties that exist in respect of the ECL allowance and the sensitivity of the allowance to changes in the underlying assumptions. Based on the evidence obtained, we found that the ECLs on loans and advances to customers are within a range we consider to be reasonable.

Recognition of deferred tax assets	
Key audit matter description	Deferred tax assets of € 2,763 million (2019: € 2,771 million) are recognised for unutilised tax losses to the extent that it is probable that there will be sufficient future taxable profits against which the losses can be used. The assessment of the conditions for the recognition of a deferred tax asset is a critical Management judgement, given the inherent uncertainties associated with projecting profitability over a long time period. This is highly subjective given the significant uncertainty related to future economic outcomes, including the potential longer term impacts of COVID-19 and post-Brexit EU/UK trade deal on the economy. The Group has reassessed profitability and growth forecasts for the period 2021 to 2023. Growth assumptions and profitability levels underpinning the plan have been revised downwards compared to previous years and results in an increase in the expected deferred tax utilisation period. The key audit matter relates to the management judgement involved in recognition and measurement of the deferred tax asset for unutilised tax losses. Please refer to page 188 (Board Audit Committee Report), page 242 (Accounting Policy (k) – Income tax, including deferred income tax), Note 2 – Critical accounting judgements and estimates and Note 29 – Deferred taxation.
How the scope of our audit responded to the key audit matter	We have evaluated the design and determined the implementation of key controls over the preparation of financial plans and budgets. We assessed whether the level of forecasted profits were appropriate by challenging the growth, profitability and economic assumptions. We tested the accuracy of Management's forecasting process by reviewing previous forecasts and comparing to actual results. We reviewed the model used by Management to assess the likelihood of future profitability and challenged Management's assessment of a range of positive and negative evidence for the projection of long term future profitability. We compared Management's assumptions to industry norms and other economic metrics where possible. We reviewed Management's analysis of the "more likely than not" test and assessed the adequacy of the financial statement disclosures. Based on the evidence obtained, we found that the assumptions used by Management in the recognition of the deferred tax asset for unutilised tax losses are within a range we consider to be reasonable.

Defined benefit obligations	
Key audit matter description	The key audit matter is that the recognition and measurement of defined benefit obligations of € 6,226 million (2019: € 5,904 million) is inappropriate. There is a high degree of estimation and judgement in the calculation of defined benefit obligations. A material change in the liability can result from small movements in the underlying actuarial assumptions, specifically the discount rates, pension in payment increases and inflation rates. Please refer to page 188 (Board Audit Committee Report), page 241 (Accounting Policy (j) – Employee benefits), and Note 2 – Critical accounting judgements and estimates and Note 30 – Retirement benefits.
How the scope of our audit responded to the key audit matter	We understood the key controls over the completeness and accuracy of data extracted and supplied to the Group's actuary, which is used in the valuation of the Group's defined benefit obligations. We also evaluated the design and determined the implementation of the relevant controls for determining the actuarial assumptions and the approval of those assumptions by Management. We utilised Deloitte actuarial specialists as part of our team to assist us in challenging the appropriateness of actuarial assumptions with particular focus on discount rates, pension in payment increases and inflation rates. Our work included inquiries with Management and their actuaries to understand the processes and assumptions used in calculating the defined benefit obligations. We benchmarked economic and demographic assumptions against market data and assessed Management adjustments to market rates for Company and scheme specific information. For scheme specific assumptions, we considered the scheme rules, historic practice and other information relevant to the selection of the assumption. We evaluated and assessed the adequacy of disclosures made in the financial statements, including disclosures of the assumptions and sensitivity of the defined benefit obligation to changes in the underlying assumptions. Based on the evidence obtained, we concluded that assumptions used by Management in the actuarial valuations for defined benefit obligations are within a range we consider to be reasonable.

Provisions for FSPO decision and tracker mortgage examination	
Key audit matter description	The calculation of provisions for the Financial Services and Pensions Ombudsman ("FSPO") decision and tracker mortgage examination is highly judgemental and involves the use of several Management assumptions including the identification of relevant impacted customers, related redress costs and potential enforcement fines. There is also a risk that known and emerging issues may not be appropriately disclosed in the financial statements. As a result, we consider this a key audit matter. Included in Note 36 – Provisions for liabilities and commitments, the Group has recorded a provision of € 80 million (2019: € 265 million) in regards to the FSPO Decision and, in regards to the tracker mortgage examination, has recorded a provision of € 8 million (2019: € 13 million) for customer redress and compensation and € 70 million (2019: € 70 million) for related enforcement fines expected to be imposed. Please refer to page 188 (Board Audit Committee Report), page 257 (Accounting Policy (z) – Non-credit risk provisions), Note 2 – Critical accounting judgements and estimates, Note 36 – Provisions for liabilities and commitments, and Note 43 – Contingent liabilities and commitments.
How the scope of our audit responded to the key audit matter	We have evaluated the design and determined the implementation of the Group's relevant controls over the identification, measurement and the disclosure of the provision. We also assessed Management review and governance controls. We reviewed the correspondence with regulators, the FSPO and legal advice obtained. We assessed Management's interpretation of the impact of this decision. We reviewed the basis for recording and retaining a provision, taking into consideration the information available and the requirements of IAS 37. We also considered Management's interactions with regulators including the status of the Central Bank of Ireland enforcement process.

Independent Auditor's Report

	Given the inherent uncertainty in the calculation of the provision and its judgemental nature, we evaluated the adequacy of disclosures made in the financial statements. We challenged Management on the disclosures, in particular, whether they are sufficiently clear in highlighting the exposures that remain and the significant uncertainties that exist in respect of the provisions. Based on the evidence obtained, we found that the assumptions used by Management in measurement of the provisions for the FSPO decision and tracker mortgage examinations are within a range we consider to be reasonable.

IT systems and controls	
Key audit matter description	The Group's financial reporting processes are reliant on processes, controls and data managed by IT systems. The IT environment is complex and pervasive to the operations of the Group due to the large volume of transactions processed daily and the reliance on automated and IT dependent manual controls. This risk is also impacted by dependency on third parties and outsourced arrangements. Our planned audit approach relies extensively on IT applications and the operating effectiveness of the control environment. As part of our assessment of the IT environment, we considered privileged user access management controls to be critical in ensuring that only appropriately authorised changes are made to relevant IT systems. Moreover, appropriate access controls contribute to mitigating the risk of potential fraud or error as a result of changes to applications or processing unauthorised transactions. In addition, the COVID-19 pandemic has led to changes in the operation of certain key controls due to the increased number of employees working remotely. We regard this area as a key audit matter owing to the high level of IT dependency within the Group, as well as the associated complexity and the risk that automated controls are not designed and operating effectively.
How the scope of our audit responded to the key audit matter	We examined the design of the governance framework associated with the Group's IT architecture. We gained an understanding and tested relevant General IT Controls for systems we considered relevant to the financial reporting process, including access management, programme development and change management. This included understanding and assessing whether the operation of key controls have changed as a result of the increased number of employees working remotely. We gained an understanding of relevant IT controls over applications, operating systems and databases that are relevant for the financial reporting process and tested their operating effectiveness. We assessed the relevant automated controls within business processes and the reliability of relevant reports used as part of manual controls. This included assessing the integrity of system interfaces, the completeness and accuracy of data feeds and automated calculations. We tested user access by assessing the controls in place for in-scope applications and verifying the addition and removal of users. While we identified certain design and operating effectiveness deficiencies in relation to user access controls, we tested validation activities performed by Management and compensating controls to mitigate the risk of fraud or error as a result of unauthorised transactions. Based on this testing we were able to place reliance on IT controls for the purpose of our audit.

Impairment of investment in subsidiary (Company only Key Audit Matter)	
Key audit matter description	The key audit matter relates to the recoverability of the Company's investment in its subsidiary undertaking and the significant judgements and estimates required to determine its recoverable amount. Following a corporate reorganisation during 2017, the Group implemented a new holding company, AIB Group plc, which holds the Group's investment in Allied Irish Banks, p.l.c. The Company accounts for its investment in subsidiary at cost less provisions for impairment. At the end of each reporting period, the Company reviews its investment for impairment if there are indications that impairment may have occurred. As at 31 December 2020, the Company tested its investment in Allied Irish Banks, p.l.c. for impairment as the carrying value was above the fair value. An impairment test was performed by the Company using a value-in-use ("VIU") model to calculate an estimated recoverable amount. The assumptions used in the VIU model involve significant Management judgement and estimation. This includes determining future cash flow projections during the period of the financial plan and the choice of growth and discount rates. The carrying amount of the Company's investment in subsidiary at 31 December 2020 was € 7,487 million (2019: € 9,996 million). As a result of the impairment test, the recoverable amount of the equity shares at 31 December 2020 was calculated at € 6,362 million and this resulted in an impairment charge of € 3,134 million. Please refer to page 188 (Board Audit Committee Report), page 236 (Accounting Policy (d) – Basis of consolidation), Note 2 – Critical accounting judgements and estimates and Note e – Investment in subsidiary undertaking (AIB Group Company financial statements).
How the scope of our audit responded to the key audit matter	We evaluated the design and determined the implementation of key controls over the preparation of financial plans and budgets. We assessed whether the level of forecasted profits was appropriate by challenging the growth, profitability and economic assumptions. We tested the accuracy of Management's forecasting process by reviewing previous forecasts and comparing to actual results. In conjunction with our Deloitte valuation specialist, we evaluated the methodology utilised by the Company in preparing the VIU calculation. In particular, we challenged the assumptions used in assessing the recoverability of the investment. We independently sourced market information around discount rates and growth rates. We determined a range of estimates around these assumptions and the resulting impairment charge. Given the inherent uncertainty in the calculation of a recoverable amount for the investment, we evaluated the adequacy of the disclosures made in the financial statements. We challenged Management on the disclosures, in particular, whether they are sufficiently clear in highlighting the key assumptions and the sensitivity of the investment to changes in the underlying assumptions. Based on the evidence obtained, we concluded that the assumptions used by Management in assessing the recoverability of the investment in Allied Irish Banks, p.l.c. are within a range we consider reasonable.

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

Independent Auditor's Report

Our application of materiality

We define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be € 55 million which is approximately 0.4% of the Group's Total Equity. Given the significant economic shock caused by the COVID-19 pandemic on the Group's financial performance, we have reviewed the benchmark utilised in determining materiality. While Profit before Tax was considered a suitable benchmark in previous years, following the losses recognised in the financial year, we have considered Total Equity to be a critical component for determining materiality as it is one of the principal measures for users of the financial statements in assessing the Group's financial position. We have considered quantitative and qualitative factors such as understanding the entity and its environment, history of misstatements, complexity of the Group and the reliability of the control environment.

We determined materiality for the Company to be € 54 million which is 0.7% of Company Total Equity. We have selected Total Equity as an appropriate benchmark for Company materiality as the Company's primary purpose is to act as a holding Company with investments in the Group's primary subsidiary and therefore a profit based measure is not relevant.

We agreed with the Board Audit Committee that we would report to them any audit differences in excess of € 2.75 million as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Board Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

We determined the scope of our Group audit by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. We have considered the impact of COVID-19 on the Group and Company's business as part of our audit risk assessment and planning. This assessment resulted in an increased audit scope on key audit areas including: consideration of changes in internal controls (including IT systems) as a result of the remote working environment; additional focus on the key judgements and estimates driving expected credit losses on loans and advances to customers; and the impact of the Group and Company's revised profitability and growth forecasts covering the period 2021 to 2023 which have been revised downwards compared to previous years, on the accounting judgements and estimates associated with the recognition of deferred tax assets and on the potential impairment of investment in subsidiary which was identified as a Company only key audit matter.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group engagement team, or by auditors within Deloitte network firms operating under our instruction ("component auditors"). Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

An overview of the scope of our audit *(continued)*

Based on that assessment, we focused our Group audit work in AIB Group plc and the four legal entities as disclosed in Note 44 to the consolidated financial statements, all of which were subject to individual statutory audits, whilst the other legal entities were subject to specified audit procedures, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations in those entities. These audits and specified audit procedures covered over 94% of the Group's total assets and 92% of the Group's total operating income. In addition, audits will be performed for statutory purposes for all legal entities.

We also tested the consolidation process and carried out analytical procedures to assess there were no additional significant risks of material misstatement arising from the aggregated financial information of the remaining entities not subject to audit or specified audit procedures.

The Group audit team sent component auditors detailed instructions on audit procedures to be undertaken and the information to be reported back to the Group audit team. Regular contact was maintained throughout the course of the audit with component auditors which included holding virtual Group planning meetings, maintaining communications on the status of the audits and continuing with a programme of virtual meetings and workshops designed so that the Group audit team engaged with each significant component audit team during the year. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

Other information

The other information comprises the information included in the Annual Financial Report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Financial Report.
Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group and Company's or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (Ireland), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity (or where relevant, the Group) to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Group to express an opinion on the (consolidated) financial statements. The Group auditor is responsible for the direction, supervision and performance of the Group audit. The Group auditor remains solely responsible for the audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

For listed entities and public interest entities, the auditor also provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, including the Ethical Standard for Auditors (Ireland) 2016, and communicates with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

Where the auditor is required to report on key audit matters, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that:

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited.
- The Company Statement of Financial Position is in agreement with the accounting records.
- In our opinion the information given in those parts of the Directors' report as specified for our review is consistent with the financial statements and the Directors' report has been prepared in accordance with the Companies Act 2014.

Corporate Governance Statement required by the Companies Act 2014
We report, in relation to information given in the Corporate Governance Statement on pages 171 to 212 that:

- In our opinion, based on the work undertaken during the course of the audit, the information given in the Corporate Governance Statement pursuant to subsections 2(c) and (d) of section 1373 of the Companies Act 2014 is consistent with the Company's statutory financial statements in respect of the financial year concerned and such information has been prepared in accordance with the Companies Act 2014. Based on our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in this information.
- In our opinion, based on the work undertaken during the course of the audit, the Corporate Governance Statement contains the information required by Regulation 6(2) of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and Groups) Regulations 2017 (as amended); and
- In our opinion, based on the work undertaken during the course of the audit, the information required pursuant to section 1373(2)(a),(b),(e) and (f) of the Companies Act 2014 is contained in the Corporate Governance Statement.

Corporate Governance Statement

The Listing Rules and ISAs (Ireland) require us to review the Directors' statement in relation to going concern, longer-term viability and the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code and Irish Corporate Governance Annex specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 172;
- the Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 208;
- the Directors' statement on fair, balanced and understandable set out on page 214;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks and the disclosures in the annual report that describe the principal risks and the procedures in place to identify emerging risks and an explanation of how they are being managed or mitigated set out on page 49;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 209; and
- the section describing the work of the Board Audit Committee set out on pages 188 to 192.

Independent Auditor's Report

Matters on which we are required to report by exception

Based on the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the those parts of the Directors' report as specified for our review.

The Companies Act 2014 requires us to report to you if, in our opinion, the Company has not provided the information required by Regulation 5(2) to 5(7) of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and Groups) Regulations 2017 (as amended) for the financial year ended 31 December 2020. We have nothing to report in this regard.

The Companies Act 2014 also requires us to report to you if, in our opinion, the Company has not provided the information required by Section 1110N in relation to its remuneration report. We have nothing to report in this regard.

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of Directors' remuneration and transactions specified by law are not made.

The Listing Rules of the Euronext Dublin require us to review six specified elements of disclosures in the report to shareholders by the Board of Directors' remuneration committee. We have nothing to report in this regard.

Other matters which we are required to address

Following the recommendation of the Board Audit Committee of Allied Irish Banks, p.l.c., we were appointed at the Annual General Meeting on 20 June 2013 to audit the financial statements for the financial year ended 31 December 2013. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 8 years, covering the years ending 2013 to 2020.

Following the corporate restructure of AIB Group plc in 2017 which led to the implementation of AIB Group plc, we were appointed on 21 September 2017 to audit the financial statements of AIB Group plc for the financial year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 4 years, covering the years ending 2017 to 2020.

The non-audit services prohibited by IAASA's Ethical Standard were not provided and we remained independent of the Company in conducting the audit.

Our audit opinion is consistent with the additional report to the Board Audit Committee we are required to provide in accordance with ISA (Ireland) 260.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

4 March 2021

Notes: An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the Directors but no control procedures can provide absolute assurance in this area.

Legislation in Ireland governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Consolidated income statement

for the financial year ended 31 December 2020

	Notes	2020 € m	2019 € m
Interest income calculated using the effective interest method	4	2,050	2,291
Other interest income and similar income	4	77	79
Interest and similar income	4	2,127	2,370
Interest and similar expense	5	(255)	(294)
Net interest income		1,872	2,076
Dividend income	6	26	26
Fee and commission income	7	564	543
Fee and commission expense	7	(169)	(71)
Net trading loss	8	(32)	(57)
Net gain on other financial assets measured at FVTPL	9	86	140
Net gain/(loss) on derecognition of financial assets measured at amortised cost	10	24	(48)
Other operating income	11	2	46
Other income		501	579
Total operating income		2,373	2,655
Operating expenses	12	(1,544)	(1,935)
Impairment and amortisation of intangible assets	26	(214)	(146)
Impairment and depreciation of property, plant and equipment	27	(101)	(100)
Total operating expenses		(1,859)	(2,181)
Operating profit before impairment losses		514	474
Net credit impairment charge	13	(1,460)	(16)
Operating (loss)/profit		(946)	458
Associated undertakings	25	15	20
Profit on disposal of property	14	–	21
(Loss)/profit before taxation		(931)	499
Income tax credit/(charge)	16	190	(135)
(Loss)/profit for the year		(741)	364
Attributable to:			
– Equity holders of the parent		(769)	327
– Non-controlling interests	40	28	37
(Loss)/profit for the year		(741)	364
Earnings per share			
Basic (loss)/earnings per ordinary share	17(a)	(30.0)c	12.1c
Diluted (loss)/earnings per ordinary share	17(b)	(30.0)c	12.1c

Consolidated statement of comprehensive income

for the financial year ended 31 December 2020

	Notes	2020 € m	2019 € m
(Loss)/profit for the year		**(741)**	364
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Net actuarial losses in retirement benefit schemes, net of tax	16	**(38)**	(188)
Net change in fair value of equity investments at FVOCI, net of tax	16	**(18)**	(9)
Total items that will not be reclassified subsequently to profit or loss		**(56)**	(197)
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Net change in foreign currency translation reserves	16	**(70)**	66
Net change in cash flow hedges, net of tax	16	**71**	184
Net change in fair value of investment debt securities at FVOCI, net of tax	16	**(55)**	(44)
Total items that will be reclassified subsequently to profit or loss when specific conditions are met		**(54)**	206
Other comprehensive income for the year, net of tax		**(110)**	9
Total comprehensive income for the year		**(851)**	373
Attributable to:			
– Equity holders of the parent		**(879)**	336
– Non-controlling interests		**28**	37
Total comprehensive income for the year		**(851)**	373

Consolidated statement of financial position

as at 31 December 2020

	Notes	2020 € m	2019 € m
Assets			
Cash and balances at central banks	48	**25,550**	11,982
Items in course of collection		**43**	57
Disposal groups and non-current assets held for sale	19	**14**	20
Derivative financial instruments	20	**1,424**	1,271
Loans and advances to banks	21	**1,799**	1,478
Loans and advances to customers	22	**56,945**	60,888
Investment securities	24	**19,479**	17,331
Interests in associated undertakings	25	**98**	83
Intangible assets and goodwill	26	**937**	917
Property, plant and equipment	27	**725**	803
Other assets	28	**235**	655
Current taxation		**57**	8
Deferred tax assets	29	**2,711**	2,666
Prepayments and accrued income		**339**	364
Retirement benefit assets	30	**29**	39
Total assets		**110,385**	98,562
Liabilities			
Deposits by central banks and banks	31	**4,690**	823
Customer accounts	32	**81,972**	71,803
Derivative financial instruments	20	**1,201**	1,197
Debt securities in issue	33	**5,450**	6,831
Lease liabilities	34	**382**	429
Current taxation		**1**	70
Deferred tax liabilities	29	**44**	109
Retirement benefit liabilities	30	**68**	60
Other liabilities	35	**955**	869
Accruals and deferred income		**255**	339
Provisions for liabilities and commitments	36	**396**	503
Subordinated liabilities and other capital instruments	37	**1,550**	1,299
Total liabilities		**96,964**	84,332
Equity			
Share capital	38	**1,696**	1,696
Reserves		**10,609**	11,543
Total shareholders' equity		**12,305**	13,239
Other equity interests	39	**1,115**	496
Non-controlling interests	40	**1**	495
Total equity		**13,421**	14,230
Total liabilities and equity		**110,385**	98,562

Brendan McDonagh
Deputy Chair

Colin Hunt
Chief Executive Officer

4 March 2021

Consolidated statement of changes in equity

for the financial year ended 31 December 2020

	Attributable to equity holders of parent												
	Share capital	Other equity interests	Capital reserves	Merger reserve	Capital redemp-tion reserves	Reval-uation reserves	Invest-ment securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Total	Non-controlling interests	Total equity
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2020	1,696	496	1,133	(3,622)	14	14	623	469	13,441	(529)	13,735	495	14,230
Total comprehensive income for the year													–
Loss for the year	–	–	–	–	–	–	–	–	(769)	–	(769)	28	(741)
Other comprehensive income *(note 16)*	–	–	–	–	–	–	(73)	71	(38)	(70)	(110)	–	(110)
Total comprehensive income for the year	–	–	–	–	–	–	(73)	71	(807)	(70)	(879)	28	(851)
Transactions with owners, recorded directly in equity													
Contributions by and distributions to owners of the Group													
Non-controlling interests in subsidiary *(note 40)*	–	–	–	–	–	–	–	–	–	–	–	2	2
Redemption of capital instruments *(note 40)*	–	–	–	–	–	–	–	–	(9)	–	(9)	(494)	(503)
Issue of Additional Tier 1 Securities *(note 39)*	–	619	–	–	–	–	–	–	–	–	619	–	619
Distributions paid to other equity interests *(note 18)*	–	–	–	–	–	–	–	–	(46)	–	(46)	–	(46)
Distributions paid to non-controlling interests *(note 40)*	–	–	–	–	–	–	–	–	–	–	–	(30)	(30)
Total contributions by and distributions to owners of the Group	–	619	–	–	–	–	–	–	(55)	–	564	(522)	42
Realised gains on equity shares held at fair value through other comprehensive income	–	–	–	–	–	–	(344)	–	344	–	–	–	–
At 31 December 2020	1,696	1,115	1,133	(3,622)	14	14	206	540	12,923	(599)	13,420	1	13,421

Consolidated statement of changes in equity

for the financial year ended 31 December 2019

	Attributable to equity holders of parent												
	Share capital	Other equity interests	Capital reserves	Merger reserve	Capital redemp-tion reserves	Reval-uation reserves	Invest-ment securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Total	Non-controlling interests	Total equity
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2019	1,696	494	1,133	(3,622)	14	14	676	285	13,763	(595)	13,858	–	13,858
Total comprehensive income for the year													
Profit for the year	–	–	–	–	–	–	–	–	327	–	327	37	364
Other comprehensive income *(note 16)*	–	–	–	–	–	–	(53)	184	(188)	66	9	–	9
Total comprehensive income for the year	–	–	–	–	–	–	(53)	184	139	66	336	37	373
Transactions with owners, recorded directly in equity													
Contributions by and distributions to owners of the Group:													
Transferred to non-controlling interests *(note 40)*	–	(494)	–	–	–	–	–	–	–	–	(494)	494	–
Non-controlling interests on acquisition of subsidiary *(note 40)*	–	–	–	–	–	–	–	–	–	–	–	1	1
Issue of Additional Tier 1 Securities *(note 39)*	–	496	–	–	–	–	–	–	–	–	496	–	496
Dividends paid on ordinary shares *(note 18)*	–	–	–	–	–	–	–	–	(461)	–	(461)	–	(461)
Distributions paid to other equity interests *(note 18)*	–	–	–	–	–	–	–	–	–	–	–	–	–
Distributions paid to non-controlling interests *(note 40)*	–	–	–	–	–	–	–	–	–	–	–	(37)	(37)
Total contributions by and distributions to owners of the Group	–	2	–	–	–	–	–	–	(461)	–	(459)	458	(1)
At 31 December 2019	1,696	496	1,133	(3,622)	14	14	623	469	13,441	(529)	13,735	495	14,230

Consolidated statement of cash flows

for the financial year ended 31 December 2020

	Notes	2020 € m	2019 € m
Cash flows from operating activities			
(Loss)/profit before taxation for the year		**(931)**	499
Adjustments for:			
– Non-cash and other items	49	**2,079**	780
– Change in operating assets	49	**1,982**	247
– Change in operating liabilities	49	**13,304**	2,581
– Taxation paid		**(28)**	(56)
Net cash inflow from operating activities		**16,406**	4,051
Cash flows from investing activities			
Purchase of investment securities	24	**(6,444)**	(4,937)
Proceeds from sales, redemptions and maturity of investment securities	24	**4,074**	4,689
Additions to property, plant and equipment	27	**(21)**	(69)
Disposal of property, plant and equipment		**11**	30
Additions to intangible assets	26	**(236)**	(259)
Acquisition cost of subsidiary		**–**	(60)
Dividends received from associated undertakings	25	**–**	27
Net cash outflow from investing activities		**(2,616)**	(579)
Cash flows from financing activities			
Net proceeds on issue of Additional Tier 1 Securities	39	**619**	496
Net proceeds on issue of € 1 billion Tier 2 Notes	37	**1,000**	–
Net proceeds on issue of € 500 million Tier 2 Notes	37	**–**	500
Redemption of capital instruments	37/40	**(1,253)**	–
Proceeds on issue of debt securities – MREL	33	**–**	1,640
Dividends paid on ordinary shares	18	**–**	(461)
Distributions paid to other equity interests	18	**(46)**	–
Distributions paid to non-controlling interests	40	**(30)**	(37)
Repayment of lease liabilities	27	**(50)**	(59)
Interest paid on debt securities – MREL		**(98)**	(70)
Interest paid on subordinated liabilities and other capital instruments		**(41)**	(31)
Net cash inflow from financing activities		**101**	1,978
Change in cash and cash equivalents		**13,891**	5,450
Opening cash and cash equivalents		**12,923**	7,246
Effect of exchange translation adjustments		**(255)**	227
Closing cash and cash equivalents	48	**26,559**	12,923

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Notes to the consolidated financial statements

1 Accounting policies

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(ad) Prospective accounting changes

1 Accounting policies *(continued)*

The significant accounting policies that the Group applied in the preparation of the financial statements are set out in this section.

(a) Reporting entity

AIB Group plc ('the parent company' or 'the Company') is a company domiciled in Ireland. The address of the Company's registered office was changed to 10 Molesworth Street, Dublin 2, Ireland on 16 June 2020 (previously Bankcentre, Ballsbridge, Dublin 4, Ireland). AIB Group plc is registered under the Companies Act 2014 as a public limited company under the company number 594283 and is the holding company of the Group.

The consolidated financial statements for the year ended 31 December 2020 include the financial statements of AIB Group plc and its subsidiary undertakings, collectively referred to as 'AIB Group' or 'the Group', where appropriate, including certain special purpose entities and the Group's interest in associates using the equity method of accounting and are prepared to the end of the financial period. The Group is and has been primarily involved in retail and corporate banking.

(b) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (collectively "IFRSs") as adopted by the European Union ("EU") and applicable for the financial year ended 31 December 2020. The consolidated financial statements also comply with those parts of the Companies Act 2014 and the European Union (Credit Institutions: Financial Statements) Regulations 2015 applicable to companies reporting under IFRS, and the Asset Covered Securities Acts 2001 and 2007 and Article 4 of the IAS Regulation. The accounting policies have been consistently applied by Group entities and are consistent with the previous year, unless otherwise described.

(c) Basis of preparation

Functional and presentation currency

The financial statements are presented in euro, which is the functional currency of the parent company and a significant number of its subsidiaries, rounded to the nearest million.

Basis of measurement

The financial statements have been prepared under the historical cost basis, with the exception of the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit or loss, certain hedged financial assets and financial liabilities and investment securities at fair value through other comprehensive income ('FVOCI').

The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and the holding company's separate statements of financial position, the consolidated and the holding company's separate statements of cash flows, and the consolidated and the holding company's separate statements of changes in equity together with the related notes. These notes also include financial instrument related disclosures which are required by IFRS 7, *Financial Instruments: Disclosures* and IAS 1, *Presentation of Financial Statements*, contained in the 'Business review' and the 'Risk management' sections of this Annual Financial Report. The relevant information on those pages is identified as forming an integral part of the audited financial statements.

Use of judgements and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management's judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. The estimates that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in the areas of expected credit losses on financial instruments; the recoverability of deferred tax; determination of the fair value of certain financial assets and financial liabilities; retirement benefit obligations; and provisions for liabilities and commitments.

A description of these judgements and estimates is set out in 'Critical accounting judgements and estimates' on pages 261 to 265.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(c) Basis of preparation *(continued)*

Going concern

The financial statements for the financial year ended 31 December 2020 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting the Group, that it has the ability to continue in business for the period of assessment. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the recent Strategic Review, the approved three year Strategic Plan (2021 to 2023) and internally generated stress scenarios, cognisant of the prolonged impacts of COVID-19 and Brexit. The period of assessment used by the Directors is twelve months from the date of approval of these annual financial statements.

Adoption of new accounting standards/amendments to standards

During the financial year to 31 December 2020, the Group adopted the following amendments to standards and interpretations which had an insignificant impact on these annual financial statements:

– Amendments to IFRS 3 *Business Combinations* (definition of a business);
– Amendments to References to the Conceptual Framework in IFRS Standards; and
– Amendments to IFRS 16 *Leases* COVID-19 Related Rent Concessions.

(d) Basis of consolidation

Subsidiary undertakings

A subsidiary undertaking is an investee controlled by the Group. The Group controls an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated in the Group's financial statements from the date on which control commences until the date that control ceases.

The Group reassesses whether it controls a subsidiary when facts and circumstances indicate that there are changes to one or more elements of control.

Loss of control

If the Group loses control of a subsidiary, the Group:

(i) derecognises the assets (including any goodwill) and liabilities of the former subsidiary at their carrying amounts at the date control is lost;
(ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date control is lost (including any attributable amounts in other comprehensive income);
(iii) recognises the fair value of any consideration received and any distribution of shares of the subsidiary;
(iv) recognises any investment retained in the former subsidiary at its fair value at the date when control is lost; and
(v) recognises any resulting difference of the above items as a gain or loss in the income statement.

The Group subsequently accounts for any investment retained in the former subsidiary in accordance with IFRS 9 *Financial Instruments*, or when appropriate, IAS 28 *Investments in Associates and Joint Ventures*.

Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. The Group assesses whether it has control over such an entity by considering factors such as the purpose and design of the entity; the nature of its relationship with the entity; and the size of its exposure to the variability of returns of the entity.

1 Accounting policies *(continued)*

(d) Basis of consolidation *(continued)*

Business combinations

The Group accounts for the acquisition of businesses using the acquisition method except for those businesses under common control. Under the acquisition method, the consideration transferred in a business combination is measured at fair value, which is calculated as the sum of:

– the acquisition date fair value of assets transferred by the Group;
– liabilities incurred by the Group to the former owners of the acquiree; and
– the equity interests issued by the Group in exchange for control of the acquiree.

Acquisition related costs are recognised in the income statement as incurred.

Goodwill is measured as the excess of the sum of:

– the fair value of the consideration transferred;
– the amount of any non-controlling interests in the acquiree; and
– the fair value of the acquirer's previously held equity interest in the acquiree, if any; less
– the net of the acquisition date fair value of the identifiable assets acquired and liabilities assumed.

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets, and income arising thereon, are excluded from the financial statements, as they are not assets of the Group.

Non-controlling interests

For each business combination, the Group recognises any non-controlling interest in the acquiree either:

– at fair value; or
– at their proportionate share of the acquiree's identifiable net assets.

For changes in the Group's interest in a subsidiary that do not result in a loss of control, the Group adjusts the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The difference between the change in value of the non-controlling interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the parent.

Common control transactions

The Group accounts for the acquisition of businesses and investments in subsidiary undertakings between members of the Group at carrying value at the date of the transaction unless prohibited by company law or IFRS. This policy also applies to the acquisition of businesses by the Group of other entities under the common control of the Irish Government. Where the carrying value of the acquired net assets exceeds the fair value of the consideration paid, the excess is accounted for as a capital contribution (accounting policy (aa) 'Equity' – capital contributions). On impairment of the subsidiary in the parent company's separate financial statements, an amount equal to the impairment charge net of tax in the income statement is transferred from capital contribution reserves to revenue reserves.

The entire capital contribution is transferred to revenue reserves on final sale of the subsidiary.

For acquisitions under common control, comparative data is not restated. The consolidation of the acquired entity is effective from the acquisition date with intercompany balances eliminated at a Group level on this date.

Associated undertakings

An associated undertaking is an entity over which the Group has significant influence, but not control, over the entity's operating and financial policy decisions. If the Group holds 20% or more of the voting power of an entity, it is presumed that the Group has significant influence, unless it can be clearly demonstrated that this is not the case.

Investments in associated undertakings are initially recorded at cost and increased (or decreased) each year by the Group's share of the post acquisition net income (or loss), and other movements reflected directly in other comprehensive income of the associated undertaking.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(d) Basis of consolidation *(continued)*

Goodwill arising on the acquisition of an associated undertaking is included in the carrying amount of the investment. When the Group's share of losses in an associate has reduced the carrying amount to zero, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations to make payments on behalf of the associate.

Where the Group continues to hold more than 20% of the voting power in an investment but ceases to have significant influence, the investment is no longer accounted for as an associate. On the loss of significant influence, the Group measures the investment at fair value and recognises any difference between the carrying value and fair value in profit or loss and accounts for the investment in accordance with IFRS 9 *Financial Instruments*.

The Group's share of the results of associated undertakings after tax reflects the Group's proportionate interest in the associated undertaking and is based on financial statements made up to a date not earlier than three months before the period end reporting date, adjusted to conform with the accounting policies of the Group.

Since goodwill that forms part of the carrying amount of the investment in an associate is not recognised separately, it is, therefore, not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

Transactions eliminated on consolidation

Intra-group balances and any unrealised income and expenses arising from intra-group transactions are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Unrealised gains and losses on transactions with associated undertakings are eliminated to the extent of the Group's interest in the investees.

Consistent accounting policies are applied throughout the Group for the purposes of consolidation.

Parent Company financial statements: Investment in subsidiary and associated undertakings

The Company accounts for investments in subsidiary and associated undertakings that are not classified as held for sale at cost less provisions for impairment. If the investment is classified as held for sale, the Company accounts for it at the lower of its carrying value and fair value less costs to sell.

The Company reviews its equity investment for impairment at the end of each reporting period if there are indications that impairment may have occurred.

The testing for possible impairment involves comparing the estimated recoverable amount of an investment with its carrying amount. Where the recoverable amount is less than the carrying amount, the difference is recognised as an impairment provision in the Company's financial statements. The recoverable amount is the higher of fair value less costs to sell and value-in-use ("VIU").

Dividends from a subsidiary or an associated undertaking are recognised in the income statement when the Company's right to receive the dividend is established.

(e) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using their functional currency, being the currency of the primary economic environment in which the entity operates.

Transactions and balances

Foreign currency transactions are translated into the respective entity's functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-translation at period end exchange rates of the amortised cost of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Exchange differences on equities and similar non-monetary items held at fair value through profit or loss are reported as part of the fair value gain or loss. Exchange differences on a financial liability designated as a hedge of the net investment in a foreign operation are reported in other comprehensive income.

1 Accounting policies *(continued)*

(e) Foreign currency translation *(continued)*

Foreign operations

The results and financial position of all Group entities that have a functional currency different from the euro are translated into euro as follows:

- assets and liabilities including goodwill and fair value adjustments arising on consolidation of foreign operations are translated at the closing rate;
- income and expenses are translated into euro at the average rates of exchange during the period where these rates approximate to the foreign exchange rates ruling at the dates of the transactions;
- foreign currency translation differences are recognised in other comprehensive income; and
- since 1 January 2004, the Group's date of transition to IFRS, all such exchange differences are included in the foreign currency cumulative translation reserve within shareholders' equity. When a foreign operation is disposed of in full, the relevant amount of this reserve is transferred to the income statement. When a subsidiary is partly disposed of, the relevant proportion of foreign currency translation reserve is re-attributed to the non-controlling interest. In the case of a partial disposal, a pro-rata amount of the foreign currency cumulative translation reserve is transferred to the income statement. This also applies in the case where there has not been a reduction in the overall percentage holding, i.e. repayment of capital.

(f) Interest income and expense recognition

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

Effective interest rate

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

The application of the method has the effect of recognising income receivable and expense payable on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating the effective interest rate for financial instruments other than credit impaired assets, the Group estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding expected credit losses. The calculation takes into account all fees, including those for any expected early redemption, and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

All costs associated with mortgage incentive schemes are included in the effective interest rate calculation. Fees and commissions payable to third parties in connection with lending arrangements, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the effective interest rate.

Amortised cost and gross carrying amount

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The gross carrying amount of a financial asset is the amortised cost before adjusting for any loss allowance.

Calculation of interest income and interest expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability.

For financial assets that have become credit impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit impaired, the calculation of interest income reverts to the gross basis.

However, for financial assets that were credit impaired on initial recognition, interest income is calculated by applying the credit adjusted effective interest rate to the amortised cost of the financial asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

When a financial asset is no longer credit impaired or has been repaid in full (i.e. cured without financial loss), the Group presents previously unrecognised interest income as a reversal of credit impairment/recovery of amounts previously written-off.

Interest income and expense on financial assets and liabilities classified as held for trading or at FVTPL is recognised in 'other interest income and similar income' or 'interest expense' in the income statement, as applicable.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(f) Interest income and expense recognition *(continued)*

Presentation

Interest income and expense presented in the consolidated income statement include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- Interest on investment debt securities measured at FVOCI calculated on an effective interest basis;
- Interest on financial assets measured at FVTPL;
- Net interest income and expense on qualifying hedge derivatives designated as cash flow hedges or fair value hedges which are recognised in interest income or interest expense; and
- Interest income and funding costs of trading portfolio financial assets.

The Group policy for the recognition of leasing income is set out in accounting policy (n).

(g) Dividend income

Dividends on equity investments measured at FVTPL/FVOCI are recognised in the income statement when the entity's right to receive payment is established and provided that they represent a return on capital.

(h) Fee and commission income

The measurement and timing of recognition of fee and commission income is based on the core principles of IFRS 15 *Revenue from Contracts with Customers*.

The principles in IFRS 15 are applied using the following 5 step model:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognise revenue when or as the Group satisfies its performance obligations.

Fee and commission income is recognised when the performance obligation in the contract has been performed, 'point in time' recognition, or 'over time' recognition if the performance obligation is performed over a period of time unless the income has been included in the effective interest rate calculation.

The Group includes in the transaction price, some or all of an amount of variable consideration estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The majority of the Group's fee and commission income arises from retail banking activities. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or retained a part at the same effective interest rate as applicable to the other participants.

Foreign exchange income is fee income that is derived from arranging foreign exchange transactions on behalf of customers. Such income is recognised when the individual performance obligation has been fulfilled.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees relating to investment funds are recognised over time in line with the performance obligation. The same principle is applied to the recognition of income from wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Commitment fees together with related direct costs, for loan facilities where drawdown is probable, are deferred and recognised as an adjustment to the effective interest rate on the loan once drawn. Commitment fees in relation to facilities where drawdown is not probable are recognised over the term of the commitment on a straight line basis. Other credit related fees are recognised over time in line with the performance obligation except arrangement fees where it is likely that the facility will be drawn down, and which are included in the effective interest rate calculation.

Fee income and fee expenses in respect of services and prepaid credits for cellular phone and utilities sold to third parties are classified as specialised payment services and are recognised when the performance obligation is satisfied.

1 Accounting policies *(continued)*

(i) Net trading income

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

(j) Employee benefits

Retirement benefit obligations

The Group provides employees with post-retirement benefits mainly in the form of pensions.

The Group provides a number of retirement benefit schemes including defined benefit and defined contribution as well as a hybrid scheme that has both defined benefit and defined contribution elements. In addition, the Group contributes, according to local law in the various countries in which it operates, to governmental and other schemes which have the characteristics of defined contribution schemes. The majority of the defined benefit schemes are funded.

Full actuarial valuations of defined benefit schemes are undertaken every three years and are updated to reflect current conditions at each year end reporting date.

Scheme assets are measured at fair value determined by using current bid prices, except for insurance policies acquired as part of a buy in. If the policies are qualifying policies under IAS 19 *Employee Benefits* and if the timing and amount of payments under the policies exactly match some or all of the benefits payable under the scheme, then the present value of the related obligation is determined and is deemed to be the fair value of the insurance policies to be included in plan assets.

Scheme liabilities are measured on an actuarial basis by estimating the amount of future benefit that employees have earned for their service in current and prior periods and discounting that benefit at the market yield on a high quality corporate bond of equivalent term and currency to the liability. The calculation is performed by a qualified actuary using the projected unit credit method. The difference between the fair value of the scheme assets and the present value of the defined benefit obligation at the year end reporting date is recognised in the statement of financial position. Schemes in surplus are shown as assets and schemes in deficit, together with unfunded schemes, are shown as liabilities. A surplus is only recognised as an asset to the extent that it is recoverable through a refund from the scheme or through reduced contributions in the future. Actuarial gains and losses are recognised immediately in other comprehensive income.

The cost of providing defined benefit pension schemes to employees, comprising the net interest on the net defined benefit liability/(asset), calculated by applying the discount rate to the net defined benefit liability/(asset) at the start of the annual reporting period, taking into account contributions and benefit payments during the period, is charged to the income statement within personnel expenses.

Re-measurements of the net defined benefit liability/(asset), comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability/(asset)) are recognised in other comprehensive income. Amounts recognised in other comprehensive income in relation to re-measurements of the net defined benefit liability/(asset) will not be reclassified to profit or loss in a subsequent period.

In early 2017, the Board reassessed its obligation to fund increases in pensions in payment. The Board confirmed that funding of increases in pensions in payment is a decision to be made by the Board each year where increases are discretionary. This was based on actuarial and external legal advice obtained.

The Group recognises the effect of an amendment to a defined benefit scheme when the plan amendment occurs, which is when the Group introduces or withdraws a defined benefit scheme, or changes the benefits payable under existing defined benefit schemes. A curtailment is recognised when a significant reduction in the number of employees covered by a defined benefit scheme occurs. A settlement is a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit scheme. Gains or losses on plan amendments, curtailments and settlements are recognised in the income statement.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(j) Employee benefits *(continued)*

Retirement benefit obligations *(continued)*

Changes with regard to benefits payable to retirees which represent a constructive obligation under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* are accounted for as a past service cost. These are recognised in the income statement.

The costs of managing the defined benefit scheme assets are deducted from the return on scheme assets. All costs of running the defined benefit schemes are recognised in the income statement when they are incurred.

The cost of the Group's defined contribution schemes is charged to the income statement in the accounting period in which it is incurred. Any contributions unpaid at the year end reporting date are included as a liability. The Group has no further obligation under these schemes once these contributions have been paid.

Short term employee benefits

Short term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period during which employees have provided services. Bonuses are recognised to the extent that the Group has a legal or constructive obligation to its employees that can be measured reliably. The cost of providing subsidised staff loans is charged within personnel expenses.

Termination benefits

Termination benefits are recognised as an expense at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which includes the payment of termination benefits.

For termination benefits payable as a result of an employee's decision to accept an offer of voluntary redundancy, which is not within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the Group recognises the expense at the earlier of when the employee accepts the offer and when a restriction on the Group's ability to withdraw the offer takes effect.

(k) Income tax, including deferred income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income. Income tax relating to items in equity is recognised directly in equity. However, the income tax consequences of payments on financial instruments that are classified as equity but treated as liabilities for tax purposes are recognised in profit or loss if those payments are distributions of profits previously recognised in profit or loss.

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

Deferred income tax is provided, using the balance sheet liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the reporting date and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred income tax assets are recognised when it is probable that future taxable profits will be available against which the temporary differences will be utilised. The deferred tax asset is reviewed at the end of each reporting period and the carrying amount will reflect the extent that sufficient taxable profits will be available to allow all of the asset to be recovered.

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

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

1 Accounting policies *(continued)*

(k) Income tax, including deferred income tax *(continued)*

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and financial liabilities including derivative contracts, provisions for pensions and other post-retirement benefits, and in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future. In addition, temporary differences are not provided for assets and liabilities the initial recognition of which, in a transaction that is not a business combination, affects neither accounting nor taxable profit. Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which the profits arise.

(l) Financial assets

Recognition and initial measurement

The Group initially recognises financial assets on the trade date, being the date on which the Group commits to purchase the assets. Loan assets are recognised when cash is advanced to borrowers.

Financial assets measured at amortised cost or at fair value through other comprehensive income ("FVOCI") are recognised initially at fair value adjusted for direct and incremental transaction costs. Financial assets measured at fair value through profit or loss ("FVTPL") are recognised initially at fair value and transaction costs are taken directly to the income statement.

Derivatives are measured initially at fair value on the date on which the derivative contract is entered into. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. Profits or losses are only recognised on initial recognition of derivatives when there are observable current market transactions or valuation techniques that are based on observable market inputs.

Classification and subsequent measurement

On initial recognition, a financial asset is classified and subsequently measured at amortised cost, FVOCI or FVTPL.
The classification and subsequent measurement of financial assets depend on:

- The Group's business model for managing the asset; and
- The cash flow characteristics of the asset (for assets in a 'hold-to-collect' or 'hold-to-collect-and-sell' business model).

Based on these factors, the Group classifies its financial assets into one of the following categories:

– **Amortised cost**

Assets that have not been designated as at FVTPL, and are held within a 'hold-to-collect' business model whose objective is to hold assets to collect contractual cash flows; and whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. The carrying amount of these assets is calculated using the effective interest method and is adjusted on each measurement date by the expected credit loss allowance for each asset, with movements recognised in profit or loss.

– **Fair value through other comprehensive income ("FVOCI")**

Assets that have not been designated as at FVTPL, and are held within a 'hold-to-collect-and-sell' business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI"). Movements in the carrying amount of these assets are taken through other comprehensive income ("OCI"), except for the recognition of credit impairment gains or losses, interest revenue or foreign exchange gains and losses, which are recognised in profit or loss. When a financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss other than in the case of equity instruments designated at FVOCI.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(l) Financial Assets *(continued)*

– Fair value through profit or loss ("FVTPL")

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. Gains or losses (excluding interest income or expense) on such assets are recognised in profit or loss on an ongoing basis.

In addition, the Group may irrevocably designate a financial asset as at FVTPL that otherwise meets the requirements to be measured at amortised cost or at FVOCI if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

– Embedded derivatives

Certain hybrid contracts may contain both a non-derivative host and an 'embedded derivative'. Under IFRS 9, there is no bifurcation of embedded derivatives from the host financial asset. As a result, such financial assets will generally fail the SPPI test unless the embedded derivative does not substantially modify the cash flows that would otherwise be required by the contract. Those failing the SPPI test will be classified and measured at FVTPL.

Business model assessment

The Group makes an assessment of the objective of the business model at a portfolio level, as this reflects how portfolios of assets are managed to achieve a particular objective, rather than management's intentions for individual assets.
The assessment considers the following:

- The strategy for the portfolio as communicated by management;
- How the performance of the portfolio is evaluated and reported to senior management;
- The risks that impact the performance of the business model, and how those risks are managed;
- How managers of the business are compensated (i.e. based on fair value of assets managed or on the contractual cash flows collected); and
- The frequency, value and timing of sales in prior periods, reasons for those sales, and expectations of future sales activity.

Financial assets that are held for trading or managed within a business model that is evaluated on a fair value basis are measured at FVTPL because the business objective is neither hold-to-collect contractual cash flows nor hold-to-collect-and-sell contractual cash flows.

Characteristics of the contractual cash flows

An assessment ('SPPI test') is performed on all financial assets at origination that are held within a 'hold-to-collect' or 'hold-to-collect-and-sell' business model to determine whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset at initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding, for other basic lending risks and costs (i.e. liquidity, administrative costs) and profit margin.

The SPPI test requires an assessment of the contractual terms and conditions to determine whether a financial asset contains any terms that could modify the timing or amount of contractual cash flows of the asset, to the extent that they could not be described as solely payments of principal and interest. In making this assessment, the Group considers:

- Features that modify the time value of money element of interest (e.g. tenor of the interest rate does not correspond with the frequency within which it resets);
- Terms providing for prepayment and extension;
- Leverage features;
- Contingent events that could change the amount and timing of cash flows;
- Terms that limit the Group's claim to cash flows from specified assets; and
- Contractually linked instruments.

Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

1 Accounting policies *(continued)*

(l) Financial Assets *(continued)*

Reclassifications

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

Investments in equity instruments

Equity instruments are classified and measured at FVTPL with gains and losses reflected in profit or loss.

On initial recognition, the Group may elect to irrevocably designate at FVOCI, an equity instrument that is not held for trading. This election is made on an instrument-by-instrument basis. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss on derecognition of the equity instrument.

(m) Financial liabilities and equity

The Group categorises financial liabilities as at amortised cost or as at fair value through profit or loss.

The Group recognises a financial liability when it becomes party to the contractual provisions of the contract.

Issued financial instruments or their components are classified as liabilities where the substance of the contractual arrangement results in the Group having a present obligation to either deliver cash or another financial asset to the holder, to exchange financial instruments on terms that are potentially unfavourable or to satisfy the obligation otherwise than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity shares.

Financial liabilities are initially recognised at fair value, being their issue proceeds (fair value of consideration received), net of transaction costs incurred. Financial liabilities are subsequently measured at amortised cost, with any difference between the proceeds net of transaction costs and the redemption value recognised in the income statement using the effective interest method.

Where financial liabilities are classified as trading they are also initially recognised at fair value with the related transaction costs taken directly to the income statement. Gains and losses arising from subsequent changes in fair value are recognised directly in the income statement within net trading income.

Preference shares which carry a mandatory coupon are classified as financial liabilities. The dividends on these preference shares are recognised in the income statement as interest expense using the effective interest method.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. Any gain or loss on the extinguishment or re-measurement of a financial liability is recognised in profit or loss.

Issued financial instruments are classified as equity when the Group has no contractual obligation to transfer cash, or other financial assets, or to issue a variable number of its own equity instruments. Incremental costs directly attributable to the issue of equity instruments are shown as a deduction from the proceeds of issue, net of tax.

(n) Leases

Lessor

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownership, with or without ultimate legal title. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods under the pre-tax net investment method to reflect a constant periodic rate of return.

Assets leased to customers are classified as operating leases if the lease agreements do not transfer substantially all the risks and rewards of ownership. The leased assets are included within property, plant and equipment on the statement of financial position and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives. Lease income is recognised on a straight line basis over the period of the lease unless another systematic basis is more appropriate.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(n) Leases *(continued)*

Lessee

Lease rentals payables are recognised, measured and presented in line with IFRS 16 *Leases*.

Identifying a lease

The Group assesses whether a contract is, or contains, a lease at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This assessment involves the exercise of judgement about whether it depends on a specified asset, whether the Group obtains substantially all the economic benefits from the use of that asset, and whether the Group has the right to direct the use of the asset.

This policy is applied to all of the Group's contracts that meet the definition of a lease.

Lease term

The lease term comprises the non-cancellable period of the lease contract for which the Group has the right to use an underlying asset together with:

– periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option; and
– periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option.

Recognition

The Group recognises a right-of-use asset and a lease liability at the commencement date of the contract for all leases except for short term leases of 12 months or less or leases where the underlying asset is of low value i.e. the value of the underlying asset, when new, is less than € 5,000/£ 5,000. The commencement date is the date on which a lessor makes an underlying asset available for use by the Group.

Initial measurement of right-of-use asset

The right-of-use asset is initially measured at cost, which comprises the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives, any initial direct costs incurred by the Group and an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset or restoring the site on which the asset is located.

The Group provides for dilapidations/restoration costs where it has been identified or planned that it intends on exiting the premises, and/or where it has completed extensive modifications. The Group recognises asset restoration obligations mainly in relation to leased head office locations and branches and any other space which would need to be restored to their previous condition when the lease ends. Asset restoration obligations are capitalised as part of the cost of the right-of-use asset and depreciated over the asset's estimated useful life on a straight-line basis.

Subsequent measurement of right-of-use asset

After the commencement date, a right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the lease liability. The Group applies IAS 36 *Impairment of Assets* as set out in the Group's accounting policy (x) 'Impairment of property, plant and equipment, goodwill and intangible assets' to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

The Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset and the end of the lease term on a straight-line basis. When determining the relevant time period to calculate depreciation, the Group uses the lease term as determined in the initial recognition calculation.

1 Accounting policies *(continued)*

(n) Leases *(continued)*

Initial measurement of lease liability

The lease liability is initially measured at the present value of the lease payments that are payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The Group uses its incremental borrowing rate as the discount rate.

The lease payments include fixed payments (including in-substance fixed payments), variable lease payments that depend on an index or a rate and amounts expected to be payable by the Group under a residual value guarantee. The lease payments also include the exercise price of a purchase option if the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option and payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

Lease payments exclude variable elements which are dependent on external factors, e.g. payments that are based on transaction volume/usage. Variable lease payments that are not included in the initial measurement of the lease liability are recognised directly in the income statement in the period in which the event or condition that triggers these payments occurs.

Subsequent measurement of lease liability

After the commencement date, the Group measures the lease liability by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect lease payments made and re-measuring the carrying amount to reflect any reassessment or lease modifications.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to Nil.

Lease modifications

Lease modifications arise from changes to the underlying contract between the Group and the lessor. The accounting for the modification is dependent on whether the modification is considered a separate lease or not.

A lease modification is accounted for as a separate lease if both the modification increases the scope of the lease by adding the right to use one or more underlying assets and the consideration for the lease increases by an amount commensurate with the standalone price for the increase in scope. If both criteria are met, the Group adopts the accounting policy on the initial recognition and measurement of lease liabilities and right-of-use assets.

If a lease modification fails the test above or the modification is of any other type (e.g. a decrease in scope from the original contract), the Group must modify the initially recognised components of the lease contract.

Sublease accounting

Where the Group sub-leases an asset (intermediate lessor) which it has leased from another lessor (the 'head lessor' who ultimately owns the asset from a legal perspective), the Group assesses whether the sub-lease is a finance or operating lease in the context of the right-of-use asset being leased, not the actual underlying asset.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(o) Determination of fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The Group considers the impact of non-performance risk when valuing its financial liabilities.

Financial instruments are initially recognised at fair value and, with the exception of financial assets at fair value through profit or loss, the initial carrying amount is adjusted for direct and incremental transaction costs. In the normal course of business, the fair value on initial recognition is the transaction price (fair value of consideration given or received). If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is determined by a quoted price in an active market for the same financial instrument, or by a valuation technique which uses only observable market inputs, the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss. If the fair value is calculated by a valuation technique that features significant market inputs that are not observable, the difference between the fair value at initial recognition and the transaction price is deferred. Subsequently, the difference is recognised in the income statement on an appropriate basis over the life of the financial instrument, but no later than when the valuation is supported by wholly observable inputs; the transaction matures; or is closed out.

Subsequent to initial recognition, the methods used to determine the fair value of financial instruments include quoted prices in active markets where those prices are considered to represent actual and regularly occurring market transactions. Where quoted prices are not available or are unreliable because of market inactivity, fair values are determined using valuation techniques. These valuation techniques maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The valuation techniques used incorporate the factors that market participants would take into account in pricing a transaction. Valuation techniques include the use of recent orderly transactions between market participants, reference to other similar instruments, option pricing models, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Quoted prices in active markets

Quoted market prices are used where those prices are considered to represent actual and regularly occurring market transactions for financial instruments in active markets.

Valuations for negotiable instruments such as debt and equity securities are determined using bid prices for asset positions and ask prices for liability positions.

Where securities are traded on an exchange, the fair value is based on prices from the exchange. The market for debt securities largely operates on an ‘over-the-counter’ basis which means that there is not an official clearing or exchange price for these security instruments. Therefore, market makers and/or investment banks (‘contributors’) publish bid and ask levels which reflect an indicative price that they are prepared to buy and sell a particular security. The Group’s valuation policy requires that the prices used in determining the fair value of securities quoted in active markets must be sourced from established market makers and/or investment banks.

Valuation techniques

In the absence of quoted market prices, and in the case of over-the-counter derivatives, fair value is calculated using valuation techniques. Fair value may be estimated using quoted market prices for similar instruments, adjusted for differences between the quoted instrument and the instrument being valued. Where the fair value is calculated using discounted cash flow analysis, the methodology is to use, to the extent possible, market data that is either directly observable or is implied from instrument prices, such as interest rate yield curves, equities and commodities prices, credit spreads, option volatilities and currency rates. In addition, the Group considers the impact of own credit risk and counterparty risk when valuing its derivative liabilities.

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

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

1 Accounting policies *(continued)*

(o) Determination of fair value of financial instruments *(continued)*

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

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

The Group tests the outputs of the valuation model to ensure that it reflects current market conditions. The calculation of fair value for any financial instrument may require adjustment of the quoted price or the valuation technique output to reflect the cost of credit risk and the liquidity of the market, if market participants would include one, where these are not embedded in underlying valuation techniques or prices used.

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

Transfers between levels of the fair value hierarchy

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

(p) Sale and repurchase agreements (including securities borrowing and lending)

Financial assets may be lent or sold subject to a commitment to repurchase them ('repos'). Such securities are retained on the statement of financial position when substantially all the risks and rewards of ownership remain with the Group. The liability to the counterparty is included separately on the statement of financial position. Similarly, when securities are purchased subject to a commitment to resell ('reverse repos'), or where the Group borrows securities, but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not usually included in the statement of financial position. The difference between the sale and repurchase price is accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements. The exception to this is where these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss included in trading income.

(q) Derivatives and hedge accounting

Derivatives, such as interest rate swaps, options and forward rate agreements, futures, currency swaps and options, and equity index options are used for trading purposes while interest rate swaps, currency swaps, cross currency interest rate swaps and credit derivatives are used for hedging purposes.

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

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

Derivatives

Derivatives are measured initially at fair value on the date on which the derivative contract is entered into and subsequently re-measured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and from valuation techniques using discounted cash flow models and option pricing models as appropriate. Derivatives are included in assets when their fair value is positive, and in liabilities when their fair value is negative, unless there is the legal ability and intention to settle an asset and liability on a net basis.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(q) Derivatives and hedge accounting *(continued)*

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Profits or losses are only recognised on initial recognition of derivatives when there are observable current market transactions or valuation techniques that are based on observable market inputs.

Hedging

The Group has opted to remain with the IAS 39 hedge accounting requirements until macro hedge accounting is addressed by the IASB as part of a separate project. This is an accounting policy choice allowed by IFRS 9.

All derivatives are carried at fair value and the accounting treatment of the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Where derivatives are held for risk management purposes, and where transactions meet the criteria specified in IAS 39 *Financial Instruments: Recognition and Measurement*, the Group designates certain derivatives as either:

– hedges of the fair value of recognised assets or liabilities or firm commitments ('fair value hedge'); or
– hedges of the exposure to variability of cash flows attributable to a recognised asset or liability, or a highly probable forecasted transaction ('cash flow hedge'); or
– hedges of a net investment in a foreign operation.

When a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The Group discontinues hedge accounting when:

a) it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
b) the derivative expires, or is sold, terminated, or exercised;
c) the hedged item matures or is sold or repaid; or
d) a forecast transaction is no longer deemed highly probable.

To the extent that the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged risk in the hedged item, or the cumulative change in the fair value of the hedging derivative differs from the cumulative change in the fair value of expected future cash flows of the hedged item, ineffectiveness arises. The amount of ineffectiveness, (taking into account the timing of the expected cash flows, where relevant) provided it is not so great as to disqualify the entire hedge for hedge accounting, is recorded in the income statement.

In certain circumstances, the Group may decide to cease hedge accounting even though the hedge relationship continues to be highly effective by no longer designating the financial instrument as a hedge.

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

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

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

1 Accounting policies *(continued)*

(q) Derivatives and hedge accounting *(continued)*

Fair value hedge accounting

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the fair value hedging adjustment cumulatively made to the carrying value of the hedged item is, for items carried at amortised cost, amortised over the period to maturity of the previously designated hedge relationship using the effective interest method. For debt securities measured at FVOCI, the fair value adjustment for hedged items is recognised in the income statement using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash flow hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is initially recognised directly in other comprehensive income and included in the cash flow hedging reserve in the statement of changes in equity. The amount recognised in other comprehensive income is reclassed to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in other comprehensive income from the time when the hedge was effective remains in equity and is reclassified to the income statement as a reclassification adjustment as the forecast transaction affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income from the period when the hedge was effective is reclassified to the income statement.

Net investment hedge

Hedges of net investments in foreign operations, including monetary items that are accounted for as part of the net investment, are accounted for similarly to cash flow hedges. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and the ineffective portion is recognised immediately in the income statement. The cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement on the disposal or partial disposal of the foreign operation. Hedges of net investments may include non-derivative liabilities as well as derivative financial instruments.

Derivatives that do not qualify for hedge accounting

Certain derivative contracts entered into as economic hedges do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the income statement.

(r) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Relevant costs incurred with the disposal of a financial asset are deducted in computing the gain or loss on disposal.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. However, the amount held in investment securities reserves is transferred to revenue reserves on derecognition. Any interest in transferred financial assets that qualify for derecognition, that is created or retained by the Group, is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(r) Derecognition *(continued)*

Financial assets *(continued)*

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate or is less than adequate for performing the servicing.

The write-off of a financial asset constitutes a derecognition event. Where a financial asset is partially written-off, and the portion written-off comprises specifically identified cash flows, this will constitute a derecognition event for that part written-off.

(s) Impairment of financial assets

The Group recognises loss allowances for expected credit losses at each balance sheet date for the following financial instruments that are not measured at FVTPL:

- Financial assets at amortised cost;
- Financial assets at FVOCI (except for equity instruments);
- Lease receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued.

Investments in equity instruments are recognised at fair value and accordingly, expected credit losses ("ECLs") are not recognised separately for equity instruments.

ECLs are the weighted average of credit losses. These are an estimate of credit losses over the life of a financial instrument.
When measuring ECLs, the Group takes into account:

- probability-weighted outcomes;
- the time value of money so that ECLs are discounted to the reporting date; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The amount of ECLs recognised as a loss allowance depends on the extent of credit deterioration since initial recognition. There are two measurement bases:

- 12-month ECLs (Stage 1), which applies to all items as long as there is no significant deterioration in credit quality since initial recognition; and
- Lifetime ECLs (Stages 2 and 3), which applies when a significant increase in credit risk has occurred on an individual or collective basis.

The 12 month ECL is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL is the expected credit losses that result from all possible default events over the expected life of a financial instrument.

In the case of Stage 2, credit risk on the financial instrument has increased significantly since initial recognition but the instrument is not considered credit impaired. For a financial instrument in Stage 3, credit risk has increased significantly since initial recognition and the instrument is considered credit impaired.

Financial assets are allocated to stages dependent on credit quality relative to when the asset was originated.

A financial asset can only originate in either Stage 1 or as purchased or originated credit impaired ("POCI"). The ECL held against an asset depends on a number of factors, one of which is its stage allocation. Assets allocated to Stage 2 and Stage 3 have lifetime ECLs. Collateral and other credit enhancements are not considered as part of stage allocation. Collateral is reflected in the Group's loss given default models ('LGD').

1 Accounting policies *(continued)*

(s) Impairment of financial assets *(continued)*

Purchased or originated credit impaired

POCI financial assets are those that are credit-impaired on initial recognition. The Group may originate a credit-impaired financial asset following a substantial modification of a distressed financial asset that resulted in derecognition of the original financial assets.

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

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

At each reporting date, the Group recognises the amount of the change in lifetime expected credit losses as a credit impairment gain or loss in the income statement. Favourable changes in lifetime expected credit losses are recognised as a credit impairment gain, even if the favourable changes exceed the amount previously recognised in profit or loss as a credit impairment loss.

Modification

From time to time, the Group will modify the original terms of a customer's loan either as part of the ongoing relationship or arising from changes in the customer's circumstances such as when that customer is unable to make the agreed original contractual repayments.
A modification refers to either:

- A change to the previous terms and conditions of a debt contract; or
- A total or partial refinancing of a debt contract.

Modifications may occur for both customers in distress and for those not in distress. Any financial asset that undergoes a change or renegotiation of cash flows and is not derecognised is a modified financial asset.

When modification does not result in derecognition, the modified assets are treated as the same continuous lending agreement but requires a modification gain or loss to be taken to profit or loss immediately. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

The stage allocation for modified assets which are not derecognised is by reference to the credit risk at initial recognition of the original, unmodified contractual terms i.e. the date of initial recognition is not reset.

Where renegotiation of the terms of a financial asset leads to a customer granting equity to the Group in exchange for any loan balance outstanding, the new instrument is recognised at fair value with any difference to the loan carrying amount recognised in the income statement.

Derecognition occurs if a modification or restructure is substantial on a qualitative or quantitative basis. Accordingly, certain forborne assets are derecognised. The modified/restructured asset (derecognised forborne asset ('DFA')) is considered a 'new financial instrument' and the date that the new asset is recognised is the date of initial recognition from this point forward. DFAs are allocated to Stage 1 on origination and follow the normal staging process thereafter.

If there is evidence of credit impairment at the time of initial recognition of a DFA, and the fair value at recognition is at a discount to the contractual amount of the obligation, the asset is deemed to be a POCI. POCIs are not allocated to stages but are assigned a lifetime PD and ECL for the duration of the obligation's life. Where the modification/restructure of a non-forborne credit obligation results in derecognition, the new loan is originated in Stage 1 and follows the normal staging process thereafter.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(s) Impairment of financial assets *(continued)*

Collateralised financial assets – Repossessions

The ECL calculation for a collateralised financial asset reflects the cash flows that may result from foreclosure, costs for obtaining and settling the collateral, and whether or not foreclosure is probable.

For loans that are credit impaired, the Group may repossess collateral previously pledged as security in order to achieve an orderly realisation of the loan. The Group will then offer this repossessed collateral for sale. However, if the Group believes the proceeds of the sale will comprise only part of the recoverable amount of the loan with the customer remaining liable for any outstanding balance, the loan continues to be recognised and the repossessed asset is not recognised. However, if the Group believes that the sale proceeds of the asset will comprise all or substantially all of the recoverable amount of the loan, the loan is derecognised and the acquired asset is accounted for in accordance with the applicable accounting standard. Any further impairment of the repossessed asset is treated as an impairment of that asset and not as a credit impairment of the original loan.

Financial assets at FVOCI

The ECL allowance for financial assets measured at FVOCI does not reduce the carrying amount in the statement of financial position because the carrying amount of these assets is fair value. However, an amount equal to the ECL allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income ('OCI') as an accumulated credit impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit or loss upon derecognition of the assets (together with other accumulated gains and losses in OCI).

Write-offs and debt forgiveness

The Group reduces the gross carrying amount of a financial asset either partially or fully when there is no reasonable expectation of recovery.

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

Once a financial asset is written-off either partially or fully, the amount written-off cannot subsequently be recognised on the balance sheet. It is only when cash is received in relation to the amount written-off that income is recognised in the income statement as a 'recovery of bad debt previously written-off'.

Debt forgiveness arises where there is a formal contract agreed with the customer for the write-off of a loan.

(t) Collateral and netting

The Group enters into master netting agreements with counterparties, to ensure that if an event of default occurs, all amounts outstanding with those counterparties will be settled on a net basis.

Collateral

The Group obtains collateral in respect of customer advances where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities. The collateral is, in general, not recorded on the statement of financial position.

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as securities borrowing contracts and derivative contracts, in order to reduce credit risk. Collateral received in the form of securities is not recorded on the statement of financial position. Collateral received in the form of cash is recorded on the statement of financial position with a corresponding liability. Therefore, in the case of cash collateral, these amounts are assigned to deposits received from banks or other counterparties. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

In certain circumstances, the Group will pledge collateral in respect of its own liabilities or borrowings. Collateral pledged in the form of securities or loans and advances continues to be recorded on the statement of financial position. Collateral paid away in the form of cash is recorded in loans and advances to banks or customers. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

Netting

Financial assets and financial liabilities are offset and the net amount reported on the statement of financial position if, and only if, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross on the statement of financial position.

1 Accounting policies *(continued)*

(u) Financial guarantees and loan commitment contracts

Financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities ('facility guarantees') and to other parties in connection with the performance of customers under obligations relating to contracts, advance payments made by other parties, tenders, retentions and the payment of import duties. In its normal course of business, Allied Irish Banks, p.l.c. (the principal operating company) issues financial guarantees to other Group entities.

A loan commitment is a contract with a borrower to provide a loan or credit on specified terms at a future date. The contract may or may not be cancelled unconditionally at any time without notice depending on the terms of the contract.

Financial guarantees and loan commitment contracts are initially recognised in the financial statements at fair value on the date that the guarantee or loan commitment is given. Subsequent to initial recognition, the Group applies the impairment provisions of IFRS 9 and calculates an ECL allowance for financial guarantees and loan commitment contracts that are not measured at FVTPL.

The origination date for such contracts is the date when the contracts become irrevocable. The credit risk at this date is used to determine if a significant increase in credit risk has subsequently occurred.

The ECL allowance calculated on financial guarantees and loan commitment contracts is reported within IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

(v) Property, plant and equipment

Property, plant and equipment are stated at cost, or deemed cost, less accumulated depreciation and provisions for impairment, if any. Additions and subsequent expenditures are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the asset. No depreciation is provided on freehold land. Property, plant and equipment are depreciated on a straight line basis over their estimated useful economic lives. Depreciation is calculated based on the gross carrying amount, less the estimated residual value at the end of the assets' economic lives.

The Group uses the following useful lives when calculating depreciation:

Freehold buildings and long-leasehold property	50 years
Short leasehold property	life of lease, up to 50 years
Costs of adaptation of freehold and leasehold property	
Branch properties	up to 10 years[1]
Office properties	up to 15 years[1]
Computers and similar equipment	3 – 7 years
Fixtures and fittings and other equipment	5 – 10 years

The Group depreciates right-of-use assets arising under lease obligations from the commencement date of a lease to the earlier of the end of the useful life of the right-of-use asset and the end of the lease term on a straight-line basis. When determining the relevant time period to calculate depreciation, the Group uses the lease term as determined in the initial recognition calculation.

The Group reviews its depreciation rates regularly, at least annually, to take account of any change in circumstances. When deciding on useful lives and methods, the principal factors that the Group takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of, the assets. When reviewing residual values, the Group estimates the amount that it would currently obtain for the disposal of the asset, after deducting the estimated cost of disposal if the asset was already of the age and condition expected at the end of its useful life.

Gains and losses on disposal of property, plant and equipment are included in the income statement. It is Group policy not to revalue its property, plant and equipment.

[1]Subject to the maximum remaining life of the lease.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(w) Intangible assets and goodwill

Computer software and other intangible assets

Computer software and other intangible assets are stated at cost, less amortisation on a straight line basis and provisions for impairment, if any. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred. Capitalised computer software is amortised over 3 to 9 years. Other intangible assets are amortised over the life of the asset. Computer software and other intangible assets are reviewed for impairment when there is an indication that the asset may be impaired. Intangible assets not yet available for use are reviewed for impairment on an annual basis.

Acquired intangible assets

Customer related intangible assets and brands acquired in a business combination are recognised at fair value at acquisition date.

Customer related intangible assets and brands have a finite useful life and are carried at cost less accumulated amortisation and provision for impairment, if any. Amortisation is calculated using the straight line basis to allocate the cost over their estimated useful life (6 years).

(x) Impairment of property, plant and equipment, goodwill and intangible assets

Annually, or more frequently where events or changes in circumstances dictate, property, plant and equipment, goodwill and intangible assets are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. Goodwill and intangible assets not yet available for use are subject to an annual impairment review.

The impairment review comprises a comparison of the carrying amount of the asset or cash generating unit with its recoverable amount. Cash-generating units are the lowest level at which management monitors the return on investment in assets. The recoverable amount is determined as the higher of fair value less costs to sell the asset or cash generating unit and its value in use. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis. For intangible assets not yet available for use, the impairment review takes into account the cash flows required to bring the asset into use.

The carrying values of property, plant and equipment, goodwill and intangible assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss may be reversed in part or in full when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the asset's recoverable amount. The carrying amount of the asset will only be increased up to the amount that it would have been had the original impairment not been recognised. Impairment losses on goodwill are not reversed.

(y) Disposal groups and non-current assets held for sale

A non-current asset or a disposal group comprising assets and liabilities is classified as held for sale if it is expected that its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset or disposal group.

On initial classification as held for sale, generally, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to the income statement. The same applies to gains and losses on subsequent re-measurement. However, financial assets within the scope of IFRS 9 continue to be measured in accordance with that standard.

Impairment losses subsequent to classification of assets as held for sale are recognised in the income statement. Subsequent increases in fair value, less costs to sell of the assets that have been classified as held for sale are recognised in the income statement to the extent that the increase is not in excess of any cumulative impairment loss previously recognised in respect of the asset. Assets classified as held for sale are not depreciated.

Gains and losses on re-measurement and impairment losses subsequent to classification as disposal groups and non-current assets held for sale are shown within continuing operations in the income statement, unless they qualify as discontinued operations.

Disposal groups and non-current assets held for sale which are not classified as discontinued operations are presented separately from other assets and liabilities on the statement of financial position. Prior periods are not reclassified.

1 Accounting policies *(continued)*

(z) Non-credit risk provisions

Provisions are recognised for present legal or constructive obligations arising as consequences of past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

When the effect is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Payments are deducted from the present value of the provision, and interest at the relevant discount rate is charged annually to interest expense using the effective interest method. Changes in the present value of the liability as a result of movements in interest rates are included in other income. These are reported within Provisions for liabilities and commitments in the statement of financial position.

Restructuring costs

Where the Group has a formal plan for restructuring a business and has raised valid expectations in the areas affected by the restructuring by starting to implement the plan or announcing its main features, a provision is made for the anticipated cost of restructuring, including retirement benefits and redundancy costs, when an obligation exists. The provision raised is normally utilised within twelve months. Future operating costs are not provided for.

Legal claims and other contingencies

Provisions are made for legal claims where the Group has present legal or constructive obligations as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Contingent liabilities are possible obligations whose existence will be confirmed only by the occurrence of uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably estimated. Contingent liabilities are not recognised but are disclosed in the notes to the financial statements unless the possibility of the transfer of economic benefit is remote.

A provision is recognised for a constructive obligation where a past event has led to an obligating event. This obligating event has left the Group with little realistic alternative but to settle the obligation and the Group has created a valid expectation in other parties that it will discharge the obligation.

(aa) Equity

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

On extinguishment of equity instruments, gains or losses arising are recognised net of tax directly in the statement of changes in equity.

Share capital

Share capital represents funds raised by issuing shares in return for cash or other consideration. Share capital comprises ordinary shares and Subscriber Shares of the entity.

Share premium

When shares are issued at a premium whether for cash or otherwise, the excess of the amount received over the par value of the shares is transferred to share premium.

Share issue costs

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

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(aa) Equity *(continued)*

Dividends and distributions

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or in the case of the interim dividend, when they become irrevocable having already been approved for payment by the Board of Directors. The interim dividend may be cancelled at any time prior to the actual payment.

Dividends declared after the end of the reporting date are disclosed in note 54.

Other equity interests

Other equity interests include

- Additional Tier 1 Perpetual Contingent Temporary Write-Down Securities (AT1s) (note 39); and
- Warrants to acquire a fixed number of the company shares for a fixed amount of currency are classified as equity instruments and are recognised on initial recognition at the fair value of consideration received.

Distributions on the AT1s are recognised in equity when approved for payment by the Board of Directors.

Other capital reserves

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

Capital contributions

Capital contributions represent the receipt of non-refundable considerations arising from transactions with the Irish Government (note 50). These contributions comprise both financial and non-financial net assets. The contributions are classified as equity and may be either distributable or non-distributable. Capital contributions are distributable if the assets received are in the form of cash or another asset that is readily convertible to cash, otherwise, they are treated as non-distributable. Capital contributions in the statement of financial position arose during 2011 from (a) EBS transaction and (b) non-refundable receipts from the Irish Government and the NPRFC.

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

Non-refundable receipts of € 6,054 million from the Irish Government and the NPRFC are distributable. These are included in revenue reserves.

Capital redemption reserves

Capital redemption reserves arose in 2015 from the redemption of 2,140 million 2009 Preference Shares whereby on redemption, the nominal value of shares redeemed was transferred from the share capital account to the capital redemption reserve account. In addition, the nominal value of treasury shares cancelled was transferred from the share capital to the capital redemption reserve account.

In 2018, Subscriber Shares were redeemed resulting in a transfer of € 25,000 from revenue reserves to capital redemption reserves.

Revaluation reserves

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

Investment securities reserves

Investment securities reserves represent the net unrealised gain or loss, net of tax, arising from the recognition in the statement of financial position of investment securities at FVOCI.

On disposal of equity securities which had been designated at FVOCI on initial recognition, any amounts held in the investment securities reserves account is transferred directly to revenue reserves without recycling through profit or loss.

Cash flow hedging reserves

Cash flow hedging reserves represent the net gains or losses, net of tax, on effective cash flow hedging instruments that will be reclassified to the income statement when the hedged transaction affects profit or loss.

1 Accounting policies *(continued)*

(aa) Equity *(continued)*

Revenue reserves

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

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

Foreign currency cumulative translation reserves

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

Merger reserve

The merger reserve arose following the Scheme of Arrangement approved by the Irish High Court in December 2017 where a new company, AIB Group plc ('the Company'), was introduced as the holding company of AIB Group (note 41).

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

In AIB Group plc's company financial statements, impairment losses which arise from AIB Group plc's investment in Allied Irish Banks, p.l.c. will be charged to the profit or loss account and transferred to the merger reserve in so far as a credit balance remains in the merger reserve.

Non-controlling interests

Non-controlling interests comprise equity interests which relate to the interests of outside shareholders in consolidated subsidiaries. They also include other equity instruments such as additional tier 1 securities issued by consolidated subsidiaries.

(ab) Cash and cash equivalents

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

(ac) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses. The Group has identified reportable segments on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker ("CODM") in order to allocate resources to the segment and assess its performance. Based on this identification, the reportable segments are the operating segments within the Group, the head of each being a member of the Executive Committee. The Executive Committee is the CODM and it relies primarily on the management accounts to assess performance of the reportable segments and when making resource allocation decisions.

Transactions between operating segments are on normal commercial terms and conditions, with internal charges and transfer pricing adjustments reflected in the performance of each operating segment. Revenue sharing agreements are used to allocate external customer revenues to an operating segment on a reasonable basis.

Geographical segments provide products and services within a particular economic environment that is subject to risks and rewards that are different to those components operating in other economic environments. The geographical distribution of revenue is based primarily on the location of the office recording the transaction. The geographic distribution of loans and related impairment is based on the country of risk.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(ad) Prospective accounting changes

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

Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 4 and IFRS 16

In August 2020, the IASB issued Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 4 and IFRS 16 (IBOR reform Phase 2), to address the accounting issues which arise upon the replacement of an Interbank offered rate (IBOR) with a Risk Free Rate (RFR).

IBOR reform Phase 2 includes a number of reliefs that apply upon the transition of a financial instrument from an IBOR to a RFR.

The amendments introduce a practical expedient to account for a change to the basis for determination of the contractual cash flows at the date on which interest rate benchmarks are altered or replaced. Under the practical expedient, the Group is required to account for a change in the basis for determining contractual cash flows by revising the effective interest rate. This practical expedient only applies when the change is a direct consequence of IBOR reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

The amendments further introduce reliefs from existing hedge accounting requirements. IBOR reform Phase 2 amendments provide temporary reliefs that will allow the Group's hedging relationships to continue when changes to hedged items and hedging instruments arise as a result of changes required by the reform. The reliefs required by the Phase 2 amendments are as follows:

- The Group will amend the formal designations of a hedging relationship to reflect the changes that are required by the reform. This includes designating an alternative benchmark rate as the hedged risk, changing the description of the hedged item and/or the hedging instrument and amending the method for assessing hedge effectiveness. The updates to hedging documentation to reflect changes that are required as a direct consequence of IBOR reform do not result in the discontinuation of the hedge accounting.
- The amount accumulated in the cash flow hedge reserve at the date that the description of the hedged item is amended is deemed to be based on the alternative benchmark interest rate on which the hedged future cash flows are determined.
- For the retrospective assessment of hedge effectiveness, the Group may elect on a hedge by hedge basis to reset the cumulative fair value change to zero.
- If the Group reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it can designate the rate as a non-contractually specified risk component even if it is not separately identifiable at the designation date. This is applied on a rate-by-rate basis.
- When a group of items is designated as a hedged item and an item in the group is amended to reflect the changes that are required by the IBOR reform, the Group will allocate the hedged items to sub groups based on the benchmark rate being hedged, and designate the benchmark rate for each sub-group as the hedged risk.

Disclosure requirements are added. The disclosures relate to how the transition to alternative rates is managed, the progress on the transition and the risks arising from financial assets and financial liabilities due to the reform.

The Group will apply IBOR reform Phase 2 from 1 January 2021.

Effective date: Annual reporting periods beginning on or after 1 January 2021.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018 – 2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when it applies the 10% test in assessing whether to derecognise a financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first apply the amendment and does not expect this will result in a significant impact on its financial statements.

Effective date: Annual reporting periods beginning on or after 1 January 2022.

Other

The IASB has published a number of other minor amendments to IFRSs through both standalone amendments and through the Annual Improvements to IFRS Standards 2018 – 2020 cycle. None of the other amendments are expected to have a significant impact on reported results or disclosures.

2 Critical accounting judgements and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. The accounting policies that are deemed critical to the Group's results and financial position, in terms of the materiality of the items to which the policy is applied and the estimates that have a significant impact on the financial statements are set out in this section. In addition, estimates with a significant risk of material adjustment in the next year are also discussed.

Significant judgements

The significant judgements made by the Group in applying its accounting policies are set out below. The application of these judgements also necessarily involves estimations, apart from that relating to retirement benefit obligations, which are discussed separately.

- Deferred taxation;
- Impairment of financial assets;
- Retirement benefit obligations;
- Provisions for liabilities and commitments; and
- Determination of fair value of financial instruments.

Deferred taxation

The Group's accounting policy for deferred tax is set out in accounting policy (k) in note 1. Details of the Group's deferred tax assets and liabilities are set out in note 29.

A key judgement in relation to the recoverability of deferred tax assets is that it is probable that there will be sufficient future taxable profits against which the losses can be used.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable (defined for this purpose as more likely than not) that there will be sufficient future taxable profits against which the losses can be used. For a company with a history of recent losses, there must be convincing other evidence to underpin this assessment.

The recognition of the deferred tax assets relies on the assessment of future profitability and the sufficiency of those profits to absorb losses carried forward. It requires significant judgements to be made about the projection of long term future profitability because of the period over which recovery extends.

In assessing the future profitability of the Group, the Board has considered a range of positive and negative evidence for this purpose. Among this evidence, the principal positive factors include:

- AIB as a Pillar Bank, with a strong Irish franchise;
- the absence of any expiry dates for Irish and UK tax losses;
- the turnaround evident in the financial performance over the years 2014-2019 and the growth in the Irish economy in this period;
- external forecasts for Ireland which indicate a return to economic growth through the period of the medium-term financial plans;
- the introduction of the bank resolution framework under the BRRD and the establishment in 2017 of AIB Group plc as the new holding company of the Group provides greater confidence in relation to the future viability of Allied Irish Banks, p.l.c. (as the principal operating bank subsidiary) as there are now effective tools in place that should facilitate its recapitalisation in a future crisis; and
- the non-enduring nature of the loan impairments at levels which resulted in the losses in prior years (2009-2013).

The Board considered negative evidence and the inherent uncertainties in any long term financial assumptions and projections, including:

- the onset of COVID-19 in 2020 with its severe impact on the economy and the resultant impairment charge taken in 2020 which resulted in a loss in the year;
- the absolute level of deferred tax assets compared to the Group's equity;
- the quantum of profits required to be earned and the extended period over which it is projected that the tax losses will be utilised;
- the challenge of forecasting over a long period, taking account of the level of competition, market dynamics and resultant margin and funding pressures;
- the potential longer term impacts of COVID-19 and post-Brexit EU/UK trade deal on the Irish economy;
- potential instability in the eurozone and global economies over an extended period; and
- taxation changes (including Bank Levy and changes to the UK tax rates and the utilisation of deferred tax assets) and the likelihood of future developments and their impact on profitability and utilisation.

Notes to the consolidated financial statements

2 Critical accounting judgements and estimates *(continued)*

Deferred taxation *(continued)*

Profitability and growth were reassessed in the annual planning exercise covering the period 2021 to 2023 undertaken by the Group in the second half of 2020. Growth assumptions and profitability levels underpinning the plan have been revised downwards compared to previous years reflecting the revised macroeconomic outlook, however, these are within current market norms.

Taking account of all relevant factors, and in the absence of any expiry date for tax losses in Ireland, the Group further believes that it is more likely than not that there will be future profits in the medium term, and beyond, in the relevant Irish Group companies against which to use the tax losses. In this regard, the Group has carried out an exercise to determine the likely number of years required to utilise the deferred tax asset under the following scenario. Using the Group's financial plan 2021 to 2023 as a base and a profit growth rate of 2% from 2024, it was assessed that it will take in excess of 25 years for the deferred tax asset (€ 2.7 billion) to be utilised. Furthermore, under this scenario, it is expected that 94% of the deferred tax asset will be utilised within 25 years, 72% within 20 years (2019: 77%) and 50% utilised within 15 years (2019: 51%). If the growth rate assumption was decreased by 1%, then the utilisation period increases by a further 3 years. The Group's analysis of this and other scenarios examined would not alter the basis of recognition or the current carrying value. In 2019, the Group reported that it expected that it would take in excess of 20 years for the deferred tax asset to be utilised.

Notwithstanding the absence of any expiry date for tax losses in the UK, the Group has concluded that the recognition of deferred tax assets in its UK subsidiary be limited to the amount projected to be realised within a time period of 15 years. This is the timescale within which the Group believes that it can assess the likelihood of its UK profits arising as being more likely than not. The deferred tax asset for unutilised tax losses in the UK amounts to £ 79 million at 31 December 2020 (31 December 2019: £ 87 million).

Legislation was enacted in the UK during 2020, whereby the previously legislated reduction in the corporation tax rate from 19% to 17% from 2020 onwards was cancelled. This change has resulted in an increase of the Group's UK deferred tax asset by c. £ 10 million.

In relation to the losses incurred in the year ended 31 December 2020 for the UK subsidiary, a deferred tax asset of £ 7 million has been recognised. Furthermore, the deferred tax asset for unutilised losses carried forward was written down by £ 25 million at 31 December 2020 as the expected profitability over the 15 years, has reduced in the period, reflecting the revised macroeconomic outlook and includes the potential impact of COVID-19 on business performance.

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

The amount of recognised deferred tax assets arising from unused tax losses amounts to € 2,763 million (2019: € 2,771 million) of which € 2,675 million (2019: € 2,669 million) relates to Irish tax losses and € 88 million (2019: € 102 million) relates to UK tax losses.

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

Impairment of financial assets

The Group's accounting policy for impairment of financial assets is set out in accounting policy (s) in note 1. The expected credit loss ('ECL') allowance for financial assets at 31 December 2020 represent management's best estimate of the expected credit losses on the various portfolios at the reporting date.

The calculation of the ECL allowance is complex and therefore, an entity must consider large amounts of information in their determination. This process requires significant use of a number of accounting judgements, estimates and assumptions, some of which, by their nature, are highly subjective and very sensitive to risk factors such as changes to economic conditions. This is particularly amplified at 31 December 2020 given the COVID-19 pandemic. Changes in the ECL allowance can materially affect net income.

The most significant judgements applied by the Group in estimating the ECL allowance are as follows:

- *determining the criteria for a significant increase in credit risk and for being classified as credit impaired;*
- *definition of default;*
- *choosing the appropriate models and assumptions for measuring ECL, e.g. PD, LGD and EAD and the parameters to be included within the models;*
- *determining the life of a financial instrument and therefore, the period over which to measure ECL;*
- *establishing the number and relative weightings for forward looking scenarios for each asset class and ECL;*
- *determining post-model adjustments using an appropriate methodology; and*
- *assessing the impact of forbearance strategies on cash flows and therefore, the ECL allowance for restructured loans.*

2 Critical accounting judgements and estimates *(continued)*

Impairment of financial assets *(continued)*

The management process for the calculation of ECL allowance is underpinned by independent tiers of review. The ECL allowance is, in turn, reviewed and approved by the Group Credit Committee on a quarterly basis with final Group levels being approved by the Board Audit Committee. Further detail on the ECL governance process is set out on page 107.

All the Group's segments assess and approve their ECL allowance and their adequacy on a quarterly basis. Credit quality and ECL provisioning are independently monitored by credit and risk management on a regular basis. On an ongoing basis, the various judgements, estimates and assumptions are reviewed in light of differences between actual and previously calculated expected losses. These are then recalibrated and refined to reflect current and evolving economic conditions.

The significant accounting judgements noted above and made by Management in estimating the ECL allowance are outlined on pages 105 to 107 in the Risk management section of this report.

Retirement benefit obligations

The Group's accounting policy for retirement benefit schemes is set out in accounting policy (j) in note 1.

The significant judgements applied by the Group are that:

- *a constructive obligation has not been created, notwithstanding certain decisions by the Group in the past, following an annual process, to fund discretionary increases in pensions in payment; and*
- *in a situation where the Group believes the Trustee has the ability to grant discretionary increases without any funding being provided by the Group, that the Trustee will exercise that ability.*

In 2017, the Board, having taken actuarial and external legal advice, determined that the funding of discretionary increases in pensions in payment is a decision to be made by the Board annually for the Group's main Irish schemes. A process, taking account of all relevant interests and factors has been implemented by the Board. These interests and factors include the advice of the Actuary; the interests of the members of the scheme; the interests of the employees; the Group's financial circumstances and ability to pay; the views of the Trustees; the Group's commercial interests and any competing obligations to the State.

In early 2017, the Board implemented this process which has continued to date. Under this process, the Group decided in February 2020 and in February 2021 that the funding of discretionary increases was not appropriate in either year. This process does not reflect the ability of the Trustee to grant increases at any point in the future when the financial position of the scheme would enable such an increase at that point in time.

Notwithstanding the decision above by the Board in February 2020, during the second half of 2020 the Trustee awarded an increase of 1.1% in respect of pensions eligible for discretionary pension increases, backdated to 1 April 2020, reflecting the ability of the Trustee to grant an increase when the financial position of the scheme would enable such an increase at that point in time.

Taking this decision by the Trustee into consideration, the long term assumption for future increases in pension in payment should now reflect an assessment of the Trustee ability to grant further increases without any funding from the Group. At 31 December 2020, this has been assessed as an assumed rate of pension increase of 0.2% per annum and has increased Scheme's liabilities as at that date by € 100 million.

Provisions for liabilities and commitments

The Group's accounting policy for provisions for liabilities and commitments is set out in accounting policy number (z) 'Non-credit risk provisions' in note 1.

The Group recognises liabilities where it has present legal or constructive obligations as a result of past events and it is more likely than not that these obligations will result in an outflow of resources to settle the obligations and the amount can be reliably estimated. Details of the Group's liabilities and commitments are shown in note 36 to the financial statements.

Significant management judgement is required in this process which, of its nature, may require revisions to earlier judgements and estimates as matters progress towards resolution, particularly, in establishing provisions and the range of reasonably possible losses.

The recognition and measurement of liabilities, in certain instances, may involve a high degree of uncertainty, and thereby, considerable time is expended on research in establishing the facts, scenario testing, assessing the probability of the outflow of resources and estimating the amount of any loss. However, at the earlier stages of provisioning, the amount provided for can be very sensitive to the assumptions used and there may be a wide range of possible outcomes in particular cases. Accordingly, in such cases, it is often not practicable to quantify a range of possible outcomes. In addition, it is also not practicable to measure ranges of outcomes in aggregate in a meaningful way because of the diverse nature of these provisions and the differing fact patterns.

The judgements employed in estimating potential losses will change over time and the actual losses may vary significantly.

Notes to the consolidated financial statements

2 Critical accounting judgements and estimates *(continued)*

Determination of fair value of financial instruments

The Group's accounting policy for the determination of fair value of financial instruments is set out in accounting policy (o) in note 1.

The best evidence of fair value is quoted prices in an active market but in the absence of quoted prices increased reliance is placed on valuation techniques.

Significant judgement is required in the estimation of fair value in the absence of quoted prices. This judgement includes but is not limited to: evaluating available market information; determining the cash flows for the instruments; identifying a risk free discount rate and applying an appropriate credit spread.

Valuation techniques that rely to a greater extent on non-observable data than those based wholly on observable data require a higher level of subjective management judgement relating to the applicability and functionality of internal valuation models, the significance of inputs to the valuation of an instrument and the degree of illiquidity in certain markets to calculate a fair value. Financial instruments which are classified under the fair value hierarchy as level 3 require a higher level of management judgement in their valuation.

The choice of contributors, the quality of market data used for pricing, and the valuation techniques used are all subject to internal review and approval procedures. Given the uncertainty and subjective nature of valuing financial instruments at fair value, any change in these variables could give rise to the financial instruments being carried at a different valuation, with a consequent impact on shareholders' equity and, in the case of derivatives, the income statement.

A sensitivity analysis to possible changes in key variables of the fair value of financial instruments classified under the fair value hierarchy as level 3 is set out in note 47.

Critical accounting estimates

The accounting estimates with a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year were in relation to:

- ECL allowance;
- Retirement benefit obligations;
- Provisions for liabilities and commitments; and
- Impairment of investments in subsidiaries in the separate financial statements.

ECL allowance

ECL allowance at 31 December 2020 amounted to € 2,510 million (2019: € 1,238 million). As noted above, there are significant judgements involved in estimating ECL allowance, particularly given the COVID-19 pandemic. Certain of these estimates together with estimates which do not involve accounting judgements may have a significant risk of material adjustment to carrying amounts of assets within the next financial year. In particular, discounted cash-flows ('DCFs') are the most significant input to the ECL calculation for Stage 3 credit impaired obligors where the gross credit exposure is ≥ € 1 million for the Ireland or ≥ £ 500,000 for the UK. Collateral valuations and the estimated time to realisation of collateral is a key component of the DCF model. The DCF assessment produces a base case ECL which is then adjusted to incorporate the impact of multiple scenarios on the base ECL. The size of the adjustment must consider all relevant and supportable information, including but not limited to, historical data analysis, predictive modelling and management judgement.

The macroeconomic variables used in models to calculate ECL allowance are based on assumptions, forecasts and estimates against a backdrop of the COVID-19 pandemic. These are subject to change as the COVID-19/economic landscape changes. Accordingly, developments with regard to the pandemic and changes in local and international factors could have a material bearing on the ECL allowance within the next financial year. The Group's sensitivity to a range of macroeconomic factors under (i) base forecast; (ii) upside; and (iii) downside scenarios is set out on pages 100 to 103 of the Risk Management section of this report.

Retirement benefit obligations

The Group's accounting policy for retirement benefit obligations is set out in accounting policy (j) in note 1.

Details of the assumptions adopted by the Group in calculating the schemes' liabilities are set out in note 30 to the financial statements.

The actuarial valuation of the schemes' liabilities is dependent upon a number of financial and demographic assumptions which are inherently uncertain. Changes to those assumptions could materially impact the reported amount for schemes' liabilities and the actuarial gains/losses reported in equity.

A sensitivity analysis for the principal assumptions used to measure the schemes' liabilities is set out in note 30 to the financial statements.

2 Critical accounting judgements and estimates *(continued)*

Provisions for liabilities and commitments

Provisions for liabilities and commitments are set out in note 36 to the financial statements and their recognition involves a significant degree of estimation. The overall provision amounting to € 396 million comprising: € 80 million in respect of the FSPO decision relating to tracker mortgage customers; € 70 million in respect of CBI penalties; € 16 million residual provision for tracker mortgages in respect of previous settlements and related matters; and a number of separate provisions, the majority of which are not individually significant and are not expected to result in a material adjustment in the next financial year. The Group has not disclosed a range of outcomes for such provisions given their diverse nature and the number of provisions involved.

Note 36 sets out the background and the current position as regards the FSPO decision regarding a tracker complaint and the level of provisions that were set aside. Notwithstanding the near completion of payments to customers based on the FSPO decision, the level of provision required for other costs, including tax liabilities arising that the Group will be required to discharge on behalf of impacted customers, has been assessed at € 80 million. These issues are subject to uncertainty with a range of outcomes possible with the final outcome being higher or lower depending on finalisation of such issues.

As detailed in notes 36 and 43, AIB and EBS were advised in 2018 by the CBI of the commencement of investigations as part of an administrative sanctions procedure in connection with the Tracker Mortgage Examination. In this regard, the Group has created a provision of € 70 million for the impact of monetary penalties that are expected to be imposed on the Group by the CBI being its best estimate based on external developments in the industry. This matter is progressing and the amount provided for is subject to uncertainty with a range of outcomes possible, with the final outcome being higher or lower depending on finalisation of all matters associated with the investigation. Accordingly, this is a critical accounting estimate which could result in a material adjustment in the next financial year but it is difficult to quantify a range of outcomes.

Other than the above, there is no individually significant provision that is expected to result in a material adjustment in the next financial year.

Impairment of investments in subsidiaries in the separate financial statements

The Group's accounting policy for the impairment of investments in subsidiaries is set out in accounting policy (d) in note 1 and in note e to the Company's financial statements.

Investments in subsidiaries in the separate financial statements of the Company are reviewed for impairment when there are indications that impairment losses may have occurred. If any such indications exist, the Company undertakes an impairment review by comparing the carrying value of the investment in the subsidiary with its estimated recoverable amount with any shortfall being reported as an impairment charge in the Company's financial statements. The estimated recoverable amount is based on value-in-use (VIU) calculations.

The Company tested its investment in Allied Irish Banks, p.l.c. for impairment at 31 December 2020 as the carrying value was above the fair value. In determining the VIU, the estimated pre-tax cash flow projections in the Company's financial plan for the period 2021 to 2023 were used as a base and a growth rate of 2% from 2023 was assumed into perpetuity. These projections were discounted at a risk adjusted interest rate of 10%. The VIU was calculated at € 6,362 million which resulted in an impairment charge of € 3,134 million.

Testing for impairment inherently involves both significant estimations which involve a high degree of uncertainty (cash flow projections during the period of the financial plan) and judgements (choice of appropriate discount and growth rates).

Given the uncertainties and the high level of subjectivity involved in the estimation process, it is possible that the outcomes in the next financial year could differ from the expectations on which Company's estimates are based resulting in the recognition and measurement of material different amounts from those estimated in these financial statements.

Details of the VIU calculation and the sensitivity of current estimates to possible changes in key variables are set out in note e.

Notes to the consolidated financial statements

3 Segmental information

Segment overview

The Group's performance is managed and reported across the Retail Banking, Corporate, Institutional & Business Banking ("CIB"), AIB UK and Group segments. Segment performance excludes exceptional items.

Retail Banking

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

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

Corporate Institutional & Business Banking ("CIB")

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

AIB UK

AIB UK offers retail and business banking services in two distinct markets, a sector-led corporate and commercial bank supporting businesses in Great Britain ("Allied Irish Bank (GB)"), and a retail and business bank in Northern Ireland ("AIB NI"). The Group's revised strategy (Strategy 2023) entails changes to the AIB UK business model including the withdrawal from SME lending in Great Britain and a refocus on corporate business, particularly in renewables, infrastructure, health and manufacturing.

Group

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

Segment allocations

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

3 Segmental information *(continued)*

	Retail Banking € m	CIB € m	AIB UK € m	Group € m	Total € m	Exceptional items[1] € m	2020 Total € m
Operations by business segment							
Net interest income	1,115	439	214	104	1,872	–	1,872
Net fee and commission income*	291	66	43	(5)	395	–	395
Other	43	55	5	1	104	2[2][7]	106
Other income	334	121	48	(4)	499	2	501
Total operating income	1,449	560	262	100	2,371	2	2,373
Other operating expenses	(908)	(132)	(164)	(323)	(1,527)	(217)	(1,744)
Of which: Personnel expenses	*(404)*	*(93)*	*(90)*	*(147)*	*(734)*	*(42)*[3]-[5]	*(776)*
General and administrative expenses	*(320)*	*(28)*	*(51)*	*(115)*	*(514)*	*(139)*[4]-[7]	*(653)*
Depreciation, impairment and amortisation	*(184)*	*(11)*	*(23)*	*(61)*	*(279)*	*(36)*[5][8]	*(315)*
Bank levies and regulatory fees	(2)	–	(1)	(112)	(115)	–	(115)
Total operating expenses	(910)	(132)	(165)	(435)	(1,642)	(217)	(1,859)
Operating profit/(loss) before impairment losses	539	428	97	(335)	729	(215)	514
Net credit impairment charge	(485)	(767)	(208)	–	(1,460)	–	(1,460)
Operating profit/(loss)	54	(339)	(111)	(335)	(731)	(215)	(946)
Associated undertakings	12	–	3	–	15	–	15
Profit/(loss) before taxation	66	(339)	(108)	(335)	(716)	(215)	(931)

[1]Exceptional and one-off items are shown separately above. These are items that Management view as distorting comparability of performance from period to period. Exceptional items include:

[2]Loss on disposal of loan portfolios;
[3]Termination benefits;
[4]Restitution costs;
[5]Restructuring costs;
[6]Covid product costs;
[7]Other; and
[8]Impairment of intangibles.

For further information on these items see page 64.

*Analysis of net fee and commission income	Retail Banking € m	CIB € m	AIB UK € m	Group € m	2020 Total € m
Retail banking customer fees	215	21	25	18	279
Foreign exchange fees	32	20	9	(7)	54
Credit related fees	10	17	13	–	40
Specialised payment services fees	146	–	–	–	146
Other fees and commissions	48	10	–	(13)[1]	45
Fee and commission income	451	68	47	(2)	564
Specialised payment services expenses	(131)	–	–	–	(131)
Other fee and commission expenses	(29)	(2)	(4)	(3)	(38)
Fee and commission expense	(160)	(2)	(4)	(3)	(169)
	291	66	43	(5)	395

[1]Reflects the allocation of the Group's segment fee and commission income to Retail Banking and CIB segments.

Further information on 'Net fee and commission income' is set out in note 7.

Notes to the consolidated financial statements

3 Segmental information *(continued)*

	Retail Banking € m	CIB € m	AIB UK € m	Group € m	Total € m	Exceptional items[1] € m	2019 Total € m
Operations by business segment							
Net interest income	1,234	471	268	103	2,076	–	2,076
Net fee and commission income*	335	78	59	–	472	–	472
Other	63	9	9	66	147	(40)	107
Other income	398	87	68	66	619	(40)[2]	579
Total operating income	1,632	558	336	169	2,695	(40)	2,655
Other operating expenses	(923)	(115)	(176)	(290)	(1,504)	(573)	(2,077)
Of which: Personnel expenses	*(458)*	*(83)*	*(90)*	*(143)*	*(774)*	*(56)*[3][4]	*(830)*
General and administrative expenses	*(313)*	*(25)*	*(65)*	*(98)*	*(501)*	*(500)*[4]-[7]	*(1,001)*
Depreciation, impairment and amortisation	*(152)*	*(7)*	*(21)*	*(49)*	*(229)*	*(17)*	*(246)*
Bank levies and regulatory fees	(2)	–	–	(102)	(104)	–	(104)
Total operating expenses	(925)	(115)	(176)	(392)	(1,608)	(573)	(2,181)
Operating profit/(loss) before impairment losses	707	443	160	(223)	1,087	(613)	474
Net credit impairment writeback/(charge)	17	(18)	(15)	–	(16)	–	(16)
Operating profit/(loss)	724	425	145	(223)	1,071	(613)	458
Associated undertakings	17	–	3	–	20	–	20
Profit on disposal of property	–	–	–	–	–	21[5]	21
Profit/(loss) before taxation	741	425	148	(223)	1,091	(592)	499

[1]Exceptional and one-off items are shown separately above. These are items that Management view as distorting comparability of performance from period to period. Exceptional items include:

[2]Loss on disposal of loan portfolios;
[3]Termination benefits;
[4]Restitution costs;
[5]Other (Property strategy);
[6]Restructuring costs; and
[7]Provision for regulatory fines.

For further information on these items see page 64.

*Analysis of net fee and commission income	Retail Banking € m	CIB € m	AIB UK € m	Group € m	2019 Total € m
Retail banking customer fees	258	27	35	18	338
Foreign exchange fees	40	21	9	1	71
Credit related fees	11	21	18	–	50
Specialised payment services fees	27	–	–	–	27
Other fees and commissions	60	11	2	(16)[1]	57
Fee and commission income	396	80	64	3	543
Specialised payment services expenses	(25)	–	–	–	(25)
Other fee and commission expenses	(36)	(2)	(5)	(3)	(46)
Fee and commission expense	(61)	(2)	(5)	(3)	(71)
	335	78	59	–	472

[1]Reflects the allocation of the Group's segment fee and commission income to Retail Banking and CIB segments.

Further information on 'Net fee and commission income' is set out in note 7.

3 Segmental information *(continued)*

Other amounts – statement of financial position

					31 December 2020
	Retail Banking € m	CIB € m	AIB UK € m	Group € m	Total € m
Loans and advances to customers:					
– measured at amortised cost	34,008	14,453	8,269	140	56,870
– measured at FVTPL	–	75	–	–	75
Total loans and advances to customers	34,008	14,528	8,269	140	56,945
Customer accounts	56,874	12,735	10,959	1,404	81,972

					31 December 2019
	Retail Banking € m	CIB € m	AIB UK € m	Group € m	Total € m
Loans and advances to customers:					
– measured at amortised cost	35,526	16,095	9,069	121	60,811
– measured at FVTPL	–	77	–	–	77
Total loans and advances to customers	35,526	16,172	9,069	121	60,888
Customer accounts	48,636	11,347	10,364	1,456	71,803

				Year to 31 December 2020
Geographic information[1][2]	Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
Gross external revenue	1,946	406	21	2,373
Inter-geographical segment revenue	170	(153)	(17)	–
Total revenue	2,116	253	4	2,373

				Year to 31 December 2019
Geographic information[1][2]	Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
Gross external revenue	2,154	467	34	2,655
Inter-geographical segment revenue	139	(109)	(30)	–
Total revenue	2,293	358	4	2,655

Revenue from external customers comprises interest and similar income (note 4) and interest and similar expense (note 5), and all other items of income (notes 6 to 11).

				31 December 2020
Geographic Information	Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
Non-current assets[3]	1,587	71	4	1,662

				31 December 2019
Geographic Information	Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
Non-current assets[3]	1,608	107	5	1,720

[1]The geographical distribution of total revenue is based primarily on the location of the office recording the transaction.
[2]For details of significant geographic concentrations, see the Risk management section.
[3]Non-current assets comprise intangible assets and goodwill and property, plant and equipment.

Notes to the consolidated financial statements

4 Interest and similar income

	2020 € m	2019 € m
Interest on loans and advances to customers at amortised cost	1,888	2,038
Interest on loans and advances to banks at amortised cost	12	38
Interest on investment securities	116	195
	2,016	2,271
Negative interest on financial liabilities at amortised cost	34	20
Interest income calculated using the effective interest method	**2,050**	2,291
Interest income on finance leases and hire purchase contracts	75	76
Interest income on financial assets at FVTPL	2	3
Other interest income and similar income	**77**	79
Total interest and similar income	**2,127**	2,370

Interest income includes a credit of € 145 million (2019: a credit of € 115 million) transferred from other comprehensive income in respect of cash flow hedges which is included in 'Interest on loans and advances to customers'.

The Group presents interest resulting from negative effective interest rates on financial liabilities as interest income rather than as offset against interest expense.

5 Interest and similar expense

	2020 € m	2019 € m
Interest on deposits by central banks and banks	4	12
Interest on customer accounts	82	128
Interest on debt securities in issue	67	91
Interest on lease liabilities	13	14
Interest on subordinated liabilities and other capital instruments	45	33
	211	278
Negative interest on financial assets at amortised cost	40	16
Negative interest on financial assets at FVOCI	4	–
Interest expense calculated using the effective interest method	**255**	294

Interest expense includes a charge of € 24 million (2019: a charge of € 31 million) transferred from other comprehensive income in respect of cash flow hedges which is included in 'Interest on customer accounts'.

Interest expense reported above, calculated using the effective interest rate method, relates to financial liabilities not carried at fair value through profit or loss.

The Group presents interest resulting from negative effective interest rates on financial assets as interest expense rather than as offset against interest income.

6 Dividend income

	2020 € m	2019 € m
NAMA subordinated bonds at FVOCI	23	23
Equity investments at FVTPL	3	3
Total	**26**	26

7 Net fee and commission income

	2020 € m	2019 € m
Retail banking customer fees	279	338
Foreign exchange fees	54	71
Credit related fees	40	50
Specialised payment services fees[1]	146	27
Other fees and commissions[2]	45	57
Fee and commission income	**564**	543
Specialised payment services expenses[1]	(131)	(25)
Other fee and commissions expenses[3]	(38)	(46)
Fee and commission expense	**(169)**	(71)
	395	472

[1]Specialised payment services: fee income and fee expenses in respect of services and prepaid credits for cellular phone and utilities sold to third parties.
[2]Other fees and commissions includes wealth commissions € 17 million (2019: € 25 million), insurance commissions € 14 million (2019: € 20 million), and other commissions € 14 million (2019: € 12 million).
[3]Other fee and commission expenses includes credit card commissions of € 28 million (2019: € 36 million), and ATM expenses of € 3 million (2019: € 4 million), both of which relate to 'Retail banking customer fees'. This also includes € 7 million (2019: € 6 million) relating to 'Other fees and commissions'.

Fees and commissions which are an integral part of the effective interest rate are recognised as part of interest and similar income (note 4) or interest and similar expense (note 5).

8 Net trading loss

	2020 € m	2019 € m
Foreign exchange contracts	(11)	(26)
Interest rate contracts and debt securities[1]	7	25
Credit derivative contracts	(11)	(11)
Equity investments, index contracts and warrants[2]	(17)	(45)
	(32)	(57)

[1]Includes a loss of € 5 million (2019: gain of € 10 million) in relation to XVA adjustments.
[2]Includes a loss amounting to € 17 million on a total return swap, which is hedging equities measured at FVTPL (2019: loss of € 45 million).

The total hedging ineffectiveness on cash flow hedges reflected in the consolidated income statement amounted to Nil (2019: Nil).

Notes to the consolidated financial statements

9 Net gain on other financial assets measured at FVTPL

	2020 € m	2019 € m
Loans and advances to customers[1]	41	66
Investment securities – equity[2]	45	74
Total	**86**	140

[1]Excludes interest income (note 4).
[2]Includes gain of € 9 million on equities hedged by a trading total return swap (2019: € 62 million).

10 Net gain/(loss) on derecognition of financial assets measured at amortised cost

				2020
	Carrying value at derecognition € m	Gain on[1] derecognition € m	Loss on[1] derecognition € m	Net gain on derecognition € m
Loans and advances to customers	464	26	(2)	24

				2019
	Carrying value at derecognition € m	Gain on[1] derecognition € m	Loss on[1] derecognition € m	Net loss on derecognition € m
Loans and advances to customers	1,487	254	(302)	(48)

[1]The gain/(loss) on derecognition has been based on the sales proceeds, net of costs, computed at a customer connection level. Settlements in 2020 relating to prior year portfolio sales are reported on a net basis.

Derecognition in 2020 arose from the sale of individual loans from a specific loan portfolio. The loans were disposed of for credit management purposes after credit deterioration had occurred. In 2019, loans and advances to customers were derecognised mainly due to the sale of distressed loan portfolios.

11 Other operating income

	2020 € m	2019 € m
Gain on disposal of investment securities at FVOCI – debt	17	93
Loss on termination of hedging swaps[1]	(17)	(48)
Miscellaneous operating income	2[1]	1
	2	46

[1]The majority of the loss on termination of hedging swaps relates to the disposal of debt securities at FVOCI. In addition, it includes a € 1 million charge (2019: Nil) transferred from other comprehensive income in respect of cash flow hedges.
[2]Includes a net gain of € 3 million on the settlement of a legacy claim in 2020.

12 Operating expenses

	2020 € m	2019 € m
Personnel expenses:		
Wages and salaries	593	619
Termination benefits[1]	31	48
Retirement benefits[2]	92	100
Social security costs	65	69
Other personnel expenses[3][4]	20	23
	801	859
Less: staff costs capitalised[5]	(25)	(29)
Personnel expenses	776	830
General and administrative expenses	536	585[6]
Restitution and associated costs	117	416[7]
	653	1,001
Bank levies and regulatory fees	115	104
Operating expenses	**1,544**	1,935

[1]Relates to the voluntary severance programme charge of € 31 million (2019: € 48 million). The 2020 charge includes £ 19 million being the anticipated cost of voluntary severance arising as part of the recently announced restructure within the UK business.
[2]Comprises a defined contribution charge of € 78 million (2019: a charge of € 80 million), a charge of € 5 million in relation to defined benefit expense (2019: a charge of € 11 million), and a long term disability payments/death in service benefit charge of € 9 million (2019: a charge of € 9 million). For details of retirement benefits, see note 30.
[3]Share-based payment* charge of Nil (2019: Nil).
[4]Other personnel expenses include staff training, recruitment and various other staff costs.
[5]Staff costs capitalised relate to intangible assets.
[6]Includes a provision for regulatory fines of € 70 million for the CBI investigation with regard to the Tracker Mortgage Examination created in 2019.
[7]Includes a provision of € 265 million for the '06-09 Ts & Cs who never had a tracker' mortgage cohort following a preliminary decision by the FSPO created in 2019. See note 36.

The average number of employees for 2020 and 2019 is set out in note 51 'Employees'.

*No shares have been awarded under the 'AIB Approved Employees' Profit Sharing Scheme 1998' ('the Scheme') since 2008. (The Directors, at their discretion, may set aside each year, for distribution under the Scheme, a sum not exceeding 5% of eligible profits of participating companies. All employees, including executive directors of the Company and certain subsidiaries are eligible to participate, subject to minimum service periods and being in employment on the date on which an invitation to participate is issued.)

13 Net credit impairment charge

The following table analyses the income statement net credit impairment charge on financial instruments for the years to 31 December 2020 and 2019.

	2020			2019		
Credit impairment charge on financial instruments	**Measured at amortised cost € m**	**Measured at FVOCI € m**	**Total € m**	Measured at amortised cost € m	Measured at FVOCI € m	Total € m
Net re-measurement of ECL allowance						
Loans and advances to banks	–	–	–	–	–	–
Loans and advances to customers	(1,493)	–	(1,493)	(117)	–	(117)
Loan commitments	(35)	–	(35)	6	–	6
Financial guarantee contracts	(4)	–	(4)	5	–	5
Investment securities – debt	(1)	1	–	–	–	–
Credit impairment charge	(1,533)	1	(1,532)	(106)	–	(106)
Recoveries of amounts previously written-off	72	–	72	90	–	90
Net credit impairment charge	(1,461)	1	(1,460)	(16)	–	(16)

Notes to the consolidated financial statements

14 Profit on disposal of property

Profit on disposal of property amounted to Nil (2019: € 21 million).

15 Auditor's remuneration

The disclosure of auditor's remuneration is in accordance with Section 322 of the Companies Act 2014. This mandates disclosure of remuneration paid/payable to the Group Auditor only (Deloitte Ireland LLP) for services relating to the audit of the Group and relevant subsidiary financial statements in the categories set out below.

	2020 € m	2019 € m
Auditor's remuneration *(excluding VAT):*		
Audit of Group financial statements	**2.8**	2.6
Other assurance services	**0.6**	0.9
Other non-audit services	**0.9**	0.8
Taxation advisory services	**–**	–
	4.3	4.3

All the above amounts were paid to the Group Auditor for services provided to the Group and its subsidiaries including Allied Irish Banks, p.l.c.

Other assurance services include remuneration for additional assurance issued by the firm outside of the audit of the statutory financial statements of the Group and subsidiaries. This remuneration includes assignments where the Auditor, in Ireland, provides assurance to third parties.

The Group policy on the provision of non-audit services to the parent and its subsidiary companies includes the prohibition on the provision of certain services and the pre-approval by the Board Audit Committee of the engagement of the Auditor for non-audit work.

The Board Audit Committee has reviewed the level of non-audit services remuneration and is satisfied that it has not affected the independence of the Auditor. It is Group policy to subject all large consultancy assignments to competitive tender, where appropriate.

The following table shows remuneration paid to overseas auditors (excluding Deloitte Ireland LLP):

	2020 € m	2019 € m
Auditor's remuneration excluding Deloitte Ireland LLP *(excluding VAT)*	**0.66**	0.71

16 Taxation

	2020 € m	2019 € m
AIB Group plc and subsidiaries		
Corporation tax in Ireland		
Current tax on income for the year	–	(21)
Adjustments in respect of prior years	61	–
	61	(21)
Foreign tax		
Current tax on income for the year	28	(33)
Adjustments in respect of prior years	–	–
	28	(33)
	89	(54)
Deferred taxation		
Origination and reversal of temporary differences	(2)	(42)
Adjustments in respect of prior years	24	2
Deferred tax assets written down	(32)	(25)
Recognition of deferred tax assets in respect of current period losses	103	–
Increase/(reduction) in carrying value of deferred tax assets in respect of carried forward losses	8	(16)
	101	(81)
Total tax credit/(charge) for the year	190	(135)
Effective tax rate	20.4%	27.1%

Factors affecting the effective tax rate

The following table sets out the difference between the tax credit/(charge) that would result from applying the standard corporation tax rate in Ireland of 12.5% and the actual tax charge for the year:

	2020		2019	
	€ m	%	€ m	%
(Loss)/profit before tax	(931)		499	
Tax credit/(charge) at standard corporation tax rate in Ireland of 12.5%	116	12.5	(62)	12.5
Effects of:				
Foreign losses/(profits) taxed at other rates	12	1.3	(13)	2.6
Expenses not deductible for tax purposes	(15)	(1.6)	(22)	4.4
Exempted income, income at reduced rates and tax credits	–	–	4	(0.8)
Share of results of associates shown post tax in the income statement	2	0.2	3	(0.6)
Losses/(income) taxed at higher tax rates	7	0.8	(30)	6.0
Tax legislation on equity distributions	10	1.1	5	(1.0)
(Deferred tax assets not recognised)/reversal of amounts previously not recognised	(7)	(0.8)	12	(2.4)
Deferred tax assets written down	(32)	(3.4)	(25)	5.0
Other differences	1	–	(5)	1.0
Change in tax rates	11	1.2	(4)	0.8
Adjustments to tax charge in respect of prior years	85	9.1	2	(0.4)
Tax credit/(charge)	190	20.4	(135)	27.1

As noted in accounting policy note 1(k), 'Income tax, including deferred income tax', current and deferred tax is provided for based on legislation and rates expected to apply when income taxes become payable/refundable or deferred tax assets are realised/deferred tax liabilities are settled. This necessarily involves some estimation because the tax law is uncertain and its application requires a degree of judgement which authorities may dispute. During 2020, following resolution of a specific tax matter where uncertainty had existed relating to prior years, previously recognised net liabilities for this and related matters of € 81 million were released.

Liabilities are recognised based on best estimates of the probable outcome, taking into account all available evidence and external advice, where appropriate.

The Group does not expect significant liabilities to arise in excess of the amounts provided. Any difference between the final outcome and the amounts provided will affect the income tax charge in the period when the matter is resolved.

Notes to the consolidated financial statements

16 Taxation *(continued)*

Analysis of selected other comprehensive income

	2020			2019		
	Gross € m	Tax € m	Net € m	Gross € m	Tax € m	Net € m
Property revaluation reserves						
Net change in property revaluation reserves	–	–	–	–	–	–
Total	–	–	–	–	–	–
Retirement benefit schemes						
Actuarial losses in retirement benefit schemes	(50)	12	(38)	(251)	63	(188)
Total	(50)	12	(38)	(251)	63	(188)
Foreign currency translation reserves						
Foreign currency translation losses transferred to income statement	–	–	–	–	–	–
Change in foreign currency translation reserves recognised in other comprehensive income	(70)	–	(70)	66	–	66
Total	(70)	–	(70)	66	–	66
Cash flow hedging reserves						
Amounts reclassified from the cash flow hedging reserves to the income statement as a reclassification adjustment:						
– *amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur*	–	–	–	–	–	–
– *amounts that have been transferred because the hedged item has affected the income statement*	(120)	15	(105)	(84)	10	(74)
Hedging gains recognised in other comprehensive income	201	(25)	176	295	(37)	258
Total	81	(10)	71	211	(27)	184
Investment debt securities at FVOCI reserves						
Fair value (gains) transferred to income statement	(17)	2	(15)	(93)	12	(81)
Fair value (losses)/gains recognised in other comprehensive income	(45)	5	(40)	43	(6)	37
Total	(62)	7	(55)	(50)	6	(44)
Investment equity securities measured at FVOCI reserves						
Fair value (losses) recognised in other comprehensive income	(21)	3	(18)	(11)	2	(9)
Total	(21)	3	(18)	(11)	2	(9)

17 Earnings per share

The calculation of basic (loss)/earnings per unit of ordinary shares is based on the (loss)/profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue, excluding own shares held.

The diluted (loss)/earnings per share is based on the (loss)/profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue, excluding own shares held, adjusted for the effect of dilutive potential ordinary shares.

(a) Basic	**2020 € m**	2019 € m
(Loss)/profit attributable to equity holders of the parent	**(769)**	327
Distributions on other equity interests *(note 18)*	**(46)**	–
(Loss)/profit attributable to ordinary shareholders of the parent	**(815)**	327
	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the year	**2,714.4**	2,714.4
(Loss)/earnings per share – basic	**EUR (30.0)c**	EUR 12.1c

(b) Diluted	**2020 € m**	2019 € m
(Loss)/profit attributable to ordinary shareholders of the parent *(note 17 (a))*	**(815)**	327
	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the year	**2,714.4**	2,714.4
Potential weighted average number of shares	**2,714.4**	2,714.4
(Loss)/earnings per share – diluted	**EUR (30.0)c**	EUR 12.1c

The ordinary shares are included in the weighted average number of shares on a time apportioned basis.

Warrants

The Minister for Finance was issued warrants in 2017 to subscribe for 271,166,685 ordinary shares of AIB Group plc.

The warrants are exercisable during the period commencing 27 June 2018 and ending 27 June 2027 (see note 38 for further detail). These warrants were not included in calculating the diluted earnings per share as they were antidilutive.

Notes to the consolidated financial statements

18 Distributions on equity shares and other equity interests

	2020 € m	2019 € m
Ordinary shares – dividends paid	–	461
Other equity interests – distributions	46	–

Final dividends are not accounted for until they have been approved at the Annual General Meeting of shareholders or in the case of the interim dividend, when they become irrevocable having already been approved for payment by the Board of Directors. Interim dividends may be cancelled at any time prior to the actual payment.

No dividends were paid during 2020. On 24 April 2019, a final dividend of € 0.17 per ordinary share, amounting in total to € 461 million was approved at the Annual General Meeting of AIB Group plc and subsequently paid on 3 May 2019.

Distributions amounting to € 46 million were paid in 2020 on the Additional Tier 1 Securities issued by AIB Group plc in 2020 and 2019 (note 39).

19 Disposal groups and non-current assets held for sale

	2020 € m	2019 € m
Property and non-financial assets held for sale[1]	14	19
Other	–	1
Total disposal groups and non-current assets held for sale	14	20

[1]Includes property surplus to requirements and repossessed assets which are expected to be disposed of within one year.

20 Derivative financial instruments

Derivatives are used to service customer requirements, to manage the Group's interest rate, exchange rate, equity and credit exposures and for trading purposes. Derivative instruments are contractual agreements whose value is derived from price movements in underlying assets, interest rates, foreign exchange rates or indices.

Market risk is the exposure to potential loss through holding interest rate, exchange rate and equity positions in the face of absolute and relative price movements, interest rate volatility, movements in exchange rates and shifts in liquidity. Credit risk is the exposure to loss should the counterparty to a financial instrument fail to perform in accordance with the terms of the contract.

While notional principal amounts are used to express the volume of derivative transactions, the amounts subject to credit risk are much lower because derivative contracts typically involve payments based on the net differences between specified prices or rates.

Credit risk in derivative contracts is the risk that the Group's counterparty in the contract defaults prior to maturity at a time when the Group has a claim on the counterparty under the contract (i.e. contracts with a positive fair value). The Group would then have to replace the contract at the current market rate, which may result in a loss. For risk management purposes, consideration is taken of the fact that not all counterparties to derivative positions are expected to default at the point where the Group is most exposed to them.

The following table presents the notional principal amount of interest rate, exchange rate, equity and credit derivative contracts together with the positive and negative fair values attaching to those contracts at 31 December 2020 and 2019:

	2020 € m	2019 € m
Interest rate contracts[1]		
Notional principal amount	**50,430**	51,330
Positive fair value	**1,353**	1,230
Negative fair value	**(1,145)**	(998)
Exchange rate contracts[1]		
Notional principal amount	**7,848**	6,710
Positive fair value	**70**	36
Negative fair value	**(46)**	(180)
Equity contracts[1]		
Notional principal amount	**49**	354
Positive fair value	**–**	5
Negative fair value	**(1)**	(6)
Credit derivatives[1]		
Notional principal amount	**350**	240
Positive fair value	**1**	–
Negative fair value	**(9)**	(13)
Total notional principal amount	**58,677**	58,634
Total positive fair value	**1,424**	1,271
Total negative fair value	**(1,201)**	(1,197)

[1]Interest rate, exchange rate, equity and credit derivative contracts are entered into for both hedging and trading purposes.

The Group uses the same credit control and risk management policies in undertaking all off-balance sheet commitments as it does for on balance sheet lending including counterparty credit approval, limit setting and monitoring procedures. In addition, derivative instruments are subject to the market risk policy and control framework as described in the 'Risk management' section of this report. Increased forward hedging of foreign currency funding in light of uncertainty around potential EU/UK trade agreement outcomes in the run in to year end is reflected in the growth in exchange rate contracts. Maturities of existing fair value hedges and a reduction in underlying exposures has led to the reduction in interest rate and equity derivatives contracts.

Notes to the consolidated financial statements

20 Derivative financial instruments *(continued)*

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

	2020				2019			
Residual maturity	**Less than 1 year € m**	**1 to 5 years € m**	**5 years + € m**	**Total € m**	Less than 1 year € m	1 to 5 years € m	5 years + € m	Total € m
Notional principal amount	**18,180**	**19,064**	**21,433**	**58,677**	17,901	20,638	20,095	58,634
Positive fair value	**159**	**372**	**893**	**1,424**	86	293	892	1,271

The Group has the following concentration of exposures in respect of notional principal amount and positive fair value of interest rate, exchange rate, equity and credit derivative contracts. The concentrations are based primarily on the location of the office recording the transaction.

	Notional principal amount		**Positive fair value**	
	2020 € m	2019 € m	**2020 € m**	2019 € m
Ireland	**55,688**	55,604	**992**	857
United Kingdom	**2,857**	2,856	**418**	400
United States of America	**132**	174	**14**	14
	58,677	58,634	**1,424**	1,271

Trading activities

The Group maintains trading positions in a variety of financial instruments including derivatives. These derivative financial instruments include interest rate, foreign exchange, equity and credit derivatives. Most of these positions arise as a result of activity generated by corporate customers while the remainder represent trading decisions of the Group's derivative and foreign exchange traders with a view to generating incremental income.

All trading activity is conducted within risk limits approved by the Board. Systems are in place which measure risks and profitability associated with derivative trading positions as market movements occur. Independent risk control units monitor these risks.

The risk that counterparties to derivative contracts might default on their obligations is monitored on an ongoing basis. The level of credit risk is minimised by dealing with counterparties of good credit standing, by the use of Credit Support Annexes and ISDA Master Netting Agreements and increased clearing of derivatives through Central Counterparties (CCPs). As the traded instruments are recognised at market value, any changes in market value directly affect reported income for a given period.

Risk management activities

In addition to meeting customer needs, the Group's principal objective in holding or transacting derivatives is the management of interest rate and foreign exchange risks which arise within the banking book through the operations of the Group as outlined below. Market risk within the banking book is also controlled through limits approved by the Board and monitored by an independent second line risk function.

The operations of the Group are exposed to interest rate risk arising from the fact that assets and liabilities mature or reprice at different times or in differing amounts. Derivatives are used to modify the repricing or maturity characteristics of assets and liabilities in a cost-efficient manner. This flexibility helps the Group to achieve interest rate risk management objectives. Similarly, foreign exchange derivatives can be used to hedge the Group's exposure to foreign exchange risk.

The fair values of derivatives fluctuate as the underlying market interest rates or foreign exchange rates change. If the derivatives are purchased or sold as hedges of statement of financial position items, the change in fair value of the derivatives will generally be offset by the unrealised depreciation or appreciation of the hedged items.

To achieve its risk management objectives, the Group uses a combination of derivative financial instruments, particularly interest rate swaps, cross currency interest rate swaps, forward rate agreements, futures, options and currency swaps, as well as other contracts. The notional principal and fair value amounts for instruments held for risk management purposes entered into by the Group at 31 December 2020 and 2019, are presented within this note.

20 Derivative financial instruments *(continued)*

The following table shows the notional principal amount and the fair value of derivative financial instruments analysed by product and purpose at 31 December 2020 and 2019. A description of how the fair values of derivatives are determined is set out in note 47.

	2020			2019		
	Notional principal amount	Fair values		Notional principal amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
	€ m	€ m	€ m	€ m	€ m	€ m
Derivatives held for trading						
Interest rate derivatives – over the counter ("OTC")						
Interest rate swaps	5,134	556	(475)	5,115	506	(474)
Cross-currency interest rate swaps	42	1	(1)	731	29	(37)
Interest rate options bought and sold	1,564	1	(1)	1,919	1	–
Total interest rate derivatives – OTC	6,740	558	(477)	7,765	536	(511)
Interest rates derivatives – OTC – central clearing						
Interest rate swaps	4,273	21	(113)	5,147	15	(62)
Total interest rate derivatives – OTC – central clearing	4,273	21	(113)	5,147	15	(62)
Interest rate derivatives – exchange traded						
Interest rate futures bought and sold	–	–	–	1,430	–	–
Total interest rate derivatives – exchange traded	–	–	–	1,430	–	–
Total interest rate derivatives	11,013	579	(590)	14,342	551	(573)
Foreign exchange derivatives – OTC						
Foreign exchange contracts	7,742	70	(46)	6,657	35	(180)
Currency options bought and sold	106	–	–	54	1	–
Total foreign exchange derivatives	7,848	70	(46)	6,711	36	(180)
Equity derivatives – OTC						
Equity index options bought and sold	18	–	–	182	5	(4)
Equity total return swaps	31	–	(1)	171	–	(2)
Total equity derivatives	49	–	(1)	353	5	(6)
Credit derivatives – OTC						
Credit derivatives	350	1	(9)	240	–	(12)
Total credit derivatives	350	1	(9)	240	–	(12)
Total derivatives held for trading	19,260	650	(646)	21,646	592	(771)

Notes to the consolidated financial statements

20 Derivative financial instruments *(continued)*

	2020			2019		
	Notional principal amount	Fair values		Notional principal amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
	€ m	€ m	€ m	€ m	€ m	€ m
Derivatives held for hedging						
Derivatives designated as fair value hedges – OTC						
Interest rate swaps	3,626	41	(59)	7,617	75	(95)
Total derivatives designated as fair value hedges – OTC	3,626	41	(59)	7,617	75	(95)
Derivatives designated as fair value hedges – OTC – central clearing						
Interest rate swaps	15,483	177	(382)	10,639	116	(208)
Total interest rate fair value hedges – OTC – central clearing	15,483	177	(382)	10,639	116	(208)
Total derivatives designated as fair value hedges	19,109	218	(441)	18,256	191	(303)
Derivatives designated as cash flow hedges – OTC						
Interest rate swaps	3,114	89	(79)	5,504	187	(93)
Cross currency interest rate swaps	880	73	–	1,824	14	(10)
Total interest rate cash flow hedges – OTC	3,994	162	(79)	7,328	201	(103)
Derivatives designated as cash flow hedges – OTC – central clearing						
Interest rate swaps	16,314	394	(35)	11,404	287	(20)
Total interest rate cash flow hedges – OTC – central clearing	16,314	394	(35)	11,404	287	(20)
Total derivatives designated as cash flow hedges	20,308	556	(114)	18,732	488	(123)
Total derivatives held for hedging	39,417	774	(555)	36,988	679	(426)
Total derivative financial instruments	58,677	1,424	(1,201)	58,634	1,271	(1,197)

Fair value hedges

Fair value hedges are entered into to hedge the exposure to changes in the fair value of recognised assets or liabilities arising from changes in interest rates, primarily, debt securities at FVOCI and fixed rate liabilities. The fair values of financial instruments are set out in note 47. The net mark to market on fair value hedging derivatives, excluding accrual and risk adjustments at 31 December 2020 is negative € 172 million (2019: negative € 138 million) and the net mark to market on the related hedged items at 31 December 2020 is positive € 173 million (2019: positive € 136 million).

Netting financial assets and financial liabilities

Derivative financial instruments are shown on the statement of financial position at their fair value. Those with a positive fair value are reported as assets and those with a negative fair value are reported as liabilities.

Details on offsetting financial assets and financial liabilities are set out in note 42.

20 Derivative financial instruments *(continued)*

Nominal values and average interest rates by residual maturity

At 31 December 2020 and 2019, the Group held the following hedging instruments of interest rate risk in fair value and cash flow hedges respectively:

						2020
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	5 years +	Total
Fair value hedges – Interest rate swaps						
Assets						
Hedges of investment securities – debt						
Nominal principal amount **(€ m)**	140	288	480	4,605	6,645	12,158
Average interest rate **(%)**[1]	0.60	0.61	0.83	0.43	0.26	0.36
Liabilities						
Hedges of debt securities in issue						
Nominal principal amount **(€ m)**	–	500	–	4,926	25	5,451
Average interest rate **(%)**[1]	–	2.25	–	2.14	5.12	2.16
Hedges of subordinated debt						
Nominal principal amount **(€ m)**	–	–	–	500	1,000	1,500
Average interest rate **(%)**[1]	–	–	–	1.88	2.88	2.54
Cash flow hedges – Interest rate swaps[2]						
Hedges of financial assets						
Nominal principal amount **(€ m)**	152	1,760	2,425	4,140	7,460	15,937
Average interest rate **(%)**[3]	0.55	0.23	0.21	0.60	0.37	0.39
Hedges of financial liabilities						
Nominal principal amount **(€ m)**	452	2,168	444	580	727	4,371
Average interest rate **(%)**[3]	0.05	0.04	0.19	0.93	2.24	0.54

						2019
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	5 years +	Total
Fair value hedges – Interest rate swaps						
Assets						
Hedges of investment securities – debt						
Nominal principal amount **(€ m)**	73	84	848	4,711	4,457	10,173
Average interest rate **(%)**[1]	0.74	1.02	1.81	0.57	0.65	0.72
Liabilities						
Hedges of debt securities in issue						
Nominal principal amount **(€ m)**	–	500	750	5,058	525	6,833
Average interest rate **(%)**[1]	–	1.38	0.63	2.20	2.39	1.98
Hedges of subordinated debt						
Nominal principal amount **(€ m)**	–	–	750	500	–	1,250
Average interest rate **(%)**[1]	–	–	4.13	1.88	–	3.23
Cash flow hedges – Interest rate swaps[2]						
Hedges of financial assets						
Nominal principal amount **(€ m)**	205	149	2,330	4,812	7,539	15,035
Average interest rate **(%)**[3]	1.84	0.92	1.18	0.91	0.67	0.84
Hedges of financial liabilities						
Nominal principal amount **(€ m)**	482	583	918	1,143	571	3,697
Average interest rate **(%)**[3]	0.72	0.28	1.26	0.89	2.79	1.16

[1] Represents the fixed rate on the hedged item which is being swapped for a variable rate.

[2] Includes interest rate swaps and cross currency swaps used to hedge interest rate risk on variable rate EUR/GBP and EUR/USD assets and liabilities.

[3] This is the average interest rate on the fixed leg of swap agreements where the variable rate on the assets and liabilities in cash flow hedges is being swapped for a fixed rate.

Notes to the consolidated financial statements

20 Derivative financial instruments *(continued)*

Fair value hedges of interest rate risk

The tables below set out the amounts relating to items designated as (a) hedging instruments and (b) hedged items in fair value hedges of interest rate risk together with the related hedge ineffectiveness at 31 December 2020 and 2019:

2020

(a) Hedging instruments	Nominal € m	Carrying amount[1] Assets € m	Carrying amount[1] Liabilities € m	Line item in SOFP* where the hedging instrument is included	Change in fair value used for calculating hedge ineffectiveness for the year € m	Hedge ineffectiveness recognised in the income statement € m	Line item in the income statement that includes hedge ineffectiveness
Interest rate swaps hedging:							
Investment securities – debt	12,158	3	(441)	Derivative financial instruments	(81)	(3)	Net trading income
Debt securities in issue	5,451	212	–	Derivative financial instruments	59	–	Net trading income
Subordinated debt	1,500	3	–	Derivative financial instruments	(4)	–	Net trading income

2020

(b) Hedged items	Carrying amount of hedged items recognised in the SOFP* Assets € m	Carrying amount of hedged items recognised in the SOFP* Liabilities € m	Accumulated amount of fair value hedge adjustments on the hedged items included in the carrying amount of the hedged items Assets € m	Accumulated amount of fair value hedge adjustments on the hedged items included in the carrying amount of the hedged items Liabilities € m	Line item in SOFP* where hedged item is included	Change in fair value of hedged items used for calculating hedge ineffectiveness for the year € m	Accumulated amount of fair value hedge adjustments remaining in the SOFP* for any hedged items that have ceased to be adjusted for hedging gains and losses € m
Investment securities – debt	12,822		404		Investment securities	78	–
Debt securities in issue		(5,602)		(152)	Debt securities in issue	(59)	–
Subordinated debt		(1,504)		(4)	Subordinated liabilities and other capital instruments	4	–

2019

(a) Hedging instruments	Nominal € m	Carrying amount[1] Assets € m	Carrying amount[1] Liabilities € m	Line item in SOFP* where the hedging instrument is included	Change in fair value used for calculating hedge ineffectiveness for the year € m	Hedge ineffectiveness recognised in the income statement € m	Line item in the income statement that includes hedge ineffectiveness
Interest rate swaps hedging:							
Investment securities – debt	10,173	12	(298)	Derivative financial instruments	(108)	(2)	Net trading income
Debt securities in issue	6,833	174	–	Derivative financial instruments	43	–	Net trading income
Subordinated debt	1,250	5	(5)	Derivative financial instruments	6	–	Net trading income

2019

(b) Hedged items	Carrying amount of hedged items recognised in the SOFP* Assets € m	Carrying amount of hedged items recognised in the SOFP* Liabilities € m	Accumulated amount of fair value hedge adjustments on the hedged items included in the carrying amount of the hedged items Assets € m	Accumulated amount of fair value hedge adjustments on the hedged items included in the carrying amount of the hedged items Liabilities € m	Line item in SOFP* where hedged item is included	Change in fair value of hedged items used for calculating hedge ineffectiveness for the year € m	Accumulated amount of fair value hedge adjustments remaining in the SOFP* for any hedged items that have ceased to be adjusted for hedging gains and losses € m
Investment securities – debt	10,789		249		Investment securities	106	–
Debt securities in issue		(6,936)		(105)	Debt securities in issue	(43)	–
Subordinated debt		(1,258)		(8)	Subordinated liabilities and other capital instruments	(6)	–

[1]The mark to market of these instruments, excluding accruals of € 29 million, is € 252 million (2019: € 64 million is € 176 million).

*Statement of financial position

20 Derivative financial instruments *(continued)*

Cash flow hedges of interest rate

The tables below set out the amounts relating to (a) items designated as hedging instruments and (b) the hedged items in cash flow hedges of interest rate risk together with the related hedge ineffectiveness at 31 December 2020 and 2019:

											2020
		Carrying amount					Hedge ineffectiveness		Amounts reclassified from cash flow hedging reserves to the income statement		
(a) Hedging Instruments	Nominal amount € m	Assets € m	Liabilities € m	Line item in the SOFP* where hedging instruments are included	Change in fair value of hedging instruments used for calculating hedge ineffectiveness in the year € m	Change in fair value of hedging instruments recognised in OCI in the year € m	Hedge Ineffectiveness recognised in the income statement € m	Line item in the income statement that includes hedge ineffectiveness	Amounts for which hedge accounting had been used but for which the hedged future cash flows are no longer expected to occur € m	Amounts that have been transferred because the hedged item has affected the income statement € m	Line item in the income statement affected by the reclassification
Interest rate swaps[1]											
Derivative assets	15,937	556	(6)	Derivative financial instruments	82	93	–	Net trading income	–	145	Interest and similar income
Derivative liabilities	4,371	–	(108)	Derivative financial instruments	(5)	(12)	–	Net trading income	–	(24)	Interest and similar expense

[1]Hedging interest rate risk. These include both interest rate swaps and cross currency interest rate swaps, both of which are hedging interest rate risk.

						2020
(b) Hedged items	Line item in SOFP* in which hedged item is included	Change in fair value of hedged items used for calculating hedge ineffectiveness for the year € m	Amount in the cash flow hedging reserves for continuing hedges[1] pre tax € m	Amounts in the cash flow hedging reserves for continuing hedges[1] post tax € m	Amounts remaining in the cash flow hedging reserves from any hedging relationship for which hedge accounting is no longer applied pre tax € m	Amounts remaining in the cash flow hedging reserves from any hedging relationship for which hedge accounting is no longer applied post tax € m
Interest rate risk	Loans and advances to customers	(82)	515	451	205	180
Interest rate risk	Customer accounts	5	(104)	(91)	–	–

[1]The cash flow hedging reserves are adjusted to the lower of either the cumulative gain or loss or the cumulative change in fair value (present value) of the hedged item from inception of the hedge. The portion that is offset by the change in the cash flow hedging reserves is recognised in other comprehensive income with any hedge ineffectiveness recognised in the income statement.

*Statement of financial position

20 Derivative financial instruments *(continued)*

Cash flow hedges of interest rate *(continued)*

2019

		Carrying amount					Hedge ineffectiveness		Amounts reclassified from cash flow hedging reserves to the income statement		
	Nominal amount	Assets	Liabilities	Line item in the SOFP* where hedging instruments are included	Change in fair value of hedging instruments used for calculating hedge ineffectiveness in the year	Change in fair value of hedging instruments recognised in OCI in the year	Hedge Ineffectiveness recognised in the income statement	Line item in the income statement that includes hedge ineffectiveness	Amounts for which hedge accounting had been used but for which the hedged future cash flows are no longer expected to occur	Amounts that have been transferred because the hedged item has affected the income statement	Line item in the income statement affected by the reclassification
(a) Hedging Instruments	€ m	€ m	€ m		€ m	€ m	€ m		€ m	€ m	
Interest rate swaps[1]											
Derivative assets	15,035	486	(18)	Derivative financial instruments	244	216	–	Net trading income	–	115	Interest and similar income
Derivative liabilities	3,697	2	(105)	Derivative financial instruments	73	(5)	–	Net trading income	–	(31)	Interest and similar expense

[1]Hedging interest rate risk. These include both interest rate swaps and cross currency interest rate swaps, both of which are hedging interest rate risk.

2019

	Line item in SOFP* in which hedged item is included	Change in fair value of hedged items used for calculating hedge ineffectiveness for the year	Amount in the cash flow hedging reserves for continuing hedges[1] pre tax	Amounts in the cash flow hedging reserves for continuing hedges[1] post tax	Amounts remaining in the cash flow hedging reserves from any hedging relationship for which hedge accounting is no longer applied pre tax	Amounts remaining in the cash flow hedging reserves from any hedging relationship for which hedge accounting is no longer applied post tax
(b) Hedged items		€ m	€ m	€ m	€ m	€ m
Interest rate risk	Loans and advances to customers	(244)	505	442	124	107
Interest rate risk	Customer accounts	(73)	(91)	(80)	–	–

[1]The cash flow hedging reserves are adjusted to the lower of either the cumulative gain or loss or the cumulative change in fair value (present value) of the hedged item from inception of the hedge. The portion that is offset by the change in the cash flow hedging reserves is recognised in other comprehensive income with any hedge ineffectiveness recognised in the income statement.

*Statement of financial position

20 Derivative financial instruments *(continued)*

Cash flow hedges

The table below sets out the hedged cash flows which are expected to occur in the following periods:

					2020
	Within 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**
Forecast receivable cash flows	**12**	**7**	**6**	**14**	**39**
Forecast payable cash flows	**46**	**44**	**99**	**37**	**226**

					2019
	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
	€ m	€ m	€ m	€ m	€ m
Forecast receivable cash flows	66	21	25	55	167
Forecast payable cash flows	50	42	49	17	158

The table below sets out the hedged cash flows, including amortisation of terminated cash flow hedges, which are expected to impact the income statement in the following periods:

					2020
	Within 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**
Forecast receivable cash flows	**12**	**7**	**6**	**14**	**39**
Forecast payable cash flows	**111**	**96**	**177**	**49**	**433**

					2019
	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
	€ m	€ m	€ m	€ m	€ m
Forecast receivable cash flows	66	21	25	55	167
Forecast payable cash flows	97	85	80	20	282

Ineffectiveness reflected in the income statement that arose from cash flow hedges at 31 December 2020 amounted to Nil (31 December 2019: Nil).

Pay fixed cash flow hedges are used to hedge the cash flows on variable rate liabilities and receive fixed cash flow hedges are used to hedge the cash flows on variable rate assets.

The total amount recognised in other comprehensive income net of tax in respect of cash flow hedges at 31 December 2020 was a gain of € 71 million (2019: a gain of € 184 million).

Notes to the consolidated financial statements

21 Loans and advances to banks	2020 € m	2019 € m
At amortised cost		
Funds placed with central banks	378	468
Funds placed with other banks	1,421	1,010
	1,799	1,478
ECL allowance	–	–
Total loans and advances to banks	1,799	1,478
Amount include:		
Reverse repurchase agreements	194	151
Securities borrowings	513	–

Loans and advances to banks by geographical area[1]	2020 € m	2019 € m
Ireland	1,276	881
United Kingdom	521	595
United States of America	2	2
	1,799	1,478

[1]The classification of loans and advances to banks by geographical area is based primarily on the location of the office recording the transaction.

Loans and advances to banks include cash collateral of € 445 million (2019: € 631 million) placed with derivative counterparties in relation to net derivative positions and placed with repurchase agreement counterparties. In addition, these include € 4 million relating to restricted balances held in trust in respect of certain payables which are included in 'other liabilities' (note 35).

Under reverse repurchase agreements, the Group accepts collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. At 31 December 2020, the collateral received consisted of non-government securities with a fair value of € 194 million, none of which had been resold or repledged. These transactions were conducted under terms that are usual and customary to standard reverse repurchase agreements.

Under securities borrowings, the Group accepts collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. At 31 December 2020, the collateral received consisted of non-government securities and equities with a fair value of € 510 million, none of which had been resold or repledged. These transactions were conducted under terms that are usual and customary to standard securities borrowing agreements.

22 Loans and advances to customers

	2020 € m	2019 € m
Amortised cost		
Loans and advances to customers	57,684	60,359
Reverse repurchase agreements	104	87
Amounts receivable under finance leases and hire purchase contracts	1,592	1,603
	59,380	62,049
ECL allowance	(2,510)	(1,238)
	56,870	60,811
Mandatorily at fair value through profit or loss		
Loans and advances to customers	75	77
Total loans and advances to customers	56,945	60,888
Of which repayable on demand or at short notice	2,829	3,147
Amounts include:		
Due from associated undertakings[1]	1	1

[1]Undrawn commitments amount to € 117 million and are for less than one year (2019: € 104 million).

Loans and advances to customers include cash collateral amounting to € 14 million (2019: € 18 million) placed with derivative counterparties.

Under reverse repurchase agreements, the Group has accepted collateral with a fair value of € 107 million (2019: € 86 million) that it is permitted to sell or repledge in the absence of default by the owner of the collateral.

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

Amounts receivable under finance leases and hire purchase contracts

The following balances principally comprise of leasing arrangements and hire purchase agreements involving vehicles, plant, machinery and equipment:

	2020 € m	2019 € m
Gross receivables		
Not later than 1 year	618	601
Later than 1 year and not later than 2 years	431	448
Later than 2 years and not later than 3 years	320	329
Later than 3 years and not later than 4 years	200	206
Later than 4 years and not later than 5 years	101	104
Later than five years	20	16
Total	1,690	1,704
Unearned future finance income	(114)	(116)
Deferred costs incurred on origination	16	15
Present value of minimum payments	1,592	1,603
ECL allowance for uncollectible minimum payments receivable[1]	81	39
Net investment in new business	648	888

[1]Included in ECL allowance on financial assets (note 23).

Notes to the consolidated financial statements

23 ECL allowance on financial assets

The following table shows the movements on the ECL allowance on financial assets. Further information is disclosed in the 'Risk management' section of this report.

	2020 € m	2019 € m
At 1 January	**1,238**	2,039
Exchange translation adjustments	**(17)**	9
Net re-measurement of ECL allowance – investment securities-debt	**1**	–
Net re-measurement of ECL allowance – banks	**–**	–
Net re-measurement of ECL allowance – customers	**1,493**	117
Changes in ECL allowance due to write-offs	**(151)**	(362)
Changes in ECL allowance due to disposals	**(57)**	(565)
Other	**4**	–
At 31 December	**2,511**	1,238
Amounts include ECL allowance on:		
Investment securities – debt measured at amortised cost	**1**	–
Loans and advances to banks measured at amortised cost	**–**	–
Loans and advances to customers measured at amortised cost	**2,510**	1,238
	2,511	1,238

24 Investment securities

The following table analyses the carrying value of investment securities by major classification together with the unrealised gains and losses for those securities measured at FVOCI and FVTPL at 31 December 2020 and 2019:

						2020
	Carrying value	Unrealised gross gains	Unrealised gross losses	Net unrealised gains/ (losses)	Tax effect	Net after tax
	€ m	€ m	€ m	€ m	€ m	€ m
Debt securities at FVOCI						
Irish Government securities	5,421[1]	348	–	348	(44)	304
Euro government securities	1,277	51	–	51	(7)	44
Non Euro government securities	95	3	–	3	–	3
Supranational banks and government agencies	1,180	27	(1)	26	(3)	23
Collateralised mortgage obligations	334	4	–	4	(1)	3
Other asset backed securities	85	–	–	–	–	–
Euro bank securities	5,173	90	–	90	(11)	79
Non Euro bank securities	1,620	35	–	35	(4)	31
Euro corporate securities	397	18	–	18	(2)	16
Non Euro corporate securities	93	9	–	9	(1)	8
Total debt securities at FVOCI	15,675	585	(1)	584	(73)	511
Debt securities at amortised cost						
Irish Government securities	2,294					
Euro government securities	90					
Non Euro government securities	55					
Supranational banks and government agencies	208					
Asset backed securities	727					
Euro bank securities	87					
Euro corporate securities	107					
Non Euro corporate securities	35					
Total debt securities at amortised cost	3,603					
Equity securities						
Equity investments at FVOCI	–	–	–	–	–	–
Equity investments at FVTPL	201	84	(7)	77	(25)	52
Total equity securities	201	84	(7)	77	(25)	52
Total investment securities	19,479					

[1]Includes € 1,804 million in Euro commercial paper issued by the Irish Government.

Notes to the consolidated financial statements

24 Investment securities *(continued)*

						2019
	Carrying value	Unrealised gross gains	Unrealised gross losses	Net unrealised gains/ (losses)	Tax effect	Net after tax
	€ m	€ m	€ m	€ m	€ m	€ m
Debt securities at FVOCI						
Irish Government securities	5,296	381	(1)	380	(47)	333
Euro government securities	1,538	63	–	63	(8)	55
Non Euro government securities	212	4	–	4	(1)	3
Supranational banks and government agencies	1,034	22	(1)	21	(3)	18
Collateralised mortgage obligations	222	1	(2)	(1)	–	(1)
Other asset backed securities	106	–	–	–	–	–
Euro bank securities	5,343	77	(3)	74	(9)	65
Non Euro bank securities	1,654	12	(2)	10	(1)	9
Euro corporate securities	375	12	(1)	11	(1)	10
Non Euro corporate securities	101	5	–	5	(1)	4
Total debt securities at FVOCI	15,881	577	(10)	567	(71)	496
Debt securities at amortised cost						
Asset backed securities	591					
Euro corporate securities	14					
Non Euro corporate securities	30					
Total debt securities at amortised cost	635					
Equity securities						
Equity investments at FVOCI	458	414	–	414	(52)	362
Equity investments at FVTPL	357	147	(4)	143	(46)	97
Total equity securities	815	561	(4)	557	(98)	459
Total investment securities	17,331					

In addition to the existing business model Hold-to-Collect-and-Sell ("HTCS") within Treasury, the Group introduced a new business model Hold-to-Collect ("HTC"). This business model reflects the updated strategy to invest in long term high quality bonds to maturity for yield enhancement purposes given the increasingly liability led nature of the balance sheet. On 1 January 2020, the Group transferred Irish Government securities with a fair value of € 614 million out of HTCS to HTC with an amortised cost of € 577 million which had met the criteria for inclusion under this business model. The HTC portfolio within Treasury at 31 December 2020 amounts to € 2,734 million of the total debt securities at amortised cost.

The fair value at 31 December 2020 of the assets that were reclassified on 1 January 2020, amounted to € 641 million (31 December 2019: € 614 million). If the reclassification had not been made, the Group's statement of comprehensive income for the period ended 31 December 2020 would have included additional fair value gains on the reclassified investment securities assets of € 7 million.

In early 2020, the Group fully redeemed its NAMA subordinated bonds. Up to 2019, the Group had designated its investment in NAMA subordinated bonds as measured at FVOCI since this investment was held for strategic purposes. Dividends received during the year amounted to € 23 million (2019: € 23 million) (note 6).

All equity investments apart from the NAMA subordinated bonds above are classified and measured at FVTPL.

Credit impairment losses recognised in the income statement in 2020 amounted to Nil (2019: Nil). For further details see 'Net credit impairment charge' (note 13).

24 Investment securities *(continued)*

The following table sets out an analysis of movements in investment securities:

					2020
	Debt securities at FVOCI	Debt securities at amortised cost	Equity investments measured at FVOCI	Equity investments measured at FVTPL	Total
	€ m	€ m	€ m	€ m	€ m
At 1 January	15,881	635	458	357	17,331
Exchange translation adjustments	(156)	(21)	–	(1)	(178)
Purchases/acquisitions	3,985	2,429	–	30	6,444
New business model transfer	(614)	577	–	–	(37)
Sales/disposals/redemptions	(1,130)	(5)	(437)	(230)	(1,802)
Maturities	(2,272)	–	–	–	(2,272)
Amortisation of discounts net of premiums	(54)	(12)	–	–	(66)
Net change in FVTPL	–	–	–	45	45
Movement in unrealised gains/(losses)	35	–	(21)	–	14
At 31 December	15,675	3,603	–	201	19,479
Of which:					
Listed	15,675	3,603	–	24	19,302
Unlisted	–	–	–	177	177
	15,675	3,603	–	201	19,479

					2019
	Debt securities at FVOCI	Debt securities at amortised cost	Equity investments measured at FVOCI	Equity investments measured at FVTPL	Total
	€ m	€ m	€ m	€ m	€ m
At 1 January	15,946	187	468	260	16,861
Exchange translation adjustments	68	–	–	–	68
Purchases/acquisitions	4,441	449	–	47	4,937
Sales/disposals	(2,192)	–	–	(24)	(2,216)
Maturities	(2,472)	(1)	–	–	(2,473)
Amortisation of discounts net of premiums	(62)	–	–	–	(62)
Movement in unrealised gains/(losses)	152	–	(10)	74	216
At 31 December	15,881	635	458	357	17,331
Of which:					
Listed	15,881	635	–	46	16,562
Unlisted	–	–	458	311	769
	15,881	635	458	357	17,331

Notes to the consolidated financial statements

24 Investment securities *(continued)*

The following table sets out at 31 December 2020 and 2019, an analysis of the securities portfolio with unrealised losses, distinguishing between securities with continuous unrealised loss positions of less than 12 months and those with continuous unrealised loss positions for periods in excess of 12 months:

						2020
	Fair value			Unrealised losses		
	Investments with unrealised losses of less than 12 months € m	Investments with unrealised losses of more than 12 months € m	Total € m	Unrealised losses of less than 12 months € m	Unrealised losses of more than 12 months € m	Total € m
Debt securities at FVOCI						
Supranational banks and government agencies	25	–	25	(1)	–	(1)
Collateralised mortgage obligations	181	–	181	–	–	–
Euro bank securities	5	33	38	–	–	–
Non Euro bank securities	4	113	117	–	–	–
Euro corporate securities	34	10	44	–	–	–
Total debt securities at FVOCI	249	156	405	(1)	–	(1)
Equity securities						
Equity securities at FVTPL	12	22	34	(2)	(5)	(7)
Total	261	178	439	(3)	(5)	(8)

						2019
	Fair value			Unrealised losses		
	Investments with unrealised losses of less than 12 months € m	Investments with unrealised losses of more than 12 months € m	Total € m	Unrealised losses of less than 12 months € m	Unrealised losses of more than 12 months € m	Total € m
Debt securities at FVOCI						
Irish Government securities	56	–	56	(1)	–	(1)
Euro government securities	93	–	93	–	–	–
Non Euro government securities	–	–	–	–	–	–
Supranational banks and government agencies	144	123	267	(1)	–	(1)
Collateralised mortgage obligations	–	160	160	–	(2)	(2)
Euro bank securities	412	73	485	(3)	–	(3)
Non Euro bank securities	268	350	618	(1)	(1)	(2)
Euro corporate securities	48	–	48	(1)	–	(1)
Non Euro corporate securities	11	–	11	–	–	–
Total debt securities at FVOCI	1,032	706	1,738	(7)	(3)	(10)
Equity securities						
Equity securities at FVTPL	14	22	36	(2)	(2)	(4)
Total	1,046	728	1,774	(9)	(5)	(14)

For details of the credit quality of the investment securities portfolio, see the 'Risk management' section of this report.

25 Interests in associated undertakings

Included in the income statement is the contribution net of tax from investments in associated undertakings as follows:

Income statement	2020 € m	2019 € m
Share of results of associated undertakings	15	20
	15[1]	20[1]

Share of net assets including goodwill	2020 € m	2019 € m
At 1 January	83	90
Income for the year	15	20
Dividends received from associated undertakings[2]	–	(27)
At 31 December[3]	98	83
Of which listed on a recognised stock exchange	–	–

[1]Includes AIB Merchant Services € 15 million (2019: € 19 million).
[2]Dividends received from AIB Merchant Services Nil (2019: € 27 million).
[3]Comprises the Group's investment in AIB Merchant Services and Fulfil Holdings Limited.

The following is the principal associate company of the Group at 31 December 2020 and 2019:

Name of associate	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			2020 %	2019 %
Zolter Services d.a.c. trading as AIB Merchant Services	Provider of merchant payment solutions	Registered Office: Unit 6, Belfield Business Park, Clonskeagh, Dublin 4 Ireland	49.9	49.9

All associates are accounted for using the equity method in these consolidated financial statements.

Banking transactions between the Group and its associated undertakings are entered into in the normal course of business. For further information see notes 22 and 32.

Disclosures relating to the Group's potential exposure to chargeback risk in AIB Merchant Services are set out in note 43 'Contingent liabilities and commitments'.

In accordance with Sections 316 and 348 of the Companies Act 2014 and the European Communities (Credit Institutions: Financial Statements) Regulations 2015, AIB Group plc will annex a full listing of associated undertakings to its annual return to the Companies Registration Office.

There was no unrecognised share of losses of associates at 31 December 2020 or 2019.

Change in the Group's ownership interest in associates

In 2020, there was no change in the ownership interests in associates. During 2019, the ownership interest in Fulfil Holdings Limited changed from 25% to 23.8%.

Significant restrictions

There is no significant restriction on the ability of associates to transfer funds to the Group in the form of cash or dividends, or to repay loans or advances made by the Group.

Notes to the consolidated financial statements

26 Intangible assets and goodwill

	Software externally purchased € m	Software internally generated € m	Software under construction € m	Goodwill[1] € m	Other € m	2020 Total € m
Cost						
At 1 January	296	1,153	170	70	40	1,729
Additions	11	103	122	–	–	236
Transfers in/(out)	–	114	(114)	–	–	–
Amounts written-off[2]	(15)	(33)	(6)	–	–	(54)
Exchange translation adjustments	–	(3)	–	–	–	(3)
At 31 December	292	1,334	172	70	40	1,908
Amortisation/impairment						
At 1 January	279	529	–	–	4	812
Amortisation for the year	10	166	–	–	8	184
Impairment for the year[3]	–	24	6	–	–	30
Amounts written-off[2]	(15)	(33)	(6)	–	–	(54)
Exchange translation adjustments	–	(1)	–	–	–	(1)
At 31 December	274	685	–	–	12	971
Carrying value at 31 December	18	649	172	70	28	937

	Software externally purchased € m	Software internally generated € m	Software under construction € m	Goodwill[1] € m	Other € m	2019 Total € m
Cost						
At 1 January	329	957	226	–	3	1,515
Additions	7	132	120	–	–	259
Acquisition of subsidiary	–	13[4]	–	70	37[5]	120
Transfers in/(out)	–	167	(167)	–	–	–
Amounts written-off[2]	(40)	(117)	(10)	–	–	(167)
Exchange translation adjustments	–	1	1	–	–	2
At 31 December	296	1,153	170	70	40	1,729
Amortisation/impairment						
At 1 January	307	523	–	–	3	833
Amortisation for the year	11	122	–	–	1	134
Impairment for the year[3]	1	1	10	–	–	12
Amounts written-off[2]	(40)	(117)	(10)	–	–	(167)
At 31 December	279	529	–	–	4	812
Carrying value at 31 December	17	624	170	70	36	917

[1]Relates to the acquisition of Semeral/Payzone. The goodwill was tested for impairment at 31 December 2020 and 2019 and no impairment was identified.
[2]Relates to assets which are no longer in use with a Nil carrying value.
[3]Included in 'Impairment and amortisation of intangible assets' in the consolidated income statement.
[4]Relates to the fair value of software acquired on the acquisition of Semeral/Payzone.
[5]Relates to customer contracts and related customer relationships recognised on the acquisition of Semeral/Payzone amounting to € 37 million.

Future capital expenditure in relation to both intangible assets and property, plant and equipment is set out in note 27.

27 Property, plant and equipment

	Owned assets					Leased assets		2020
	Property			Equipment	Assets under construction	Right-of-use assets		Total
	Freehold	Long leasehold	Leasehold under 50 years			Property	Other	
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Cost								
At 1 January	167	43	122	367	44	501	2	1,246
Transfers in/(out)	8	1	11	13	(33)	–	–	–
Additions	–	–	–	21	–	5	2	28
Net re-measurements	–	–	–	–	–	(1)	–	(1)
Transfers (to)/from held for sale	–	–	1	3	–	–	–	4
Amounts written-off[1]	(2)	(1)	(5)	(6)	(2)	(12)	(1)	(29)
Exchange translation adjustments	(1)	–	(1)	(1)	(1)	(2)	–	(6)
At 31 December	172	43	128	397	8	491	3	1,242
Depreciation/impairment								
At 1 January	42	13	40	288	2	57	1	443
Depreciation charge for the year	5	1	10	22	–	55	1	94
Impairment charge for the year[2]	–	1	1	2	–	3	–	7
Amounts written-off[1]	(2)	(1)	(5)	(6)	(2)	(12)	(1)	(29)
Transfers (to)/from held for sale	–	–	–	1	–	–	–	1
Exchange translation adjustments	–	–	–	1	–	–	–	1
At 31 December	45	14	46	308	–	103	1	517
Carrying value at 31 December	127	29	82	89	8	388	2	725

[1]Relates to assets which are no longer in use with a Nil carrying value.

[2]Included in 'Impairment and depreciation of property, plant and equipment' in the consolidated income statement.

Notes to the consolidated financial statements

27 Property, plant and equipment *(continued)*

	Owned assets					Leased assets		2019
	Property			Equipment	Assets under construction	Right-of-use assets		Total
	Freehold	Long leasehold	Leasehold under 50 years			Property	Other	
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Cost								
At 31 December 2018	213	84	139	530	57	–	–	1,023
Impact of adopting IFRS 16	–	–	–	–	–	473	6	479
Restated balance at 1 January 2019	213	84	139	530	57	473	6	1,502
Transfers in/(out)	2	–	26	11	(39)	–	–	–
Additions	–	–	28	15	26	25	–	94
Acquisition of subsidiary	–	–	–	2	–	–	–	2
Net re-measurements	–	–	–	–	–	1	(4)	(3)
Transfers (to)/from held for sale	–	(5)	(3)	(10)	–	–	–	(18)
Amounts written-off[1]	(49)	(36)	(69)	(183)	–	–	–	(337)
Exchange translation adjustments	1	–	1	2	–	2	–	6
At 31 December	167	43	122	367	44	501	2	1,246
Depreciation/impairment								
At 31 December 2018	84	51	101	457	–	–	–	693
Impact of adopting IFRS 16	–	–	–	–	–	–	–	–
Restated balance at 1 January 2019	84	51	101	457	–	–	–	693
Depreciation charge for the year	5	1	9	21	–	57	1	94
Impairment charge for the year[2]	1	1	1	1	2	–	–	6
Amounts written-off[1]	(49)	(36)	(69)	(183)	–	–	–	(337)
Transfers (to)/from held for sale	–	(4)	(2)	(9)	–	–	–	(15)
Exchange translation adjustments	1	–	–	1	–	–	–	2
At 31 December	42	13	40	288	2	57	1	443
Carrying value at 31 December	125	30	82	79	42	444	1	803

[1]Relates to assets which are no longer in use with a Nil carrying value.
[2]Included in 'Impairment and depreciation of property, plant and equipment' in the consolidated income statement.

The carrying value of property occupied by the Group for its own activities was € 238 million (2019: € 236 million) in relation to owned assets and € 388 million in relation to right-of-use assets (2019: € 444 million), excluding those held as disposal groups and non-current assets held for sale. Property leased to others by the Group had a carrying value of Nil (2019: € 1 million).

27 Property, plant and equipment *(continued)*

Future capital expenditure

The table below shows future capital expenditure in relation to both property, plant and equipment and intangible assets (excluding right-of-use assets).

	2020 € m	2019 € m
Estimated outstanding commitments for capital expenditure not provided for in the financial statements	1	2
Capital expenditure authorised but not yet contracted for	32	44

Leased assets

Property

The Group leases property for its offices and retail branch outlets. The property lease portfolio consists of 175 leases, made up of 13 head office locations and 162 branch outlets. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Both head office properties and retail branch lease terms are typically for periods of 10 to 20 years. Most of these leases carry statutory renewal rights, or include an option to renew the lease for an additional period after the end of the contract term. Where the Group is likely to exercise these options, this has been taken into account in determining the lease liability and likewise, the right-of-use asset.

The minimum lease terms remaining on the most significant leases range from 7 years to 13 years. The average lease term until a break clause in the lease arrangements is approximately 10 years with the final contractual remaining terms ranging from 5 year to 8 years.

Other

The Group leases motor vehicles, ATM offsite locations and IT equipment.

Lease liabilities

A maturity analysis of lease liabilities is shown in note 34.

Amounts recognised in income statement	2020 € m	2019 € m
Depreciation expense on right-of-use assets	56	58
Interest on lease liabilities (note 5)	13	14
Expense relating to short term leases	1	2
Income from sub-leasing right-of-use assets	2	2

Amounts recognised in statement of cash flows	2020 € m	2019 € m
Total cash outflow for leases during the year[1]	63	72

[1]Includes amounts reported as interest expense on lease liabilities of € 13 million (2019: € 13 million) and amounts reported as principal repayments on lease liabilities of € 50 million (2019: € 59 million).

Notes to the consolidated financial statements

28 Other assets

	2020 € m	2019 € m
Proceeds due from disposal of loan portfolio[1]	–	427
Fair value of hedged asset positions[2]	80	–
Other[3]	155	228
Total	**235**	655

[1]ECL – Nil.
[2]The fair value of the hedged asset positions only relates to when the hedging item is at amortised cost.
[3]Includes items in transit € 34 million (2019: € 75 million) and sundry debtors € 84 million (2019: € 67 million).

29 Deferred taxation

	2020 € m	2019 € m
Deferred tax assets:		
Transition to IFRS 9	24	33
Assets used in the business	13	7
Retirement benefits	13	10
Assets leased to customers	15	12
Unutilised tax losses	2,763	2,771
Other	8	11
Total gross deferred tax assets	**2,836**	2,844
Deferred tax liabilities:		
Transition to IFRS 9	(1)	(4)
Transition to IFRS 15	(1)	(1)
Cash flow hedges	(77)	(67)
Retirement benefits	(7)	(7)
Amortised income on loans	–	(1)
Assets used in the business	(21)	(21)
Investment securities	(34)	(93)
Acquisition of subsidiary	(4)	(5)
Other	(24)	(88)
Total gross deferred tax liabilities	**(169)**	(287)
Net deferred tax assets	**2,667**	2,557
Represented on the statement of financial position:		
Deferred tax assets	2,711	2,666
Deferred tax liabilities	(44)	(109)
	2,667	2,557

For each of the years ended 31 December 2020 and 2019, full provision has been made for capital allowances and other temporary differences.

Analysis of movements in deferred taxation	2020 € m	2019 € m
At 1 January	2,557	2,595
Exchange translation and other adjustments	(3)	(1)
Deferred tax through other comprehensive income	12	44
Income statement *(note 16)*	101	(81)
At 31 December	**2,667**	2,557

29 Deferred taxation *(continued)*

Comments on the basis of recognition of deferred tax assets on unused tax losses are included in note 2 'Critical accounting judgements and estimates' on pages 261 and 262.

At 31 December 2020, recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled € 2,667 million (2019: € 2,557 million).

The amount of recognised deferred tax assets arising from unused tax losses amounts to € 2,763 million (2019: € 2,771 million) of which € 2,675 million (2019: € 2,669 million) relates to Irish tax losses and € 88 million (2019: € 102 million) relates to UK tax losses.

For the Group's principal UK subsidiary, the Group has concluded that the recognition of deferred tax assets be limited to the amount projected to be realised within a time period of 15 years. This is the timescale within which the Group believes that it can assess the likelihood of its profits arising as being more likely than not. The deferred tax asset for unutilised tax losses in the UK subsidiary amounts to £ 79 million at 31 December 2020 (2019: £ 87 million).

Legislation was enacted in the UK during 2020, whereby the previously legislated reduction in the corporation tax rate from 19% to 17% from 2020 onwards was cancelled. This change has resulted in an increase of the Group's UK deferred tax asset by c. £ 10 million.

In relation to the losses incurred in the year ended 31 December 2020, a deferred tax asset of £ 7 million has been recognised. Furthermore, the deferred tax asset for unutilised losses carried forward was written down by £ 25 million at 31 December 2020 as the expected profitability over the 15 years has reduced compared to those estimated in 2019.

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

Temporary differences recognised in other comprehensive income consist of deferred tax on financial assets at FVOCI, cash flow hedges and actuarial gains/losses on retirement benefit schemes. Temporary differences recognised in the income statement consist of provisions for expected credit losses on financial instruments, amortised income, assets leased to customers, and assets used in the course of the business.

Net deferred tax assets at 31 December 2020 of € 2,646 million (2019: € 2,504 million) are expected to be recovered after more than 12 months.

The Group has not recognised deferred tax assets in respect of: Irish tax on unused tax losses at 31 December 2020 of € 161 million (2019: € 122 million); overseas tax (UK and USA) on unused tax losses of € 3,270 million (2019: € 3,309 million); and foreign tax credits for Irish tax purposes of € 12 million (2019: € 13 million). Of these tax losses totalling € 3,431 million for which no deferred tax is recognised: € 3 million expires in 2032; € 36 million in 2033; € 23 million in 2034; and € 5 million in 2035.

The aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates for which deferred tax liabilities have not been recognised amounted to Nil (2019: Nil).

Deferred tax recognised directly in equity amounted to Nil (2019: Nil).

Notes to the consolidated financial statements

29 Deferred taxation *(continued)*

Analysis of income tax relating to other comprehensive income

					2020
	Gross	Tax	Net of tax	Non-controlling interests net of tax	Net amount attributable to equity holders of the parent
	€ m	€ m	€ m	€ m	€ m
Loss for the year	(931)	190	(741)	28	(769)
Exchange translation adjustments	(70)	–	(70)	–	(70)
Net change in cash flow hedging reserves	81	(10)	71	–	71
Net change in fair value of investment securities at FVOCI	(83)	10	(73)	–	(73)
Net actuarial (losses) in retirement benefit schemes	(50)	12	(38)	–	(38)
Total comprehensive income for the year	(1,053)	202	(851)	28	(879)
Attributable to:					
Equity holders of the parent	(1,081)	202	(879)	–	(879)
Non-controlling interests	28	–	28	28	–

					2019
	Gross	Tax	Net of tax	Non-controlling interests net of tax	Net amount attributable to equity holders of the parent
	€ m	€ m	€ m	€ m	€ m
Profit for the year	499	(135)	364	37	327
Exchange translation adjustments	66	–	66	–	66
Net change in cash flow hedging reserves	211	(27)	184	–	184
Net change in fair value of investment securities at FVOCI	(61)	8	(53)	–	(53)
Net actuarial (losses) in retirement benefit schemes	(251)	63	(188)	–	(188)
Total comprehensive income for the year	464	(91)	373	37	336
Attributable to:					
Equity holders of the parent	427	(91)	336	–	336
Non-controlling interests	37	–	37	37	–

30 Retirement benefits

The Group operates a number of defined contribution and defined benefit schemes for employees. All defined benefit schemes are closed to future accrual.

Defined contribution schemes

From 1 January 2014, all Group staff accrue future pension benefits on a defined contribution ("DC") basis with a standard employer contribution of 10%. An additional matched employer contribution, subject to limits based on age bands of 2%, 5% or 8% is also paid into the schemes.

The amount included in operating expenses in respect of DC schemes is € 78 million (2019: € 80 million) (note 12).

Defined benefit schemes

All defined benefit schemes operated by the Group closed to future accrual no later than 31 December 2013 and staff transferred to defined contribution schemes for future pension benefits. The most significant defined benefit schemes operated by the Group are the AIB Group Irish Pension Scheme ('the Irish scheme') and the AIB Group UK Pension Scheme ('the UK scheme').

Retirement benefits for the defined benefit schemes are calculated by reference to service and Final Pensionable Salary at 31 December 2013. The Final Pensionable Salary used in the calculation of this benefit for staff is based on their average pensionable salary in the period between 30 June 2009 and 31 December 2013. This calculation of benefit for each staff member will revalue between 1 January 2014 and retirement date in line with the statutory requirement to revalue deferred benefits. There is no link to any future changes in salaries.

In the main Irish Scheme, there are 15,813 members comprising 4,186 pensioners and 11,627 deferred members at 31 December 2020. 7,762 members have benefits accrued from 2007 to 2013 under a hybrid arrangement. In addition, there are 980 members comprising 129 pensioners and 851 deferred members at 31 December 2020 in EBS Defined Benefit Schemes.

Responsibilities for governance

The Trustees of each Group pension scheme are ultimately responsible for the governance of the schemes.

Risks

Details of the pension risk to which the Group is exposed are set out in the Risk section on page 163 of this report.

Valuations

Independent actuarial valuations for the AIB Group Irish Pension Scheme ('Irish scheme') and the AIB Group UK Pension Scheme ('UK scheme') are carried out on a triennial basis by the Schemes' actuary, Mercer. The most recent valuation of the Irish scheme was carried out at 30 June 2018 and reported the scheme to be in surplus. No deficit funding is required at this time as the Irish scheme meets the minimum funding standard. The most recent valuation of the UK scheme was carried out at 31 December 2017. The next actuarial valuation of the UK scheme as at 31 December 2020 is due to be completed by no later than 31 December 2021. The Group and the Trustee of the UK scheme agreed funding payments under an arrangement agreed in December 2019 which is described below.

De-risking of the UK scheme

The Group and the Trustee undertook a substantial de-risking of the UK scheme in 2019. A transaction entered into involved the acquisition of two insurance contracts from Legal and General Assurance Society ("LGAS") using all of the assets of the UK scheme. These insurance contracts are: a pensioner buy-in contract in respect of the pensioner members and an assured payment policy ("APP") in respect of deferred members. The ultimate obligation to pay the members benefits still remains with the scheme.

The pensioner buy-in contract removes financial and demographic risk attaching to the current UK pensioners. This pensioner buy-in contract is effectively a qualifying insurance contract, and exactly matches the amount and timing of the benefits covered. Accordingly, the fair value of the pensioner buy-in contract is set equal to the corresponding value of the liabilities, using the same assumptions.

The APP significantly reduces the inflation and interest rate risk attaching to UK deferred members although demographic risks remain. The APP can (at the UK Trustee's election) be partially surrendered on an annual basis for the purpose of wholly or partially funding buy-in of further tranches of deferred members over a defined period of time. This will remove exposure to the risks not covered by the APP over time. The fair value of the APP is measured as the estimated cost of purchasing the contract on the open market.

The Group agreed with the Scheme Trustee a revised funding arrangement for the UK scheme to support the purchase of the pensioner buy-in contract and the APP. Under this funding arrangement, the Group expects to make payments of £ 18.5 million each year during 2021 to 2023, with the final balancing payment, which is currently expected to be c. £ 50 million, to be made in 2024/early 2025.

Notes to the consolidated financial statements

30 Retirement benefits *(continued)*

Contributions

Total contributions to all defined benefit pension schemes operated by the Group in 2020 amounted to € 36 million (2019: € 43 million). There were no contributions made to the Irish Scheme in 2020 (2019: € 12 million). Contributions of £ 30.5 million were made to the UK scheme (2019: £ 27 million) as part of the revised funding arrangement which was implemented in December 2019.

Total contributions to all defined benefit pension schemes operated by the Group for the year to 31 December 2021 are estimated to be € 21 million.

Financial assumptions

The following table summarises the financial assumptions adopted in the preparation of these financial statements in respect of the main schemes at 31 December 2020 and 2019. The assumptions have been set based upon the advice of the Group's actuary.

Financial assumptions	2020 %	2019 %
Irish scheme		
Rate of increase of pensions in payment[1]	**0.20**	0.00
Discount rate	**1.10**	1.42
Inflation assumptions[2]	**0.95**	1.05
UK scheme		
Rate of increase of pensions in payment	**2.90**	2.90
Discount rate	**1.40**	2.10
Inflation assumptions (RPI)	**2.90**	2.90
Other schemes		
Rate of increase of pensions in payment	**0.00 – 2.90**	0.00 – 2.90
Discount rate	**1.10 – 2.40**	1.40 – 3.15
Inflation assumptions	**0.95 – 2.90**	1.05 – 2.90

[1]In 2020, the Group revised the basis of the long term rate of increase of pensions in payment assumption for the Irish scheme as set out below.
[2]The inflation assumption applies to the revaluation of deferred members' benefits up to their retirement date.

30 Retirement benefits *(continued)*

Funding of increases in pensions in payment for the Irish defined benefit schemes

The Board has determined that the funding of discretionary increases to pensions in payment is a decision to be made by the Board each year. A process, taking account of all relevant interests and factors has been implemented by the Board. These interests and factors include: the advice of the Actuary; the interests of the members of the scheme; the interests of the employees; the Group's financial circumstances and ability to pay; the views of the Trustees; the Group's commercial interests and any competing obligations to the State. Under this annual process, the Group decided in February 2020 and in February 2021 that the funding of discretionary increases was not appropriate in either year.

Rate of increase of pensions in payment – Irish scheme

Notwithstanding the decision by the Board outlined above, during the second half of 2020, the Trustee of the Irish scheme awarded a 1.1% increase to pensions eligible for discretionary pension increases with effect from 1 April 2020. The impact of this increase has been reflected as an actuarial loss in these financial statements.

Taking this decision by the Trustee into consideration, the long term assumption for future discretionary increases in pension in payment now reflects an assessment of the Trustee's ability to grant further discretionary increases without funding from the Group. This change does not apply to the other Group pension schemes.

The Group, having taken actuarial advice, has adopted a rate of 0.2% for the long term assumption for future discretionary increases in pension in payment reflecting an assessment of the ability of the Trustee to grant future discretionary increases without funding from the Group. This has increased scheme liabilities by € 100 million at 31 December 2020.

Mortality assumptions

The life expectancies underlying the value of the scheme liabilities for the Irish and UK schemes at 31 December 2020 and 2019 are shown in the following table.

		Life expectancy – years			
		Irish scheme		UK scheme	
		2020	2019	**2020**	2019
Retiring today age 63					
	Males	**25.3**	25.2	**25.0**	25.0
	Females	**27.2**	27.1	**26.8**	26.7
Retiring in 10 years at age 63					
	Males	**26.1**	26.0	**25.4**	25.4
	Females	**28.2**	28.1	**27.7**	27.7

The mortality assumptions for the Irish and UK schemes were updated in 2017 and 2020 respectively, to reflect emerging market experience. The table shows that a member of the Irish scheme retiring at age 63 on 31 December 2020 is assumed to live on average for 25.3 years for a male (25.0 years for the UK scheme) and 27.2 years for a female (26.8 years for the UK scheme). There will be variation between members but these assumptions are expected to be appropriate for all members. The table also shows the life expectancy for members aged 53 on 31 December 2020 who will retire in ten years. Younger members are expected to live longer in retirement than those retiring now, reflecting a decrease in mortality rates in future years due to advances in medical science and improvements in standards of living.

Notes to the consolidated financial statements

30 Retirement benefits *(continued)*

Movement in defined benefit obligation and scheme assets

The following table sets out the movement in the defined benefit obligation and scheme assets during 2020 and 2019.

	2020				2019			
	Defined benefit obligation	Fair value of scheme assets	Asset ceiling/ minimum funding[1]	Net defined benefit (liabilities) assets	Defined benefit obligation	Fair value of scheme assets	Asset ceiling/ minimum funding[1]	Net defined benefit (liabilities) assets
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January	(5,904)	6,474	(591)	(21)	(5,323)	6,136	(621)	192
Included in profit or loss								
Past service cost	(1)	–		(1)	(12)	–		(12)
Settlement	–	–		–	3	(5)		(2)
Interest (cost)/income	(90)	98	(8)	–	(119)	139	(14)	6
Administration costs	–	(4)		(4)	–	(3)		(3)
	(91)	94	(8)	(5)	(128)	131	(14)	(11)
Included in other comprehensive income								
Re-measurements gain/(loss):								
– Actuarial gain/(loss) arising from:								
– Experience adjustments	(11)	–		(11)	(9)	–		(9)
– Changes in demographic assumptions	3	–		3	2	–		2
– Changes in financial assumptions	(502)	–		(502)	(620)	–		(620)
– Return on scheme assets excluding interest income	–	301		301	–	332		332
– Asset ceiling/minimum funding adjustments			159	159			44	44
				(50)[2]				(251)[2]
Translation adjustment on non-euro schemes	64	(63)		1	(52)	58		6
	(446)	238	159	(49)	(679)	390	44	(245)
Other								
Contributions by employer	–	36		36	–	43		43
Benefits paid	215	(215)		–	226	(226)		–
	215	(179)		36	226	(183)		43
At 31 December	(6,226)	6,627	(440)	(39)	(5,904)	6,474	(591)	(21)

	31 December 2020 € m	31 December 2019 € m
Recognised on the statement of financial position as:		
Retirement benefit assets		
UK scheme	26	32
Other schemes	3	7
Total retirement benefit assets	29	39
Retirement benefit liabilities		
Irish scheme	–	–
EBS scheme	(43)	(35)
Other schemes	(25)	(25)
Total retirement benefit liabilities	(68)	(60)
Net pension deficit	(39)	(21)

[1] In recognising the net surplus or deficit on a pension scheme, the funded status of each scheme is adjusted to reflect any minimum funding requirement and any ceiling on the amount that the sponsor has a right to recover from a scheme.

[2] After tax € 38 million (2019: € 188 million), see page 228.

30 Retirement benefits *(continued)*

Scheme assets

The following table sets out an analysis of the scheme assets:

	2020 € m	2019 € m
Cash and cash equivalents	193	74
Equity instruments		
Quoted equity instruments:		
Basic materials	70	78
Consumer goods	109	134
Consumer services	150	151
Energy	66	125
Financials	204	294
Healthcare	168	179
Industrials	140	166
Technology	249	222
Telecoms	113	121
Utilities	48	58
Total quoted equity instruments	1,317	1,528
Unquoted equity instruments	–	13
Total equity instruments	1,317	1,541
Debt instruments		
Quoted debt instruments		
Corporate bonds	881	624
Government bonds	1,775	1,589
Total quoted debt instruments	2,656	2,213
Real estate[(1)(2)]	257	278
Derivatives	14	(28)
Investment funds		
Quoted investment funds		
Alternatives	11	25
Bonds	279	375
Cash	6	7
Equity	262	248
Fixed interest	128	114
Forestry	40	38
Liability driven	117	111
Multi-asset	12	122
Property	–	1
Total quoted investment funds	855	1,041
Total investment funds	855	1,041
Mortgage backed securities[(2)]	238	297
Insurance contracts[(3)]	1,097	1,058
Fair value of scheme assets at 31 December	6,627	6,474

[(1)]Located in Europe.
[(2)]A quoted market price in an active market is not available.
[(3)]For valuation see page 303.

Notes to the consolidated financial statements

30 Retirement benefits *(continued)*

Sensitivity analysis for principal assumptions used to measure scheme liabilities

There are inherent uncertainties surrounding the financial assumptions adopted in calculating the liabilities of the pension schemes. Set out in the table below is a sensitivity analysis of the key assumptions for the Irish scheme and the UK scheme at 31 December 2020. It is not considered appropriate to give a sensitivity analysis for the rate of increase of pensions in payment for the Irish scheme as it is dependent on actuarial advice at the reporting date.

Note that the changes in assumptions are independent of each other i.e. the effect of the reflected change in the discount rate assumes that there has been no change in the rate of mortality assumption and vice versa.

	Irish scheme defined benefit obligation		UK scheme defined benefit obligation	
	Increase € m	Decrease € m	Increase € m	Decrease € m
Discount rate (0.25% movement)	(205)	223	(50)	53
Inflation (0.25% movement)	55	(51)	49	(46)
Future mortality (1 year change in life expectancy)	122	(122)	47	(47)

Maturity of the defined benefit obligation

The weighted average duration of the Irish scheme at 31 December 2020 is 18 years and of the UK scheme at 31 December 2020 is 19 years.

Asset-liability matching strategies

The investment strategy of de-risking the Irish scheme continued during 2020 as there was a further increase in the level of bonds and liability matching assets. The scheme also reduced its level of equities and has an equity protection strategy in place.

As part of the investment strategy of the UK scheme, it was significantly de-risked in 2019 when the Scheme entered into two insurance contracts with LGAS as described above (a pensioner buy-in contract in respect of the pensioner members and an APP contract in respect of the deferred members).

Other long term employee benefits

Includes additional benefits which the Group provides to employees who suffer prolonged periods of sickness, subject to the qualifying terms of the insurer. It provides for the partial replacement of income in event of illness or injury resulting in the employee's long term absence from work.

Furthermore, on the death of an employee before their normal retirement date, the Group has in place insurance policies to cover the additional financial costs to the Group under the terms of the schemes.

In 2020, the Group contributed € 9 million (2019: € 9 million) towards insuring these benefits which are included in Operating expenses (note 12).

31 Deposits by central banks and banks

	2020 € m	2019 € m
Central Banks		
Eurosystem refinancing operations	4,000	–
Borrowings – secured	278	294
– unsecured	–	178
	4,278	472
Banks		
Securities sold under agreements to repurchase	195	–
Other borrowings – unsecured	217	351
	412	351
	4,690	823
Amounts include:		
Due to associated undertakings	–	–

Eurosystem refinancing operations are credit facilities from the Eurosystem secured by a fixed charge over securities and relates to Targeted Long Term Refinancing Operation III ("TLTRO III"). For further details on TLTRO III see note 50.

Securities sold under agreements to repurchase mature within six months and are secured by Irish Government bonds, other marketable securities and eligible assets. These agreements are completed under market standard Global Master Repurchase Agreements. There were € 195 million repurchase agreements outstanding at 31 December 2020 (2019: Nil).

Deposits by central banks and banks include cash collateral at 31 December 2020 of € 204 million (2019: € 285 million) received from derivative counterparties in relation to net derivative positions (note 42) and also from repurchase agreement counterparties.

Financial assets pledged

Financial assets pledged under existing agreements to repurchase, for secured borrowings, and providing access to future funding facilities with central banks and banks are detailed in the following table:

	2020			2019		
	Central banks € m	Banks € m	Total € m	Central banks € m	Banks € m	Total € m
Total carrying value of financial assets pledged	4,768	210	4,978	1,452	17	1,469
Of which:						
Government securities	2,473	192	2,665	–	17	17
Other securities[1]	2,295	18	2,313	1,452	–	1,452

[1]The Group has issued covered bonds secured on pools of residential mortgages. Securities, other than those issued to external investors, have been pledged as collateral in addition to other securities held by the Group.

Notes to the consolidated financial statements

32 Customer accounts

	2020 € m	2019 € m
Current accounts	49,013	40,283
Demand deposits	20,426	17,742
Time deposits	12,493	13,755
Securities sold under agreements to repurchase[1]	15	–
Other – non-controlling interests[2]	25	23
	81,972	71,803
Of which:		
Non-interest bearing current accounts	39,310	32,544
Interest bearing deposits, current accounts and short term borrowings	42,662	39,259
	81,972	71,803
Amounts include:		
Due to associated undertakings	277	208

[1]At 31 December 2020, the Group had pledged government investment securities with a fair value of € 16 million as collateral for these facilities (see note 42 for further information).
[2]Relates to long term loans from minority shareholders in Augmentum Limited, see note 40.

Customer accounts include cash collateral of € 81 million (2019: € 89 million) received from derivative counterparties in relation to net derivative positions (note 42).

At 31 December 2020, the Group's five largest customer deposits amounted to 1% (2019: 1%) of total customer accounts.

33 Debt securities in issue

	2020 € m	2019 € m
Issued by AIB Group plc		
Euro Medium Term Note Programme	1,750	1,750
Global Medium Term Note Programme	1,425	1,556
	3,175	3,306
Issued by subsidiaries		
Bonds and medium term notes:		
Euro Medium Term Note Programme	–	500
Bonds and other medium term notes	2,275	3,025
	2,275	3,525
	5,450	6,831

Analysis of movements in debt securities in issue

	2020 € m	2019 € m
At 1 January	6,831	5,745
Issued during the year	–	1,640
Matured	(1,250)	(565)
Amortisation of discounts net of premiums	–	–
Exchange translation adjustments	(131)	11
At 31 December	5,450	6,831

All the issuances by AIB Group plc are eligible to meet the Group's MREL requirements. These instruments are redeemable for tax or for regulatory reasons, subject to the permission of the relevant regulation authority.

34 Lease liabilities

	2020 € m	2019 € m
At 31 December	**382**	429
Maturity analysis – contractual undiscounted cash flows:		
Not later than one year	**53**	61
Later than one year and not later than five years	**182**	193
Later than five years	**240**	281
Total undiscounted lease liabilities at end of year	**475**	535

Analysis of movements in lease liabilities	2020 € m	2019 € m
At 1 January	**429**	465
Lease payments[1]	**(63)**	(72)
Interest expense[1]	**13**	13
Additions	**6**	23
Net re-measurements	**(1)**	(2)
Foreign exchange translation adjustments	**(2)**	2
At 31 December	**382**	429

[1]Repayment of lease liabilities amount to € 50 million (2019: € 59 million) i.e. lease payments net of interest expense.

35 Other liabilities

	2020 € m	2019 € m
Notes in circulation	**145**	213
Items in transit	**81**	94
Creditors	**42**	46
Fair value of hedged liability positions[1]	**156**	113
Other[2]	**531**	403
	955	869

[1]The fair value of the hedged liability positions only relates to when the hedging item is at amortised cost.

[2]Includes bank drafts € 193 million (2019: € 153 million), invoice discounting credit balances on customer accounts € 96 million (2019: Nil), items in course of collection € 11 million (2019: € 14 million), the purchase of debt securities awaiting settlement Nil (2019: € 38 million).

Notes to the consolidated financial statements

36 Provisions for liabilities and commitments

	Onerous contracts	Legal claims	ROU[1] commit-ments	Other provisions	ECLs on loan commit-ments	ECLs on financial guarantee contracts	2020 Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2020	**10**	**37**	**15**	**399**	**19**	**23**	**503**
Transfers in	**–**	**(3)**	**–**	**3**	**–**	**–**	**–**
Charged to income statement	**–**	**6[2]**	**–**	**93[2]**	**46[3]**	**14[3]**	**159**
Released to income statement	**–**	**(3)[2]**	**–**	**(16)[2]**	**(11)[3]**	**(7)[3]**	**(37)**
Provisions utilised	**(8)**	**(3)**	**–**	**(216)**	**–**	**–**	**(227)**
Exchange translation adjustments	**–**	**–**	**–**	**(1)**	**–**	**(1)**	**(2)**
At 31 December 2020	**2**	**34**	**15**	**262**	**54**	**29**	**396[4]**

	Onerous contracts	Legal claims	ROU[1] commit-ments	Other provisions	ECLs on loan commit-ments	ECLs on financial guarantee contracts	2019 Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 31 December 2018	65	39	–	57	25	33	219
Impact of adopting IFRS 16 at 1 January 2019	(3)	–	12	–	–	–	9
Restated balance at 1 January 2019	62	39	12	57	25	33	228
Transfers in	–	(1)	–	1	–	–	–
Charged to income statement	1[2]	6[2]	–	430[2]	13[3]	6[3]	456
Released to income statement	(1)[2]	(3)[2]	–	(8)[2]	(19)[3]	(16)[3]	(47)
Dilapidation provisions	–	–	2	–	–	–	2
Provisions utilised	(52)	(4)	–	(81)	–	–	(137)
Unwind of discount	–	–	1	–	–	–	1
At 31 December 2019	10	37	15	399	19	23	503[4]

[1]Provisions for dilapidations included in measurement of right-of-use assets ('ROU').

[2]Included in 'General and administrative expenses' in note 12 'Operating expenses'.

[3]Included in 'Net credit impairment charge' (note 13) other than a debit of € 3 million (2019: a credit of € 5 million) which is included in 'Net gain/(loss) on derecognition of financial assets measured at amortised cost' (note 10).

[4]Excluding ECLs on loan commitments and financial guarantee contracts, the total provisions for liabilities and commitments expected to be settled within one year amount to € 228 million (31 December 2019: € 380 million).

36 Provisions for liabilities and commitments *(continued)*

(a) Other provisions

Includes the provisions for customer redress and related matters, UK restructuring provision, other restitution provisions and miscellaneous provisions.

FSPO Decision and Tracker Mortgage Examination related provisions

FSPO Decision: The provision at 31 December 2020 for customer redress and compensation and other related costs amounted to € 80 million (31 December 2019: € 265 million) in respect of certain mortgage customers – the '06-09 Ts & Cs[1] who never had a tracker' cohort.

Following a complaint to the Financial Services and Pensions Ombudsman ('FSPO') by a customer from the '06-09 Ts & Cs who never had a tracker' cohort, the Group received a preliminary decision in January 2020 which found that the Bank had breached the terms of the customer's mortgage loan contract and directed it to remedy the matter in what the FSPO believed was a fair and proportionate manner. The Group considered this preliminary decision and recorded a provision of € 265 million as at 31 December 2019 based on an initial assessment of the likelihood that the same remedy may be due to all customers in this cohort.

The Group subsequently received the FSPO's final decision and decided to accept the decision in full and furthermore decided to apply the remedy to all other customers within this cohort, with payments to customers commencing in July 2020. Following intervention by the Central Bank of Ireland, some of these customers were also deemed eligible for inclusion in the Tracker Mortgage Examination. This resulted in € 14 million of the original provision being reclassified accordingly.

The Group continues to engage with stakeholders and a number of related issues also exist that have yet to be resolved, including tax liabilities arising that the Group will be required to discharge on behalf of impacted customers. Notwithstanding the near completion of payments to customers based on the FSPO decision, the level of provision required for these other costs has been assessed at € 80 million which resulted in a release of € 4 million in the year.

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

[1]Terms and conditions.

Tracker Mortgage Examination: In respect of customer redress and compensation a provision of € 8 million is held at 31 December 2020 for the ongoing appeals process and any individual impacted accounts which may be identified under the Tracker Mortgage Examination. Provisions, including the € 14 million reclassified as noted earlier, amounting to € 208 million were created in the period 2015 to 2020 (€ 13 million in 2020). Over € 200 million of these provisions have now been utilised (€ 25 million in 2020).

The provision at 31 December 2020 for 'Other costs' amounted to € 8 million (31 December 2019: € 5 million). Provisions amounting to € 97 million were created in the period 2015 to 2020 (€ 3 million 2020). Over € 89 million of these provisions have now been utilised (Nil in 2020).

In March 2018, AIB and EBS were advised by the CBI of the commencement of investigations as part of an administrative sanctions procedure in connection with the Tracker Mortgage Examination. The investigations relate to alleged breaches of the relevant consumer protection legislation, principally, regarding inadequate controls or instances where AIB or EBS acted with a lack of transparency, unfairly or without due skill and care. The investigations are ongoing and AIB and EBS are co-operating with the CBI.

In this regard, the Group previously created a provision of € 70 million in 2019 for the impact of monetary penalties that is expected to be imposed on the Group by the CBI. However, this matter is still ongoing, and the Group has retained the provision of € 70 million, as it remains the Group's best estimate. This is subject to uncertainty with a range of outcomes possible with the final outcome being higher or lower depending on finalisation of all matters associated with the investigation.

Further disclosures in relation to the wider impact of Tracker Mortgage Examination are contained in note 43: Contingent liabilities and commitments, in the section 'Legal Proceedings'.

UK restructuring provision

A provision for restructuring costs of € 28 million, in relation to the implementation of a revised strategy in the UK, was created at 31 December 2020 of which € 21 million relates to expected costs of termination benefits for staff impacted by the reorganisation.

(b) ECLs on loan commitments and financial guarantee contracts

The ECL allowance on loan commitments and financial guarantee contracts are presented as a provision in the balance sheet (i.e. as a liability under IFRS 9) and separate from the ECL allowance on financial assets.

For details of the internal credit ratings and geographic concentration of contingent liabilities and commitments, see pages 129 and 140 in the 'Risk management' section of this report.

Notes to the consolidated financial statements

37 Subordinated liabilities and other capital instruments

		2020 € m	2019 € m
Dated loan capital – European Medium Term Note Programme:			
Issued by AIB Group plc			
€ 500 million Subordinated Tier 2 Notes due 2029, Callable 2024	(a)	**500**	500
€ 1 billion Subordinated Tier 2 Notes due 2031, Callable 2026	(b)	**1,000**	–
Issued by subsidiaries			
€ 750 million Subordinated Tier 2 Notes due 2025, Callable 2020	(c)	**–**	750
€ 500m Callable Step-up Floating Rate Notes due October 2017			
– nominal value € 25.5 million (maturity extended to 2035 as a result of the SLO)	(d)	**11**	10
£ 368m 12.5% Subordinated Notes due June 2019			
– nominal value £ 79 million (maturity extended to 2035 as a result of the SLO)	(d)	**38**	38
£ 500m Callable Fixed/Floating Rate Notes due March 2025			
– nominal value £ 1 million (maturity extended to 2035 as a result of the SLO)	(d)	**1**	1
		50	799
		1,550	1,299

Maturity of dated loan capital	2020 € m	2019 € m
Dated loan capital outstanding is repayable as follows:		
5 years or more	**1,550**	1,299

Dated loan capital

The dated loan capital in this section is subordinated in right of payment to senior creditors, including depositors, of the respective issuing entities. Following the implementation in Ireland of the EU (Bank Recovery and Resolution) Regulations 2015, these notes are loss absorbing at the point of non-viability.

(a) € 500 million Subordinated Tier 2 Notes due 2029, Callable 2024

On 19 November 2019, AIB Group plc issued € 500 million Subordinated Tier 2 Notes due 2029, Callable 2024.

These notes mature on 19 November 2029 but may be redeemed in whole, but not in part, at the option of the Group on the optional redemption date on 19 November 2024, subject to the approval of the regulatory authorities, with approval being conditional on meeting the requirements of the EU Capital Requirements Regulation.

The notes bear interest on the outstanding nominal amount at a fixed rate of 1.875%, payable annually in arrears on 19 November each year. The interest rate will be reset on 19 November 2024 to Eur 5 year Mid Swap rate plus the initial margin of 215 basis points.

(b) € 1 billion Subordinated Tier 2 Notes due 2031, Callable 2026

On 23 September 2020, AIB Group plc issued € 1 billion Subordinated Tier 2 Notes due 2031, Callable 2026.

These notes mature on 30 May 2031 but may be redeemed in whole, but not in part, at the option of the Group on the optional redemption date on 30 May 2026, subject to the approval of the regulatory authorities, with approval being conditional on meeting the requirements of the EU Capital Requirements Regulation.

The notes bear interest on the outstanding nominal amount at a fixed rate of 2.875%, payable annually in arrears on 30 May each year. The interest rate will be reset on 30 May 2026 to Eur 5 year Mid Swap rate plus the initial margin of 330 basis points.

37 Subordinated liabilities and other capital instruments *(continued)*

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

The € 750 million Subordinated Tier 2 Notes issued by Allied Irish Banks, p.l.c. on 26 November 2015 were redeemed in full on the optional redemption date 26 November 2020.

The notes bore interest on the outstanding nominal amount up to the optional redemption date at a fixed rate of 4.125%, payable annually in arrears on 26 November each year.

(d) Other dated subordinated loan capital

Following the liability management exercises and the Subordinated Liabilities Order ("SLO") in 2011, residual balances remained on the dated loan capital instruments above. The SLO, which was effective from 22 April 2011, changed the terms of all of those outstanding dated loan capital instruments. The original liabilities were derecognised and new liabilities were recognised, with their initial measurement based on the fair value at the SLO effective date. The contractual maturity date changed to 2035 as a result of the SLO, and payment of coupons became optional at the discretion of the Group. The Board of Allied Irish Banks, p.l.c. has considered the matter and as at the date of this report, the Group's position is that coupons are not paid on these instruments. These instruments will amortise to their nominal value in the period to their maturity in 2035.

38 Share capital

	31 December 2020		31 December 2019	
	Number of shares m	€ m	Number of shares m	€ m
Authorised				
Ordinary share capital				
Ordinary shares of € 0.625 each	**4,000.0**	**2,500**	4,000.0	2,500
Issued and fully paid				
Ordinary share capital				
Ordinary shares of € 0.625 each[1]	**2,714.4**	**1,696**	2,714.4	1,696

[1]Number of shares in issue: 2,714,381,237.

There were no movements in issued share capital during 2019 and 2020.

Warrants

In 2017, AIB issued warrants to the Minister for Finance to subscribe for 271,166,685 ordinary shares of AIB representing 9.99% of the issued share capital. The exercise price for the warrants is 200% of the Offer Price of € 4.40 per ordinary share, the Offer Price being the price in euro per ordinary share which was payable under the IPO. This price may be adjusted in accordance with the terms of the Warrant Instrument and the warrants will be capable of exercise by the holder of the warrants during the period commencing on 27 June 2018 and ending on 27 June 2027.

In accordance with the terms of the Warrant Agreement, no cash consideration was payable by the Minister to AIB in respect of the issue of the warrants.

Notes to the consolidated financial statements

38 Share capital *(continued)*

Structure of the Company's share capital

The following table shows the structure of the Company's share capital:

	31 December 2020		31 December 2019	
	Authorised share capital %	**Issued share capital %**	Authorised share capital %	Issued share capital %
Class of share				
Ordinary share capital	**100**	**100**	100	100

Capital resources

The following table shows the Group's capital resources:

	31 December	
	2020 € m	2019 € m
Equity	**13,421**	14,230
Dated capital notes (note 37)	**1,550**	1,299
Total capital resources	**14,971**	15,529

39 Other equity interests

		2020 € m	2019 € m
Issued by AIB Group plc			
€ 500 million Additional Tier 1 Perpetual Contingent Temporary Write-Down Securities issued 2019	(a)	**496**	496
€ 625 million Additional Tier 1 Perpetual Contingent Temporary Write-Down Securities issued 2020	(b)	**619**	–
Total		**1,115**	496

Other equity interests of € 1,115 million (2019: € 496 million) comprise Additional Tier 1 Perpetual Contingent Temporary Write-Down Securities ('AT1s') issued by AIB Group plc ('the Company'). The securities, which are accounted for as equity in the statement of financial position, are included in the Group's capital base.

(a) In 2019, the Company issued € 500 million nominal value of Additional Tier 1 Perpetual Contingent Temporary Write-Down Securities ('AT1s').

Interest on the securities, at a fixed rate of 5.250% per annum, is payable semi-annually in arrears on 9 April and 9 October, commencing on 9 April 2020. On the first reset date on 9 April 2025, in the event that the securities are not redeemed, interest will be reset to the relevant 5 year fixed rate plus a margin of 570.2 bps per annum. The interest payment is fully discretionary and non-cumulative and conditional upon the Company being solvent at the time of payment, having sufficient distributable reserves and not being required by the regulatory authorities to cancel an interest payment.

The securities are perpetual securities with no fixed redemption date. The Company may, in its sole and full discretion, subject to regulatory approval, redeem all (but not some only) of the securities on any day falling in the period commencing on (and including) 9 October 2024 and ending on (and including) the first reset date or on any interest payment date thereafter at the prevailing principal amount together with accrued but unpaid interest. In addition, the securities are redeemable at the option of the Company for certain regulatory or tax reasons, subject to regulatory approval.

The securities, which do not carry voting rights, rank pari passu with holders of other tier 1 instruments (excluding the Company's ordinary shares). They rank ahead of the holders of ordinary share capital of the Company but junior to the claims of senior creditors and to Tier 2 capital of the Company.

Under the EU (Bank Recovery and Resolution) Regulations 2015, these securities are loss absorbing at the point of non-viability.

Furthermore, if the CET1 ratio of the Group at any time falls below 7%, subject to certain conditions, the Company shall write-down the AT1s by the write-down amount and irrevocably cancel any accrued and unpaid interest up to (but excluding) the write-down date. To the extent permitted, in order to comply with regulatory capital and other requirements, the Company may reinstate any previously written down amount.

39 Other equity interests *(continued)*

(b) In 2020, the Company issued € 625 million nominal value of Additional Tier 1 Perpetual Contingent Temporary Write-Down Securities ('AT1s'). The transaction costs incurred were € 6 million.

Interest on the securities, at a fixed rate of 6.250% per annum, is payable semi-annually in arrears on 23 June and 23 December, commencing on 23 December 2020. On the first reset date on 23 December 2025, in the event that the securities are not redeemed, interest will be reset to the relevant 5 year fixed rate plus a margin of 662.9 bps per annum. The interest payment is fully discretionary and non-cumulative and conditional upon the Company being solvent at the time of payment, having sufficient distributable reserves and not being required by the regulatory authorities to cancel an interest payment.

The securities are perpetual securities with no fixed redemption date. The Company may, in its sole and full discretion, subject to regulatory approval, redeem all (but not some only) of the securities on any day falling in the period commencing on (and including) 23 June 2025 and ending on (and including) the first reset date or on any interest payment date thereafter at the prevailing principal amount together with accrued but unpaid interest. In addition, the securities are redeemable at the option of the Company for certain regulatory or tax reasons, subject to regulatory approval.

The securities, which do not carry voting rights, rank pari passu with holders of other tier 1 instruments (excluding the Company's ordinary shares). They rank ahead of the holders of ordinary share capital of the Company but junior to the claims of senior creditors and to Tier 2 capital of the Company.

Under the EU (Bank Recovery and Resolution) Regulations 2015, these securities are loss absorbing at the point of non-viability.

Furthermore, if the CET1 ratio of the Group at any time falls below 7%, subject to certain conditions, the Company shall write-down the AT1s by the write-down amount and irrevocably cancel any accrued and unpaid interest up to (but excluding) the write-down date. To the extent permitted by regulatory capital requirements, the Company may reinstate any previously written down amount.

40 Non-controlling interests in subsidiaries

	2020 € m	2019 € m
At 1 January	**495**	494[1]
Acquisition of subsidiary	**–**	1
Additions	**2**	–
Non-controlling interests share of net (loss)/profit	**28**	37
Redemption of Additional Tier 1 Securities issued by subsidiary	**(494)**	–
Distributions paid on Additional Tier 1 Securities issued by subsidiary	**(30)**	(37)
At 31 December	**1**	495
Of which:		
Equity interests in subsidiary	**1**	1
Additional Tier 1 Securities issued by subsidiary	**–**	494

[1]Relates to a reclassification from "Other equity interests" during 2019.

Additional Tier 1 Perpetual Contingent Temporary Write-Down Securities

In 2015, Allied Irish Banks, p.l.c. issued € 500 million nominal value of Additional Tier 1 Perpetual Contingent Temporary Write-Down Securities ('AT1s'). Following a tender process in June 2020, € 202 million of the securities were redeemed for € 207 million, with the remaining € 298 million AT1 redeemed in full in December 2020. The loss arising on the redemptions amounted to € 9 million and was recognised directly in equity.

Non-controlling interests in subsidiary undertaking

Augmentum Limited is 75% owned by AIB and 25% owned by First Data Global Services Limited. Augmentum Limited, in turn, holds 96.77% of the equity share capital of Semeral Limited with non-controlling interests holding the residual. During 2020 additional equity was contributed by the shareholders in Augmentum.

Semeral/Payzone place of business: 4 Heather Road, Sandyford Industrial Estate, Dublin 18.

Notes to the consolidated financial statements

41 Capital reserves, merger reserve and capital redemption reserves

	2020			2019		
Capital reserves	Capital contribution reserves € m	Other capital reserves € m	Total € m	Capital contribution reserves € m	Other capital reserves € m	Total € m
At beginning and end of year	955[1]	178	1,133	955[1]	178	1,133

[1]Relates to the acquisition of EBS d.a.c.

For details regarding the capital contribution reserves, refer to accounting policy (aa) in note 1.

Merger reserve	2020 € m	2019 € m
At beginning and end of year	(3,622)	(3,622)

For details regarding merger reserve, refer to accounting policy (aa) in note 1.

Capital redemption reserves	2020 € m	2019 € m
At beginning and end of year	14	14

42 Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's statement of financial position; or
- are subject to enforceable master netting arrangements or similar agreements that cover similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and advances and customer accounts are not included in the tables below unless they are offset in the statement of financial position.

The Group has a number of ISDA Master Agreements (netting agreements) in place which allow it to net the termination values of derivative contracts upon the occurrence of an event of default with respect to its counterparties. The enforcement of netting agreements would potentially reduce the statement of financial position carrying amount of derivative assets and liabilities by € 804 million at 31 December 2020 (2019: € 575 million).

The Group's sale and repurchase and reverse sale and repurchase transactions and securities borrowing and lending are covered by netting agreements with terms similar to those of ISDA Master Agreements. Additionally, the Group has agreements in place which may allow it to net the termination values of cross currency swaps upon the occurrence of an event of default.

The ISDA Master Agreements and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position as they create a right of set-off of recognised amounts that become enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties. In addition, the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The Group provides and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives
- sale and repurchase agreements
- reverse sale and repurchase agreements
- securities lending and borrowing

Collateral is subject to the standard industry terms of Credit Support Annexes ('CSAs'), which enable the Group to pledge or sell securities received during the term of the transaction. The collateral must be returned on the maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions where the counterparty fails to post collateral. The CSAs in place provide collateral for derivative contracts. At 31 December 2020, € 450 million (2019: € 643 million) of CSAs are included within financial assets and € 257 million (2019: € 347 million) of CSAs are included within financial liabilities.

42 Offsetting financial assets and financial liabilities *(continued)*

The following table shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements at 31 December 2020 and 2019:

							2020
					Related amounts not offset in the statement of financial position		
Financial assets	**Note**	**Gross amounts of recognised financial assets € m**	**Gross amounts of recognised financial liabilities offset in the statement of financial position € m**	**Net amounts of financial assets presented in the statement of financial position € m**	**Financial instruments € m**	**Financial collateral (including cash collateral) received € m**	**Net amount € m**
Derivative financial instruments	20	1,244	–	1,244	(804)	(202)	238
Loans and advances to banks –							
Reverse repurchase agreements	21	3,012	(2,818)	194	(194)	(27)	(27)
Securities borrowings	21	513	–	513	(510)	–	3
Loans and advances to customers –							
Reverse repurchase agreements	22	104	–	104	(107)	–	(3)
Total		4,873	(2,818)	2,055	(1,615)	(229)	211

							2020
					Related amounts not offset in the statement of financial position		
Financial liabilities	**Note**	**Gross amounts of recognised financial liabilities € m**	**Gross amounts of recognised financial assets offset in the statement of financial position € m**	**Net amounts of financial liabilities presented in the statement of financial position € m**	**Financial instruments € m**	**Financial collateral (including cash collateral) pledged € m**	**Net amount € m**
Deposits by central banks and banks –							
Securities sold under agreements to repurchase	31	3,013	(2,818)	195	(193)	(8)	(6)
Customer accounts –							
Securities sold under agreements to repurchase	32	15	–	15	(16)	–	(1)
Derivative financial instruments	20	1,181	–	1,181	(804)	(394)	(17)
Total		4,209	(2,818)	1,391	(1,013)	(402)	(24)

Notes to the consolidated financial statements

42 Offsetting financial assets and financial liabilities *(continued)*

							2019
					Related amounts not offset in the statement of financial position		
Financial assets	**Note**	Gross amounts of recognised financial assets € m	Gross amounts of recognised financial liabilities offset in the statement of financial position € m	Net amounts of financial assets presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) received € m	Net amount € m
Derivative financial instruments	20	1,131	–	1,131	(575)	(268)	288
Loans and advances to banks –							
Reverse repurchase agreements	21	5,116	(4,965)	151	(151)	(21)	(21)
Loans and advances to customers –							
Reverse repurchase agreements	22	87	–	87	(86)	–	1
Total		6,334	(4,965)	1,369	(812)	(289)	268

							2019
					Related amounts not offset in the statement of financial position		
Financial liabilities	**Note**	Gross amounts of recognised financial liabilities € m	Gross amounts of recognised financial assets offset in the statement of financial position € m	Net amounts of financial liabilities presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) pledged € m	Net amount € m
Deposits by central banks and banks –							
Securities sold under agreements to repurchase	31	4,965	(4,965)	–	–	–	–
Customer accounts –							
Securities sold under agreements to repurchase	32	–	–	–	–	–	–
Derivative financial instruments	20	1,181	–	1,181	(575)	(564)	42
Total		6,146	(4,965)	1,181	(575)	(564)	42

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured on the following bases:

- derivative assets and liabilities – fair value;
- loans and advances to banks – amortised cost;
- loans and advances to customers – amortised cost;
- deposits by central banks and banks – amortised cost; and
- customer accounts – amortised cost.

42 Offsetting financial assets and financial liabilities *(continued)*

The following table reconciles the 'Net amounts of financial assets and financial liabilities presented in the statement of financial position', as set out in the previous pages to the line items presented in the statement of financial position at 31 December 2020 and 2019:

				2020
Financial assets	**Net amounts of financial assets presented in the statement of financial position € m**	**Line item in statement of financial position**	**Carrying amounts in statement of financial position € m**	**Financial assets not in scope of offsetting disclosures € m**
Derivative financial instruments	**1,244**	Derivative financial instruments	**1,424**	**180**
Loans and advances to banks –				
Reverse repurchase agreements	**194**	Loans and advances to banks		
Securities borrowings	**513**	Loans and advances to banks	**1,799**	**1,092**
Loans and advances to customers –				
Reverse repurchase agreements	**104**	Loans and advances to customers	**56,945**	**56,841**

				2020
Financial liabilities	**Net amounts of financial liabilities presented in the statement of financial position € m**	**Line item in statement of financial position**	**Carrying amounts in statement of financial position € m**	**Financial liabilities not in scope of offsetting disclosures € m**
Deposits by central banks and banks –				
Securities sold under agreement to repurchase	**195**	Deposits by central banks and banks	**4,690**	**4,495**
Customer accounts –				
Securities sold under agreement to repurchase	**15**	Customer accounts	**81,972**	**81,957**
Derivative financial instruments	**1,181**	Derivative financial instruments	**1,201**	**20**

				2019
Financial assets	Net amounts of financial assets presented in the statement of financial position € m	Line item in statement of financial position	Carrying amounts in statement of financial position € m	Financial assets not in scope of offsetting disclosures € m
Derivative financial instruments	1,131	Derivative financial instruments	1,271	140
Loans and advances to banks –				
Reverse repurchase agreements	151	Loans and advances to banks	1,478	1,327
Loans and advances to customers –				
Reverse repurchase agreements	87	Loans and advances to customers	60,888	60,801

				2019
Financial liabilities	Net amounts of financial liabilities presented in the statement of financial position € m	Line item in statement of financial position	Carrying amounts in statement of financial position € m	Financial liabilities not in scope of offsetting disclosures € m
Deposits by central banks and banks –				
Securities sold under agreement to repurchase	–	Deposits by central banks and banks	823	823
Customer accounts –				
Securities sold under agreement to repurchase	–	Customer accounts	71,803	71,803
Derivative financial instruments	1,181	Derivative financial instruments	1,197	16

Notes to the consolidated financial statements

43 Contingent liabilities and commitments

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk to meet the financing needs of customers. These instruments involve, to varying degrees, elements of credit risk which are not reflected in the consolidated statement of financial position. Credit risk is defined as the possibility of sustaining a loss because the other party to a financial instrument fails to perform in accordance with the terms of the contract.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and risk management policies in undertaking off-balance sheet commitments as it does for 'on- balance sheet lending'.

The following table gives the nominal or contract amounts of contingent liabilities and commitments:

	Contract amount	
	2020 € m	2019 € m
Contingent liabilities[1] – credit related		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	**631**	596
Other contingent liabilities	**91**	115
	722	711
Commitments[2]		
Documentary credits and short term trade-related transactions	**92**	84
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year[3]	**8,537**	8,129
1 year and over[4]	**3,875**	3,326
	12,504	11,539
	13,226	12,250

[1]Contingent liabilities are off-balance sheet products and include guarantees, irrevocable letters of credit and other contingent liability products such as performance bonds.
[2]A commitment is an off-balance sheet product, where there is an agreement to provide an undrawn credit facility. The contract may or may not be cancelled unconditionally at any time without notice depending on the terms of the contract.
[3]An original maturity of up to and including 1 year or which may be cancelled at any time without notice.
[4]An original maturity of more than 1 year.

For details of the credit ratings and geographic concentration of contingent liabilities and commitments, see pages 129 to 140 in the 'Risk management' section of this report.

Provisions for ECLs on loan commitments and financial guarantee contracts are set out in note 36.

43 Contingent liabilities and commitments *(continued)*

Legal proceedings

The Group, in the course of its business, is frequently involved in litigation cases. However, it is not, nor has been involved in, nor are there, so far as the Group is aware, (other than as set out in the following paragraphs), pending or threatened by or against the Group any legal or arbitration proceedings, including governmental proceedings, which may have, or have had during the previous twelve months, a material effect on the financial position, profitability or cash flows of the Group.

Specifically, litigation has been served on the Group by customers that are pursuing claims in relation to tracker mortgages. Customers have also lodged complaints to the Financial Services and Pensions Ombudsman ("FSPO") in relation to tracker mortgages issues which are outlined in 'Provisions for liabilities and commitments' (note 36).

Further claims may also be served in the future in relation to tracker mortgages. The Group will also receive further rulings by the FSPO in relation to complaints concerning tracker mortgages.

Based on the facts currently known and the current stages that the litigation and the FSPO's complaints process is at, it is not practicable at this time to predict the final outcome of this litigation/FSPO complaints, nor the timing and possible impact on the Group.

During the period 2002 to 2006 the Group sold a series of investment property funds, known as Belfry, to individual investors. Following losses in those funds, c. 250 investors (who had invested c. £ 30 million) issued claims for alleged mis-selling which have been ongoing in the Courts since 2015. In the intervening period the Courts have determined that a large portion of the Plaintiffs' claims are statute barred. A Supreme Court decision in December 2020 means that the remaining claims will now be considered by the Courts on their merits for the first time, with the first hearing scheduled for June 2021. The continued strategy is to robustly defend these claims. Based on the facts currently known and the current stage that the litigation is at, it is not practicable at this time to predict the final outcome of this litigation, nor the timing and possible impact on the Group.

Chargeback risk

As outlined in note 25, the Group has a 49.9% equity interest in Zolter Services d.a.c. (Zolter) which owns 100% of First Merchant Processing (Ireland) d.a.c. (FMPI), trading as AIB Merchant Services (AIBMS). FMPI activities are principally focused on the provision of merchant processing services (acquiring) in respect of card transactions to merchants in Ireland, the UK, Europe and a number of markets globally.

As a merchant acquirer, FMPI processes payments for point of sale and e-commerce transactions on behalf of its merchants. If a merchant fails to deliver goods or services which have been paid for by card transactions supported by FMPI, the purchaser of the goods or services may seek a refund from the merchant or raise a claim from their card issuer, also known as a "chargeback" under VISA, MasterCard and Other Schemes rules. In the event that the merchant is unwilling or unable to pay a valid chargeback, FMPI bears the potential financial exposure.

The FMPI management team and Board of Directors regularly monitors and assesses the potential exposure arising from chargebacks. At 31 December 2020, FMPI carries a gross exposure to potential chargebacks amounting to c. € 4 billion across many areas of economic activity, including wholesale independent sales organisations, retail, airlines, hotels, restaurants and government. The FMPI Directors have undertaken a risk assessment of these key chargeback exposures and is of the view that FMPI does not need to make any material provision for this potential chargeback exposure. It is acknowledged that given the impact of COVID-19, the related uncertainties affecting merchants and the sustainability of their business models, there is uncertainty in relation to the chargeback exposure. However, the underlying assumption continues to be that merchants will recommence providing, or continue to provide, goods and services to cardholders, thus reducing and mitigating potential gross chargeback exposure.

In the unlikely event that FMPI is unable to meet its obligations arising from chargebacks, the exposure reverts to AIB Group (Allied Irish Banks, p.l.c. or AIB Group (UK) p.l.c.) as the principal members of the card schemes for FMPI. An indemnity is in place whereby the owner of the remaining 50.1% of Zolter would bear 50.1% of any of such potential losses.

Notes to the consolidated financial statements

43 Contingent liabilities and commitments *(continued)*

Participation in TARGET 2 – Ireland

AIB participates in the TARGET 2–Ireland system, the Irish component of TARGET 2, which is the real time gross settlement system for large volume interbank payments in euro. The following disclosures relate to charges provided by AIB to secure its payment obligations arising from participation in TARGET 2.

On 15 February 2008, AIB executed a deed of charge pursuant to which it created a first floating charge in favour of the Central Bank of Ireland ("Central Bank") over all of its right, title, interest and benefit, present and future, in and to the balances then or at any time standing to the accounts held by AIB with any Eurosystem central bank for the purpose of participation in TARGET 2.

In addition, AIB and the Central Bank entered into a Framework Agreement in respect of Eurosystem Operations (dated 7 April 2014), which include the credit line facility for intra-day credit in TARGET 2–Ireland. In order to secure its obligations under the Framework Agreement, AIB executed a deed of charge (dated 7 April 2014). Pursuant to the deed, AIB created a first fixed charge in favour of the Central Bank over all of its right, title, interest and benefit, present and future, in and to eligible assets (as identified as such by the Central Bank) which are held in a designated collateral account.

Both deeds of charge contain provisions that during the existence of the security, otherwise than with the prior written consent of the Central Bank, AIB shall not:

(a) create or attempt to create or permit to arise or permit any encumbrance on or over the charged property or any part thereof; or
(b) otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the property subject to the floating charge or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

In addition, under the 2014 charge, AIB undertakes not to sell, transfer, lend or otherwise dispose of or deal in the assets subject to the fixed charge or any part thereof or, in each case, attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

44 Subsidiaries and consolidated structured entities

The material Group subsidiary companies at 31 December 2020 and 2019 are:

Name of company	Principal activity	Place of incorporation	Registered Office
Allied Irish Banks, p.l.c.	A direct subsidiary of AIB Group plc and the principal operating company of the Group and holds the majority of the subsidiaries within the Group. Its activities include banking and financial services – a licensed bank	Ireland	10 Molesworth Street, Dublin 2, Ireland.
AIB Mortgage Bank Unlimited Company	Issue of mortgage covered securities – a licensed bank	Ireland	10 Molesworth Street, Dublin 2, Ireland.
EBS d.a.c.	Mortgages and savings – a licensed bank	Ireland	The EBS Building, 2 Burlington Road, Dublin 4, Ireland.
AIB Group (UK) p.l.c. trading as Allied Irish Bank (GB) in Great Britain and AIB (NI) in Northern Ireland	Banking and financial services – a licensed bank	Northern Ireland	92 Ann Street, Belfast BT1 3HH.

The proportion of ownership interest and voting power held by AIB Group plc in Allied Irish Banks, p.l.c. is 100% of the ordinary share capital. All subsidiaries of Allied Irish Banks, p.l.c., being the immediate subsidiary of AIB Group plc, are wholly owned apart from Augmentum Limited in which there are non-controlling interests (note 40). Practically all subsidiaries in the Group are involved in the provision of financial services or ancillary services.

44 Subsidiaries and consolidated structured entities *(continued)*

Significant restrictions

Each of the subsidiaries listed above which is a licensed bank is required by its respective financial regulator to maintain capital ratios above a certain minimum level. These minimum ratios restrict the payment of dividend by the subsidiary and, where the ratios fall below the minimum requirement, will require the parent company to inject capital to make up the shortfall.

Consolidated structured entities

The Group has acted as sponsor and invested in a number of special purpose entities ("SPEs") in order to generate funding for the Group's lending activities (with the exception of AIB PFP Scottish Limited Partnership). The Group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity.

The following SPEs are consolidated by the Group:

- Burlington Mortgages No. 1 DAC;
- Emerald Mortgages No. 5 d.a.c. (liquidator appointed in 2019);
- Mespil 1 RMBS d.a.c (liquidator appointed in 2019);
- AIB PFP Scottish Limited Partnership.

Further details on these SPEs are set out in note 45.

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

The Group has no interests in unconsolidated structured entities.

Acquisition of subsidiary

On 31 October 2019, Augmentum Limited ('Augmentum'), of which 75% is owned by AIB and 25% by a non-controlling interest, First Data Global Services Limited (part of First Data Corporation which is owned by Fiserv Inc.), acquired 96.77% of the equity share capital and voting rights of Semeral Limited ('Semeral'), the holding company for Payzone Ireland Limited ('Payzone'). Total consideration paid amounted to € 79 million. Furthermore, the transaction whereby Semeral issued shares to Augmentum for a subscription price of € 22 million was not part of the business combination, however, it was accounted for as an investment in subsidiary undertakings by Augmentum and consolidated accordingly.

The Group recognised acquired intangible assets with a fair value € 50 million which consisted of customer contracts and customer relationships and internally generated software.

The acquisition gave rise to the recognition of goodwill of € 70 million. The goodwill is mainly attributable to Payzone's fintech capability and its substantial footprint in Ireland.

Notes to the consolidated financial statements

45 Off-balance sheet arrangements and transferred financial assets

Under IFRS, transactions and events are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. As a result, the substance of transactions with a special purpose entity ("SPE") forms the basis for their treatment in the Group's financial statements. An SPE is consolidated in the financial statements when the substance of the relationship between the Group and the SPE indicates that the SPE is controlled by the entity and meets the criteria set out in IFRS 10 *Consolidated Financial Statements*. The principal forms of SPE utilised by the Group are securitisations and employee compensation trusts.

Securitisations

The Group utilises securitisations primarily to support the following business objectives:

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

The Group controls certain special purpose entities which were set up to support its funding activities. Details of these special purpose entities are set out below under the heading 'Special purpose entities'. The Group controls two special purpose entities set up in relation to the funding of the Group Pension Schemes which are also detailed below.

Securities borrowing and lending

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss is included in trading income.

Employee compensation trusts

The Group and some of its subsidiary companies use trust structures to benefit employees and to facilitate the ownership of the Group's equity by employees. The Group consolidates these trust structures where the risks and rewards of the underlying shares have not been transferred to the employees. All outstanding shares held by Trustees were disposed of during 2018.

Transfer of financial assets

The Group enters into transactions in the normal course of business in which it transfers previously recognised financial assets. Transferred financial assets may, in accordance with IFRS 9 *Financial Instruments*:

(i) continue to be recognised in their entirety; or
(ii) be derecognised in their entirety but the Group retains some continuing involvement.

The most common transactions where the transferred assets are not derecognised in their entirety are sale and repurchase agreements, issuance of covered bonds and securitisations.

(i) Transferred financial assets not derecognised in their entirety

Sale and repurchase agreements/securities lending

Sale and repurchase agreements are transactions in which the Group sells a financial asset to another party, with an obligation to repurchase it at a fixed price on a certain later date. The Group continues to recognise the financial assets in full in the statement of financial position as it retains substantially all the risks and rewards of ownership. The Group's sale and repurchase agreements are with banks and customers. The obligation to pay the repurchase price is recognised within 'Deposits by central banks and banks' (note 31) and 'Customer accounts' (note 32). As the Group sells the contractual rights to the cash flows of the financial assets, it does not have the ability to use or pledge the transferred assets during the term of the sale and repurchase agreement. The Group remains exposed to credit risk and interest rate risk on the financial assets sold. Details of sale and repurchase activity are set out in notes 31 and 32. The obligation arising as a result of sale and repurchase agreements together with the carrying value of the financial assets pledged are set out in the table below.

The Group enters into securities lending in the form of collateral swap agreements with other parties. The Group continues to recognise the financial assets in full in the statement of financial position as it retains substantially all the risks and rewards of ownership. As a result of these transactions, the Group is unable to use, sell or pledge the transferred assets for the duration of the transaction. A fee is generated for the Group under this transaction.

45 Off-balance sheet arrangements and transferred financial assets *(continued)*

Issuance of covered bonds

Covered bonds, which the Group issues, are debt securities backed by cash flows from mortgages for the purpose of financing loans secured on residential property through its wholly owned subsidiary, AIB Mortgage Bank Unlimited Company. (During 2020, EBS Mortgage Finance ("EBSMF") transferred its loan portfolio to EBS d.a.c. and at the request of EBSMF, its regulators the European Central Bank and Central Bank of Ireland confirmed the withdrawal of EBSMF's banking licence and designated mortgage credit institution authorisation with effect from 2 February 2021 and accordingly EBSMF will no longer issue covered bonds.) The Group retains all the risks and rewards of these mortgage loans, including credit risk and interest rate risk, and therefore, the loans continue to be recognised on the Group's statement of financial position with the related covered bonds held by external investors included within 'Debt securities in issue' (note 33). As the Group segregates the assets which back these debt securities into "cover asset pools" it does not have the ability to otherwise use such segregated financial assets during the term of these debt securities. However, of the total debt securities of this type issued amounting to € 10.7 billion, internal Group companies hold € 8.4 billion which are eliminated on consolidation.

Special purpose entities

Securitisations are transactions in which the Group sells loans and advances to customers (mainly mortgages) to special purpose entities ("SPEs"), which, in turn, issue notes to external investors. The notes issued by the SPEs are on terms which result in the Group retaining the majority of ownership risks and rewards and therefore, the loans continue to be recognised in the Group's statement of financial position. The Group remains exposed to credit risk, interest rate risk and foreign exchange risk on the loans sold. The liability in respect of the cash received from the external investors is included within 'Debt securities in issue' (note 33). 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.

Burlington Mortgages No. 1 DAC

In 2020, the Group securitised € 4 billion of its residential mortgage portfolio held in two of its subsidiaries, EBS d.a.c. and Haven Mortgages Limited. These mortgages were transferred to a securitisation vehicle, Burlington Mortgages No. 1 DAC "Burlington". In order to fund the acquired mortgages, Burlington issued twelve classes of notes to EBS d.a.c. and Haven in the same proportion as the mortgages securitised. The transferred mortgages have not been derecognised as the Group retains substantially all the risks and rewards of ownership and continue to be reported in the Group's financial statements. Burlington is consolidated into the Group's financial statements with all the notes being eliminated on consolidation. At 31 December 2020, the carrying amount of the transferred financial assets which the Group continues to recognise is € 3.7 billion (fair value is € 3.8 billion) and the carrying amount of the associated liabilities is Nil.

Arising from the acquisition of EBS on 1 July 2011, the Group has control of the following special purpose entities which had previously been set up by EBS: Emerald Mortgages No. 5 d.a.c. and Mespil 1 RMBS d.a.c.

Emerald Mortgages No. 5 d.a.c.

Following the repurchase by EBS d.a.c. of the mortgage portfolio and the redemption of outstanding bonds in 2019, a liquidator was appointed to the company on 11 December 2019 and this process is expected to conclude in early 2021. (The bonds issued by Emerald 5 to EBS d.a.c. were not shown in the Group's financial statements as they were eliminated on consolidation previously).

Mespil 1 RMBS d.a.c.

Following the repurchase by EBS d.a.c. and Haven Mortgages Limited of the mortgage portfolio and the redemption of outstanding bonds in 2019, a liquidator was appointed to the company on 5 December 2019 and this process is expected to conclude in early 2021. (The bonds issued by Mespil 1 RMBS d.a.c. to EBS d.a.c. were not shown in the Group's financial statements, as these bonds were eliminated on consolidation).

Notes to the consolidated financial statements

45 Off-balance sheet arrangements and transferred financial assets *(continued)*

The following table summarises at 31 December 2020 and 2019, the carrying value and fair value of financial assets which did not qualify for derecognition together with their associated financial liabilities

					2020
	Carrying amount of transferred assets € m	Carrying amount of associated liabilities € m	Fair value of transferred assets € m	Fair value of associated liabilities € m	Net fair value position € m
Sale and repurchase agreements/similar products	3,039[1][2]	210[1]	3,039	210	2,829
Covered bond programmes					
Residential mortgage backed	3,184[3]	2,275[4]	3,314	2,327	987

					2019
	Carrying amount of transferred assets € m	Carrying amount of associated liabilities € m	Fair value of transferred assets € m	Fair value of associated liabilities € m	Net fair value position € m
Sale and repurchase agreements/similar products	5,222[1][2]	–[1]	5,222	–	5,222
Covered bond programmes					
Residential mortgage backed	4,599[3]	3,025[4]	4,698	3,104	1,594

[1]See notes 31 and 32.

[2]Includes € 2,813 million of assets pledged in relation to securities lending arrangements (2019: € 5,205 million).

[3]The asset pools of € 15 billion (2019: € 18 billion) in the covered bond programme have been apportioned on a pro-rata basis in relation to the value of bonds held by external investors and those held by the Group companies. The € 3,184 million (2019: € 4,599 million) above refers to those assets apportioned to external investors.

[4]Included in 'Bonds and other medium term notes' issued by subsidiaries (note 33).

AIB Group (UK) p.l.c. Pension Scheme interest in the AIB PFP Scottish Limited Partnership

In December 2013, the Group agreed with the Trustee of the AIB UK Defined Benefit Pension Scheme ("the UK scheme") a restructure of the funding of the deficit in the UK scheme.

The Group established a pension funding partnership, AIB PFP Scottish Limited Partnership ("SLP") under which a portfolio of loans were transferred to the SLP from another Group entity, AIB UK Loan Management Limited ("UKLM") for the purpose of ring-fencing the repayments on these loans to fund future deficit payments of the UK scheme.

Assets ring–fenced for this purpose entitled the UK Scheme to expected annual payments in the range of £ 15 million to £ 35 million per annum from 2016 until 2032, with a potential termination payment in 2032 of up to £ 60 million. Following the approval of the 2017 triennial valuation in May 2019, the annual payments were set at £ 15 million per annum, commencing 1 January 2019. However, this funding plan was replaced in December 2019, as part of the de-risking of the UK scheme (note 30). Under this funding arrangement, the Group expects to make further payments of £ 18.5 million each year during 2021 to 2023, with the final balancing payment, which is currently expected to be c. £ 50 million, to be made in 2024/early 2025.

The general partner in the partnership, AIB PFP (General Partner) Limited which is an indirect subsidiary of Allied Irish Banks, p.l.c., has controlling power over the partnership. In addition, the majority of the risks and rewards will be borne by the Group as the pension scheme has a priority right to the cash flows from the partnership, such that the variability in recoveries is expected to be borne by the Group through UKLM's junior partnership interest. As UKLM continues to bear substantially all the risks and rewards of the loans, the loans are not derecognised from UKLM's balance sheet and accordingly, the Group has determined that the SLP should be consolidated into the Group.

45 Off-balance sheet arrangements and transferred financial assets *(continued)*

(ii) Transferred financial assets derecognised in their entirety but the Group retains some continuing involvement

AIB has a continuing involvement in transferred financial assets where it retains any of the risks and rewards of ownership of the transferred financial assets. Set out below are transactions in which AIB has a continuing involvement in assets transferred.

Pension scheme

On 31 July 2012, AIB entered into a Contribution Deed with the Trustee of the AIB Group Irish Pension Scheme ('the Irish Scheme'), whereby it agreed to make contributions to the scheme to enable the Trustee ensure that the regulatory Minimum Funding Standard position of non-pensioner members of the pension scheme was not affected by the agreed early retirement scheme. These contributions amounting to € 594 million were settled through the transfer to the Irish Scheme of interests in an SPE owning loans and advances previously transferred at fair value from the Group. The loans and advances were derecognised in the Group's financial statements as all of the risks and rewards of ownership had transferred.

A subsidiary company of the Group was appointed as a service provider for the loans and advances transferred. Under the servicing agreement, the Group subsidiary company collects the cash flows on the transferred loans and advances on behalf of the pension scheme in return for a fee. The fee is based on an annual rate of 0.125% of the principal balance outstanding of all transferred loans and advances on the last day of each calendar month. The Group has not recognised a servicing asset/liability in relation to this servicing arrangement as the fee is considered to be a market rate. Under the servicing agreement, the Irish Scheme has the right to replace the Group subsidiary company as the service provider with an external third party. In 2020, the Group recognised € 0.6 million (cumulative € 8.2 million) (2019: € 0.7 million (cumulative € 7.6 million)) in the income statement for the servicing of the loans and advances transferred.

NAMA

During 2010 and 2011, AIB transferred financial assets with a net carrying value of € 15,428 million to NAMA. All assets transferred were derecognised in their entirety.

As part of this transaction, the Group has provided NAMA with a series of indemnities relating to the transferred assets. Also, on the dissolution or restructuring of NAMA, the Irish Minister for Finance ('the Minister') may require a report and accounts to be prepared. If NAMA reports an aggregate loss since its establishment and this is unlikely to be made good, the Minister may impose a surcharge on the participating institution. This will involve apportioning the loss on the participating institution, subject to certain restrictions, on the basis of the book value of the assets transferred by the institution in relation to the total book value of assets transferred by all participating institutions. At this stage, it is not possible to quantify the exposure to loss, if any, which may arise on the dissolution or restructuring of NAMA.

In addition, the Group was appointed by NAMA as a service provider for the loans and advances transferred, for which it receives a fee. The fee is based on the lower of actual costs incurred or 0.1% of the value of the financial assets transferred. The Group has not recognised a servicing asset/liability in relation to this servicing arrangement. In 2020, the Group recognised € 2 million (cumulative € 96 million) (2019: € 3 million (cumulative € 94 million)) in the income statement for the servicing of financial assets transferred to NAMA.

Notes to the consolidated financial statements

46 Classification and measurement of financial assets and financial liabilities

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The accounting policy for financial assets in note 1 (l) and financial liabilities in note 1 (m), describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the carrying amounts of the financial assets and financial liabilities by measurement category and by statement of financial position heading at 31 December 2020 and 2019.

							2020
	At fair value through profit or loss	At fair value through other comprehensive income			At amortised cost		Total
	Mandatorily	Debt investments	Equity investments	Cash flow hedge derivatives	Loans and advances	Other	
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets							
Cash and balances at central banks	–	–	–	–	24,932	618[1]	25,550
Items in course of collection	–	–	–	–	43	–	43
Derivative financial instruments	868[2]	–	–	556	–	–	1,424
Loans and advances to banks	–	–	–	–	1,799	–	1,799
Loans and advances to customers	75	–	–	–	56,870	–	56,945
Investment securities	201	15,675	–	–	–	3,603	19,479
Other financial assets	–	–	–	–	–	365	365
	1,144	15,675	–	556	83,644	4,586	105,605
Financial liabilities							
Deposits by central banks and banks	–	–	–	–	–	4,690	4,690
Customer accounts	–	–	–	–	–	81,972	81,972
Derivative financial instruments	1,087[3]	–	–	114	–	–	1,201
Debt securities in issue	–	–	–	–	–	5,450	5,450
Subordinated liabilities and other capital instruments	–	–	–	–	–	1,550	1,550
Other financial liabilities	–	–	–	–	–	970	970
	1,087	–	–	114	–	94,632	95,833

							2019
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets							
Cash and balances at central banks	–	–	–	–	11,323	659[1]	11,982
Items in course of collection	–	–	–	–	57	–	57
Derivative financial instruments	783[2]	–	–	488	–	–	1,271
Loans and advances to banks	–	–	–	–	1,478	–	1,478
Loans and advances to customers	77	–	–	–	60,811	–	60,888
Investment securities	357	15,881	458	–	–	635	17,331
Other financial assets	–	–	–	–	–	890	890
	1,217	15,881	458	488	73,669	2,184	93,897
Financial liabilities							
Deposits by central banks and banks	–	–	–	–	–	823	823
Customer accounts	–	–	–	–	–	71,803	71,803
Derivative financial instruments	1,074[3]	–	–	123	–	–	1,197
Debt securities in issue	–	–	–	–	–	6,831	6,831
Subordinated liabilities and other capital instruments	–	–	–	–	–	1,299	1,299
Other financial liabilities	–	–	–	–	–	1,004	1,004
	1,074	–	–	123	–	81,760	82,957

[1]Comprises cash on hand.
[2]Held for trading € 650 million (2019: € 592 million) and fair value hedges € 218 million (2019: € 191 million).
[3]Held for trading € 646 million (2019: € 771 million) and fair value hedges € 441 million (2019: € 303 million).

47 Fair value of financial instruments

The term 'financial instruments' includes both financial assets and financial liabilities. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market, or in its absence, the most advantageous market to which the Group has access at that date. The Group's accounting policy for the 'determination of fair value of financial instruments' is set out in note 1 accounting policy (o).

The valuation of financial instruments, including loans and advances, involves the application of judgement and estimation. Market and credit risks are key assumptions in the estimation of the fair value of loans and advances. The Group has estimated the fair value of its loans to customers taking into account market risk and the changes in credit quality of its borrowers.

Fair values are based on observable market prices where available, and on valuation models or techniques where the lack of market liquidity means that observable prices are unavailable. The fair values of financial instruments are measured according to the following fair value hierarchy that reflects the observability of significant market inputs:

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

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

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

All financial instruments are initially recognised at fair value. Financial instruments held for trading, those whose contractual terms do not give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI"), and financial instruments in fair value hedge relationships are subsequently measured at fair value through profit or loss. Financial assets in a held-to-collect-and-sell business model which pass the SPPI test and cash flow hedge derivatives are subsequently measured at fair value through other comprehensive income ("FVOCI").

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

Readers of these financial statements are advised to use caution when using the data in the following tables to evaluate the Group's financial position or to make comparisons with other institutions. Fair value information is not provided for items that do not meet the definition of a financial instrument. These items include intangible assets such as the value of the branch network and the long term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the Group as a going concern at 31 December 2020.

The methods used for calculation of fair value in 2020 are as follows:

Financial instruments measured at fair value in the financial statements

Trading portfolio financial instruments

The fair value of trading debt securities, together with quoted equity shares is based on quoted prices or bid/offer quotations sourced from external securities dealers, where these are available on an active market. Where securities and equities are traded on an exchange, the fair value is based on prices from the exchange.

Derivative financial instruments

Where derivatives are traded on an exchange, the fair value is based on prices from the exchange. The fair value of over-the-counter derivative financial instruments is estimated based on standard market discounting and valuation methodologies which use reliable observable inputs including yield curves and market rates. These methodologies are implemented by the Finance function and validated by the Risk function. Where there is uncertainty around the inputs to a derivatives' valuation model, the fair value is estimated using inputs which provide the Group's view of the most likely outcome in a disposal transaction between willing counterparties in a functioning market. Where an unobservable input is material to the outcome of the valuation, a range of potential outcomes from favourable to unfavourable is estimated.

Counterparty valuation adjustment ("CVA") and Funding valuation adjustment ("FVA") are applied to all uncollateralised over-the-counter derivatives. The combination of CVA and FVA is referred to as XVA.

CVA is calculated as: Expected positive exposure ("EPE") multiplied by probability of default ("PD") multiplied by loss given default ("LGD"). EPE profiles are generated at a counterparty netting set through simulation. PDs are derived from market based credit default swaps ("CDS") information. As most counterparties do not have a quoted CDS, PDs are derived by mapping each counterparty to an index CDS credit grade. LGDs are based on the specific circumstances of the counterparty and take into account valuation of offsetting security, where applicable. For smaller exposures where security valuations are not individually assessed, an LGD of 60% is applied 2019: 60%).

Notes to the consolidated financial statements

47 Fair value of financial instruments *(continued)*

FVA is calculated as: Expected exposure ("EE") multiplied by funding spread ("SF") multiplied by counterpart survival probability (1-PD). EE profiles (net of expected positive and negative exposures) are generated at a counterparty netting set through simulation. Funding spreads used are an average implied by CDSs for the Group's most active external derivative counterparties. The rationale in applying these spreads is to best estimate the FVA which a counterparty would apply in a transaction to close out the Group's existing positions. The application of FVA, while an overall negative adjustment, contains within it the benefit of own credit.

Within the range of estimates and fair value sensitivity measurements, a favourable and an adverse scenario have been selected for PDs and LGDs for CVA. The favourable/adverse scenario for customer PDs are (i) a single rating upgrade and (ii) a single rating downgrade, respectively. Customer LGDs are shifted according to estimates of improvement in value of security compared with potential derivatives market values. Within the combination of LGD and PD, both are shifted together yielding positive and negative valuations which are disclosed as potential alternative valuations on page 338. For FVA, a favourable scenario is the use of the bond yields of the Group's most active derivative counterparties while an adverse scenario is a downgrade in the CDS of the reference entities used to derive funding spreads.

Investment securities

The fair value of investment securities has been estimated based on expected sale proceeds. The expected sale proceeds are based on bid prices which have been analysed and compared across multiple sources for reliability. Where bid prices are unavailable, fair values are estimated by valuation techniques using observable market data for similar instruments. Where there is no market data for a directly comparable instrument, management judgement on an appropriate credit spread to similar or related instruments with market data available is used within the valuation technique. This is supported by cross referencing other similar or related instruments.

Loans and advances to customers

The Group provides lending facilities of varying rates and maturities to corporate and personal customers.

Valuation techniques are used in estimating the fair value of loans, primarily using discounted cash flows and applying market rates where practicable and taking credit risk into account.

With regard to the above valuation techniques regarding cash flows and discount rates, a key assumption for loans and advances is that the carrying amount of variable rate loans (excluding mortgage products) approximates to market value. For fixed rate loans, the fair value is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in that portfolio.

The fair value of mortgage products, including tracker mortgages, is calculated by discounting expected cash flows using discount rates that reflect the interest rate/credit risk in the portfolio.

The majority of loans and advances to customers are held at amortised cost, however, the Group has a small number of loans and advances which are required to be measured at fair value through profit or loss ('FVTPL') having failed the SPPI test. The valuation techniques used apply equally to those held at FVTPL and those held at amortised cost.

Financial instruments not measured at fair value but with fair value information presented separately in the notes to the financial statements

Loans and advances to banks

The fair value of loans and advances to banks is estimated using discounted cash flows applying either market rates, where practicable, or rates currently offered by other financial institutions for placings with similar characteristics.

Loans and advances to customers at amortised cost

See methodology above under the heading 'Loans and advances to customers'.

47 Fair value of financial instruments *(continued)*

Deposits by central banks and banks and customer accounts

The fair value of current accounts and deposit liabilities which are repayable on demand, or which re-price frequently, approximates to their book value. The fair value of all other deposits and other borrowings is estimated using discounted cash flows applying either market rates, where applicable, or interest rates currently offered by the Group.

Subordinated liabilities and debt securities in issue

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

Other financial assets and other financial liabilities

This caption includes accrued interest receivable and payable and other receivables (including amounts awaiting settlement and accounts payable). The carrying amount is considered representative of fair value.

Commitments pertaining to credit-related instruments

Details of the various credit-related commitments and other off-balance sheet financial guarantees entered into by the Group are included in note 43. Fees for these instruments may be billed in advance or in arrears on an annual, quarterly or monthly basis. In addition, the fees charged vary on the basis of instrument type and associated credit risk. As a result, it is not considered practicable to estimate the fair value of these instruments because each customer relationship would have to be separately evaluated.

The table on the following pages sets out the carrying amount and fair value of financial instruments across the three levels of the fair value hierarchy at 31 December 2020 and 2019:

Notes to the consolidated financial statements

47 Fair value of financial instruments *(continued)*

					2020
	Carrying amount	Fair Value			
		Fair value hierarchy			
	€ m	Level 1 € m	Level 2 € m	Level 3 € m	Total € m
Financial assets measured at fair value					
Derivative financial instruments:					
Interest rate derivatives	1,353	–	864	489	1,353
Exchange rate derivatives	70	–	70	–	70
Credit derivatives	1	–	1	–	1
Loans and advances to customers at FVTPL	75	–	–	75	75
Investment debt securities at FVOCI:					
Government securities	6,793	6,793	–	–	6,793
Supranational banks and government agencies	1,180	1,180	–	–	1,180
Asset backed securities	419	344	75	–	419
Bank securities	6,793	6,793	–	–	6,793
Corporate securities	490	490	–	–	490
Equity investments at FVOCI	–	–	–	–	–
Equity investments at FVTPL	201	24	–	177	201
	17,375	15,624	1,010	741	17,375
Financial assets not measured at fair value					
Cash and balances at central banks	25,550	618[1]	24,932	–	25,550
Items in the course of collection	43	–	–	43	43
Loans and advances to banks	1,799	–	378	1,421	1,799
Loans and advances to customers:					
Mortgages[2]	29,901	–	–	30,459	30,459
Non-mortgages	26,969	–	–	27,087	27,087
Total loans and advances to customers	56,870	–	–	57,546	57,546
Investment debt securities measured at amortised cost	3,603	2,973	–	796	3,769
Other financial assets	365	–	–	365	365
	88,230	3,591	25,310	60,171	89,072
Financial liabilities measured at fair value					
Derivative financial instruments:					
Interest rate derivatives	1,145	–	1,065	80	1,145
Exchange rate derivatives	46	–	46	–	46
Equity derivatives	1	–	1	–	1
Credit derivatives	9	–	9	–	9
	1,201	–	1,121	80	1,201
Financial liabilities not measured at fair value					
Deposits by central banks and banks:					
Other borrowings	217	–	–	217	217
Secured borrowings	4,473	–	4,278	195	4,473
Customer accounts:					
Current accounts	49,013	–	–	49,013	49,013
Demand deposits	20,426	–	–	20,426	20,426
Time deposits	12,518	–	–	12,561	12,561
Securities sold under agreements to repurchase	15	–	–	15	15
Debt securities in issue	5,450	5,689	36	–	5,725
Subordinated liabilities and other capital instruments	1,550	1,571	68	–	1,639
Other financial liabilities	970	–	–	970	970
	94,632	7,260	4,382	83,397	95,039

[1]Comprises cash on hand.
[2]Includes residential and commercial mortgages.

47 Fair value of financial instruments *(continued)*

					2019
	Carrying amount	Fair Value			
		Fair value hierarchy			
	€ m	Level 1 € m	Level 2 € m	Level 3 € m	Total € m
Financial assets measured at fair value					
Derivative financial instruments:					
Interest rate derivatives	1,230	–	783	447	1,230
Exchange rate derivatives	36	–	36	–	36
Equity derivatives	5	–	5	–	5
Loans and advances to customers at FVTPL	77	–	–	77	77
Investment debt securities at FVOCI:					
Government securities	7,046	7,046	–	–	7,046
Supranational banks and government agencies	1,034	1,034	–	–	1,034
Asset backed securities	328	237	91	–	328
Bank securities	6,997	6,997	–	–	6,997
Corporate securities	476	476	–	–	476
Equity investments at FVOCI	458	–	–	458	458
Equity investments at FVTPL	357	46	–	311	357
	18,044	15,836	915	1,293	18,044
Financial assets not measured at fair value					
Cash and balances at central banks	11,982	659[1]	11,323	–	11,982
Items in the course of collection	57	–	–	57	57
Loans and advances to banks	1,478	–	468	1,010	1,478
Loans and advances to customers:					
Mortgages[2]	30,972	–	–	30,890	30,890
Non-mortgages	29,839	–	–	29,943	29,943
Total loans and advances to customers	60,811	–	–	60,833	60,833
Investment debt securities measured at amortised cost	635	45	–	590	635
Other financial assets	890	–	–	890	890
	75,853	704	11,791	63,380	75,875
Financial liabilities measured at fair value					
Derivative financial instruments:					
Interest rate derivatives	998	–	892	106	998
Exchange rate derivatives	180	–	180	–	180
Equity derivatives	6	–	6	–	6
Credit derivatives	13	–	12	1	13
	1,197	–	1,090	107	1,197
Financial liabilities not measured at fair value					
Deposits by central banks and banks:					
Other borrowings	529	–	178	351	529
Secured borrowings	294	–	294	–	294
Customer accounts:					
Current accounts	40,283	–	–	40,283	40,283
Demand deposits	17,742	–	–	17,742	17,742
Time deposits	13,778	–	–	13,813	13,813
Debt securities in issue	6,831	7,060	36	–	7,096
Subordinated liabilities and other capital instruments	1,299	1,281	84	–	1,365
Other financial liabilities	1,004	–	–	1,004	1,004
	81,760	8,341	592	73,193	82,126

[1]Comprises cash on hand.
[2]Includes residential and commercial mortgages.

Notes to the consolidated financial statements

47 Fair value of financial instruments *(continued)*

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

There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy for the years ended 31 December 2020 and 2019.

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table shows a reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy:

								2020
	Financial assets						Financial liabilities	
	Derivatives	Investment securities		Loans and advances at FVTPL	Equities at FVTPL	Total	Derivatives	Total
		Debt	Equities at FVOCI					
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2020	447	–	458	77	311	1,293	107	107
Transfers into/out of level 3[1]	–	–	–	–	–	–	–	–
Total gains or (losses) in:								
Profit or loss:								
Net trading income	42	–	–	–	–	42	(27)	(27)
Net change in FVTPL	–	–	–	41	29	70	–	–
	42	–	–	41	29	112	(27)	(27)
Other comprehensive income:								
Net change in fair value of investment securities	–	–	(21)	–	–	(21)	–	–
Net change in fair value of cash flow hedges	–	–	–	–	–	–	–	–
	–	–	(21)	–	–	(21)	–	–
Purchases/additions	–	–	–	–	30	30	–	–
Sales/disposals	–	–	(437)	–	(193)	(630)	–	–
Cash received:								
Principal	–	–	–	(43)	–	(43)	–	–
At 31 December 2020	489	–	–	75	177	741	80	80

								2019
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2019	359	9	468	147	236	1,219	122	122
Transfers into/out of level 3[1]	–	(9)	–	–	1	(8)	–	–
Total gains or (losses) in:								
Profit or loss:								
Net trading income	88	–	–	–	–	88	(15)	(15)
Net change in FVTPL	–	–	–	66	72	138	–	–
	88	–	–	66	72	226	(15)	(15)
Other comprehensive income:								
Net change in fair value of investment securities	–	–	(10)	–	–	(10)	–	–
Net change in fair value of cash flow hedges	–	–	–	–	–	–	–	–
	–	–	(10)	–	–	(10)	–	–
Purchases/additions	–	–	–	5	26	31	–	–
Sales/disposals	–	–	–	(54)	(24)	(78)	–	–
Cash received:								
Principal	–	–	–	(87)	–	(87)	–	–
At 31 December 2019	447	–	458	77	311	1,293	107	107

[1]Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

47 Fair value of financial instruments *(continued)*

The table below sets out the total gains or losses included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at 31 December 2020 and 2019:

	2020 € m	2019 € m
Net trading income – gains	89	155
Gains on equity investments at FVTPL	23	70
Gains on loans and advances at FVTPL	–	1
	112	226

Significant unobservable inputs

The table below sets out information about significant unobservable inputs used in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

		Fair value				Range of estimates	
Financial instrument		2020 € m	2019 € m	Valuation technique	Significant unobservable input	31 December 2020	31 December 2019
Uncollateralised customer derivatives	Asset	489	447	CVA	LGD	58% – 74% (Base 68%)	43% – 63% (Base 53%)
	Liability	80	107				
					PD	0.4% – 1.9% (Base 0.9%, 1 year PD)	0.2% – 0.7% (Base 0.4%, 1 year PD)
				FVA	Funding spreads	(0.2%) to 0.3%	(0.2%) to 0.3%
NAMA subordinated bonds	Asset	n/a	458	Discounted cash flows	Discount rate	n/a n/a	1% – 4% (Base 1.94%)
Visa Inc. Series B Preferred Stock	Asset	31	171	Quoted market price (to which a discount has been applied)	Final conversion rate	0% – 90%	0% – 75%
Loans and advances to customers measured at FVTPL	Asset	75	77	Discounted cash flows*	Discount on market value	(1)% – 5%	(1%) – 7%
				Collateral values	Collateral changes	n/a	n/a

*Expected cash flows discounted at market rates, taking into consideration the fair value of collateral where relevant.

Uncollateralised customer derivatives

The fair value measurement sensitivity to unobservable inputs at 31 December 2020 ranges from (i) negative € 38 million to positive € 19 million for CVA (31 December 2019: negative € 29 million to positive € 14 million) and (ii) negative € 7 million to positive € 3 million for FVA (31 December 2019: negative € 7 million to positive € 5 million).

A number of other derivatives are subject to valuation methodologies which use unobservable inputs. As the variability of the valuation is not greater than € 1 million in any individual case or collectively, the detail is not disclosed here.

NAMA subordinated bonds

In early 2020, the NAMA subordinated bonds were fully redeemed. The fair value measurement sensitivity to unobservable discount rates at 31 December 2019 ranged from negative € 2 million to positive € 1 million.

Visa Inc. Series B Preferred Stock

In June 2016, the Group received Series B Preferred Stock in Visa Inc. with a fair value of € 65 million as part consideration for its holding of shares in Visa Europe. The preferred stock is convertible into Class A Common Stock of Visa Inc. over time, with the first partial conversion occurring in 2020. The remaining conversion is subject to certain Visa Europe litigation risks that may affect the ultimate conversion rate. In addition, the stock, being denominated in US dollars, is subject to foreign exchange risk.

- **Valuation technique:** Quoted market price of Visa Inc. Class A Common Stock to which a discount has been applied for the illiquidity and the conversion rate variability of the preferred stock of Visa Inc. 80% haircut (2019: 41%). This was converted at the year end exchange rate.
- **Unobservable input:** Final conversion rate of Visa Inc. Series B Preferred Stock into Visa Inc. Class A Common Stock.
- **Range of estimates:** Estimates range from (a) no discount for conversion rate variability with a discount for illiquidity only; to (b) 90% discount for conversion rate variability.

Notes to the consolidated financial statements

47 Fair value of financial instruments *(continued)*

Loans and advances to customers measured at FVTPL

The fair value measurement sensitivity to unobservable collateral values and interest rates ranges from negative € 1 million to positive € 4 million at 31 December 2020 (31 December 2019: negative € 1 million to positive € 5 million).

Fair value is applied in respect of secondary facilities arising on restructured loans subject to forbearance measures, on the likelihood that additional cash flows, in excess of their primary facilitates, will be received from customers. Given the significant uncertainty with regard to such cash flows, the Group does not attribute a fair value unless it is reasonably certain that this value will be realised.

Sensitivity of Level 3 measurements

The implementation of valuation techniques involves a considerable degree of judgement. While the Group believes its estimates of fair value are appropriate, the use of different measurements or assumptions could lead to different fair values. The following table sets out the impact of using reasonably possible alternative assumptions in the valuation methodology at 31 December 2020 and 2019:

	2020			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Derivative financial instruments	20	(43)	–	–
Investment securities – equity	46[1]	(15)[1]	–	–
Loans and advances to customers measured at FVTPL	4	(1)	–	–
Total	70	(59)	–	–
Classes of financial liabilities				
Derivative financial liabilities	2	(2)	–	–
Total	2	(2)	–	–

	2019			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Derivative financial instruments	19	(37)	–	–
Investment securities – equity	46[1]	(99)[1]	1	(2)
Loans and advances to customers measured at FVTPL	5	(1)	–	–
Total	70	(137)	1	(2)
Classes of financial liabilities				
Derivative financial liabilities	–	–	–	–
Total	–	–	–	–

[1]Relates to a significant equity investment, the carrying value of which was € 31 million at 31 December 2020 (2019: € 171 million). Sensitivity information has not been provided for other equities as the portfolio comprises several investments, none of which is individually material.

Day 1 gain or loss:

No difference existed between the fair value at initial recognition of financial instruments and the amount that was determined at that date using a valuation technique incorporating significant unobservable data.

48 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition:

	2020 € m	2019 € m
Cash and balances at central banks	25,550	11,982
Loans and advances to banks[1][2]	1,009	941
Total	**26,559**	12,923

[1]Included in 'Loans and advances to banks' total of € 1,799 million (2019: € 1,478 million) set out in note 21.
[2]Includes € 4 million relating to restricted balances held in trust in respect of certain payables which are included in 'Other liabilities' (note 35).

Cash and balances at central banks (net of ECL allowance of Nil) comprise:

	2020 € m	2019 € m
Central Bank of Ireland	19,256	6,953
Bank of England	5,522	4,094
Federal Reserve Bank of New York	154	276
Other (cash on hand)	618	659
Total	**25,550**	11,982

The Group is required to hold minimum reserve balances with the Central Bank of Ireland. For details see page 348.

The Group is also required by law to maintain reserve balances with the Bank of England. At 31 December 2020, these amounted to € 378 million (31 December 2019: € 468 million).

There are certain regulatory restrictions on the ability of subsidiaries to transfer funds to the parent company in the form of cash dividends, loans or advances. The impact of such restrictions is not expected to have a material effect on the Group's ability to meet its cash obligations.

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49 Statement of cash flows

Non-cash and other items included in profit before taxation

Non-cash items	2020 € m	2019 € m
Profit on disposal of property	–	(21)
Net gain/(loss) on derecognition of financial assets measured at amortised cost	(24)	48
Dividends received from equity investments	(26)	(26)
Dividends received from associated undertakings	–	(27)
Associated undertakings	(15)	(20)
Net credit impairment charge	1,532	106
Change in other provisions	80	425
Retirement benefits – defined benefit expense	5	11
Depreciation, amortisation and impairment	315	246
Interest on subordinated liabilities and other capital instruments	45	33
Interest on debt securities – MREL	97	84
Gain on disposal of investment securities	(17)	(93)
Loss on termination of hedging swaps	17	48
Amortisation of premiums and discounts	66	62
Net gain on equity investments at FVTPL	(45)	(70)
Net gain on loans and advances to customers at FVTPL	–	(1)
Change in prepayments and accrued income	22	93
Change in accruals and deferred income	(83)	(17)
Effect of exchange translation and other adjustments[1]	120	(84)
Total non-cash items	**2,089**	797
Contributions to defined benefit pension schemes	(36)	(43)
Dividends received on equity investments	26	26
Total other items	**(10)**	(17)
Non-cash and other items for the year ended 31 December	**2,079**	780

Change in operating assets[1]	2020 € m	2019 € m
Change in items in course of collection	14	17
Change in derivative financial instruments	(13)	(63)
Change in loans and advances to banks	(285)	219
Change in loans and advances to customers	1,782	(72)
Change in other assets	484	146
	1,982	247

Change in operating liabilities[1]	2020 € m	2019 € m
Change in deposits by central banks and banks	3,903	(65)
Change in customer accounts	10,931	3,504
Change in debt securities in issue	(1,250)	(565)
Change in notes in circulation	(68)	(100)
Change in other liabilities	(212)	(193)
	13,304	2,581

[1]The impact of foreign exchange translation for each line of the statement of financial position is removed in order to show the underlying cash impact.

50 Related party transactions

Related parties in the Group include the parent company, AIB Group plc, subsidiary undertakings including their non-controlling interests, associated undertakings, joint arrangements, post-employment benefits, Key Management Personnel and connected parties. The Irish Government is also considered a related party by virtue of its effective control of AIB. The immediate holding company and controlling party is AIB Group plc with its registered office at 10 Molesworth Street, Dublin 2.

(a) Transactions with subsidiary undertakings

AIB Group plc is the ultimate parent company of the Group. Banking transactions between the parent company and its subsidiaries and between subsidiaries are entered into in the normal course of business. These include loans, deposits, provision of derivative contracts, foreign currency contracts and the provision of guarantees on an 'arm's length basis'. In 2020, reviews were completed of pricing arrangements between Allied Irish Banks, p.l.c. and certain Irish subsidiaries, and between certain Irish subsidiaries. Arising from these reviews, new pricing agreements were signed and implemented during 2020. The new agreements reflect revised OECD guidelines on transfer pricing, which are the internationally accepted principles in this area, and take account of the functions, risks and assets involved. Details of related party transactions and balances between AIB Group plc and its subsidiaries are set out in note k to AIB Group plc Company financial statements. In accordance with IFRS 10, *'Consolidated Financial Statements'*, transactions between the parent company and its subsidiaries and between subsidiaries have been eliminated on consolidation.

(b) Associated undertakings and joint arrangements

From time to time, the Group provides certain banking and financial services for associated undertakings. These transactions are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than the normal risk of collectability or present other unfavourable features. Details of loans to associates are set out in note 22 to the consolidated financial statements, while deposits from associates are set out in note 31.

(c) Non-controlling interests

The Group has accepted a deposit from the non-controlling interests in a subsidiary which is detailed in note 40.

(d) Provision of banking and related services and funding to Group Pension schemes

The Group provides certain banking and financial services including money transmission services for the AIB Group Pension schemes. Such services are provided in the ordinary course of business, on substantially the same terms, including interest rates, as those prevailing at the time for comparable transactions with other persons.

During 2013, the Group established a pension funding partnership, AIB PFP Scottish Limited Partnership ("SLP") in the UK. Following this, a subsidiary of Allied Irish Banks, p.l.c. transferred loans to the SLP for the purpose of ring-fencing the repayments of these loans to fund future deficit payments of the AIB UK Defined Benefit Pension Scheme (note 45).

During 2012, AIB agreed to make certain contributions to the pension scheme which were settled through the transfer to the AIB Group Irish Pension Scheme of interests in a special purpose entity owning loans and advances previously transferred at fair value from the Group. A subsidiary of AIB was appointed as a service provider for the loans and advances transferred in return for a servicing fee at a market rate (note 45).

Notes to the consolidated financial statements

50 Related party transactions *(continued)*

(e) IAS 24 Related Party Disclosures

The following disclosures are made in accordance with the provisions of IAS 24 *Related Party Disclosures*. Under IAS 24, Key Management Personnel ("KMP") are defined as comprising Executive and Non-Executive Directors together with Senior Executive Officers, namely, the members of the Executive Committee (see pages 56 and 57). At 31 December 2020, the Group had 17 KMP (2019: 20 KMP).

(i) Compensation of Key Management Personnel

Details of compensation paid to KMP are provided below. The figures shown include the figures separately reported in respect of Directors' remuneration on pages 205 to 207.

	2020 € m	2019 € m
Short term compensation[1]	5.9	6.1
Post-employment benefits[2]	0.9	0.7
Termination benefits	–	–
Total	**6.8**	6.8

[1]Comprises (a) in the case of Executive Directors and Senior Executive Officers: salary and a non-pensionable cash allowance in lieu of company car, medical insurance and other contractual benefits including, where relevant, payment in lieu of notice, and (b) in the case of Non-Executive Directors: Directors' fees and travel and subsistence expenses incurred in the performance of the duties of their office, which are paid by the Group.

[2]Comprises payments to defined benefit or defined contribution pension schemes, in accordance with actuarial advice, to provide post-retirement pensions. The Group's defined benefit pension schemes closed to future accrual with effect from 31 December 2013 and all employee pension benefits have accrued on the basis of defined contributions since that date.

(ii) Transactions with Key Management Personnel

Loans to KMP and their close family members are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons of similar standing not connected with the Group, and do not involve more than the normal risk of collectability or present other unfavourable features. Loans to Directors and Senior Executive Officers are made on terms available to other employees in the Group generally, in accordance with established policy, within limits set on a case by case basis.

The aggregate amounts outstanding, in respect of all loans, quasi loans and credit transactions between the Group and KMP, as defined above, together with members of their close families and entities controlled by them are shown in the following table:

Loans outstanding	2020 € m	2019 € m
At 1 January	3.00	4.58
Loans issued during the year	–	0.16
Loan repayments during the year/change of KMP/other	(1.44)	(1.74)
At 31 December	1.56	3.00

Total commitments outstanding refers to the total of any undrawn amounts on credit cards and/or overdraft facilities provided to KMP. Total commitments outstanding at 31 December 2020 were € 0.13 million (2019: € 0.16 million).

Deposit and other credit balances held by KMP and their close family members at 31 December 2020 amounted to € 2.28 million (2019: € 3.37 million).

50 Related party transactions *(continued)*

(f) Companies Act 2014 disclosures

(i) Loans to Directors

The following information is presented in accordance with the Companies Act 2014. For the purposes of the Companies Act disclosures, Director means the Board of Directors and any past Directors who are Directors during the relevant period.

There were 12 Directors in office during the year, 6 of whom availed of credit facilities (2019: 11). Of the Directors who availed of credit facilities, 3 had balances outstanding at 31 December 2020 (2019: 7 of 11).

Details of transactions with Directors for the year ended 31 December 2020 are as follows:

	Balance at 31 December 2019 € 000	Amounts advanced during 2020 € 000	Amounts repaid during 2020 € 000	Balance at 31 December 2020 € 000
Tom Foley:				
Loans	–	–	–	–
Overdraft/credit card*	–	–	–	–
Total	–	–	–	–
Interest charged during the year				–
Maximum debit balance during the year**				51
Colin Hunt:				
Loans	790	–	49	741
Overdraft/credit card*	10	–	–	12
Total	800	–	49	753
Interest charged during the year				6
Maximum debit balance during the year**				807
Carolan Lennon:				
Loans	–	–	–	–
Overdraft/credit card*	4	–	–	13
Total	4	–	–	13
Interest charged during the year				–
Maximum debit balance during the year**				14
Ann O'Brien:				
Loans	–	–	–	–
Overdraft/credit card*	–	–	–	–
Total	–	–	–	–
Interest charged during the year				–
Maximum debit balance during the year**				1
Tomas O'Midheach:				
Loans	361	–	38	323
Overdraft/credit card*	7	–	–	9
Total	368	–	38	332
Interest charged during the year				9
Maximum debit balance during the year**				374

*Amounts advanced and repaid are not shown for overdraft/credit card facilities as these are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).

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

Ms Helen Normoyle held an overdraft facility which was not used during the year. Mr Tom Foley held a credit card facility with the Group, which held an opening, closing and maximum debit balance of less than € 500 at the beginning and end of the reporting period. Ms Ann O'Brien held a credit card facility with the Group, which had a closing balance of less than € 500, and a maximum debit balance as represented in the preceding table.

Mr Brendan McDonagh, Mr Richard Pym, Mr Raj Singh, Ms Sandy Kinney Pritchard, Mr Basil Geoghegan and Ms Elaine MacLean had no credit facilities with the Group in 2020.

All facilities are performing to their terms and conditions. An expected credit loss allowance of under € 500 was held on the above facilities at 31 December 2020.

Notes to the consolidated financial statements

50 Related party transactions *(continued)*

(f) Companies Act 2014 disclosures *(continued)*

(i) Loans to Directors *(continued)*

Details of transactions with Directors for the year ended 31 December 2019 are as follows:

	Balance at 31 December 2018 € 000	Amounts advanced during 2019 € 000	Amounts repaid during 2019 € 000	Balance at 31 December 2019 € 000
Mark Bourke:				
Loans	416	–	33	383
Overdraft/credit card*	–	–	–	–
Total	416	–	33	383
Interest charged during the year				4
Maximum debit balance during the year**				416
Simon Ball:				
Loans	–	–	–	–
Overdraft/credit card*	–	–	–	1
Total	–	–	–	1
Interest charged during the year				–
Maximum debit balance during the year**				1
Colin Hunt				
Loans	839	–	49	790
Overdraft/credit card*	16	–	–	10
Total	855	–	49	800
Interest charged during the year				3
Maximum debit balance during the year**				860
Carolan Lennon:				
Loans	–	–	–	–
Overdraft/credit card*	5	–	–	4
Total	5	–	–	4
Interest charged during the year				–
Maximum debit balance during the year**				15
Ann O'Brien:				
Loans	–	–	–	–
Overdraft/credit card*	–	–	–	–
Total	–	–	–	–
Interest charged during the year				–
Maximum debit balance during the year**				2
Tomás O'Midheach:				
Loans	402	–	41	361
Overdraft/credit card*	8	–	–	7
Total	410	–	41	368
Interest charged during the year				5
Maximum debit balance during the year**				417
Catherine Woods:				
Loans	40	–	10	30
Overdraft/credit card*	–	–	–	–
Total	40	–	10	30
Interest charged during the year				–
Maximum debit balance during the year**				40

*Amounts advanced and repaid are not shown for overdraft/credit card facilities as these are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).

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

50 Related party transactions *(continued)*

(f) Companies Act 2014 disclosures *(continued)*

(i) Loans to Directors *(continued)*

Mr Richard Pym had a credit card facility which was not used during the year. Ms Helen Normoyle and Mr Jim O'Hara also held overdraft facilities which were not used during the year. Mr Tom Foley held a credit card facility with the Group, which held an opening and closing balance of less than € 500 at the beginning and end of the reporting period. Ms Ann O'Brien held a credit card facility with the Group, which had a closing balance of less than € 500, and a maximum debit balance as represented in the preceding table.

Mr Bernard Byrne, Mr Peter Hagan, Mr Brendan McDonagh, Mr Raj Singh, Ms Sandy Kinney Pritchard, Mr Basil Geoghegan and Ms Elaine MacLean had no credit facilities with the Group in 2019.

An expected credit loss allowance is held for all loans and advances. Accordingly, an ECL allowance of c. € 164,000 was held on the above facilities at 31 December 2019.

(ii) Connected persons

The aggregate of loans to connected persons of Directors, in office during the year, at 31 December, as defined in Section 220 of the Companies Act 2014, are as follows (aggregate of 9 persons; 2019: 22 persons):

	Balance at 31 December 2020 € 000	Balance at 31 December 2019 € 000
Loans	**369**	2,015
Overdraft/credit card*	**9**	47
Total	**378**	2,062
Interest charged during the year	**5**	49
Maximum debit balance during the year**	**426**	3,238

All facilities are performing to their terms and conditions. An expected credit loss allowance of under € 500 was held on the above facilities at 31 December 2020.

*Amounts advanced and repaid are not shown for overdraft/credit card facilities as these are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).
**The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

(iii) Aggregate balance of loans and guarantees held by Directors and their connected persons

The aggregate balance of loans and guarantees held by Directors and their connected persons at 31 December 2020 represents c. 0.01% of the net assets of the Group (2019: c. 0.02%).

(g) Summary of relationship with the Irish Government

The Irish Government, as a result of both its investments in AIB and AIB's participation in Government guarantee schemes became a related party of AIB in 2009. Following the crisis in the Irish banking sector and the stabilisation measures adopted since 2008, the involvement of the Irish Government in AIB and in other Irish banks has been and continues to be considerable. This involvement is outlined below.

The Irish Government holds 71.12% of the issued ordinary share capital of AIB, accordingly, AIB is under the control of the Irish Government. No dividends were paid during 2020 to the Irish Government.

AIB enters into normal banking transactions with the Irish Government and many of its controlled bodies on 'an arm's length' basis. In addition, other transactions include the payment of taxes, pay related social insurance, local authority rates, and the payment of regulatory fees, as appropriate.

Notes to the consolidated financial statements

50 Related party transactions *(continued)*

(g) Summary of relationship with the Irish Government

Rights and powers of the Irish Government and the Central Bank of Ireland

The Irish Minister for Finance ('the Minister') and the Central Bank of Ireland ("the Central Bank") have significant rights and powers over the operations of AIB (and other financial institutions) arising from the various stabilisation measures. These stabilisation measures included the Credit Institutions (Eligible Institutions Guarantee) Scheme 2009, and whilst the Group no longer has any guaranteed liabilities, certain of the covenants of the scheme continue to apply.

These rights and powers relate to, inter alia:
- The acquisition of shares in other institutions;
- Maintenance of solvency ratios and compliance with any liquidity and capital ratios that the Central Bank, following consultation with the Minister, may direct. The Group has provided NAMA with a series of indemnities relating to transferred assets. Any indemnity payment would result in an outflow of economic benefit for the Group;
- The appointment of non-executive directors and board changes;
- The appointment of persons to attend meetings of various committees;
- Restructuring of executive management responsibilities, strengthening of management capacity and improvement of governance;
- Declaration and payment of dividends;
- Restrictions on various types of remuneration;
- Buy-backs or redemptions by the Group of its shares;
- The manner in which the Group extends credit to certain customer groups; and
- Conditions regulating the commercial conduct of AIB, having regard to capital ratios, market share and the Group's balance sheet growth.

In addition, various other initiatives such as strategies/codes of conduct for dealing with mortgage and other consumer/business loan arrears are set out in the Risk management section of this report.

The relationship of the Irish Government with AIB is outlined under the following headings:
- Capital investments;
- Guarantee schemes;
- NAMA;
- Funding support; and
- Relationship Framework.

There were no significant changes to the various aspects of the relationship in the year to 31 December 2020.

- ***Capital investments***

  In the years since 2008, the Irish Government implemented a number of recapitalisation measures to support the Irish banking system including AIB Group. Certain of this capital invested in AIB Group has since been repaid, restructured or reorganised. There were no capital transactions during 2020 or 2019.

  Equity holdings

  The Irish Government holds 1,930,436,543 ordinary shares in AIB Group plc (71.12% of total). These shares are traded on the Euronext Dublin and London Stock Exchanges.

  Capital contributions

  In 2011, capital contributions totalling € 6.054 billion were made by the Irish State to AIB for Nil consideration.

  Issue of warrants to the Minister for Finance

  As part of the 2015 Capital Reorganisation, AIB entered into a Warrant Agreement with the Minister and granted the Minister the right to receive warrants to subscribe for additional ordinary shares.

  Following the admission to listing on the Irish Stock Exchange (now trading as Euronext Dublin) and the London Stock Exchange, AIB issued warrants to the Minister on 4 July 2017 to subscribe for 271,166,685 ordinary shares of AIB representing 9.99% of the issued share capital. The exercise price for the warrants is 200% of the Offer Price of € 4.40 per ordinary share, the Offer Price being the price in euro per ordinary share which was payable under the Initial Public Offering ("IPO"). This price may be adjusted in accordance with the terms of the Warrant Instrument and the warrants will be capable of exercise by the holder of the warrants during the period commencing on 27 June 2018 and ending on 27 June 2027.

  In accordance with the terms of the Warrant Agreement, no cash consideration was payable by the Minister to AIB in respect of the issue of the warrants.

50 Related party transactions *(continued)*

(g) Summary of relationship with the Irish Government *(continued)*

– ***Guarantee schemes***

European Communities (Deposit Guarantee Scheme) Regulations 2015

Eligible deposits (including credit balances in current accounts, demand deposit accounts and term deposit accounts) of up to € 100,000 per depositor per credit institution are covered under this scheme. The scheme is administered by the CBI and is funded by the credit institutions covered by the scheme.

Strategic Banking Corporation of Ireland Scheme

The Group, through its participation in the Strategic Banking Corporation of Ireland (SBCI) Support loan Schemes (the 'Schemes'), benefits from an 80% Government guarantee against losses on qualifying finance agreements on amounts advanced under the Schemes. At 31 December 2020, c. € 239 million has been advanced across the following individual schemes: Future Growth Loan Scheme, Brexit/COVID-19 Working Capital Loan Scheme and the COVID-19 Credit Guarantee Scheme.

– ***NAMA***

AIB was designated a participating institution under the NAMA Act in February 2010. Under this Act, AIB transferred financial assets to NAMA for which it received consideration from NAMA in the form of NAMA senior bonds which were fully repaid during 2017 and NAMA subordinated bonds which were fully redeemed in 2020.

The Group has provided NAMA with a series of indemnities relating to transferred assets. Any indemnity payment would result in an outflow of economic benefit for the Group.

Investment in National Asset Management Agency Investment d.a.c. ("NAMAIL")

In March 2010, a then subsidiary of Allied Irish Banks, p.l.c. made an equity investment in 17 million "B" shares of NAMAIL, a special purpose entity established by NAMA. The total investment amounted to € 17 million, of which € 12 million was invested on behalf of the AIB Group Irish Pension Scheme with the remainder invested on behalf of clients. The shareholders' agreement from March 2010 featured a call option which entitled NAMA to repurchase the 'B' shares held by investors in NAMAIL. NAMA exercised this call option and repurchased all of the 'B' shares in May 2020. The consideration received for the 12 million shares held by the AIB Group Irish Pension Scheme was € 13.2 million (fair value at 31 December 2019: € 13 million).

– ***Funding support***

The Group has availed of Targeted Long Term Refinancing Operation III ("TLTRO III") funding from the ECB, through the Central Bank and in September 2020 drew down € 4 billion of funding. At 31 December 2020, the amounts outstanding, totalling € 4 billion are included in 'Deposits by central banks and banks' in the table below. The term of the TLTRO III is three years with AIB having the option to repay after one year. The interest rate on TLTRO III is -50bps, however if certain lending targets are met, this rate will be reduced. See note 31 for details of collateral.

These facilities, together with other assets and liabilities with Irish Government entity counterparties, are set out below.

– ***Relationship Framework***

In order to comply with contractual commitments imposed on AIB in connection with its recapitalisation by the Irish State and with the requirements of EU state aid applicable in respect of that recapitalisation, a Relationship Framework was entered into between the Minister and AIB in March 2012. This provides the framework under which the relationship between the Minister and AIB is governed. The Relationship Framework was amended and restated on 12 June 2017. Furthermore, the AIB Group plc Relationship Framework was put in place on 8 December 2017 in substitution for the Relationship Framework dated 12 June 2017. Under the relationship frameworks, the authority and responsibility for strategy and commercial policies (including business plans and budgets) and conducting AIB's day-to-day operations rest with the Board and AIB's management team.

Notes to the consolidated financial statements

50 Related party transactions *(continued)*

(g) Summary of relationship with the Irish Government *(continued)*

Balances held with the Irish Government and related entities

The following table outlines the balances held at 31 December 2020 and 2019 with Irish Government entities[1] together with the highest balances held at any point during the year.

		2020		2019	
		Balance € m	Highest[2] balance held € m	Balance € m	Highest[2] balance held € m
Assets					
Cash and balances at central banks	a	19,256	20,791	6,953	7,934
Trading portfolio financial assets		–	–	–	43
Derivative financial instruments		–	3	–	5
Loans and advances to customers		1	6	6	6
Investment securities	b	7,715	8,263	5,754	7,327
Total assets		26,972		12,713	

		2020		2019	
		Balance € m	Highest[2] balance held € m	Balance € m	Highest[2] balance held € m
Liabilities					
Deposits by central banks and banks	c	4,000	4,000	–	–
Customer accounts	d	293	1,094	336	1,050
Trading portfolio financial liabilities		–	–	–	34
Derivative financial instruments		2	5	–	4
Total liabilities		4,295		336	

[1]Includes all departments of the Irish Government located in the State and embassies, consulates and other institutions of the Irish Government located outside the State. The Post Office Savings Bank ("POSB") and the National Treasury Management Agency ("NTMA") are included.

[2]The highest balance during the period, together with the outstanding balance at the year end, is considered the most meaningful way of representing the amount of transactions that have occurred between AIB and the Irish Government.

a Cash and balances at the central banks represent the placements which the Group holds with the Central Bank. The Group is required to maintain minimum reserve balances with the Central Bank which can fluctuate due to the reserve requirement being determined on the basis of the institution's average daily reserve holdings over a one month maintenance period. While the monthly average Primary Liquidity balance required by the Group was € 718 million at 31 December 2020 (2019: € 622 million), the balances reported reflect excess liquidity in the Group during the period.

b Investment securities at 31 December 2020 comprise € 7,715 million in Irish Government securities held in the normal course of business, and includes Euro Commercial Paper amounting to € 1,804 million (31 December 2019: € 5,296 million and NAMA subordinated bonds of € 458 million).

c This relates to funding received from the ECB through the Central Bank which is detailed under 'Funding Support' above.

d Includes € 130 million (2019: € 215 million) borrowed from the Strategic Banking Corporation of Ireland ("SBCI"), the ordinary share capital of which is owned by the Minister for Finance.

All other balances, both assets and liabilities are carried out in the ordinary course of banking business on normal terms and conditions.

50 Related party transactions *(continued)*

(g) Summary of relationship with the Irish Government *(continued)*

Local government[1]

During 2020 and 2019, AIB entered into banking transactions in the normal course of business with local government bodies. These transactions include the granting of loans and the acceptance of deposits, and clearing transactions.

[1]This category includes local authorities, borough corporations, county borough councils, county councils, boards of town commissioners, urban district councils, non-commercial public sector entities, public voluntary hospitals and schools.

Commercial semi-state bodies[1]

During 2020 and 2019, AIB entered into banking transactions in the normal course of business with semi-state bodies. These transactions principally include the granting of loans and the acceptance of deposits as well as derivative and clearing transactions.

[1]Semi-state bodies is the name given to organisations within the public sector operating with some autonomy. They include commercial organisations or companies in which the State is the sole or main shareholder.

Financial institutions under Irish Government control/significant influence

Certain financial institutions are related parties to AIB by virtue of the Government either controlling or having a significant influence over these institutions. The following institution is controlled by the Irish Government:

– Permanent tsb plc

The Government controlled entity, Irish Bank Resolution Corporation Limited (In Special Liquidation) which went into special liquidation during 2013, remains a related party for the purpose of this disclosure.

In addition, the Irish Government is deemed to have significant influence over Bank of Ireland.

Transactions with these institutions are normal banking transactions entered into in the ordinary course of cash management business under normal business terms. The transactions constitute the short term placing and acceptance of deposits, derivative transactions, investment debt securities and repurchase agreements.

The following balances were outstanding in total to these financial institutions at 31 December 2020 and 2019:

	2020 € m	2019 € m
Assets		
Derivative financial instruments	**–**	1
Loans and advances to banks[1]	**–**	2
Investment securities	**117**	284
Liabilities		
Deposits by central banks and banks[2]	**–**	–
Derivative financial instruments	**–**	–

[1]The highest balance in loans and advances to banks amounted to € 30 million in respect of funds placed during the year (2019: € 43 million).
[2]The highest balance in deposits by central banks and banks by these financial institutions amounted to € 29 million in respect of funds received during the year (2019: € 48 million).

In connection with the acquisition by AIB Group of certain assets and liabilities of the former Anglo Irish Bank Corporation Limited (now Irish Bank Resolution Corporation Limited (in Special Liquidation) ("IBRC")), IBRC had indemnified AIB Group for certain liabilities pursuant to a Transfer Support Agreement dated 23 February 2011. AIB Group had made a number of claims on IBRC pursuant to the indemnity prior to IBRC's Special Liquidation on 7 February 2013. AIB Group served notice of claim and set-off on the Joint Special Liquidators of IBRC in relation to the amounts claimed pursuant to the indemnity and certain other amounts that were owing to AIB by IBRC as at the date of the Special Liquidation (c. € 81.3 million in aggregate).

While certain progress has been made in the current year, engagement continues between AIB Group and the Joint Special Liquidators in relation to the claim. AIB maintains its position that no financial loss is expected to occur.

Notes to the consolidated financial statements

50 Related party transactions *(continued)*

(g) Summary of relationship with the Irish Government *(continued)*

Irish bank levy

The bank levy is calculated based on each financial institution's Deposit Interest Retention Tax ("DIRT") payment in a base year. This base year changes every two years with 2017 being the base year for 2020. The annual levy paid by the Group for 2020 and reflected in operating expenses (note 12) in the income statement amounted to € 35 million (2019: € 35 million).

(h) Indemnities

The Group has indemnified the Directors of Allied Irish Banks Pensions Limited and AIB DC Pensions (Ireland) Limited, the trustees of the Group's Ireland defined benefit pension scheme and defined contribution pension scheme, respectively, against any actions, claims or demands arising out of their actions as Directors of the trustee companies, other than by reason of wilful default.

51 Employees

The following table shows the geographical analysis of average employees for 2020 and 2019:

Average number of staff (Full time equivalents)	2020	2019
Ireland	8,305	8,770
United Kingdom	997	1,026
United States of America	54	59
Total	**9,356**	9,855

The following table shows the segmental analysis of average employees for 2020 and 2019:

	2020	2019
Retail Banking	4,251	4,686
CIB	667	610
AIB UK[1]	920	792
Group[1][2]	3,518	3,767
Total	**9,356**	9,855

[1]144 FTEs that were reported in Group are now reported in AIB UK with effect from 1 January 2020.

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

The average number of employees for 2020 and 2019 set out above excludes employees on career breaks and other unpaid long term leaves.

Actual full time equivalent numbers at 31 December 2020 were 9,193 (2019: 9,520).

52 Regulatory compliance

During the years ended 31 December 2020 and 2019, the Group and its regulated subsidiaries complied with their externally imposed capital ratios.

53 Financial and other information

Operating ratios	2020 %	2019 %
Operating expenses/operating income	**78.3**	82.1
Other income/operating income	**21.1**	21.8

Rates of exchange	2020	2019
€/$*		
Closing	**1.2271**	1.1234
Average	**1.1417**	1.1194
€/£*		
Closing	**0.8990**	0.8508
Average	**0.8897**	0.8777

*Throughout this report, US dollar is denoted by $ and Pound sterling is denoted by £.

	Assets		Liabilities and equity	
Currency Information	2020 € m	2019 € m	2020 € m	2019 € m
Euro	**89,330**	77,213	**90,364**	77,824
Other	**21,055**	21,349	**20,021**	20,738
	110,385	98,562	**110,385**	98,562

54 Dividends

No final dividend on ordinary shares will be paid in respect of the financial year ended 31 December 2020.

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, which had been previously recommended by the Board. Accordingly, the relevant Annual General Meeting ("AGM") resolution was withdrawn and the proposed dividend cancelled.

On 3 May 2019, AIB Group plc paid a final dividend to its shareholders of € 0.17 per ordinary share amounting in total to € 461 million.

55 Non-adjusting events after the reporting period

The Group announced on 19 February 2021 that it had agreed to sell a non-performing loan portfolio in long term default with a gross carrying value of c. € 0.6 billion for a cash consideration of approximately € 0.4 billion.

The Group announced on 2 March 2021 that it has reached agreement to acquire Goodbody, a leading Irish provider of wealth management, corporate finance and capital markets services. Under the terms of the agreement, the Group will acquire the entire share capital for a consideration of € 138 million reflecting c. € 82 million enterprise value and c. € 56 million excess cash on the balance sheet. Completion of the acquisition is conditional on the satisfaction of customary conditions including approval by the Central Bank of Ireland and the Competition and Consumer Protection Commission.

56 Approval of financial statements

The financial statements were approved by the Board of Directors on 4 March 2021.

AIB Group plc company statement of financial position

as at 31 December 2020

	Notes	2020 € m	2019 € m
Assets			
Loans and advances to banks – subsidiary	d	**4,686**	3,811
Investments in subsidiary undertaking	e	**7,487**	9,996
Current taxation		**–**	–
Prepayments and accrued income		**41**	35
Total assets		**12,214**	13,842
Liabilities			
Debt securities in issue	f	**3,175**	3,306
Subordinated liabilities and other capital instruments	g	**1,500**	500
Accruals and deferred income		**61**	49
Total liabilities		**4,736**	3,855
Equity			
Share capital	h	**1,696**	1,696
Merger reserve	i	**–**	2,791
Revenue reserves		**4,657**	5,000
Total shareholders' equity		**6,353**	9,487
Other equity interests		**1,125**	500
Total equity		**7,478**	9,987
Total liabilities and equity		**12,214**	13,842

The Company recorded a loss after taxation of € 3,088 million for the year ended 31 December 2020 (2019: loss € 2,985 million).

Brendan McDonagh
Deputy Chair

Colin Hunt
Chief Executive Officer

4 March 2021

AIB Group plc company statement of changes in equity

for the financial year ended 31 December 2020

					2020
	Attributable to equity holders of the parent				
	Share capital	Other equity interests	Merger reserve	Revenue reserves	Total
	€ m	€ m	€ m	€ m	€ m
At 1 January 2020	**1,696**	**500**	**2,791**	**5,000**	**9,987**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**
Loss after tax	**–**	**–**	**–**	**(3,088)**	**(3,088)**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**(3,088)**	**(3,088)**
Transactions with owners, recorded directly in equity					
Issue of Additional Tier 1 Securities (note j)	**–**	**625**	**–**	**–**	**625**
Distributions paid to other equity interests (note 18 to the consolidated financial statements)	**–**	**–**	**–**	**(46)**	**(46)**
Transfer between merger and revenue reserves (note i)	**–**	**–**	**(2,791)**	**2,791**	**–**
Total contributions by and distribution to owners	**–**	**625**	**(2,791)**	**2,745**	**579**
At 31 December 2020	**1,696**	**1,125**	**–**	**4,657**	**7,478**

					2019
	Attributable to equity holders of the parent				
	Share capital	Other equity interests	Merger reserve	Revenue reserves	Total
	€ m	€ m	€ m	€ m	€ m
At 1 January 2019	1,696	–	6,235	5,002	12,933
Total comprehensive income for the year	–	–	–	–	–
Loss after tax	–	–	–	(2,985)	(2,985)
Other comprehensive income	–	–	–	–	–
Total comprehensive income for the year	–	–	–	(2,985)	(2,985)
Transactions with owners, recorded directly in equity					
Issue of Additional Tier 1 Securities (note j)	–	500	–	–	500
Dividends paid on ordinary shares (note 18 to the consolidated financial statements)	–	–	–	(461)	(461)
Transfer between merger and revenue reserves (note i)	–	–	(3,444)	3,444	–
Total contributions by and distribution to owners	–	500	(3,444)	2,983	39
At 31 December 2019	1,696	500	2,791	5,000	9,987

AIB Group plc company statement of cash flows

for the financial year ended 31 December 2020

	2020 € m	2019 € m
Cash flows from operating activities		
Loss before taxation for the year	(3,088)	(2,985)
Adjustments for:		
– Non-cash and other items		
Dividend income	–	(461)
Distributions from Additional Tier 1 Securities issued by subsidiary	(47)	–
Net credit impairment charge	1	1
Interest on subordinated liabilities and other capital instruments	17	1
Interest on debt securities – MREL	97	84
Change in prepayments and accrued income	(6)	(16)
Change in accruals and deferred income	5	10
Impairment of subsidiary undertaking (note e)	3,134	3,444
Other income	1	–
	3,202	3,063
– Change in operating assets		
Change in loans and advances to banks – subsidiary	(1,000)	(2,145)
– Taxation refund	–	1
Net cash outflow from operating activities	(886)	(2,066)
Cash flows from investing activities		
Dividends received from subsidiary	–	461
Distributions received from Additional Tier 1 Securities issued by subsidiary	47	–
Investment in subsidiary undertaking (note e)	(625)	(500)
Net cash outflow from investing activities	(578)	(39)
Cash flows from financing activities		
Net proceeds on issue of Additional Tier 1 Securities (note j)	625	500
Net proceeds on issue of € 1 billion Tier 2 Notes due 2031 (note g)	1,000	–
Net proceeds on issue of € 500 million Tier 2 Notes due 2029 (note g)	–	500
Proceeds on issue of debt securities – MREL (note f)	–	1,640
Dividends paid on ordinary shares	–	(461)
Distributions paid to other equity interests	(46)	–
Interest paid on debt securities – MREL	(98)	(70)
Interest paid on subordinated liabilities and other capital instruments	(9)	–
Net cash inflow from financing activities	1,472	2,109
Change in cash and cash equivalents	8	4
Opening cash and cash equivalents	4	–
Effect of exchange translation adjustments	–	–
Closing cash and cash equivalents	12	4

The impact of foreign exchange translation for relevant lines in the statement of financial position is removed in order to show the underlying cash impact.

Notes to AIB Group plc company financial statements

Background

AIB Group plc is a company domiciled in Ireland with its Registered Office address at 10 Molesworth Street, Dublin 2, Ireland. AIB Group plc is registered under the Companies Act 2014 as a public limited company under the company number 594283 and is the holding company of the Group.

a Accounting policies

Where applicable, the accounting policies adopted by AIB Group plc ('the parent company' or 'the Company') are the same as those of the Group as set out in note 1 to the consolidated financial statements on pages 234 to 260.

The parent company financial statements and related notes set out on pages 352 to 360 have been prepared in accordance with International Financial Reporting Standards (collectively "IFRSs") as issued by the IASB and IFRSs as adopted by the EU and applicable for the financial year ended 31 December 2020. They also comply with those parts of the Companies Act 2014 and with the European Union (Credit Institutions: Financial Statements) Regulations 2015 applicable to companies reporting under IFRS.

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

A description of the critical accounting judgements and estimates is set out in note 2 to the consolidated financial statements on pages 261 to 265.

Parent Company Income statement

In accordance with Section 304(2) of the Companies Act 2014, the parent company is availing of the exemption to omit the income statement, statement of comprehensive income and related notes from its financial statements; from presenting them to the Annual General Meeting: and from filing them with the Registrar of Companies.

b Operating expenses	2020 € m	2019 € m
Amounts payable to subsidiary under Master Service Agreement	6	6
	6	6

c Auditors' remuneration

The disclosure of auditor's remuneration is in accordance with Section 322 of the Companies Act 2014. This mandates disclosure of remuneration paid/payable to the Group Auditor only (Deloitte Ireland LLP) for services relating to the audit of the Group and relevant subsidiary financial statements. No audit remuneration was paid/payable to the Group Auditor (Deloitte Ireland LLP) for services relating to the audit of the financial statements of AIB Group plc during the year to 31 December 2020.

d Loans and advances to banks	2020 € m	2019 € m
At amortised cost		
Funds placed with subsidiary, Allied Irish Banks, p.l.c.	4,689	3,813
ECL allowance	(3)	(2)
	4,686	3,811

In September 2020, AIB Group plc lent € 1 billion to Allied Irish Banks, p.l.c. repayable on 30 May 2031 with an optional redemption date of 30 May 2026 at a fixed interest rate of 3% up to the optional redemption date.

These borrowings by Allied Irish Banks, p.l.c. are unsecured and subordinated.

Notes to AIB Group plc company financial statements

e Investment in subsidiary undertaking	2020 € m	2019 € m
At 1 January	**9,996**	12,940
Additions – Additional Tier 1 Securities	**625**	500
Impairment of equity shares	**(3,134)**	(3,444)
At 31 December	**7,487**	9,996

AIB Group plc ('the Company') holds the entire ordinary share capital of Allied Irish Banks, p.l.c. ('the subsidiary') which it acquired in 2017 (2,714,381,237 ordinary shares of nominal value € 0.625 each) and which had a book value at acquisition of € 12,940 million.

Allied Irish Banks, p.l.c. is a financial services company incorporated and registered in Ireland with a Registered Office at 10 Molesworth Street, Dublin 2. It is the parent company of a number of subsidiaries, both credit institutions and others, all of which are 100% owned apart from Augmentum Limited in which there are non-controlling interests (note 40 to the consolidated financial statements). It operates predominantly in Ireland, providing a comprehensive range of services to retail customers, as well as business and corporate customers. Allied Irish Banks, p.l.c. and its subsidiaries offer a full suite of products for retail customers, including mortgages, personal loans, credit cards, current accounts, insurance, pensions, financial planning, investments, savings and deposits. Its products for business and corporate customers include finance and loans, business current accounts, deposits, foreign exchange and interest rate risk management products, trade finance products, invoice discounting, leasing, credit cards, merchant services, payments and corporate finance.

Allied Irish Banks, p.l.c. together with its principal subsidiaries in Ireland, AIB Mortgage Bank Unlimited Company and EBS d.a.c. are regulated by the Central Bank of Ireland/Single Supervisory Mechanism. In 2020, as part of the corporate structure change in EBS Group, EBS Mortgage Finance transferred its loan and entire business to EBS d.a.c. and is in the process of being wound down. The principal subsidiary of Allied Irish Banks, p.l.c. outside the Republic of Ireland, AIB Group (UK) p.l.c., is regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Additions

In June 2020, the Company invested a further € 625 million in Additional Tier 1 Securities (AT1) issued by Allied Irish Banks, p.l.c., bringing the total invested in AT1 issued by Allied Irish Banks, p.l.c. to € 1,125 million. These investments follow the company's own issuance of AT1 securities as detailed in note j.

Impairment of equity shares

The Company reviews its equity investment for impairment at the end of each reporting period if there are indications that impairment may have occurred.

The testing for possible impairment involves comparing the estimated recoverable amount of an investment with its carrying amount. Where the recoverable amount is less than the carrying amount, the difference is recognised as an impairment provision in the Company's financial statements. The recoverable amount is the higher of fair value less costs to sell and value-in-use ("VIU").

The subsidiary's fair value is largely that of the Company since the net assets of the subsidiary are, in effect, the same as those of the Company. Accordingly, AIB Group plc's market capitalisation is a proxy for the fair value of Allied Irish Banks, p.l.c.

At 31 December 2020, the market capitalisation of AIB Group plc was € 4.6 billion. This was below the carrying amount of its equity investment in the subsidiary and had been below that carrying amount throughout 2020. Accordingly, AIB Group plc considered that this was an indication of impairment and performed an impairment test which compared the carrying amount with the estimated recoverable amount as determined by a VIU calculation.

The Company uses a discounted cash flow to equity model to derive a VIU, in line with industry practice. Under this approach, recoverable value is determined by the present value of future distributable items which takes into consideration the requirement to retain earnings in line with relevant target capital ratios and risk-weighted assets. Accordingly, the principal inputs to the model are (a) future profitability; (b) risk-weighted asset levels; (c) the discount rate used; and (d) target capital ratios.

The VIU was determined at € 6,362 million which was lower than the carrying amount (i.e. € 9,496 million) but higher than the fair value, accordingly, the Company recognised an impairment loss provision amounting to € 3,134 million in 2020. At 31 December 2019, the VIU was calculated at € 9,496 million and an impairment loss amounting to € 3,444 million was recognised.

e Investment in subsidiary undertaking *(continued)*

Basis used to calculate recoverable amount

In determining VIU, the Company used discounted cash flow projections attributable to equity shareholders. These projections were the output arising from the recent Strategic Review and the three year Strategic Plan (2021 to 2023) approved by the Board. This output from the Plan will be used by the Company on an ongoing basis during the three year planning cycle. The Strategic Plan involved significant judgements which were subject to review and validation at a number of levels of governance and is the current best estimate of the expected cash flows over the planning period. For cash flows beyond the planning period, the Company extrapolated into perpetuity the year 3 expected cash flows as a base, using a long term growth rate to derive a terminal value. Risk-weighted assets are assumed to grow at the same rate as that for long term profit growth.

The Company used the following key assumptions in the VIU calculation:

- Long term profit/risk-weighted asset growth rate after 2023: 2%;
- Discount rate: 10%; and
- Common equity Tier 1 target: 14%.

Future profitability and growth rates are dependent on several factors, including the economic environment both local and international, which has been heavily impacted by COVID-19, the impact of Brexit and the United Kingdom's future relationship with Ireland and the EU, the impact of regulatory requirements on the banking industry and the continuing developments in the financial services sector. Accordingly, there are significant uncertainties and a high level of subjectivity involved in the estimation process. Profitability and growth were reassessed in the annual planning exercise covering the period 2021 to 2023 undertaken by the Group in the second half of 2020. Profitability levels underpinning the plan have been revised downwards compared to previous years reflecting the revised macroeconomic outlook.

The discount rate to be used in future periods may increase/decrease due to changes to the risk free rate or to the risk premium.

Changes to these inputs may increase or decrease the impairment loss provision in future periods.

The following table sets out the sensitivity of the VIU calculation to key input variables. The table reflects the impact of the variables individually and not any interrelationships. It is possible that more than one favourable and/or unfavourable change will occur at the same time.

				31 December 2020
	Favourable change		Unfavourable change	
	bps	Increase in VIU € m	bps	Decrease in VIU € m
Long term profit/risk-weighted assets growth rate	100	(2)	(100)	(25)
Discount rate	(100)	918	100	(724)

In addition, if year 3 expected cash flows that are used as a base to derive the terminal value were increased/decreased by € 100 million, the VIU calculation would increase by c. € 472 million/decrease by c. € 674 million.

Given the interrelationship of changes set out in the sensitivity table above, the Company estimates that the reasonable possible range of estimates for VIU is € 5,638 million to € 7,280 million.

31 December 2019

The Company recognised an impairment loss provision amounting to € 3,444 million, as the VIU calculation at 31 December 2019 amounted to € 9,496 million, which was lower than the carrying value of € 12,940 million. The VIU calculation was based on the output of the three year Strategic Plan (2020 – 2022), long term profit/risk-weighted asset growth rate after 2022: 3%, discount rate: 9%, and Common equity Tier 1 target: 14%.

Notes to AIB Group plc company financial statements

f Debt securities in issue	2020 € m	2019 € m
Euro Medium Term Note Programme	1,750	1,750
Global Medium Term Note Programme	1,425	1,556
	3,175	3,306

Analysis of movements in debt securities in issue

	2020 € m	2019 € m
At 1 January	3,306	1,655
Issued during the year	–	1,640
Exchange translation adjustments	(131)	11
At 31 December	3,175	3,306

For details of debt securities issued by the Company during 2020, refer to note 33 to the consolidated financial statements.

The instruments issued by AIB Group plc were issued for the purpose of meeting Group MREL requirements.

g Subordinated liabilities and other capital instruments	2020 € m	2019 € m
Dated loan capital – European Medium Term Note Programme:		
€ 500 million Subordinated Tier 2 Notes due 2029, Callable 2024	500	500
€ 1 billion Subordinated Tier 2 Notes due 2031, Callable 2026	1,000	–
	1,500	500

The dated loan capital above issued under the European Medium Term Note Programme, is subordinated in right of payment to the ordinary creditors, including depositors, of the Group.

For details of the above issuance, refer to note 37 to the consolidated financial statements.

h Share capital

The ordinary share capital of AIB Group plc is detailed in note 38 to the consolidated financial statements.

i Merger reserve	2020 € m	2019 € m
At 1 January	2,791	6,235
Transfer to revenue reserves	(2,791)	(3,444)
At 31 December	–	2,791

Under the Scheme of Arrangement ("the Scheme") approved by the Irish High Court on 6 December 2017 which became effective on 8 December 2017, a new company, AIB Group plc ('the Company'), was introduced as the holding company of AIB Group. The share capital of Allied Irish Banks, p.l.c., other than a single share owned by AIB Group plc, was cancelled and an equal number of new shares were issued by the Company to the shareholders of Allied Irish Banks, p.l.c. The difference between the carrying value of the net assets of Allied Irish Banks, p.l.c. entity on acquisition by the Company and the nominal value of the shares issued on implementation of the Scheme amounting to € 6,235 million was accounted for as a merger reserve.

In the Company's financial statements, impairment losses which arise from the Company's investment in Allied Irish Banks, p.l.c. will be charged to the profit or loss account and transferred to the merger reserve in so far as a credit balance remains in the merger reserve.

In 2019, an impairment loss provision of € 3,444 million was recognised which resulted in a transfer of € 3,444 million from revenue reserves to merger reserve leaving a balance of € 2,791 million in merger reserve.

While an impairment loss of € 3,134 million was recognised in the profit or loss account (note e), only € 2,791 million could be transferred from the revenue reserves to the merger reserve, bringing the balance on the merger reserve to Nil.

j Other equity interests	2020 € m	2019 € m
Issued by AIB Group plc		
€ 500 million Additional Tier 1 Perpetual Contingent Temporary Write-Down Securities issued 2019	500	500
€ 625 million Additional Tier 1 Perpetual Contingent Temporary Write-Down Securities issued 2020	625	–
Total	1,125	500

Additional Tier 1 Perpetual Contingent Temporary Write-Down Securities

In 2020, AIB Group plc issued € 625 million nominal value of Additional Tier 1 Perpetual Contingent Temporary Write-Down Securities ('AT1s'). For further details in relation to AT1s issued by the Company, see note 39 to the consolidated financial statements.

k Related party transactions

Related parties of AIB Group plc include subsidiary undertakings including their non-controlling interests, associated undertakings, joint undertakings, post-employment benefit schemes, Key Management Personnel and connected parties. The Irish Government is also considered a related party by virtue of its effective control of AIB Group plc.

Under a Master Service Agreement, Allied Irish Banks, p.l.c. provides various services which include accounting, taxation and administrative services to AIB Group plc (note b).

The following were the principal transactions during 2020 between AIB Group plc (the parent company) and Allied Irish Banks, p.l.c. (the subsidiary company):

Amounts included in AIB Group plc company's income statement in relation to transactions with its immediate subsidiary, Allied Irish Banks, p.l.c. are as follows:

	Notes	2020 € m	2019 € m
Interest income		121	90
Operating expenses	b	6	6
Dividends received		–	461
Distributions received from Additional Tier 1 Securities		47	–

Amounts included in AIB Group plc company's statement of financial position in relation to balances with its immediate subsidiary, Allied Irish Banks, p.l.c. are as follows:

	Notes	2020 € m	2019 € m
Investment in subsidiary undertaking	e	7,487	9,996
Loans and advances to banks	d	4,686	3,811
Prepayments and accrued income		41	35
Accruals and deferred income		21	13

The following financing transactions occurred between AIB Group plc and its subsidiary, Allied Irish Banks, p.l.c. during 2020.

(a) AIB Group plc invested € 625 million in AT1 Securities (note e).

(b) AIB Group plc lent € 1 billion to Allied Irish Banks, p.l.c. (note d).

Notes to AIB Group plc company financial statements

l Credit risk information

The following table sets out the maximum exposure to credit risk for financial assets all of which are carried at amortised cost[1] at 31 December 2020 and 2019:

Maximum exposure to credit risk	2020 Total € m	2019 Total € m
Loans and advances to banks	4,686	3,811
Included elsewhere:		
Accrued interest	41	35
Total	4,727	3,846

[1]All amortised cost items are loans and advances which are in a 'held to collect' business model.

m Funding and liquidity risk

Financial assets and financial liabilities by contractual residual maturity

The following table analyses financial assets and financial liabilities by contractual residual maturity at 31 December 2020 and 2019:

	On demand € m	<3 months but not on demand € m	3 months to 1 year € m	1–5 years € m	Over 5 years € m	2020 Total € m
Financial assets						
Loans and advances to banks[1]	13	–	–	3,176	1,500	4,689
Other financial assets	–	41	–	–	–	41
	13	41	–	3,176	1,500	4,730
Financial liabilities						
Debt securities in issue	–	–	–	3,175	–	3,175
Subordinated liabilities and other capital instruments	–	–	–	–	1,500	1,500
Other financial liabilities	61	–	–	–	–	61
	61	–	–	3,175	1,500	4,736

	On demand € m	<3 months but not on demand € m	3 months to 1 year € m	1–5 years € m	Over 5 years € m	2019 Total € m
Financial assets						
Loans and advances to banks[1]	4	–	–	1,919	1,890	3,813
Other financial assets	–	35	–	–	–	35
	4	35	–	1,919	1,890	3,848
Financial liabilities						
Debt securities in issue	–	–	–	1,917	1,389	3,306
Subordinated liabilities and other capital instruments	–	–	–	–	500	500
Other financial liabilities	49	–	–	–	–	49
	49	–	–	1,917	1,889	3,855

[1]Shown gross of expected credit losses.

General information

Shareholder information

Internet-based Shareholder Services

Ordinary Shareholders with access to the internet may:

- register for electronic communications on the following link, www.computershare.com/register/ie;
- view any outstanding payments, change your address and view your shareholding by signing into Investor Centre on www.computershare.com/ie/InvestorCentre. You will need your unique user ID and password which you created during registration, or register at www.computershare.com/ie/investor/register to become an Investor Centre member.
  To register you will be required to enter the name of the company in which you hold shares, your Shareholder Reference Number ("SRN"), your family or company name and security code (provided on screen); and
- download standard forms required to initiate changes in details held by the Registrar on the Investor Centre accessed above or via the Investor Relations section of AIB's website at www.aib.ie/investorrelations, clicking on the Shareholder Information and Personal Shareholder Information option, and following the on-screen instructions.

Shareholders may also use AIB's website to access the Company's Annual Financial Report.

Stock Exchange Listings

AIB Group plc is an Irish registered company. Its ordinary shares are traded on the primary listing segment of the official list of Euronext Dublin and the premium listing segment of the Official List of the London Stock Exchange.

Migration of Securities

Euronext Dublin has to date relied on a Central Securities Depository ("CSD") based in the United Kingdom. This CSD is operated by Euroclear UK & Ireland and utilises a system called CREST to settle on-market trades of shares in Irish listed companies like AIB.

Post-Brexit, Euroclear UK and Ireland are considered a third country based CSD and therefore, not covered by the European regulatory regime. A temporary and conditional equivalence was granted in December 2018, however, the Irish market may only continue using the current settlement system until March 2021. Euronext Dublin will transfer the settlement of trades in Irish equities from CREST to Euroclear Bank, which is a CSD based in Belgium, on 15 March 2021. To facilitate the migration to Euroclear Bank, the Irish Government passed the Migration of Participating Securities Act in December 2019. This legislation required the passing of certain resolutions at an Extraordinary General Meeting ("EGM") of the Company which was held on 5 February 2021 and all resolutions were passed at the EGM to effect the migration.

Registrar and Shareholder Enquiries:

The Company's Registrar for shareholder enquiries is:

Computershare Investor Services (Ireland) Ltd.,
3100 Lake Dr, Citywest Business Campus, Dublin 24,
Telephone: +353-1-247 5411. Facsimile: +353-1-216 3151.
Website: **www.computershare.com** or **www.investorcentre.com/ie/contactus**

Major shareholdings

The issued share capital of the AIB Group plc is 2,714,381,237 ordinary shares of € 0.625 each.

The Minister for Finance of Ireland holds 1,930,436,543 ordinary shares representing 71.12% of the total voting rights attached to issued share capital.

Massachusetts Financial Services Company holds 111,747,946 ordinary shares representing 4.11% of the total voting rights attached to the issued share capital.

Financial calendar

Annual General Meeting: 6 May 2021, at 10 Molesworth Street, Dublin 2.

Interim results

A date for the announcement of the Half-Yearly Financial Report 2021 has yet to be finalised and will be published in due course.

General information

Forward Looking Statements

This document contains certain forward looking statements with respect to the financial condition, results of operations and business of AIB Group and certain of the plans and objectives of the Group. These forward looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward looking statements sometimes use words such as 'aim', 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'may', 'could', 'will', 'seek', 'continue', 'should', 'assume', or other words of similar meaning. Examples of forward looking statements include, among others, statements regarding the Group's future financial position, capital structure, Government shareholding in the Group, income growth, loan losses, business strategy, projected costs, capital ratios, estimates of capital expenditures, and plans and objectives for future operations. Because such statements are inherently subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward looking information. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward looking statements. These are set out in the Principal risks on pages 50 to 53 in the 2020 Annual Financial Report. In addition to matters relating to the Group's business, future performance will be impacted by direct and indirect impacts of the COVID-19 pandemic and by Irish, UK and wider European and global economic and financial market considerations. Any forward looking statements made by or on behalf of the Group speak only as of the date they are made. The Group cautions that the list of important factors on pages 50 to 53 of the 2020 Annual Financial Report is not exhaustive. Investors and others should carefully consider the foregoing factors and other uncertainties and events when making an investment decision based on any forward looking statement.

Glossary of terms

Additional Tier 1 Capital

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

Arrears

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

Bank Recovery and Resolution Directive

The Bank Recovery and Resolution Directive ("BRRD") is a European legislative package issued by the European Commission and adopted by EU Member States. The BRRD introduces a common EU framework for how authorities should intervene to address banks which are failing or are likely to fail. The framework includes early intervention and measures designed to prevent failure and in the event of bank failure for authorities to ensure an orderly resolution.

Banking book

A regulatory classification to support the regulatory capital treatment that applies to all exposures which are not in the trading book. Banking book positions tend to be structural in nature and, typically, arise as a consequence of the size and composition of a bank's balance sheet. Examples include the need to manage the interest rate risk on fixed rate mortgages or rate insensitive current account balances. The banking book portfolio will also include all transactions/positions which are accounted for on an interest accruals basis or, in the case of financial instruments, on a hold to collect and sell basis.

Basis point

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

Basis risk

A type of market risk that refers to the possibility that the change in the price of an instrument (e.g. asset, liability, derivative) may not match the change in price of the associated hedge, resulting in losses arising in the Group's portfolio of financial instruments.

Buy-to-let mortgage

A residential mortgage loan approved for the purpose of purchasing a residential investment property.

Capital Requirements Directive

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

Capital Requirements Directive IV

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

Collateralised bond obligation/ collateralised debt obligation

A collateralised bond obligation ("CBO")/collateralised debt obligation ("CDO") is an investment vehicle (generally an SPE) which allows third party investors to make debt and/or equity investments in a vehicle containing a portfolio of loans and bonds with certain common features. In the case of synthetic CBOs/CDOs, the risk is backed by credit derivatives instead of the sale of assets (cash CBOs/CDOs).

Commercial paper

Commercial paper is similar to a deposit and is a relatively low-risk, short term, unsecured promissory note traded on money markets and issued by companies or other entities to finance their short term expenses. In the USA, commercial paper matures within 270 days maximum, while in Europe, it may have a maturity period of up to 365 days; although maturity is commonly 30 days in the USA and 90 days in Europe.

Commercial property

Commercial property lending focuses primarily on the following property segments:
a) Apartment complexes;
b) Office projects;
c) Retail projects;
d) Hotels; and
e) Selective mixed-use projects and special purpose properties.

Common equity tier 1 capital ("CET1")

The highest quality form of regulatory capital under Basel III that comprises ordinary shares issued and related share premium, retained earnings and other reserves excluding cash flow hedging reserves, and deducting specified regulatory adjustments.

Common equity tier 1 ratio

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

Concentration risk

Concentration risk is the risk of loss from lack of diversification, investing too heavily in one industry, one geographic area or one type of security.

Contractual maturity

The period when a scheduled payment is due and payable in accordance with the terms of a financial instrument.

Contractual residual maturity

The time remaining until the expiration or repayment of a financial instrument in accordance with its contractual terms.

Glossary of terms

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

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

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

Credit rating An evaluation of the creditworthiness of an entity seeking to enter into a credit agreement.

Credit risk The risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

Credit risk mitigation Techniques used by lenders to reduce the credit risk associated with an exposure by the application of credit risk mitigants. Examples include: collateral; guarantee; and credit protection.

Credit spread Credit spread can be defined as the difference in yield between a given security and a comparable benchmark government security, or the difference in value of two securities with comparable maturity and yield but different credit qualities. It gives an indication of the issuer's or borrower's credit quality.

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

Credit valuation adjustment Credit valuation adjustment ("CVA") is an adjustment to the valuation of OTC derivative contracts to reflect the creditworthiness of derivative counterparties.

Criticised Accounts of lower quality and considered as less than satisfactory are referred to as criticised and include the following;

Criticised watch: The credit is exhibiting weakness and is deteriorating in terms of credit quality and may need additional attention.

Criticised recovery: Includes forborne cases that are classified as performing having transitioned from default, but still requires additional management attention to monitor for re-default and continuing improvement in terms of credit quality.

Customer accounts A liability of the Group where the counterparty to the financial contract is typically a personal customer, a corporation (other than a financial institution) or the government. This caption includes various types of deposits and credit current accounts, all of which are unsecured.

Debt restructuring This is the process whereby customers in arrears, facing cash flow or financial distress, renegotiate the terms of their loan agreements in order to improve the likelihood of repayment. Restructuring may involve altering the terms of a loan agreement including a partial write-down of the balance. In certain circumstances, the loan balance may be swapped for an equity stake in the counterparty.

Debt securities Assets on the Group's balance sheet representing certificates of indebtedness of credit institutions, public bodies and other undertakings.

Debt securities in issue Liabilities of the Group which are represented by transferable certificates of indebtedness of the Group to the bearer of the certificates.

Default Default is considered to have occurred with regard to a credit obligor when either or both of the following events have taken place:

i. a credit obligor is past due 90 days or more on any material credit obligation to the Group; and/or
ii. the Group considers that the credit obligor is unlikely to pay their credit obligations, without recourse by the Group to actions such as realising collateral (if held), or if for any other reason, the Group determines that the credit obligor is unlikely to pay their credit obligations in full.

Derecognition The removal of a previously recognised financial asset or financial liability from the Group's statement of financial position.

EBITDA Earnings before interest, tax, depreciation and amortisation.

ECB refinancing rate The main refinancing rate or minimum bid rate is the interest rate which banks have to pay when they borrow from the ECB under its main refinancing operations.

ECLs Expected credit loss ("ECLs") – The weighted average of credit losses with the respective risks of a default occurring as the weights.

Eurozone The eurozone consists of the following nineteen European Union countries that have adopted the euro as their common currency: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia and Spain.

Exposure at default The expected or actual amount of exposure to the borrower at the time of default.

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

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

Funding value adjustment Funding value adjustment ("FVA") is an adjustment to the valuation of OTC derivative contracts due to a bank's funding rate exceeding the risk-free rate.

Guarantee An undertaking by the Group/other party to pay a creditor should a debtor fail to do so.

Home loan A loan secured by a mortgage on the primary residence or second home of a borrower.

Interest rate risk in the banking book (IRRBB) The current or prospective risk to both the earnings and capital of the Group as a result of adverse movements in interests rates.

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

Internal liquidity adequacy assessment process The Internal Liquidity Adequacy Assessment Processes ("ILAAP") is a key element of the risk management framework for credit institutions. ILAAP is defined in the EBA's SREP Guidelines as "the processes for the identification, measurement, management and monitoring of liquidity implemented by the institution pursuant to Article 86 of Directive 2013/36/EU". It thus contains all the qualitative and quantitative information necessary to underpin the risk appetite, including the description of the systems, processes and methodology to measure and manage liquidity and funding risks.

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

ISDA Master Agreements Standardised contracts, developed by the International Swaps and Derivatives Association ("ISDA"), used as an umbrella under which bilateral derivatives contracts are entered into.

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

Liquidity Coverage Ratio Liquidity Coverage Ratio ("LCR"): The ratio of the stock of high quality liquid assets to expected net cash outflows over the next 30 days under a stress scenario.

Liquidity risk The risk that Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.

Loan to deposit ratio This is the ratio of loans and advances expressed as a percentage of customer accounts, as presented in the statement of financial position.

Loan to value Loan to value ("LTV") is an arithmetic calculation that expresses the amount of the loan as a percentage of the value of security/collateral. A high LTV indicates that there is less of a cushion to protect the lender against collateral price decreases or increases in the loan carrying amount if repayments are not made and interest is capitalised onto the outstanding loan balance.

Glossary of terms

Loans past due

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

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

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

Loss Given Default

Loss Given Default ("LGD") is the expected or actual loss in the event of default, expressed as a percentage of 'exposure at default'.

Medium term notes

Medium term notes ("MTNs") are notes issued by the Group across a range of maturities under the European Medium Term Notes ("EMTN") Programme.

Minimum requirement for own funds and eligible liabilities (MREL)

A European Union wide requirement under the Bank Recovery and Resolution Directive for all European banks and investment banks to hold a minimum level of equity and/or loss absorbing eligible liabilities to ensure the operation of the bail-in tool to absorb losses and recapitalise an institution in resolution.

National Asset Management Agency

National Asset Management Agency ("NAMA") was established in 2009 as one of a number of initiatives taken by the Irish Government to address the serious problems which arose in Ireland's banking sector as the result of excessive property lending.

Net interest income

The amount of interest received or receivable on assets net of interest paid or payable on liabilities.

Net interest margin

Net interest margin ("NIM") is a measure of the difference between the interest income generated on average interest earning financial assets (lendings) and the amount of interest paid on average interest bearing financial liabilities (borrowings) relative to the amount of interest-earning assets.

Net Stable Funding Ratio

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

New transaction lendings

New transaction lending is defined as incremental increase in drawn balances against facilities granted for a specific period of time whereby the borrower can draw down or repay amounts as required to manage cash flow. It includes revolving credit facilities, overdrafts and invoice discounting facilities.

Non-performing exposures

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

Off-balance sheet items

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

Offsetting

Offsetting, or 'netting', is the presentation of the net amounts of financial assets and financial liabilities in the statement of financial position as a result of Group's rights of set-off.

Operational risk

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

Prime loan

A loan in which both the criteria used to grant the loan (loan-to-value, debt-to-income, etc.) and to assess the borrower's history (no past due reimbursements of loans, no bankruptcy, etc.) are sufficiently conservative to rank the loan as high quality and low-risk.

Principal components analysis

Principal components analysis ("PCA") is a tool used to analyse the behaviour of correlated random variables. It is especially useful in explaining the behaviour of yield curves. Principal components are linear combinations of the original random variables, chosen so that they explain the behaviour of the original random variables, and so that they are independent of each other. Principal components can, therefore, be thought of as just unobservable random variables. For yield curve analysis, it is usual to perform PCA on arithmetic or logarithmic changes in interest rates. Often the data is "demeaned"; adjusted by subtracting the mean to produce a series of zero mean random variables. When PCA is applied to yield curves, it is usually the case that the majority (> 95%) of yield curve movements can be explained using just three principal components (i.e. a parallel shift, twist and bow). PCA is a very useful tool in reducing the dimensionality of a yield curve analysis problem and, in particular, in projecting stressed rate scenarios.

Private equity investments

Equity securities in operating companies not quoted on a public exchange, often involving the investment of capital in private companies.

Probability of Default	Probability of Default ("PD") is the likelihood that a borrower will default on an obligation to repay.
Regulatory capital	Regulatory capital is determined in accordance with rules established by the SSM/ECB for the consolidated Group and by local regulators for individual Group companies.
Re-pricing risk	Re-pricing risk is a form of interest rate risk (i.e. a type of market risk) that occurs when asset and liability positions are mismatched in terms of re-pricing (as opposed to final contractual) maturity. Where these interest rate gaps are left unhedged, it can result in losses arising in the Group's portfolio of financial instruments.
Repurchase agreement	Repurchase agreement ("Repo") is a short term funding agreement that allows a borrower to create a collateralised loan by selling a financial asset to a lender. As part of the agreement, the borrower commits to repurchase the security at a date in the future repaying the proceeds of the loan. For the counterparty to the transaction, it is termed a reverse repurchase agreement or a reverse repo.
Residential mortgage-backed securities	Residential mortgage-backed securities ("RMBS") are debt obligations that represent claims to the cash flows from pools of mortgage loans, most commonly on residential property.
Risk-weighted assets	Risk-weighted assets ("RWAs") are a measure of assets (including off-balance sheet items converted into asset equivalents e.g. credit lines) which are weighted in accordance with prescribed rules and formulas as defined in the Basel Accord to reflect the risks inherent in those assets.
Securitisation	Securitisation is the process of aggregation and repackaging of non-tradable financial instruments such as loans and advances, or company cash flows into securities that can be issued and traded in the capital markets.
Single Supervisory Mechanism	The Single Supervisory Mechanism ("SSM") is a system of financial supervision comprising the European Central Bank ("ECB") and the national competent authorities of participating EU countries. The main aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe.
Special purpose entity	Special purpose entity ("SPE") is a legal entity which can be a limited company or a limited partnership created to fulfil narrow or specific objectives. A company will transfer assets to the SPE for management or use by the SPE to finance a large project thereby achieving a narrow set of goals without putting the entire firm at risk. This term is used interchangeably with SPV (special purpose vehicle).
Stage allocation:	Under IFRS 9, loans and advances to customers are classified into one of three stages:
Stage 1	Includes newly originated loans and loans that have not had a significant increase in credit risk since initial recognition.
Stage 2	Includes loans that have had a significant increase in credit risk since initial recognition but do not have objective evidence of being credit impaired.
Stage 3	Includes loans that are defaulted or are otherwise considered to be credit impaired.
Stress testing	Stress testing is a technique used to evaluate the potential effects on an institution's financial condition of an exceptional but plausible event and/or movement in a set of financial variables.
Structured securities	This involves non-standard lending arrangements through the structuring of assets or debt issues in accordance with customer and/ or market requirements. The requirements may be concerned with funding, liquidity, risk transfer or other needs that cannot be met by an existing off the shelf product or instrument. To meet this requirement, existing products and techniques must be engineered into a tailor-made product or process.
Supervisory Review and Evaluation Process (SREP)	Supervisors regularly assess the risks banks face and check that banks are equipped to manage those risks properly. This activity is called the Supervisory Review and Evaluation Process and its purpose is to allow banks' risk profiles to be assessed consistently and decisions about necessary supervisory measures to be taken.
Syndicated and international lending	Syndicated and international lending involves lending to entities by leveraging off their equity structures having considered the cash generating capacity of the business and its capacity to repay any associated debt. Leveraging structures are typically used in management and private equity buy-outs, mergers and acquisitions. Syndicated and international lending is extended typically to non-investment grade borrowers and carries commensurate rates of return.
Tier 1 capital	A measure of a bank's financial strength defined by the Basel Accord. It captures common equity tier 1 capital and other instruments in issue that meet the criteria for inclusion as additional tier 1 capital. These are subject to certain regulatory deductions.
Tier 2 capital	Broadly includes qualifying subordinated debt and other tier 2 securities in issue. It is subject to adjustments relating to the excess of expected loss on the IRBA portfolios over the accounting expected credit losses on the IRBA portfolios, securitisation positions and material holdings in financial companies.
Tracker mortgage	A mortgage with a variable interest rate which tracks the European Central Bank ("ECB") rate, at an agreed margin above the ECB rate and will increase or decrease within five days of an ECB rate movement.

Glossary of terms

Trade date and settlement date accounting

1. Trade date accounting records the transaction on the date on which an agreement has been entered (the trade date), instead of on the date the transaction has been finalised (the settlement date).
2. Under the settlement date accounting approach, the asset is recognised on the date on which it is received by the Group, on disposal, the asset is not derecognised until the asset is delivered to the buyer.

Value at Risk

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

Wholesale funding

Wholesale funding refers to funds raised from wholesale market sources. Examples of wholesale funding include senior unsecured bonds, covered bonds, securitisations, repurchase transactions, interbank deposits and deposits raised from non-bank financial institutions.

Yield curve risk

A type of market risk that refers to the possibility that an interest rate yield curve changes its shape unexpectedly (e.g. flattening, steepening, non-parallel shift), resulting in losses arising in the Group's portfolio of interest rate instruments.

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