BACKING OUR CUSTOMERS

AIB

Allied Irish Banks, p.l.c.

ANNUAL FINANCIAL REPORT
for the financial year ended
31 December 2021

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Contents

AIB description

AIB is a financial services group. Our main business activities are retail, business and corporate banking, as well as mobile payments and card acquiring. The Group operates predominantly in Ireland and the United Kingdom. Whether it's adapting to a greener way of living, planning for the future, growing a business or simply navigating day-to-day life, our ambition as a Group is to be at the heart of our customers' financial lives every step of the way. Our three core segments are: Retail Banking, Capital Markets and AIB UK.

Presentation of information

The information contained in this Annual Financial Report is that of Allied Irish Banks, p.l.c. and its subsidiaries.

In this Annual Financial Report, and unless specified otherwise, the terms 'Allied Irish Banks, p.l.c.' or 'the Company' refer to the parent company, 'the Group' or 'AIB' refers to the parent company and its subsidiaries, 'the holding company' and 'owner' refers to AIB Group plc and 'AIB Group' refers to AIB Group plc and its subsidiaries.

This copy of the statutory annual report of Allied Irish Banks, p.l.c. for the year ended 31 December 2021 is not presented in the ESEF-format as specified in the Regulatory Technical Standards on ESEF (Delegated Regulation (EU) 2019/815). The ESEF annual report will also be published on: https://aib.ie/investorrelations/financial-information/results-centre/2021-annual-financial-results.

BUSINESS PERFORMANCE

2021 RESULTS

FINANCIAL PERFORMANCE

NET INTEREST INCOME

€1,791m

2021	€1,791m
2020	€1,865m

Lower average loan volumes and low interest rate environment impacting

Down 4% due to a reduction in average loan volumes (including the redemption and disposal of NPEs), the low interest rate environment and lower investment securities income partially offset by TLTRO funding income benefit

NET CREDIT IMPAIRMENT WRITEBACK/(CHARGE)

€238m

2021	€238m
2020	€(1,460)m

Credit quality and economic backdrop improving, some uncertainty remains

Writeback reflecting a more favourable economic environment with improved credit quality and updated macroeconomic assumptions partially offset by post-model adjustments

PROFIT/(LOSS) BEFORE TAX

€634m

2021	€634m
2020	€(931)m

Return to profitability with net credit impairment writeback

Operating profit[1] down 5% to €693m (impacted by higher regulatory levies with stable operating income and expenses) and impairment writeback of €238m partly offset by exceptional items of €318m

NEW LENDING

€10.4bn

2021	€10.4bn
2020	€9.2bn

Strong growth in new lending up 13%

New lending up 13% with growth of 26% in mortgages in Ireland, strong performance in renewable energy & infrastructure and property lending partly offset by lower UK lending

NET LOANS

€56.5bn

2021	€56.5bn
2020	€56.9bn

Net loans broadly stable at €56.5bn

Net loans down €1.3bn (excluding FX impact) due to the redemption and disposal of non-performing loans

NON-PERFORMING EXPOSURES[2]

€3.1bn

2021	€3.1bn
2020	€4.3bn

5.4% of gross loans

Non-performing exposures (NPEs) decreased by €1.2bn to €3.1bn primarily driven by the disposal of non-performing loan portfolios. Legacy[2] NPEs €0.9bn or 1.5% of gross loans

MEDIUM-TERM FINANCIAL TARGETS (END 2023)

ABSOLUTE COST BASE[3]

Cost of running the business, excluding exceptional costs

TARGET

<€1.475bn

Focused cost discipline; controlling costs annually at <€1.475bn by 2023

OUTCOME

2021	€1.534bn
2020	€1.527bn

Costs broadly in line with 2020, down 1% excluding Goodbody

RETURN ON TANGIBLE EQUITY*

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

TARGET

>9%

Deliver sustainable returns; RoTE >9% by 2023

OUTCOME

2021	8.2%[4]
2020	(11.2)%

Improved RoTE on return to profitability

*at an AIB Group level

CET1 RATIO (FULLY LOADED)

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

TARGET

>13.5%

Appropriate capital target of CET1 13.5% needed to run the business

OUTCOME

2021	16.6%[5]
2020	15.6%

Strong capital position. Proposed dividend €122m and share buyback €91m

1. Operating profit before impairment losses and exceptional items.
2. Non-performing exposures (NPEs) refers to non-performing loans (NPLs) and excludes €161m of off-balance sheet exposures. Legacy NPEs are exposures that entered into default prior to 31 December 2018.
3. Before bank levies, regulatory fees and exceptional items. For exceptional items see pages 24 and 33.
4. At an AIB Group level, based on CET1 revised target of 13.5%. 2020 RoTE is based on prior CET1 target of 14%.
5. Excludes the impact of the proposed buyback of €91m. Including the buyback CET1 is 16.5%.

NON-FINANCIAL PERFORMANCE

GREEN FINANCE

Amount of new lending per year for climate action

€2bn

2021	€2bn
2020	€1.5bn

TARGET
€2bn per year

DIGITALLY ACTIVE CUSTOMERS

Number of active users on digital channels

1.85 million

2021	1.85m
2020	1.72m

TARGET
>2.25 million by 2023

CUSTOMER SATISFACTION

Transaction Net Promoter Score[1]
Measured after customer transactions for key touch points

+45

2021	+45
2020	+49

TARGET
+53 by 2023

INCLUSION & DIVERSITY

Women as % of management

42%

2021	42%
2020	41%

TARGET
Gender Balanced (Ongoing)[2]

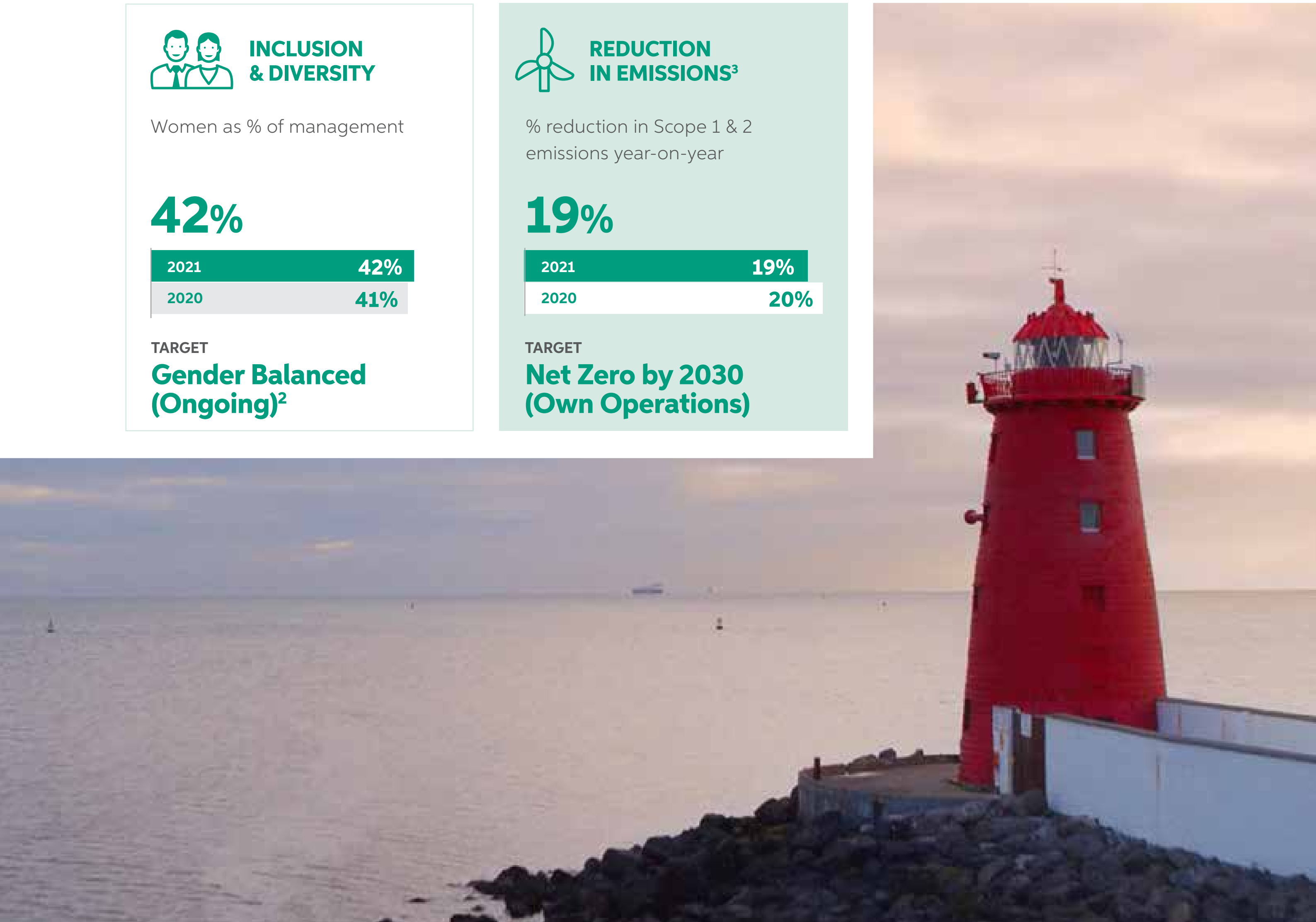
REDUCTION IN EMISSIONS[3]

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

19%

2021	19%
2020	20%

TARGET
Net Zero by 2030 (Own Operations)



1. Transaction Net Promoter Score (NPS) is an aggregation of 20 customer journeys across Homes, Personal, SME, Digital, Retail, Direct and Day-to-Day Banking.
2. The Gender Equality Global Report & Ranking – 2021 Edition equates "gender balanced" with between 40% and 60% of women.
3. In our 2020 AFR, we reported our GHG emissions one year in arrears. In an enhancement, we are now reporting Scope 1 & 2 emissions for the most recent financial year. Consequently, we have restated our 2020 emissions data, as we now disclose our data centre emissions in our Scope 3 emissions. Our ambition is to achieve Net Zero in our financed emissions by 2040 for our full lending portfolio with the exception of Agriculture. In addition, COVID-19 restrictions had an impact on our emissions reduction in 2021.

OUR STRATEGY

A PLATFORM FOR GROWTH

In 2021, we continued to make steady progress against our strategic initiatives to address product gaps, generate cost savings and position AIB for growth, while supporting the transition to a low-carbon economy.

Following an acceleration towards digital banking and changing ways of working associated with the COVID-19 pandemic, a refreshed three-year strategy and Transformation Programme for AIB Group in December 2020 was announced. Our strong capital base, leading customer franchise and digital capability enabled the Group to adapt to uncertainty and change while remaining focused on our long-term strategic objectives.

In 2021, AIB made good progress in our Transformation Programme, delivering real change to enable cost-savings across each of our strategic initiatives over the course of a multi-year plan. These initiatives are aligned to our five strategic pillars – Customer First, Simple & Efficient, Risk & Capital, Talent & Culture and Sustainable Communities. For more details, and an overview of the progress made in 2021, see the table on page 5.

Amid the uncertainty caused by the pandemic, there was also a growing recognition globally of a need to create a more sustainable world. Increasing evidence of the climate crisis, as witnessed by extreme weather events across the world in 2021, has reinforced and accelerated the drive to sustainability.

GOVERNANCE AND OVERSIGHT REMAIN KEY TO ENSURING OUR STRATEGY IS DELIVERED AND EFFECTIVE

At AIB, Sustainable Communities is a key strategic pillar and a core consideration in everything we do. We continue to progress our sustainability agenda across each of the ESG categories – environment, social, and governance (see page 5). A comprehensive set of actions is in train across the Group to further integrate sustainability practices and offer our customers more green propositions and services. To oversee and progress this integration appropriately, in 2021 we introduced a new executive governance committee, the Group Sustainability Committee (GSC), complementing the existing Sustainability Board Advisory Committee. For more information about these committees, see our Sustainability Report 2021.

Governance and oversight remain key to ensuring our strategy is delivered and effective. To ensure the Group achieves our purpose and strategic goals in an appropriately risk-controlled manner, the Group's Risk Committee safeguards proper oversight of the Group's risk appetite, management structure, frameworks and policies, as well as challenging whether the management controls in place are adequately robust. More information about our risk approach can be found in the Risk Summary on pages 6 to 11.

In managing our strategy, the Group remains adaptable to changing circumstances and has responded appropriately in recent times, including the establishment of new Board advisory committees, such as the Technology & Data Advisory Committee in 2020.

Our focus for the next year is to leverage the progress made in 2021, using it as a platform for growth. While we remain alert to uncertainties in the economic environment and the evolving banking landscape, we have strong business fundamentals underpinning our growth strategy.

Looking forward, we will maintain focus on our products and services, aligning our Group operating model and ways of working to ensure we can serve customers as their banking needs evolve, as a complete provider of financial services. And we will continue to action our pledge to support the transition to a low-carbon economy, reducing our own carbon footprint and assisting our customers to do the same.

IN 2021, WE FOCUSED ON STRATEGIC INITIATIVES ACROSS OUR FIVE PILLARS, MAKING GOOD PROGRESS IN EACH DURING THE YEAR.

STRATEGIC PILLAR	INITIATIVE	UPDATE
CUSTOMER FIRST	PRODUCT GAPS; INORGANIC GROWTH	• Acquired Goodbody to enhance capital markets, wealth management and corporate finance propositions • CCPC approval received for a joint venture with Great-West Lifeco; CBI application underway • Completed commercial negotiations with NatWest Holdings Limited for the acquisition of the performing Ulster Bank corporate and commercial loan portfolio; CCPC process underway • Acquired a 50% stake in Autolease Fleet Management – trading as NiftiBusiness and Nifti Personal Leasing – for car leasing solutions
SIMPLE & EFFICIENT	REFOCUSED BRANCH NETWORK	• Reorganised c.20% of our AIB and EBS branch network in Ireland and the UK • Amalgamated 21 AIB branches and closed 3 EBS offices in Ireland; closed 8 branches in Northern Ireland • Created 17 new Sales & Advisory branches, making 22 in total, dedicated to meeting our customers' lending, mortgage and financial planning needs • Expanded the services on offer for AIB customers at An Post locations
	CHANGE DELIVERY	• Created 240 technology, data and digital specialist roles, reducing reliance on third parties • Enhanced cost management across the Group using zero-based budgeting methodology
RISK & CAPITAL	AIB GB BUSINESS MODEL	• Reorganised the business to focus on Corporate growth in specific sectors, including renewables, infrastructure, real estate, healthcare and manufacturing • Exited the SME market with agreed bid on portfolio sale of £0.6bn
	END-TO-END CREDIT	• Streamlined existing credit, customer and account management and fulfilment activities for SMEs • Completed design work on long-term credit solutions for corporate and SME customers • Implemented CreditLogic technology to enable digitalisation of EBS mortgage journeys
TALENT & CULTURE	FUTURE OF WORK	• Designed our Future of Work approach around a hybrid working model • Physical exit completed of Burlington Road office building in Dublin • Launched aib Connect, our new employee communications and engagement app
SUSTAINABLE COMMUNITIES	ENVIRONMENT	• Launched the AIB Personal Green Loan and Haven Green Mortgage • Raised €750m on completion of our second green bond issuance • Doubled our Climate Action Fund to €10bn to support large-scale green and transition projects
	SOCIAL	• Launched a Social Bond Framework to support communities across Ireland • Launched Future Sparks, supporting financial literacy among post-primary schools in Ireland • Agreed a three-year partnership to support the annual GOAL Mile
	GOVERNANCE	• Appointment of Jim Pettigrew as Chair of the Board • Established the Group Sustainability Committee (GSC) • Advanced the work of the new Technology & Data Advisory Committee (TDAC) • Appointed Elaine MacLean as our NED designated to engage directly on employee issues

KEY: DIGITALISATION | WAYS OF WORKING | SUSTAINABILITY | BUSINESS MODEL

RISK SUMMARY

OUR APPROACH TO RISK

Supported by a risk-aware culture, our risk management approach allows AIB Group to respond effectively to changing circumstances.

The Group's risk management approach seeks to identify the key risks to our strategy, provide a risk management framework for each Principal Risk, sets an appropriate risk appetite, and regularly stresses our risk exposures to test the Group's resilience to the occurrence of those risks. This process occurs quarterly, allowing the Group to respond to changing circumstances in a dynamic manner and enabling the Group to meet our purpose of backing our customers to achieve their dreams and ambitions.

Our Risk Management Framework sets out the integrated approach to risk management across the Group, providing a clear, concise and comprehensive approach to the governance, implementation and embedding of risk management practices across the Group and its subsidiaries. This is supported by a Group-wide focus on risk culture, in particular our Customer First and Risk & Capital strategic pillars.

The Principal Risks facing the Group are identified through the Material Risk Assessment (MRA), which also identifies the key emerging risk drivers, which are described on page 11. Changes in the risk profile and outlook of the Group's Principal Risks, which are outlined in more detail on pages 8 to 10, are reported monthly to the Group Risk Committee and regularly to the Board Risk Committee and Board.

We manage each Principal Risk within a set of individual risk frameworks and policies that are maintained by the Risk function. We review these regularly to ensure they continue to support the strategy while remaining aligned to regulatory requirements and industry good practice.

On an annual basis, the Board sets out the maximum amount of risk the Group is willing to accept within our Risk Appetite Statement (RAS). The approved risk limits are monitored monthly and reported to the Board to ensure the Group remains within our risk appetite.

We test the resilience of the Group's strategy across each of the Principal Risks through scenario analysis and stress-testing. The scenarios used are informed by the key emerging risk drivers identified in the MRA. These are used to assess the internal capital adequacy assessment process (ICAAP) and the three-year financial plan, including testing the financial plan outcomes against the approved risk appetite.

The Group is closely monitoring the rapidly evolving situation in Ukraine and its potential impact on the Group's business. Further details are provided on page 40. The Risk Management section of this Report, from pages 39 to 130, provides a more in-depth overview of how risk is managed within the Group, detailing the approach to risk governance including the three lines of defence, committee structures, risk appetite and stress testing.

RISK DEVELOPMENTS IN 2021

2021 was another year of high uncertainty. COVID-19 continued to pose significant challenges to the Group's activities; our customers continued to be impacted by public health restrictions and many of our customers and employees are still working remotely. As the global economy recovers from COVID-19, inflation and supply-chain concerns have come to the fore. Other risks, such as cyber risk and information security, sustainability and climate change and competition in the Irish market have also been a key focus for the Board in 2021. The Risk Management Framework has remained robust and continued to support the Group's response to these risks. The key developments in 2021, and the risk actions undertaken to manage these, are set out below.

COVID-19

Despite continuing uncertainty from new variants such as the recent Omicron wave, economies have been more resilient than was expected at the beginning of 2021 albeit that certain sectors have been, and continue to be, adversely impacted by COVID-19.

The Group has continued to enhance the sector review process recognising that COVID-19, along with Brexit, has impacted some sectors more than

A NEW ESG QUESTIONNAIRE HAS BEEN IMPLEMENTED TO ASSIST THE GROUP'S CREDIT PROCESSES

others. This sectoral outlook is reviewed regularly by the Group Credit Committee, requiring increased governance for new lending to sectors that are viewed as higher risk, supporting the Group in remaining within our risk appetite. The Group's expected credit loss and stress-testing processes have continued to incorporate risks from COVID-19 and other downside risks, such as the impact of more persistent high inflation. The Group's capital position remains strong under our adverse scenarios. There are further details on our macro-economic scenarios on page 56.

CYBER RISK, INFORMATION SECURITY, THIRD PARTY AND DATA RISK

There has been an increase in cyber-related crime, both at a national and global level, during the COVID-19 period as cyber criminals seek to take advantage of peoples' vulnerabilities and exploit new weaknesses introduced through the rapid operational changes required to sustain new ways of working through the pandemic. Through our cyber programme, we continue to invest significantly in our cyber security capability to prevent, detect and respond to this evolving cyber threat landscape, and have focused on educating staff and customers on actions they can take to prevent cyberattacks. This includes detailed guidance on how to identify and prevent common fraud and threats such as phishing and smishing.

The Group has also partnered with other banks across Europe through the Banking & Payments Federation of Ireland (BPFI) and the Cyber Defence Alliance, playing an active role in fostering an open, knowledge-based and mutual protection culture that enhances the ability of all participants to protect against cyber threats.

There has also been an increased emphasis and focus on the identification, monitoring and management of our operational resilience, concentration and data related risks arising from our third party ecosystem. Through the combination of the active monitoring of supplier performance and ongoing risk assessments this has further embedded the identification, monitoring and management of the risks associated with our outsourcing and third-party arrangements.

SUSTAINABILITY AND CLIMATE CHANGE

Sustainability is at the core of the Group's strategy. The Group recognises that climate change risk continues to evolve rapidly. We are committed to managing our climate risk and supporting our customers' transition to a low-carbon economy with enhanced green products, propositions and support. Climate change risks have been classified into two main categories: physical risk and transition risk.

Physical risk arises from the increasing frequency and severity of events related to climate change (flooding and extreme weather events), while transition risk is the financial loss that may incur, directly or indirectly, as a result of the process of adjusting to a low-carbon economy.

The impact of climate change poses an emerging Credit Risk. We have continued to embed these risks within Credit Risk by updating credit sanctioning policies and lending procedures across different sectors to require greater consideration of ESG factors in the credit origination process. These have been supported by the development of a sectoral heatmap in order to identify those sectors that are highly impacted by climate risks.

A new ESG questionnaire has been implemented to assist the Group's credit processes and procedures in identifying and assessing ESG risk during the lending process. This has been implemented for customers in high climate risk sectors in Ireland. The ESG Questionnaire enables simple and efficient engagement with customers that also serves to increase their awareness of the transition risks of climate change. We will further embed ESG factors in our credit risk underwriting in 2022 along with a roll-out across the other risks that are identified as being significantly impacted by climate risk.

COMPETITION IN IRISH BANKING MARKET

Another focus during the year was the changing Irish banking market landscape, with KBC Bank Ireland and Ulster Bank both announcing their intention to exit the Irish market. Additionally, new competitors continue to focus on their specific market segments. COVID-19 has also accelerated the move to online banking and driven a change in the expectations a customer has of their bank, which impacts on our business model.

To respond in part to these competitive pressures, each of the inorganic transactions agreed in 2021 aims to strengthen the Group's business model, providing broader services to our customers, particularly in areas such as wealth management and insurance. While we expect integration of these initiatives to progress as planned during 2022, if the implementation risks are not mitigated successfully, or if financial performance was to deviate materially from expectations, then the Business Model Risk profile of the Group would increase accordingly. These inorganic transactions have been incorporated into the Group's risk management framework and processes in 2021, with integration expected to continue during 2022.

OUR PRINCIPAL RISKS

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

Principal Risks are those risks that could have a material adverse effect on our customers or the financial, operational or reputational standing of the Group. All of the Group's Principal Risks are outlined below, and did not change in 2021. The key elements of these Principal Risks are reported regularly to the Board Risk Committee through the Risk Reporting process.

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 the inability to secure the required investment. This also includes the risk of implementing an unsuitable strategy or maintaining an obsolete business model in light of known internal and external factors.

KEY DEVELOPMENTS IN 2021

The announced acquisitions and joint ventures in 2021 provide the Group with a platform to grow income in the near term. While the planned exits of KBC Bank Ireland and Ulster Bank creates opportunities for increased market share in ROI Retail, the growth of non-banks in the mortgage market intermediary channel will ensure continued competition. The Group developed new green products to continue supporting our customers. While these are positive developments in our business model risk, should the Group not achieve its financial plan objectives, its business model risk could increase.

KEY RISK INDICATORS

- Operating Profit (pre-exceptional items) negative variance to plan
- Aggregate Group Risk Adjusted Return on Capital (RAROC) on new business

LINKAGE TO THE GROUP'S STRATEGY

Customer First
Simple and Efficient
Risk & Capital
Talent & Culture
Sustainable Communities

+ Read more: page 124

CREDIT RISK

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 and associated bank credit exposure in respect of loans or other financial transactions.

KEY DEVELOPMENTS IN 2021

The Group's focus continued to be impacted by COVID-19 throughout 2021 by adapting credit risk management processes and policies to support existing customers and ensure they were provided with the appropriate measures taking account of the current expected financial impact and recovery outlook, with sectors believed to be most impacted continuing to be closely monitored. The Group also continues to be proactive in terms of adapting its credit risk management processes and policies to capture ESG risks in order to achieve our sustainability ambition of 70% of our new lending to be green/transition lending by 2030.

KEY RISK INDICATORS

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

LINKAGE TO THE GROUP'S STRATEGY

Customer First
Simple and Efficient
Sustainable Communities
Risk & Capital

+ Read more: pages 45 to 106

OPERATIONAL RISK

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.

KEY DEVELOPMENTS IN 2021

2021 brought a heightened focus and challenge on key areas of operational risk in the current environment namely cyber, change risk, operational resilience, third-party management and products and propositions risks. Progress has been made to further develop and embed strong operational risk practices, however this is an evolving and dynamic landscape. The key areas of focus included: ongoing oversight, review and challenge of the transformation agenda across the Group, including inorganic activities; uplift in our cyber security capabilities in response to the evolving external threats; and enhanced oversight of third-party service providers to drive improved resilience.

KEY RISK INDICATORS

- Cumulative operational risk losses
- Cyber security metric

LINKAGE TO THE GROUP'S STRATEGY

Risk & Capital
Customer First
Talent & Culture
Sustainable Communities

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CONDUCT RISK

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

KEY DEVELOPMENTS IN 2021

Managing the impact of legacy issues continues to be a key feature of conduct risk management for the Group. Improvements in the Conduct Risk profile through ongoing reviews and challenges of the control environment by the three lines of defence. This level of challenge ensured that root causes of issues were being identified and preventative actions taken resulting in the impact to the customer being remediated. Throughout 2021, the identification of these legacy operational and process design issues resulted in the declaration of nine restitutions to address the poor customer outcomes identified. This is a decrease on the number of restitutions when compared to the total of 14 in 2020.

KEY RISK INDICATORS

» Number of complaints and time taken to resolve

» Number of overdue product reviews

LINKAGE TO THE GROUP'S STRATEGY

Customer First

Risk & Capital

Talent & Culture

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REGULATORY COMPLIANCE RISK

The risk of legal or regulatory sanctions or material financial loss the Group may suffer as a result of a failure to comply with principal laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to banking activities as outlined in our regulatory compliance universe.

KEY DEVELOPMENTS IN 2021

The dynamic and evolving regulatory change landscape continues to be a key feature of the management of regulatory compliance risk for the Group. In 2021, we saw a continued focus by our regulators on regulatory change implementation dates. AIB Group has identified areas for enhancement which would allow for an improved experience when implementing new regulations.

KEY RISK INDICATORS

» Number of data protection incidents

» Reporting of suspicious transactions to manage anti-money laundering and financial crime risks

LINKAGE TO THE GROUP'S STRATEGY

Customer First

Risk & Capital

+ Read more: pages 126 to 127

PEOPLE & CULTURE RISK

The risk to achieving the Group's strategic objectives as a result of an inability to recruit, retain or develop resources, or the inability to evolve the culture aligned to the Group's values and behaviours.

KEY DEVELOPMENTS IN 2021

The Group has a number of defined strategic initiatives, and programmes of work are underway to respond to the various people- and culture-related headwinds, such as wellbeing and engagement, increased uncertainty relating to COVID-19, a buoyant employment market resulting in a competition for talent and our workforce continuing to adapt to new ways of working. There has also been significant investment in terms of developing capabilities across the bank including running a number of Leadership Development and Talent Management programmes during the year. Efforts are also underway to develop an internal talent depository capturing the existing skills, capabilities, knowledge and experience of the workforce enabling the Group to scenario plan for the future. The Group continues on our culture development journey and much progress has been made throughout the year, including significant enhancements to our wellbeing, engagement and inclusion and diversity (I&D) strategies.

KEY RISK INDICATORS

» Attrition of Senior Roles

LINKAGE TO THE GROUP'S STRATEGY

Talent & Culture

Customer First

+ Read more: pages 129 to 130

CAPITAL ADEQUACY RISK

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

KEY DEVELOPMENTS IN 2021

The Group maintained a strong capital position throughout 2021 with substantial buffers to regulatory requirements for Fully Loaded Common Equity Tier 1 (CET1) and Total Capital ratios. Various stress testing activities in 2021 demonstrated the robustness of the capital position including the annual Internal Capital Adequacy Assessment Process (ICAAP) and the biennial European-wide EBA Stress Test. RAS metrics were reviewed during 2021 to ensure they continued to appropriately reflect both regulatory requirements and the uncertain external environment.

KEY RISK INDICATORS

» Fully Loaded CET1 ratio
» Fully Loaded Total Capital Ratio

LINKAGE TO THE GROUP'S STRATEGY

Risk & Capital

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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.

KEY DEVELOPMENTS IN 2021

Central Bank stimulus helped to bring stability to financial markets in 2021. However, economic growth in the second half of the year, and particularly rising inflation, led to the tapering of stimulus programmes globally and a return of market volatility as central banks re-assess the appropriateness of their interest rate policies.

KEY RISK INDICATORS

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

LINKAGE TO THE GROUP'S STRATEGY

Risk & Capital

Simple and Efficient

+ Read more: pages 116 to 123

MODEL RISK

The potential loss 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.

KEY DEVELOPMENTS IN 2021

The Model Risk profile improved in the last year, reflecting improvements in the control environment and validation coverage subsequent to its introduction. In the second half of the year, the Model Risk score was recalibrated to reduce subjectivity in the assessment; improve transparency; reduce the element of double-counting / overlap in scoring considerations; and to simplify the model risk reporting summary. A four-point measurement process was introduced to align to the four-point validation and monitoring scoring systems. This has added benefit of differentiating between models in a more risk-sensitive way.

KEY RISK INDICATORS

» Quarterly risk assessment of live models

LINKAGE TO THE GROUP'S STRATEGY

Simple and Efficient

Risk & Capital

Talent & Culture

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LIQUIDITY & FUNDING RISK

The risk that the Group will not be able to fund our assets and meet our payment obligations as they come due, without incurring unacceptable costs or losses. Funding is the means by which liquidity is generated, e.g. secured or unsecured, corporate or retail. In this respect, Funding Risk is the risk that liquidity cannot be obtained at an acceptable cost.

KEY DEVELOPMENTS IN 2021

Customer deposits have continued to grow at pace predominantly due to the low interest rate environment and COVID-19-related dynamics of precautionary savings and lower consumer consumption. While the planned exit of KBC Bank Ireland and Ulster Bank creates opportunities for increased market share in this space, it further contributed to higher volumes of excess liquidity held with the Central Bank at negative rates.

KEY RISK INDICATORS

» Liquidity Coverage Ratio (LCR)
» Survival Period

LINKAGE TO THE GROUP'S STRATEGY

Risk & Capital

+ Read more: pages 107 to 114

EMERGING RISKS AND UNCERTAINTIES

The Group takes a proactive approach to identifying and assessing the potential impact of emerging risks, which could have a material impact on the Group's strategy, operations and on our customers over the medium to long term. Where the probability of their occurrence or the expected magnitude may be difficult to accurately evaluate, the use of scenarios and expert judgement is applied. The key themes of focus in 2021 were broadly similar to those identified in 2020 but also included integration risk, and attracting and retaining talent.

EMERGING RISK	MITIGANTS	LINKS TO RISKS	TREND 2021
COVID-19 VARIANTS The risk of continuous cycles of outbreaks and lockdowns triggered by COVID-19 variants, driving increased credit losses to vulnerable sectors such as hospitality.	• The Group has implemented additional measures in response to COVID-19, such as a suite of forbearance measures, payment breaks, enhanced portfolio asset quality monitoring, case-specific reviews and top-down vulnerable sector reviews. • The Group continues to stress test the risks that COVID-19 created in order to identify weakness and mitigate appropriately.	Across all Principal Risks	**DECREASING RISK**
INTEGRATION RISK The risks from the execution of the inorganic transactions including the integration of systems, operations, people and culture.	• The Group MRA includes an assessment of any potential new material risks created by new transactions. • The Group has established a programme with dedicated resources to assess each transaction individually. • The Group ensures appropriate governance is in place to manage the integration change and identify risks to delivering the change.	Credit Risk Regulatory Compliance Risk Conduct Risk Operational Risk Model Risk	**INCREASING RISK**
CYBER THREATS The risk of diminished operational capability of the Group's systems, data risk exposures and potential for legal liability from customers due to evolutions in ransomware and cyber criminals' practices including fraudulent phishing and smishing activities.	• The Group continues to invest in our controls around information technology. • There is an well-resourced active Cyber Security and Intelligence Unit. • There is a key focus on staff awareness around Cyber Risk, both from an external and internal threat.	Operational Risk Business Model Risk Conduct Risk	**STABLE**
CLIMATE TRANSITION RISKS Transitioning to a lower-carbon economy, including climate-related financial risks.	• Enhanced qualitative risk appetite statements for Business Model Risk and Credit Risk approved by the Board to take ESG considerations into account when formulating the Group's strategy. • All material lending decisions >€300k for customers in high climate risk sectors, are in scope for completion of an ESG Questionnaire as part of the customer credit application.	Credit Risk Business Model Risk Operational Risk Regulatory Compliance Risk Model Risk Liquidity & Funding Risk Financial Risk	**INCREASING RISK**
UNEXPECTED MACROECONOMIC EVENTS, GEOPOLITICAL RISKS Elevated uncertainties regarding the macroeconomic and geopolitical (including events in Ukraine) outlook arising from volatility in financial markets, inflation and interest rates. Should higher inflation persist longer than expected, it could prompt central banks to raise interest rates sharply in order to restore price stability. Adverse developments such as these may have an impact on the Group with higher-than-expected credit losses, sudden reduction in asset quality and increases in capital requirements.	• The Group assesses the impact of changing macroeconomic conditions and internal factors as part of the detailed annual financial planning processes. The Financial Plan is integral to the Group's Risk Management process. It drives the delivery of the Group's strategy aligned to the Risk Appetite Statement (RAS). • The Group also incorporates geopolitical risks in scenarios assessing adequacy of provisions and capital. • A suite of sanctioning and credit management policies are reviewed in line with the policy governance framework to ensure they are aligned to the Group's risk appetite.	Credit Risk Capital Adequacy Risk Financial Risk Business Model Risk	**INCREASING RISK**
TALENT AND SKILLS The loss of high-performing, high-potential, senior and highly skilled employees due to a competitive labour market and limitations on the Group's ability to attract and retain such skills.	• The Group has invested in developing staff capabilities with a strong focus on identifying senior talent and increase on internal mobility. • Significant enhancement of the Group's wellbeing, engagement, inclusion and diversity strategies which has been one of the Group's key response to the challenges of COVID-19.	People & Culture Risk Business Model Risk	**INCREASING RISK**

OUR BOARD OF DIRECTORS

JIM PETTIGREW

Non-Executive Chair, independent on appointment

Date of appointment
28 October 2021

Nationality British

ANIK CHAUMARTIN

Independent Non-Executive Director

Date of appointment
1 July 2021

Nationality French

BASIL GEOGHEGAN

Independent Non-Executive Director

Date of appointment
4 September 2019

Nationality Irish

TANYA HORGAN

Independent Non-Executive Director

Date of appointment
14 September 2021

Nationality Irish

COMMITTEE MEMBERSHIP & TENURE (as at 31 December 2021, in years or months)

Jim Pettigrew: N R — 2 mths

Anik Chaumartin: A — 6 mths

Basil Geoghegan: Ri — 2 y

Tanya Horgan: Ri T — 3 mths

SKILLS, EXPERTISE AND EXPERIENCE

Key Skills Extensive financial services experience, retail banking, customer and conduct, governance, strategy and culture development

Jim has over 30 years' experience in UK and international financial services leadership in public, listed and private company environments, including at board level, as CEO and as Chair. He was Chair of Scottish Financial Services, the Scottish financial services trade body, served as Co-Chair of Scotland's Financial Services Advisory Board and is a former President of the Institute of Chartered Accountants of Scotland. In 2020, he retired as Chair of Virgin Money and CYBG plc (Clydesdale Bank) having overseen the bank's successful demerger from National Australia Bank Group, its IPO and acquisition of Virgin Money. He has built considerable non-executive experience over the past 10 years across retail, wholesale and investment banking, asset and wealth management and the insurance sectors.

Key Skills Deep technical accountancy and audit expertise in financial services, talent and culture development, and stakeholder management

Anik has over 37 years' international and professional services experience. She was a partner in PwC in Paris for 27 years, and held various leadership positions in the firm for 15 of those years. During her time in PwC she acted in the roles of Global Client Relationship Partner and Lead Audit Partner for a number of major banking and financial services organisations. Anik currently serves as Chair of the Banking Committee of the Compagnie Nationale des Commissaires aux Comptes (the French Statutory Auditors' Institute).

Key Skills In-depth knowledge of international finance, corporate banking, strategy and risk management

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 Chair of daa plc and Patron of The Ireland Fund of Great Britain. He holds an LLB from Trinity College, Dublin, and an LLM from the European University Institute.

Key Skills Robust risk management, compliance, finance, accounting and audit, customer and conduct, and technology skills

Tanya is a Chartered Accountant with extensive industry-based experience in the areas of compliance, internal audit and risk management and has over 20 years' experience in publicly listed companies. Tanya trained and qualified with PwC. She has since held roles in a number of organisations including Tesco, Mercury Engineering, Paddy Power Betfair plc and, most recently, was the Group Chief Risk Officer of Flutter Entertainment plc. She has a B.Comm in Accounting from University College Cork.

KEY EXTERNAL APPOINTMENTS

Chair of BlueBay Asset Management
Chair of Scottish Ballet
Chair of Dundee Industrial Heritage Trust

Non-Executive Director of ALD Automotive.
Non-Executive Director of La Banque Postale

Chair of daa plc
Partner at PJT Partners

Chief Risk Officer of Primark

BOARD COMMITTEES

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

SANDY KINNEY PRITCHARD

Independent
Non-Executive Director

Date of appointment
22 March 2019

Nationality Irish

CAROLAN LENNON

Senior Independent Director

Date of appointment
27 October 2016

Nationality Irish

ELAINE MACLEAN

Independent
Non-Executive Director

Date of appointment
4 September 2019

Nationality British

ANDY MAGUIRE

Independent
Non-Executive Director

Date of appointment
15 March 2021

Nationality Irish

COMMITTEE MEMBERSHIP & TENURE (as at 31 December 2021, in years or months)

Sandy Kinney Pritchard: A 2.5 y, Ri 2.5 y

Carolan Lennon: N 3 mths, S 4.5 y

Elaine MacLean: R 2 y, N 1 y, N 2 y

Andy Maguire: Ri 9 mths, T 9 mths

SKILLS, EXPERTISE AND EXPERIENCE

Key Skills Expertise in finance, accounting and audit, governance, regulation, customer and conduct, risk management, wealth management, retail and investment banking

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 and Permanent plc, Skipton Building Society, the FSCS, TSB Bank plc and MBNA Ltd.

Key Skills Substantial leadership, strategy, technology, customer operations and sustainability skills

Carolan was the CEO of eir for four years up to January 2022. Prior to the CEO role, she held a variety of executive roles in eir Limited, including Managing Director of Open eir and 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.

Key Skills Significant experience in remuneration and governance, organisational structures, and people and culture development

Elaine is a highly experienced human resources director specialising in financial services and retail. Following her early retail career with roles at 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. She is the Designated Non-Executive Director for workforce engagement.

Key Skills Extensive retail banking, technology and digital, transformation, and risk management skills

Andy has extensive financial services experience spanning 35 years, including 16 years with the Boston Consulting Group where he rose to become Managing Partner of the London office covering the UK and Ireland, prior to which he held several global roles including Global Head of Retail Banking. From 2014 to 2020, Andy was the Group Chief Operating Officer for HSBC Holdings plc with responsibility for operations, technology, real estate, change and transformation and operational resilience. He holds a BA and a BAI from Trinity College, Dublin.

KEY EXTERNAL APPOINTMENTS

Sandy Kinney Pritchard: Non-Executive Director and Chair of the Audit Committee and the Remuneration Committee of Credit Suisse (UK) Ltd

Carolan Lennon: Sits on the Council of Patrons for Special Olympics Ireland

Elaine MacLean: None

Andy Maguire: Non-Executive Director of The Boston Consulting Group UK
Chair of Thought Machine Group
Chair of CX Holdings (Cennox Group)

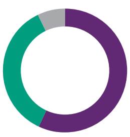
AIB NON-EXECUTIVE DIRECTORS

GENDER

Female: 7 – 50%
Male: 7 – 50%

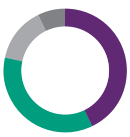
AGE

56-64: 8 – 57%
46-55: 4 – 36%
65-70: 1 – 7%



BOARD TENURE

0-2 yrs: 6 – 43%
2-4 yrs: 5 – 36%
4-6 yrs: 2 – 14%
6-8 yrs: 1 – 7%



NATIONALITIES

Irish: 9 – 64%
British: 2 – 14%
USA: 1 – 7%
Dutch: 1 – 7%
French: 1 – 7%

OUR BOARD OF DIRECTORS

BRENDAN MCDONAGH

Independent Non-Executive Director and Deputy Chair

Date of appointment
27 October 2016

Nationality Irish

HELEN NORMOYLE

Independent Non-Executive Director

Date of appointment
17 December 2015

Nationality Irish

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

COMMITTEE MEMBERSHIP & TENURE

(as at 31 December 2021, in years or months)

Brendan McDonagh	Ri (Chair) 2 y; Ri 5 y; A 3.5 y; N 2 y; R 3 y
Helen Normoyle	S (Chair) 5.5 y; N 1.5 y; T 1 y
Ann O'Brien	A 1.5 y; R 2.5 y; S 2.5 y; T (Chair) 1 y; T 1 y
Fergal O'Dwyer	A 11 mths

SKILLS, EXPERTISE AND EXPERIENCE

Brendan McDonagh

Key Skills Significant global financial services experience in retail and commercial banking, strategy, governance, regulation, and risk management

Brendan started his banking career with HSBC in 1979, working across Asia, Europe, North America and the Middle East, 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 (NTMA). 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.

Helen Normoyle

Key Skills Deep knowledge and experience of sustainability, customer and conduct, digital, stakeholder management, and culture development

Helen is a highly experienced marketeer with over 30 years' experience in consumer marketing and market research across a range of sectors and geographies. A graduate of the University of Limerick, she started her career with Infratest+GfK, based in Germany. From there she moved to Motorola, where she held a range of roles including Director of Global Consumer Insights and Product Marketing and Director of Marketing. After working in broadcast and telecoms regulation at Ofcom as the Director of Market Research, she held Marketing Director and Chief Marketing Officer roles at the BBC, DFS, Countrywide and Boots, where she was also the Chair and Director of the Boots Charitable Trust. Helen also serves on the Board of AIB Group (UK) p.l.c as a Non-Executive Director.

Ann O'Brien

Key Skills Significant technology and digital expertise, and highly-skilled in the areas of sustainability, strategy and leadership

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 by the Board on the nomination of the Irish Minister for Finance under the Relationship Framework between the Minister for Finance and AIB Group.

Fergal O'Dwyer

Key Skills Extensive experience in finance and accounting, treasury and liquidity management, strategy, and capital markets

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.

KEY EXTERNAL APPOINTMENTS

Brendan McDonagh

Non-Executive Director and Chair of Audit & Risk Committees of Bradford & Bingley Limited and NRAM Limited
Chair of PEAL Capital Group Limited
Serves on the Board of The Ireland Funds, Ireland Chapter
Council Member of Global Advisory Council, Impact Ireland Fund
Chair of the Trinity Business School Advisory Board

Helen Normoyle

Co-founder and Executive Director of My Menopause Centre
Non-Executive Director of Thame and London Ltd

Ann O'Brien

Non-Executive Director of Royal London Asset Management
Advisory role with Euroclear UK & Ireland

Fergal O'Dwyer

Non- Executive Director of Hibernia REIT plc
Non-Executive Director of ABP Food Group Unlimited
Board Member of Focus Ireland and Focus Housing Association

BOARD COMMITTEES

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

JAN SIJBRAND

Independent
Non-Executive Director

Date of appointment
14 September 2021

Nationality Dutch

RAJ SINGH

Independent
Non-Executive Director

Date of appointment
25 April 2019

Nationality United States

COLIN HUNT

Chief Executive Officer &
Executive Director

Date of appointment
8 March 2019

Nationality Irish

DONAL GALVIN

Chief Financial Officer &
Executive Director

Date of appointment
28 May 2021

Nationality Irish

COMMITTEE MEMBERSHIP & TENURE

(as at 31 December 2021, in years or months)

Jan Sijbrand: Ri 3 mths

Raj Singh: Ri 2.5 y; S 2.5 y

Colin Hunt: S 3 y

SKILLS, EXPERTISE AND EXPERIENCE

Key Skills Highly-skilled in the areas of risk management, retail and commercial banking, governance, financial regulation and oversight

Jan has had an extensive executive career including roles in Royal Dutch Shell PLC, Rabobank Nederland, ABN AMRO Holding N.V. and NIBC Bank N.V. and was a Member of the Executive Board and Chairman for Supervision at De Nederlandsche Bank N.V. (the central bank of the Netherlands). He is currently a member of the Supervisory Board and Chair of the Public Interest Committee of PwC Nederland and joined the Global Board of PwC in June 2021. Jan has an MSc in Applied Mathematics and a PhD in Mathematics, both from the University of Utrecht.

Key Skills Significant international experience in risk management, governance, retail and corporate banking, insurance, wealth and asset management, and sustainability

Raj has over 35 years' business, risk and governance experience gained in large and complex global listed financial services organisations including Citibank, Allianz, Swiss Re, Standard Life Aberdeen and EFG International with the last 20 years at the executive committee level as Group Chief Risk Officer. He has served as a Non-Executive Director of a national credit bureau and two listed financial institutions as well as many of the banking, insurance, reinsurance and asset management subsidiaries of those firms. Raj was appointed by the Board on the nomination of the Irish Minister for Finance under the Relationship Framework between the Irish Minister for Finance and AIB Group.

Key Skills Strategic leadership, extensive executive experience covering risk, treasury, research, capital markets, customer focus, and sustainability

In March 2019, Colin was appointed Chief Executive Officer of AIB Group. 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, 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 and BComm and MEconSc degrees from University College Cork.

Key Skills Significant international retail and wholesale banking, capital, liquidity, treasury, investor relations, and risk management skills

Donal joined AIB as Group Treasurer in September 2013 and was appointed to the role of Chief Financial Officer in March 2019 and to the Board in May 2021. Donal has gained significant experience working in domestic and international financial markets over the last 25 years. Prior to joining AIB, Donal held a number of senior executive roles including Managing Director in Mizuho Securities Asia, Managing Director in Dutch Rabobank and Treasurer of Rabobank International. He serves as a Non-Executive Director of Goodbody.

KEY EXTERNAL APPOINTMENTS

Non-Executive Director of PwC Nederland
Non-Executive Director of PricewaterhouseCoopers International Ltd

Non-Executive Chair of Muscat Insurance Company
Non-Executive Director of HSBC Bank Oman

Serves on the Board of The Ireland Funds, Ireland Chapter
Non-Executive Director and President 2021/2022 of the Institute of Bankers in Ireland

None

OUR EXECUTIVE COMMITTEE

CJ BERRY

Chief Operating Officer Designate

CATHY BRYCE

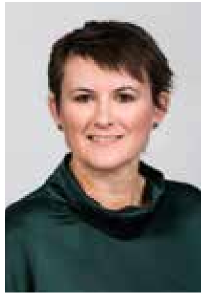
Managing Director of Capital Markets

GERALDINE CASEY

Chief People Officer

FERGAL COBURN

Chief Technology Officer



HELEN DOOLEY

Group General Counsel

SKILLS, EXPERTISE AND EXPERIENCE

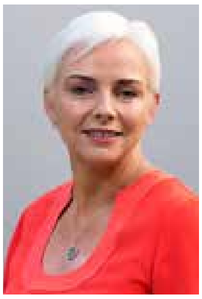
CJ joined AIB in 2002, bringing with him a wealth of experience across Irish, UK, US and European markets. During his 19 years in AIB, he has driven significant business development in our corporate and retail business, taking up the position of Interim Head of Group Strategy in July 2020. As Chief Operating Officer Designate, CJ oversees the bank's transformation agenda, identifying and leading initiatives that contribute to the strategy. 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 Capital Markets. She is a Business graduate of Trinity College Dublin and holds an MBA from INSEAD.

Chief People Officer Geraldine, originally from Kerry and a graduate of University College Cork, joined AIB in January 2020 from her most recent role as Director of People, Communications & IT at Tesco Ireland. She was 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, and has brought that experience to bare in driving AIB's inclusion, culture, people and future of work agendas. Geraldine joined the Board of AIB Group (UK) plc as a Non-Executive Director in May 2021.

Prior to his appointment to Chief Technology Officer, Fergal was Chief Digital & Innovation Officer, responsible for the strategy and development of AIB's digital businesses. Over the previous 20 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, before joining AIB Fergal spent five years in the oil and gas exploration industry as a senior wireline engineer followed by five years with Eircom in network support systems development. He holds Bachelor's and Master's 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 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.



HILARY GORMLEY

Managing Director Designate of AIB Group (UK) plc

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

Hilary has over 30 years' experience in AIB, enjoying a wide and varied career across retail, commercial and corporate banking, holding a number of senior roles and leading teams across different geographies. She has successfully completed highly strategic priorities for the Group, from leading strategic change programmes to completing large portfolio transactions. Hilary holds a Bachelor's degree in Financial Services from University College Dublin, has completed the Harvard General Management Programme, and is a member of the Institute of Bankers.

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. In April, it was announced that Deirdre would retire in 2022.

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 a director of the Irish Banking Culture Board (IBCB). In December, it was announced that Robert would step down from his position in AIB Group in 2022.

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 Group 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. Mary is also a Non-Executive Director of Goodbody.

Colin Hunt, Chief Executive Officer, and Donal Galvin, Chief Financial Officer, are also on the Executive Committee. Their biographies can be found on page 15.

SUSTAINABILITY AND CLIMATE CHANGE

We recognise that the scale and impact of our business confers on us a responsibility and role across the economy and society. At the heart of our strategy is a commitment to help ensure a greener tomorrow by backing those building it today.

Our strategy for Sustainable Communities is focused on three areas: Climate & Environment, Economic & Social Inclusion, and Future Proof Business. Our priorities for each area are the result of extensive stakeholder engagement, including an independent bi-annual materiality and evaluation process.

Further details on Sustainability in AIB can be found on pages 42 to 55 of the AIB Group plc Annual Financial Report 2021.

Business review

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 33. These measures should be considered in conjunction with IFRS measures as set out in the consolidated financial statements from page 177. A reconciliation between the IFRS and management performance summary income statements is set out on page 34.

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.

Management performance – summary income statement	2021 € m	2020 € m	% change
Net interest income	1,791	1,865	-4
Other income[1]	598	506	18
Total operating income[1]	2,389	2,371	1
Personnel expenses[1]	(738)	(734)	1
General and administrative expenses[1]	(512)	(514)	-1
Depreciation, impairment and amortisation[1]	(284)	(279)	2
Total operating expenses[1]	(1,534)	(1,527)	–
Bank levies and regulatory fees[1]	(162)	(115)	41
Operating profit before impairment losses and exceptional items[1]	693	729	-5
Net credit impairment writeback/(charge)	238	(1,460)	–
Operating profit/(loss) before exceptional items[1]	931	(731)	–
Share of equity accounted investments	21	15	37
Profit/(loss) before exceptional items[1]	952	(716)	–
Restitution costs	(173)	(117)	–
Restructuring costs	(132)	(73)	–
Inorganic transaction costs	(21)	(2)	–
Covid product costs	–	(22)	–
Other	8	(1)	–
Total exceptional items[1]	(318)	(215)	–
Profit/(loss) before taxation	634	(931)	–
Income tax credit	16	190	-92
Profit/(loss) for the year	650	(741)	–

[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

€1,791m

Net interest income	2021 € m	2020 € m	% change
Interest income(1)	1,797	2,049	-12
Interest expense(1)	(6)	(184)	-97
Net interest income	1,791	1,865	-4
Average interest earning assets	113,401	96,037	18
	%	%	Change
Net interest margin (NIM)	1.58	1.94	-0.36

Net interest income

€1,791m

Net interest income of € 1,791 million decreased by € 74 million or 4% compared to 2020.

Interest income

Interest income of € 1,797 million in 2021 decreased by € 252 million compared to 2020 primarily due to:

- Lower average customer loan volumes reflecting the redemption and disposal of non-performing loans and due to redemptions of performing loans exceeding new lending in 2020.
- Higher volumes of excess liquidity held with the central bank at negative rates.
- Reduced asset yields driven by the lower interest rate environment.
- Lower income on investment securities due to maturities and disposals of higher yielding securities and reinvestment at lower yields.

Interest expense

Interest expense of € 6 million in 2021 decreased by € 178 million compared to 2020.

The reduction in funding costs was primarily due to:

- Deposits by banks which reflects the impact of TLTRO III funding including an additional income benefit of € 65 million (€ 15 million in respect of the March 2021 lending benchmark and the full € 50 million benefit in respect of the December 2021 lending benchmark) recognised when it was subsequently determined that the Group had a reasonable expectation that the relevant lending targets would be met.[2]
- The lower cost of customer accounts which includes the impact from continuing to broaden the scope of accounts to which negative rates are applied.
- Lower cost of other debt issued.

Net interest margin

1.58%

NIM decreased by 36 bps to 1.58% in 2021 compared to 1.94% in 2020 due to:

- Higher excess liquidity impacting average interest earning assets c. -29 bps
- Reduced interest income primarily due to lower average customer loan volumes, the impact of the lower interest rate environment and the decrease in investment security yields c. -20 bps partly offset by;
- Lower interest expense on customer accounts and other debt issued c. +7 bps and,
- Additional TLTRO III income benefit c. +6 bps.

Average interest earning assets of € 113.4 billion in 2021 increased by € 17.4 billion from 2020 primarily due to funds placed with banks. This was driven by an increase in excess liquidity mainly due to higher customer account balances and TLTRO III funding drawdown.

Average balance sheet

	Year ended 31 December 2021			Year ended 31 December 2020		
Assets	Average balance € m	Interest(1) € m	Average rate %	Average balance € m	Interest(1) € m	Average rate %
Loans and advances to customers	57,697	1,846	3.20	59,586	1,965	3.29
Investment securities	17,676	65	0.37	18,389	112	0.61
Loans and advances to banks(3)	38,028	(114)	(0.30)	18,062	(28)	(0.15)
Average interest earning assets	113,401	1,797	1.58	96,037	2,049	2.13
Non-interest earning assets	6,294			7,227		
Total average assets	119,695	1,797		103,264	2,049	
Liabilities & equity						
Deposits by banks	7,722	(102)	(1.32)	1,870	(3)	(0.15)
Customer accounts	48,439	(3)	(0.01)	40,766	54	0.13
Other debt issued and subordinated liabilities	7,140	99	1.38	7,570	120	1.58
Lease liabilities	364	12	3.28	408	13	3.18
Average interest earning liabilities	63,665	6	0.01	50,614	184	0.36
Non-interest earning liabilities	42,518			38,682		
Equity	13,512			13,968		
Total average liabilities & equity	119,695	6		103,264	184	
Net interest income		1,791	1.58		1,865	1.94

(1)Negative interest income on assets amounting to € 129 million in 2021 (2020: € 44 million) is offset against interest income. Negative interest expense on liabilities amounting to € 158 million in 2021 (2020: € 34 million) is offset against interest expense.
(2)For further information see note 4 'Interest and similar income' in the consolidated financial statements.
(3)Loans and advances to banks includes Securities financing.

Business review – 1. Operating and financial review

Other income

Other income[1]

€598m

Other income[1]	2021 € m	2020 € m	% change
Net fee and commission income	488	401	22
Dividend income	3	26	-90
Net trading income/(loss)	15	(32)	–
– Equity investment hedges	2	(9)	–
– Other	13	(23)	–
Net gain on equity investments (FVTPL)	58	45	29
Net gain on loans and advances to customers (FVTPL)	20	42	-51
Other operating income	14	24	-41
Other income	598	506	18

Other income[1]

€598m

Other income of € 598 million increased by € 92 million or 18% compared to 2020. This reflects the impact from the acquisition of Goodbody for four months of 2021 of € 24 million and an underlying increase of € 68 million or 13%.

Net fee and commission income	2021 € m	2020 € m	% change
Customer accounts	208	179	15
Card income	78	69	13
Lending related fees	50	40	26
Customer related foreign exchange	67	54	23
Payzone	15	15	1
Other fees and commissions	46	44	5
	464	401	15
Goodbody	24	–	–
Net fee and commission income	488	401	21

Net fee and commission income of € 488 million in 2021 increased by € 87 million compared to 2020 reflecting the impact from Goodbody and an increase in underlying net fee and commission income of € 63 million or 15%.

The increase in underlying net fee and commission income primarily reflected higher transaction volumes due to a recovery in economic activity and the removal of the exemption on customer account fees for customers that maintain a minimum credit balance.

Dividend income in 2020 included € 23 million received on NAMA subordinated bonds, which were redeemed in 2020.

Net trading income (excluding equity hedges) of € 13 million in 2021 increased by € 36 million compared to a net trading loss of € 23 million in 2020 mainly due to favourable movements on derivative valuation adjustments (XVA) and on non-customer foreign exchange contracts.

Net income from equity investments of € 60 million in 2021 (2020: € 36 million) reflected the disposal and revaluation of equity investments. This comprises a net gain on equity investments (FVTPL) of € 58 million in 2021 (2020: € 45 million) and equity investment hedges of € 2 million (2020: loss of € 9 million).

Net gain on loans and advances to customers (FVTPL) of € 20 million in 2021 (2020: € 42 million) represents income recognised on previously restructured loans carried at fair value through profit or loss.

Other operating income of € 14 million in 2021 includes a € 7 million gain on disposal of investment securities (2020: Nil) and a gain on disposal of individual loans for credit management purposes of € 6 million (2020: € 23 million).

IFRS basis

On an IFRS basis other income, including a net loss of € 5 million on exceptional items[1], was € 593 million in 2021 compared to € 508 million in 2020.

[1]Other income before exceptional items. A net loss of € 5 million on exceptional items in 2021 (2020: € 2 million gain) comprises: € 5 million loss on disposal of loan portfolios (2020: Net loss on loans and advances to customers (FVTPL) € 1 million and Other operating income gain on settlement € 3 million).

1 2 3 4 5 6

Operating expenses

Total operating expenses[(1)(2)]

€1,534m

Operating expenses[(1)(2)]	2021 € m	2020 € m	% change
Personnel expenses	738	734	1
General and administrative expenses	512	514	-1
Depreciation, impairment and amortisation	284	279	2
Total operating expenses	1,534	1,527	–
Staff numbers at period end[(3)]	8,916	9,193	-3
Average staff numbers[(3)]	9,154	9,356	-2

Total operating expenses[(1)(2)]

€1,534m

Total operating expenses of € 1,534 million were broadly in line with 2020. This includes the impact from the acquisition of Goodbody for four months of 2021 of € 23 million and an underlying reduction in costs of € 16 million or 1%.

Personnel expenses

Personnel expenses increased by € 4 million compared to 2020 primarily due to the impact of Goodbody of € 16 million partly offset by a decrease in average staff numbers as the expected benefits of Strategy 2023 were realised towards the end of the year.

General and administrative expenses

General and administrative expenses were broadly in line with 2020 with an increase due to the impact of Goodbody offset by lower underlying costs.

Depreciation, impairment and amortisation

Depreciation, impairment and amortisation increased by € 5 million compared to 2020.

Cost income ratio[(1)(2)]

64%

Costs of € 1,534 million and income of € 2,389 million resulted in a cost income ratio of 64% in 2021 in line with 2020.

Bank levies and regulatory fees

€162m

Bank levies and regulatory fees	2021 € m	2020 € m
Irish bank levy	37	35
Deposit Guarantee Scheme	48	39
Single Resolution Fund	53	17
Other regulatory levies and charges	24	24
Bank levies and regulatory fees	162	115

Bank levies and regulatory fees of € 162 million increased by € 47 million compared to 2020 primarily due to Single Resolution Fund (SRF) and higher Deposit Guarantee Scheme fees. The SRF fee includes a provision of € 25 million following a reassessment of the liability due in respect of previous years.

IFRS basis

On an IFRS basis total costs, including bank levies and regulatory fees of € 162 million and the cost of exceptional items[(2)] of € 310 million, were € 2,006 million in 2021 compared to € 1,859 million in 2020. This results in a cost income ratio (IFRS basis) of 84% in 2021, compared to 78% in 2020.

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

[(2)]The cost of exceptional items of € 310 million in 2021 (2020: € 217 million) comprised: Personnel expenses € 58 million (2020: € 42 million), General and administrative expenses € 209 million (2020: € 139 million) and Depreciation, impairment and amortisation € 43 million (2020: € 36 million).

[(3)]Staff numbers are on a full time equivalent ("FTE") basis. Staff numbers at 31 December 2021 include 333 FTEs following the acquisition of Goodbody in the second half of 2021.

Business review – 1. Operating and financial review

Net credit impairment writeback

€238m

There was a net credit impairment writeback of € 238 million in 2021 reflecting a more favourable economic environment and improved credit quality partially offset by post model adjustments.

The net credit impairment writeback of € 238 million reflected a € 233 million writeback on loans and advances to customers (net remeasurement of expected credit loss ("ECL") allowance writeback of € 158 million and recoveries of amounts previously written-off of € 75 million) and a € 6 million writeback for off-balance sheet exposures. There was also a € 1 million charge on securities financing.

There was a net credit impairment charge of € 1,460 million in 2020 comprising of a € 1,421 million charge on loans and advances to customers (net remeasurement 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.

For further information see pages 45 to 106 in the Risk Management section.

Income tax credit

€16m

There was an income tax credit of € 16 million in 2021 due to an increase in the deferred tax asset recognised for tax losses in the UK in earlier years, driven by an increase in forecast profits and an increase in the UK corporation tax rate, partially offset by tax on profits in the year at the applicable statutory rates.

In 2020 there was an income tax credit recognised of € 190 million.

For further information see note 15 'Taxation' and note 29 'Deferred taxation' of the consolidated financial statements.

Total exceptional items

€318m

Total exceptional items	2021 € m	2020 € m
Restitution costs	(173)	(117)
Restructuring costs:	(132)	(73)
– Termination benefits	*(51)*	*(30)*
– Property transformation	*(58)*	*(16)*
– UK portfolio sale	*(10)*	*–*
– Other restructuring	*(13)*	*(27)*
Inorganic transaction costs	(21)	(2)
Covid product costs	–	(22)
Other	8	(1)
Total exceptional items	(318)	(215)

These gains/costs were viewed as exceptional by management. *Restitution costs* includes provisions of € 100 million related to a series of investment property funds which were sold to individual investors during the period 2002 to 2006. See note 36 'Provisions for liabilities and commitments' in the consolidated financial statements for further information. It also includes compensation in relation to customer redress of € 28 million, tracker mortgage examination redress of € 3 million, along with € 42 million of associated costs.

Restructuring costs reflect the implementation of the Group's revised strategy (Strategy 2023) including termination benefits, impairment and other costs associated with the reduction in the Group's property footprint, changes to the Retail network in ROI and the exit from the SME market in Great Britain. 2020 also included termination benefits of € 9 million relating to a previous voluntary severance programme and € 30 million relating to the impairment of intangible assets.
In December 2020 the Group announced its revised strategy (Strategy 2023) and outlined restructuring costs of c. € 400 million to deliver annualised cost savings as a key driver in achieving the medium term targets. Restructuring costs of € 166 million have been incurred in 2020 and 2021 with the remaining costs expected to be incurred primarily in 2022.

Inorganic transaction costs includes costs associated with the proposed acquisition of a portfolio of performing Ulster Bank corporate and commercial loans and the agreed creation of a joint venture with Great-West Lifeco Inc to provide life, pension and investment solutions.

Other in 2021 reflects the writeback of a provision for regulatory fines and a profit on disposal of non-performing loan portfolios.

Assets

Net loans to customers

€56.5bn

New lending

€10.4bn

Assets[1]	31 Dec 2021 € bn	31 Dec 2020 € bn	% change
Gross loans to customers	58.4	59.4	-2
ECL allowance	(1.9)	(2.5)	-25
Net loans to customers	56.5	56.9	-1
Investment securities	17.0	19.5	-13
Loans and advances to banks	44.0	26.6	65
Securities financing	3.9	0.8	–
Other assets	6.5	6.6	-1
Total assets	127.9	110.4	16

Net loans to customers

€56.5bn

Net loans, excluding the impact of currency movements of € 0.9 billion, decreased by € 1.3 billion compared to 31 December 2020 primarily due to the redemption and disposal of non-performing loans.

New lending

€10.4bn

New lending of € 10.4 billion in 2021 was € 1.2 billion or 13% higher than in 2020.

Mortgage lending was 29% higher at € 3.1 billion with property related lending up 31% to € 1.8 billion. Non-property lending was 1% higher at € 4.6 billion with strong new lending in renewable energy & infrastructure and an increase in corporate lending in Ireland partially offset by the reduction in UK lending.

Irish SME lending was broadly in line with 2020 with higher term lending (which benefited from government supported schemes) offset by lower transaction lending. Personal lending was down 5% to € 0.9 billion.

New lending comprises € 9.1 billion term lending in 2021 (€ 7.7 billion in 2020) and € 1.3 billion transaction lending (€ 1.5 billion in 2020).

Non-performing loans

€3.1bn

Non-performing loans ratio

5.4%

Non-performing loans decreased by € 1.2 billion or 28% to € 3.1 billion at 31 December 2021 primarily reflecting the disposal of loan portfolios of € 1.0 billion and redemptions of € 0.7 billion partially offset by net flow to non-performing of € 0.5 billion.

Legacy NPEs (exposures that entered into default prior to 31 December 2018) amount to € 0.9 billion or 1.5% of total loans at 31 December 2021.

Non-performing loans ratio

Non-performing loans as a percentage of gross loans to customers was 5.4% at 31 December 2021 compared to 7.3% at 31 December 2020.

ECL allowance

€1.9bn

Non-performing loans cover

32%

The ECL allowance on non-performing loans (at amortised cost) of € 1.9 billion at 31 December 2021 decreased from € 2.5 billion at 31 December 2020 primarily reflecting the impact of the disposal of non-performing loan portfolios and the net credit impairment writeback in 2021.

Non-performing loans cover

The ECL allowance cover rate on non-performing loans has remained at 32% at 31 December 2021.

Summary of movement in loans to customers

The table below sets out the movement in loans to customers from 1 January 2021 to 31 December 2021.

Loans to customers	Performing loans € bn	Non-performing loans € bn	Loans to customers € bn
Gross loans (opening balance 1 January 2021)	55.1	4.3	59.4
New lending	10.4	–	10.4
Redemptions of existing loans	(10.2)	(0.7)	(10.9)
Portfolio disposals	(0.3)	(1.0)	(1.3)
Write-offs and restructures	–	(0.1)	(0.1)
Net movement to non-performing	(0.5)	0.5	–
Foreign exchange movements	0.8	0.1	0.9
Gross loans (closing balance 31 December 2021)	55.3	3.1	58.4
ECL allowance	(1.0)	(0.9)	(1.9)
Net loans (closing balance 31 December 2021)	54.3	2.2	56.5

[1]Following a significant increase in securities borrowing and reverse repurchase agreements a new line item 'Securities financing' has been introduced. In previous years, securities borrowings were reported in 'Loans and advances to banks' and reverse repurchase agreements were reported in 'Loans and advances to banks' and 'Loans and advances to customers'. The comparatives for 2020 have been restated accordingly. For further information see note 21 'Securities financing' in the consolidated financial statements.

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 39 to 130.

	At amortised cost					At FVTPL[(1)]	
Loan portfolio profile 31 December 2021	**Residential mortgages € bn**	**Other personal € bn**	**Property and construction € bn**	**Non-property business € bn**	**Total € bn**	**Total € bn**	**Total € bn**
Gross loans to customers	**29.4**	**2.7**	**7.4**	**18.7**	**58.2**	**0.2**	**58.4**
Of which: Stage 2	**1.5**	**0.2**	**1.4**	**3.7**	**6.8**	**–**	**6.8**
Of which: Non-performing loans	**1.0**	**0.2**	**0.6**	**1.1**	**2.9**	**0.2**	**3.1**
Total ECL allowance	**0.4**	**0.2**	**0.3**	**1.0**	**1.9**	**–**	**1.9**
Total ECL allowance cover (%)	**1.3%**	**8.2%**	**4.3%**	**5.2%**	**3.2%**	**–**	**–**
ECL allowance cover Stage 2 (%)	**2.8%**	**15.5%**	**6.6%**	**14.4%**	**10.4%**	**–**	**–**
ECL allowance cover non-performing (%)	**30.1%**	**64.4%**	**27.5%**	**28.6%**	**31.9%**	**–**	**–**
31 December 2020	€ bn	€ bn	€ bn	€ bn	€ bn	€ bn	€ bn
Gross loans to customers	30.6	2.8	7.3	18.6	59.3	0.1	59.4
Of which: Stage 2	2.0	0.3	2.1	5.0	9.4	–	9.4
Of which: Non-performing loans	2.1	0.2	1.0	1.0	4.3	–	4.3
Total ECL allowance	0.9	0.2	0.4	1.0	2.5	–	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%	–	–

Investment securities

Investment securities of € 17.0 billion, primarily held for liquidity purposes, have decreased by € 2.5 billion from 31 December 2020 due to sales and maturities exceeding purchases.

Loans and advances to banks

Loans and advances to banks of € 44.0 billion, including € 42.7 billion of cash and balances at central banks, were € 17.4 billion higher than 31 December 2020. The increased placement with banks was primarily due to an increase in excess liquidity due to higher customer account balances and a further € 6 billion TLTRO III funding drawdown.

Securities financing

Securities financing of € 3.9 billion has increased by € 3.1 billion from 31 December 2020.

Other assets

Other assets of € 6.5 billion comprised:

- Deferred tax assets of € 2.8 billion[(2)], € 0.1 billion increase from 31 December 2020.
- Derivative financial instruments of € 0.9 billion, € 0.5 billion decrease from 31 December 2020 primarily reflecting interest rate and foreign exchange rate movements in the period.
- Remaining assets of € 2.8 billion, increased by € 0.3 billion from 31 December 2020 mainly due to proceeds from a loan sale awaiting settlement.

[(1)]Loans at FVTPL relate to the property and construction asset class.
[(2)]For further information see note 2 'Critical accounting judgements and estimates' 'Deferred taxation' in the consolidated financial statements.

Liabilities & equity

Customer accounts

€92.9bn

Equity

€13.7bn

Liabilities & equity	31 Dec 2021 € bn	31 Dec 2020 € bn	% change
Customer accounts	92.9	82.0	*13*
Deposits by banks	10.4	4.7	*121*
Debt securities in issue	1.8	2.3	*-19*
Subordinated liabilities	5.6	4.8	*16*
Other liabilities	3.5	3.2	*9*
Total liabilities	114.2	97.0	*18*
Equity	13.7	13.4	*2*
Total liabilities & equity	127.9	110.4	*16*
	%	%	*Change*
Loan to deposit ratio	61	69	*-8*

Customer accounts

€92.9bn

Customer accounts, excluding the impact of currency movements of € 1.0 billion, increased by € 9.9 billion compared to 31 December 2020 reflecting substantially higher balances primarily due to COVID-19 related dynamics of increased savings.

Customer account balances subject to negative rates at 31 December 2021 were € 12 billion compared to € 5 billion at 31 December 2020.

Loan to deposit ratio

The loan to deposit ratio decreased to 61% at 31 December 2021 compared to 69% at 31 December 2020 due to increased customer accounts.

Deposits by banks

Deposits by banks of € 10.4 billion increased by € 5.7 billion compared to 31 December 2020 driven by a further € 6.0 billion TLTRO III funding drawdown in June 2021 bringing total TLTRO III funding to € 10.0 billion.

Debt securities in issue

Debt securities of € 1.8 billion decreased by € 0.5 billion compared to 31 December 2020.

Subordinated liabilities

Subordinated liabilities of € 5.6 billion were € 0.8 billion higher compared to 31 December 2020.

Other liabilities

Other liabilities of € 3.5 billion comprised:

- Derivative financial instruments of € 1.1 billion, € 0.1 billion decrease from 31 December 2020.
- Remaining liabilities of € 2.4 billion, € 0.4 billion increase from 31 December 2020.

Equity

€13.7bn

Equity increased by € 0.3 billion to € 13.7 billion compared to € 13.4 billion at 31 December 2020.

Business review – 1. Operating and financial review

Segment reporting

Segment overview

The Group's performance is managed and reported across the Retail Banking, AIB Capital Markets ("Capital Markets"), 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.

Capital Markets

Capital Markets provides institutional, corporate and business banking services to the Group's larger customers and customers requiring specific sector or product expertise. Capital Markets' 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, Capital Markets 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. Capital Markets also has syndicated and international finance teams based in Dublin and in New York. In 2021 Goodbody became part of Capital Markets, bringing additional capability in wealth management, corporate finance, asset management and wider capital markets propositions.

AIB UK

AIB UK offers corporate, retail and business banking services in two distinct markets, a sector-led corporate 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) identified changes to the AIB UK business model including the withdrawal from SME lending in Great Britain to refocus on our corporate business, particularly in renewables, infrastructure, health and manufacturing and a reduction in branch footprint in Northern Ireland.

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 Technology, Operations, 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	2021 € m	2020 € m	% change
Net interest income	1,024	1,115	-8
Other income	367	334	10
Total operating income	1,391	1,449	-4
Total operating expenses	(911)	(908)	–
Bank levies and regulatory fees	(2)	(2)	13
Operating contribution before impairments and exceptional items	478	539	-11
Net credit impairment writeback/(charge)	86	(485)	–
Operating contribution before exceptional items	564	54	–
Share of equity accounted investments	16	12	27
Contribution before exceptional items	580	66	–

Retail Banking balance sheet metrics	31 Dec 2021 € bn	31 Dec 2020 € bn	% change
Mortgages	2.9	2.3	
Personal	0.9	0.9	
Property	0.1	0.1	
Non-property business	0.9	1.1	
New lending	4.8	4.4	9
Mortgages	27.7	29.0	
Personal	2.6	2.6	
Property	0.6	0.7	
Non-property business	3.2	3.2	
Gross loans	34.1	35.5	-4
ECL allowance	(1.0)	(1.5)	-31
Net loans	33.1	34.0	-3
Current accounts	37.9	31.7	19
Deposits	27.3	25.2	9
Customer accounts	65.2	56.9	15

Net interest income

€1,024m Net interest income has decreased by € 91 million compared to 2020. This was primarily due to lower average loan volumes reflecting the redemption and disposal of non-performing loans and due to redemptions of performing loans exceeding new lending in 2020. It also reflects the increase in customer account volumes coupled with the impact of the negative interest rate environment partially offset by lower funding costs.

Other income

€367m Other income increased by € 33 million compared to 2020, mainly due to an increase in net fee and commission income driven by customer accounts, card income and customer related foreign exchange income partly offset by lower income recognised on previously restructured loans. Customer accounts income has benefited from the removal of the exemption on customer account fees for customers that maintain a minimum credit balance.

Total operating expenses

€911m Total operating expenses were broadly in line with 2020 as reductions in personnel costs due to lower average staff numbers was offset by an increase in general and administration costs and depreciation and amortisation.

Net credit impairment writeback

€86m There was a net credit impairment writeback of € 84 million on loans and advances to customers (net remeasurement of ECL allowance writeback of € 15 million and recoveries of amounts previously written-off of € 69 million) and a € 2 million writeback for off-balance sheet exposures. There was a net credit impairment charge of € 485 million in 2020.

New lending

€4.8bn New lending was 9% higher at € 4.8 billion due to a strong increase in mortgage lending of € 0.6 billion or 26% and higher SME term lending partly offset by lower transaction lending.

Net loans

€33.1bn Net loans decreased by € 0.9 billion primarily due to the redemption and disposal of non-performing loans.

ECL allowance

€1.0bn The ECL allowance of € 1.0 billion in 2021 decreased by € 0.5 billion from € 1.5 billion at 31 December 2020 primarily reflecting the disposal of non-performing loan portfolios.

Customer accounts

€65.2bn Customer accounts increased by € 8.3 billion compared to 31 December 2020 reflecting higher savings which elevated balances across all sectors.

Business review – 1. Operating and financial review

Capital Markets

Capital Markets contribution statement	2021 € m	2020 € m	% change
Net interest income	460	439	5
Other income	137	121	12
Total operating income	597	560	6
Total operating expenses	(154)	(132)	17
Bank levies and regulatory fees	(1)	–	–
Operating contribution before impairments and exceptional items	442	428	3
Net credit impairment writeback/(charge)	137	(767)	–
Operating contribution before exceptional items	579	(339)	–
Share of equity accounted investments	1	–	–
Contribution before exceptional items	580	(339)	–

Capital Markets balance sheet metrics	31 Dec 2021 € bn	31 Dec 2020 € bn	% change
Mortgages	0.0	0.0	
Personal	0.0	0.0	
Property	1.3	0.9	
Non-property business	2.8	2.2	
New lending	4.1	3.1	33
Mortgages	0.5	0.6	
Personal	0.0	0.1	
Property	5.1	4.7	
Non-property business	10.4	9.9	
Gross loans	16.0	15.3	5
ECL allowance	(0.6)	(0.8)	-18
Net loans	15.4	14.5	6
Investment securities	1.5	1.1	43
Current accounts	11.1	9.0	23
Deposits	3.4	3.7	-9
Customer accounts	14.5	12.7	14

Net interest income

€460m Net interest income increased by € 21 million compared to 2020. This was primarily due to lower funding costs partially offset by the impact of lower average loan volumes.

Other income

€137m Other income increased by € 16 million compared to 2020 driven by the impact of the acquisition of Goodbody for four months of 2021, higher lending related and customer related foreign exchange fee income as well as an increase in income from equity investments. This was partly offset by a reduction in FVTPL loan valuations and a decrease in gain on loan disposals.

Total operating expenses

€154m Total operating expenses increased by € 22 million compared to 2020 due to the impact from Goodbody.

Net credit impairment writeback

€137m There was a net credit impairment writeback of € 137 million in 2021 comprising of a € 133 million writeback on loans and advances to customers and a € 4 million writeback for off-balance sheet exposures. There was a net credit impairment charge of € 767 million in 2020.

New lending

€4.1bn New lending of € 4.1 billion increased by € 1.0 billion compared to 2020 with strong new lending in property and renewable energy & infrastructure as well as an increase in corporate lending.

Net loans

€15.4bn Net loans of € 15.4 billion at 31 December 2021 increased by € 0.9 billion compared to 2020 primarily due to new lending exceeding redemptions, the impact of currency movements of € 0.3 billion and a reduction in the ECL allowance of € 0.2 billion.

ECL allowance

€0.6bn The ECL allowance of € 0.6 billion at 31 December 2021 decreased by € 0.2 billion from 31 December 2020 driven by the net credit impairment writeback recognised in 2021.

Investment securities

€1.5bn Investment securities of € 1.5 billion were € 0.4 billion higher than 31 December 2020.

Customer accounts

€14.5bn Current accounts of € 11.1 billion were € 2.1 billion higher than 31 December 2020. Deposits of € 3.4 billion decreased by € 0.3 billion compared to 31 December 2020.

AIB UK

AIB UK contribution statement	2021 £ m	2020 £ m	% change
Net interest income	186	191	-3
Other income	46	43	7
Total operating income	232	234	-1
Total operating expenses	(140)	(146)	-4
Bank levies and regulatory fees	(1)	(1)	6
Operating contribution before impairments and exceptional items	91	87	5
Net credit impairment writeback/(charge)	13	(184)	–
Operating contribution before exceptional items	104	(97)	–
Share of equity accounted investments	3	2	42
Contribution before exceptional items	107	(95)	–
Contribution before exceptional items € m	124	(108)	–

AIB UK balance sheet metrics	31 Dec 2021 £ bn	31 Dec 2020 £ bn	% change
AIB GB	0.9	1.1	-19
AIB NI	0.4	0.4	-13
New lending	1.3	1.5	-17
AIB GB	4.9	5.6	-11
AIB NI	2.0	2.1	-8
Gross loans	6.9	7.7	-10
ECL allowance	(0.2)	(0.3)	-19
Net loans	6.7	7.4	-10
Current accounts	6.9	6.8	2
Deposits	3.0	3.0	-1
Customer accounts	9.9	9.8	1

Net interest income

£186m Net interest income decreased by £ 5 million compared to 2020 primarily due to lower average loan volumes and lower average interest rates partially offset by lower funding costs.

Other income

£46m Other income increased by £ 3 million compared to 2020 mainly due to favourable movements on derivative valuation adjustments (XVA).

Total operating expenses

£140m Total operating expenses decreased by £ 6 million compared to 2020 driven by lower personnel expenses.

Net credit impairment writeback

£13m There was a net credit impairment writeback of £ 13 million in 2021. There was a net credit impairment charge of £ 184 million in 2020.

New lending

£1.3bn New lending of £ 1.3 billion in 2021 was down £ 0.2 billion compared to 2020. There was an increase in mortgage lending offset by a reduction in commercial and corporate lending.

Net loans

£6.7bn Net loans of £ 6.7 billion decreased by £ 0.7 billion compared to 31 December 2020 primarily due to the Group's decision to exit the SME market in Great Britain.

In November 2021 AIB UK plc announced an agreement to sell c. £ 0.6 billion of performing small and medium enterprise (SME) loans in Great Britain (GB). At 31 December 2021 £ 0.3 billion of loans has been derecognised from the balance sheet with the remainder to be completed in 2022 subject to receipt of required external approvals.

ECL allowance

£0.2bn The ECL allowance of £ 0.2 billion at 31 December 2021 decreased by £ 0.1 billion from 31 December 2020.

Customer accounts

£9.9bn Customer accounts of £ 9.9 billion at 31 December 2021 were broadly in line with 31 December 2020.

Business review – 1. Operating and financial review

Group

Group contribution statement	2021 € m	2020 € m	% change
Net interest income	**91**	97	*-6*
Other income	**41**	3	*–*
Total operating income	**132**	100	*32*
Total operating expenses	**(306)**	(323)	*-5*
Bank levies and regulatory fees	**(158)**	(112)	*42*
Contribution before exceptional items	**(332)**	(335)	*-1*

Group balance sheet metrics	31 Dec 2021 € bn	31 Dec 2020 € bn	% change
Investment securities	**15.5**	18.4	*-16*
Customer accounts	**1.3**	1.4	*-5*

Net interest income

€91m Net interest income of € 91 million decreased by € 6 million compared to 2020 reflecting the impact of the lower interest rate environment and lower income on investment securities.

Other income

€41m Other income increased by € 38 million compared to 2020 driven by favourable movements on derivative valuation adjustments (XVA) and foreign exchange contracts, higher income from equity investments and a gain on disposal of investment securities. 2020 included € 23 million of dividend income on NAMA subordinated bonds, which were redeemed in 2020.

Total operating expenses

€306m Total operating expenses of € 306 million decreased by € 17 million compared to 2020 driven by lower general and administrative expenses.

Bank levies and regulatory fees

€158m Bank levies and regulatory fees of € 158 million in 2021 include the Single Resolution Fund (SRF) € 53 million, Deposit Guarantee Scheme of € 48 million, the Irish bank levy of € 37 million and other regulatory levies and charges of € 20 million. The SRF fee includes a provision of € 25 million following a reassessment of the liability due in respect of previous years.

Investment securities

€15.5bn Investment securities of € 15.5 billion, primarily held for liquidity purposes, decreased by € 2.9 billion from 31 December 2020 due to sales and maturities exceeding purchases.

Customer accounts

€1.3bn Customer accounts were € 1.3 billion at 31 December 2021 compared to € 1.4 billion at 31 December 2020.

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 the 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 34. Exceptional items include: – *Restitution costs* includes provisions related to a series of investment property funds which were sold to individual investors during the period 2002 to 2006. It also includes compensation in relation to the tracker mortgage examination and other customer redress along with associated costs. – *Restructuring costs* reflect the implementation of the Group's revised strategy (Strategy 2023) including termination benefits, impairment and other costs associated with the reduction in the Group's property footprint, changes to the Retail network in ROI and the exit from the SME market in Great Britain. 2020 also included termination benefits relating to a previous voluntary severance programme and relating to the impairment of intangible assets. – *Inorganic transaction costs* includes costs associated with the proposed acquisition of a portfolio of performing Ulster Bank corporate and commercial loans and the agreed creation of a joint venture with Great-West Lifeco Inc to provide life, pension and investment solutions. – *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. – *Other* in 2021 reflects the writeback of a provision for regulatory fines and a profit on disposal of non-performing loan portfolios.
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 exposures 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 (13.5 per cent.) CET1 capital on a fully loaded basis. Details of the Group's RoTE is set out in the Capital Section on page 38.

Management performance – summary income statement

The following line items in the management performance summary income statement are considered APMs:

- Other income
- Total operating income
- Personnel expenses
- General and administrative expenses
- Depreciation, impairment and amortisation
- Total operating expenses
- Bank levies and regulatory fees
- Operating profit before impairment losses and exceptional items
- Operating profit/(loss) before exceptional items
- Loss on disposal of property
- Profit/(loss) 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	2021 € m	2020 € m
Net interest income	1,791	1,865
Other income	593	508
Total operating income	2,384	2,373
Total operating expenses	(2,006)	(1,859)
Operating profit before impairment losses	378	514
Net credit impairment writeback/(charge)	238	(1,460)
Operating profit/(loss)	616	(946)
Share of equity accounted investments	21	15
Loss on disposal of property	(3)	–
Profit/(loss) before taxation	634	(931)
Income tax credit	16	190
Profit/(loss) for the year	650	(741)

Adjustments – between IFRS and management performance

		2021	2021	2020	2020
Other income	**of which: exceptional items**				
	Loss on disposal of loan portfolios	6		1	
	Other	(1)	5	(3)	(2)
Total operating expenses	**of which: bank levies and regulatory fees**		162		115
	of which: exceptional items				
	Restitution costs	173		117	
	Restructuring costs	122		73	
	Inorganic transaction costs	21		2	
	Covid product costs	–		22	
	Other	(6)	310	3	217
Loss on disposal of property	**of which: exceptional items**				
	Other	3	3	–	–

Management performance – summary income statement	2021 € m	2020 € m
Net interest income	1,791	1,865
Other income[1]	598	506
Total operating income[1]	2,389	2,371
Total operating expenses[1]	(1,534)	(1,527)
Bank levies and regulatory fees[1]	(162)	(115)
Operating profit before impairment losses and exceptional items[1]	693	729
Net credit impairment writeback/(charge)	238	(1,460)
Operating profit/(loss) before exceptional items[1]	931	(731)
Share of equity accounted investments	21	15
Loss on disposal of property[1]	–	–
Profit/(loss) before exceptional items[1]	952	(716)
Total exceptional items[1]	(318)	(215)
Profit/(loss) before taxation	634	(931)
Income tax credit	16	190
Profit/(loss) for the year	650	(741)

[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 capital position at 31 December 2021 is calculated under the prudential scope of consolidation of AIB Group plc. The objectives of AIB Group's capital management policy are to at all times comply with regulatory capital requirements and to ensure that AIB 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 115.

Regulatory capital and capital ratios[1]

	CRD IV transitional basis		CRD IV fully loaded basis	
	31 December 2021 € m	31 December 2020 € m	31 December 2021 € m	31 December 2020 € m
Equity	13,664	13,422	13,664	13,422
Less: Additional Tier 1 Securities	(1,115)	(1,115)	(1,115)	(1,115)
Proposed ordinary dividend	(122)	–	(122)	–
Regulatory adjustments:				
Intangible assets	(552)	(485)	(552)	(485)
Cash flow hedging reserves	(149)	(540)	(149)	(540)
IFRS 9 CET 1 transitional add-back	565	796	–	–
Pension	(39)	(22)	(39)	(22)
Deferred tax	(1,977)	(1,654)	(2,801)	(2,721)
Calendar provisioning[2]	(136)	(317)	(136)	(317)
Other	(37)	(38)	(37)	(38)
	(2,325)	(2,260)	(3,714)	(4,123)
Total common equity tier 1 capital	10,102	10,047	8,713	8,184
Additional tier 1 capital				
Additional Tier 1 issuance	1,115	1,115	1,115	1,115
Total additional tier 1 capital	1,115	1,115	1,115	1,115
Total tier 1 capital	11,217	11,162	9,828	9,299
Tier 2 capital				
Subordinated debt	1,500	1,500	1,500	1,500
Instruments issued by subsidiaries that are given recognition in tier 2 capital	24	19	28	24
IRB Excess of provisions over expected losses eligible	133	131	133	131
IFRS 9 tier 2 transitional adjustment	(133)	(131)	–	–
Total tier 2 capital	1,524	1,519	1,661	1,655
Total capital	12,741	12,681	11,489	10,954
Risk-weighted assets				
Credit risk	47,646	47,807	47,367	47,350
Market risk	446	429	446	429
Operational risk	4,435	4,686	4,435	4,686
Credit valuation adjustment and settlement risk	110	114	110	114
Total risk-weighted assets	52,637	53,036	52,358	52,579
	%	%	%	%
Common equity tier 1 ratio	19.2	18.9	16.6	15.6
Tier 1 ratio	21.3	21.0	18.8	17.7
Total capital ratio	24.2	23.9	21.9	20.8

[1]Prepared under the regulatory scope of consolidation.

[2]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 31 December 2021 and the pro forma requirements for 31 December 2022 and 31 December 2023. The table does not include Pillar 2 Guidance ("P2G") which is not publicly disclosed.

Regulatory Capital Requirements	Actual 31 Dec 2021	Pro Forma 31 Dec 2022	31 Dec 2023
CET1 Requirements			
Pillar 1	4.50%	4.50%	4.50%
Pillar 2 requirement (P2R)	1.69%	1.55%	1.55%
Capital Conservation Buffer (CCB)	2.50%	2.50%	2.50%
Other Systemically Important Institutions Buffer (O-SII)	1.50%	1.50%	1.50%
Countercyclical buffer (CCYB) Impact	0.01%	0.15%	0.35%
CET1 Requirement	**10.20%**	**10.20%**	**10.40%**
AT1	**2.06%**	**2.02%**	**2.02%**
Tier 2	**2.75%**	**2.69%**	**2.69%**
Total Capital Requirement	**15.01%**	**14.90%**	**15.10%**

On 1 January 2022 AIB Group's Pillar 2 Requirement ("P2R") reduced to 2.75% from 3.00% in 2021. Under CRD V Article 104a, at least 1.55% must be held in CET1, 0.69% can be held in Tier 2, with the balance (c. 0.52%) held in AT1.

The Bank of England ("BOE") has announced the reintroduction of the UK Countercyclical capital buffer ("CCyB") at 1% by December 2022, with an expected increase to 2% in quarter 2 2023. This equates to an estimated 0.15% Group requirement for 2022, and 0.35% for 2023. The Central Bank of Ireland is the authority responsible for setting the CCyB in Ireland. No change to the current 0% CCyB has been announced by the CBI and this position is reviewed every 3 months. It is anticipated that a phase-in period will be provided to any re-introduction of the buffer.

The minimum requirement for the total capital ratio is 15.0% at 31 December 2021 and is expected to be 14.9% by the end of 2022.

Capital ratios at 31 December 2021

Fully Loaded Ratio

The fully loaded CET1 ratio increased to 16.6% at 31 December 2021 from 15.6% at 31 December 2020 due to profit for the year attributable to equity holders of the parent less proposed ordinary dividend (+1.0%), a decrease in calendar provisioning deduction following NPE disposals in the year (+0.3%) and RWA reduction (+0.1%). These were partially offset by the acquisition of Goodbody (-0.2%), AT1 coupon paid (-0.1%) and other capital adjustments (-0.1%).

RWA reductions include increased application of Article 501/501A for SME exposures (+0.1%) and reduced operational risk RWAs (+0.1%). Elsewhere model related RWA increases (-0.4%) were offset by a reduction in loans and advances to customers (+0.3%) driven by business mix, volumes and credit grade movements.

The fully loaded total capital ratio increased to 21.9% from 20.8% at 31 December 2020. The increase in the ratio was driven by the movements outlined above.

Transitional Ratio

The transitional CET1 ratio increased to 19.2% at 31 December 2021 from 18.9% at 31 December 2020. This increase is driven by the fully loaded movements detailed above, partially offset by an additional year's phasing of the deferred tax asset deduction and the IFRS 9 transitional addback.

At 31 December 2021 the transitional total capital ratio increased to 24.2% from 23.9% at 31 December 2020.

Acquisition of Ulster Bank corporate and commercial loans

Note 55 'Proposed acquisition' sets out the details on the proposed transaction.

AIB Group estimates that had the transaction completed on 31 December 2021 the increase in AIB Group's RWAs would have led to a reduction in the CET1 ratio of c. -1.3%.

Distributions

Proposed dividend

The Board proposes to pay an ordinary dividend of 4.5 cent per share totalling € 122 million from 2021 profits. This is subject to shareholder approval at the Annual General Meeting in May 2022.

Proposed buyback of ordinary shares

Pursuant to the shareholder authorities granted at the 2021 AGM, AIB Group plc has the authority to undertake on-market purchases of up to 10% of its ordinary shares and, subject to the Minister for Finance's agreement, off-market purchases from the Minister for Finance of up to 4.99% of its ordinary shares ("Directed Buyback"). In this context, AIB Group has received regulatory approval from the European Central Bank to undertake a buyback of its ordinary shares in an aggregate consideration amount of up to € 91 million. Any buyback of ordinary shares by AIB Group, whether by way of a Directed Buyback from the Minister for Finance or by way of open-market purchases, would be subject to the approvals of the Board and the Minister for Finance.

The combined proposed ordinary dividend and buyback represents 40% of distributable profits. In determining distributable profits, AIB Group considers profit after tax less AT1 coupons paid adjusted for the deferred tax asset utilisation.

The pro forma capital impact of the proposed share buyback at 31 December 2021 is c. 15 basis points which would reduce the fully loaded CET1 ratio to 16.5% from the reported 16.6%.

Leverage Ratio

The fully loaded leverage ratio is 7.6% at 31 December 2021 (8.3% at 31 December 2020).

The decrease is driven by an increase in the exposure measure driven primarily by excess funding placed with central banks.

Leverage Ratio Metrics	2021 € m	2020 € m
Total Exposure (Transitional Basis)	**130,894**	113,344
Total Exposure (Fully Loaded)	**129,373**	111,378
Tier 1 Capital (Transitional Basis)	**11,217**	11,162
Tier 1 Capital (Fully Loaded)	**9,828**	9,299
Leverage Ratio (Transitional Basis)	**8.6%**	9.8%
Leverage Ratio (Fully Loaded)	**7.6%**	8.3%

Finalisation of Basel III

AIB Group continues to closely monitor regulatory developments to ensure that it maintains a strong capital position. The final Basel III requirements in respect of Counterparty Credit Risk have been implemented as part of CRR2.

Further regulatory developments in respect of the finalisation of Basel III are expected in the near term. Exact implementation details will be confirmed once the finalised requirements are transposed into law (i.e. the CRR is further updated). Initial assessments signal some upward pressure on RWAs, mostly in relation to operational risk.

In relation to RWA floors, AIB 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 2021 AIB Group has a MREL ratio of 31.9% of RWAs.

The Single Resolution Board ("SRB") has set AIB Group's binding intermediate MREL target under the BRRD II legislative framework to be complied with by 1 January 2022. The intermediate binding target is 27.1% of RWAs including the January 2022 combined buffer requirement. AIB Group anticipates that the final target (1 January 2024) will be higher as the final elements of the MREL calibration are phased in. The MREL target including the combined buffer target will also be impacted by any changes in the overall capital requirement.

AIB Group's MREL ratio is in excess of the target for 2022 and there is currently sufficient loss absorption and re-capitalisation capability. AIB Group has now completed issuances of € 6.6 billion MREL qualifying liabilities of which € 0.75 billion was issued in the first half of 2021.

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

Business review – 2. Capital

Ratings

Allied Irish Banks, p.l.c.

Allied Irish Banks, p.l.c. is rated at investment grade with all three rating agencies, Moody's, Fitch and Standard & Poor's (S&P).

On 13 July 2021, Moody's upgraded the credit rating by one notch to Baa1 following the publication of their updated Banks Methodology. The stable outlook was reaffirmed. On 4 October 2021, Fitch revised the outlook to stable from negative and reaffirmed the ratings. S&P reaffirmed their ratings in January 2022 following the publication of their revised Financial Institutions Rating Methodology.

		31 December 2021	
Long term Ratings	**Moody's**	**S&P**	**Fitch**
Long term	**A2**	**A-**	**BBB+**
Outlook	**Stable**	**Negative**	**Stable**
Investment grade	✓	✓	✓

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

Return on Tangible Equity ("ROTE") – AIB Group*

The RoTE for 2021 is 8.2% (2020: -11.2%).

Return on Tangible Equity (RoTE)	2021 € m	2020 € m
Profit/(loss) after tax	**645**	(741)
AT1 coupons paid	**(65)**	(76)
Attributable earnings	**579**	(817)
Average RWA	**52,469**	52,289
RWA * 13.5% CET1 target	**7,083**	7,320[1]
Return on Tangible Equity	**8.2%**	(11.2)%

[1]2020 based on a prior CET1 target of 14%.

AIB Group has set a medium term target for RoTE of greater than 9%.

*RoTE is considered an Alternative Performance Measure.

Return on Assets

The Return on Assets (RoA) at 31 December 2021 is 0.5% (2020: -0.7%).

Risk management

Risk management – 1. Framework

1. Introduction

One of the Group's core priorities is to continuously strengthen its risk management as this enables the Group to respond to changing circumstances in a dynamic manner while continuing to meet its purpose to back its customers to achieve their dreams and ambitions.

The Group's risk management approach is underpinned by a set of risk management principles, together with a risk culture embedded throughout the Group, a solid governance structure and advanced risk processes. The core aspects of the Group's risk management approach are described below.

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 distinguishes between risk governance, risk management, risk oversight and risk 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 is reviewed, updated and approved by the Board at least annually to reflect any changes to the Group's business or consideration of external regulations, corporate governance requirements and industry best practice.

In 2021 the Group announced the acquisitions of Goodbody and the proposed Ulster Bank's commercial loan book, the joint ventures with Great-West LifeCo Inc and Autolease Fleet Management Limited. These transactions have been assessed as part of the Group's risk management processes including the material risk assessment to identify any new material risks that may impact the Group, risk appetite statement and through the financial planning process.

The Group is monitoring closely the rapidly developing situation in Ukraine and the potential impact it may have on the Group's business. The Group has negligible direct credit exposure to Ukraine, Russia or Belarus and is closely monitoring payment flows. An initial risk assessment of the key impacts on the Group has identified the key risks as being operationalising complex sanctions regime, potential for increase in cyberattacks and financial and market risks arising from volatility in asset values, interest rates or foreign exchange markets. Regular updates on the changing situation will be provided to the Executive Committee and Board Risk Committee as appropriate.

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 has adopted a three lines of defence model and risks are managed in alignment with the model
Identification and assessment	
3.	The Group identifies, assesses and reports all its material risks as per the material risk assessment taxonomy
4.	The Group operates and manages its risks in line with the Group's Risk Appetite Statement
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 in place a system of internal controls designed to mitigate rather than eliminate risk
12.	A comprehensive, fit-for-purpose framework and policy architecture is in place to support risk management and is reviewed regularly

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 135 to 139.

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. The core overarching areas of oversight and decision making for the Executive Committee are:

- Strategy and Business Development
- Performance and Operations
- Business Structure and Risk Management
- Talent and Culture
- Stakeholder Management

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 the most senior management risk committee and is accountable to the Executive Committee to set policy and monitor all risk types across the Group to enable delivery of the Group's risk strategy.

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;
- Providing advice to the Board Risk Committee on risk governance, current and future risk exposures and risk appetite;
- Reviewing the annual risk assessments prepared by the first line of defence to identify and evaluate all significant risks and related risk management activities;
- Considering the annual Money Laundering Reporting Officer's report; and
- Considering and assessing management's response to Group Internal Audit findings.

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, interest rate risk in the banking book ("IRRBB") from an economic value and net interest margin ("NIM") perspective, foreign exchange ("FX") risks and other 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

Risk management – 1. Framework

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, and always providing an exceptional customer experience, while simultaneously delivering a bank with compelling, sustainable capital returns and a considered, transparent and controlled risk profile. The Group's strategy is driven by the five strategic pillars that determine the areas of focus and drive investment. The strategy is defined within the boundaries of the Group's Risk Appetite Statement and approved by the Board. The Group's Risk Appetite Statement defines the amount and type of risk that the Group is willing to accept, in pursuit of its strategic goals.

Risk strategy setting

The risk strategy, articulated through the annual risk plan and the risk objectives, is a key element 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.

Sustainability

Sustainability is a key strategic objective of the Group and Sustainable Communities is one of the Group's five Strategic Pillars. Managing the sustainability related aspects of the Group involves identifying and managing all related risks that relate to both day-to-day and future operations. See page 18 for more details on Sustainability in AIB.

1.5 Risk management lifecycle

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

1.5.1 Identification and assessment

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

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

Material risk assessment

The material risk assessment is a top down process performed on an at least 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 sustainably, recognising the positive contribution we make to the communities we serve. We do this 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 and sustainable 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;
- Seek to offer our customers choice, by providing 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 at all times to comply with all relevant laws, regulations, codes and guidelines applicable to the Group's activities and to proactively implement new regulatory obligations;
- Seek to maintain a strong capital base that generates sustainable 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.

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 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.

Stress testing

Stress testing is recognised as a key risk management process by the Group. It seeks to ensure that risk assessment is dynamic and forward looking, and considers not only existing risks but also potential and emerging threats. Stress test methodologies are developed to assess the material risks identified in the material risk assessment process.

The Group's stress testing programme embraces a range of forward looking stress tests and takes all the Group's material risks into account. These include:

- ICAAP stress testing undertaken on an annual basis in support of the Internal Capital Adequacy Assessment Process and is integrated with the Group's annual financial planning process. This aims to highlight the key vulnerabilities of the Group and inform potential future capital needs including capital buffers, in excess of minimum regulatory capital requirements and internal capital requirements under both base and stressed conditions over the planning horizon;
- Internal capital stress tests on all the material risks of the Group. These consider the implications of a severe shock across the Group's material risks and additional supporting scenarios as deemed appropriate;
- Annual ILAAP stress testing applied to the funding and liquidity plan to formally assess the Group's liquidity risks;
- Reverse stress testing undertaken at least annually to explore the vulnerabilities of the Group's strategies and plans in extreme adverse events that would cause the Group to fail. The Group will adopt an action plan to prevent and mitigate in the strategic plans;
- Ad hoc stress testing on key core portfolios as required, of emerging risks identified from the material risk assessment process and as well as in response to regulatory requests; and
- Sensitivity analysis assesses the marginal impact of an incremental change in one risk parameter on the Group's capital and liquidity position.

Stress testing methodology

Across all of the Group's material risks, the methodology will be an appropriate blend of model based and expert judgement approaches. Assumptions and outputs are reviewed by impacted businesses and central functions, and via Risk review, to ensure they are plausible and intuitive. All models used in the stress testing process are subject to model validation as per the Group's Model Risk Management Framework. The stress tests comply with all regulatory requirements, achieved through the comprehensive review and challenge of macroeconomic scenarios and stress test outcomes, and the ongoing validation of stress testing models. The Group will be participating in the EBA's inaugural European-wide Climate Stress Test in 2022.

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 suite of indicators and options are included in the Group's recovery plan, which together presents the identification of stress events and the tangible mitigating actions available to the Group to restore viability.

Risk management – 1. Framework

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 Group is under the remit of the Single Resolution Board ("SRB") due to its systemic importance. The SRB, in cooperation with 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.

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 and Resolution Steering Committee that provides governance and oversight around resolution planning. Key deliverables to the SRB are approved by Resolution Steering Committee, GRC/ExCo (Group and UK) and Board (Group and UK).

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

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

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

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

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

1.6 Risk culture
Risk culture is an integral part of the Group's overall culture and 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, behaviours, beliefs, knowledge, attitudes, awareness and understanding of, and towards risk shared by people. It sets the foundation for how the Group manages risk in a consistent and coherent manner. An effective Group Risk Appetite Statement is highly dependent on risk culture. 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 including a Conduct Risk Framework which emphasises the criticality of ensuring fair customer outcomes. The Group's promotion of risk learning through recommended risk training and education supports the embedding of risk culture. These ongoing activities are supported by an annual Group wide risk awareness week to reinforce key risk themes.

1.7 Testing and assurance
The Group has implemented testing and assurance activities with the objective to provide assurance to the Board, and its delegated sub-committees on the design and operating effectiveness of the control environment within the Group. 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. Each line of defence is responsible for preparing business controls testing plans with consideration of the adequacy of the risk identified and the design and effectiveness of the controls in place. The combined assurance is the alignment of governance, risk and assurance activities, linked with the Group's strategy with the objective to provide better co-ordinated efforts, risk reporting, and to continuously improve performance and resilience.

Risk management – 2. Individual risk types

2.1 Credit Risk

Risk management – 2. Individual risk types

2.1 Credit risk

Definition of 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 counterparties 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; securities financing; derivatives; investment securities; asset backed securities and partial failure of a trade in a settlement or payment system.

Identification and assessment

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.

*Forms an integral part of the audited financial statements

2.1 Credit risk

Credit risk organisation and structure

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

Internal credit ratings*

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

Internal credit grades are fundamental in assessing the credit quality of loan exposures, and for assessing capital requirements for portfolios where prior regulatory approval has been received. Internal credit grades are key to management reporting, credit portfolio analysis, credit quality monitoring and in determining the level and nature of management attention applied to exposures. Changes in the objective information are reflected in the credit grade of the borrower/loan with the resultant grade influencing the management of individual loans. In line with the 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 appropriate 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 68 to 69 sets out the profile of the Group's loan portfolio under each of the above grade categories.

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 51 to 63.

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.

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. 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) which are no longer classified as credit impaired but continue to be classified as non-performing and in default. This alignment ensures consistency with the 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 borrower to be unlikely to pay their loans in full without realisation of collateral, regardless of the existence of any past-due amount; or
– The borrower is 90 days or more past due on any material loan. Day count starts when any material amount of principal, interest or fee has not been paid by a borrower on the due date.

The 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

Risk management – 2. Individual risk types

2.1 Credit risk

Management and measurement

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 credit risk profile of the Group including any changes in credit risk profile and emerging or horizon risks; and
- Mitigate potential credit risk arising from new or amended products or activities.

The Group's credit risk framework 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 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 grade 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 and 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 other 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.

*Forms an integral part of the audited financial statements

2.1 Credit risk

Credit risk mitigants* *(continued)*

Collateral *(continued)*

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

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

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

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

External Valuation firms on the Group's Valuers Panel, are engaged by the Group to undertake valuations of Immovable Property collateral in accordance with the rules set out in the Group Property Valuation Policy.

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 are completed in limited circumstances (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 or if available stabilised EBITDA.

When assessing the value of residential properties, the Central Statistics Office ("CSO") Residential Property Price index in the Republic of Ireland and the UK Nationwide index for Great Britain and Northern Ireland is used.

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

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk

Credit risk mitigants* *(continued)*

Collateral and ECLs

Applying one or a combination of the above methodologies, in line with the Group Property Valuation Policy, has resulted in an appropriate range of discounts to original collateral valuations, influenced by the nature, status and year of purchase of the asset. The frequency and availability of such up-to-date valuations remain a key factor 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.

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.

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 66.

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 2021 and 2020:

					2021					2020
	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%	13,192	703	447	35	14,377	10,679	722	834	30	12,265
50% - 70%	8,657	486	237	39	9,419	8,163	610	472	64	9,309
71% - 80%	3,843	158	86	13	4,100	3,491	258	198	30	3,977
81% - 90%	1,040	54	51	8	1,153	3,294	193	127	25	3,639
91% - 100%	102	19	51	1	173	687	89	132	17	925
	26,834	1,420	872	96	29,222	26,314	1,872	1,763	166	30,115
Partially collateralised										
Collateral value relating to loans over 100% loan-to-value	61	18	28	1	108	151	55	155	7	368
Total collateral value	26,895	1,438	900	97	29,330	26,465	1,927	1,918	173	30,483
Gross residential mortgages	26,937	1,446	921	103	29,407	26,535	1,950	1,980	184	30,649
ECL allowance	(34)	(41)	(276)	(31)	(382)	(39)	(73)	(662)	(69)	(843)
Net residential mortgages	26,903	1,405	645	72	29,025	26,496	1,877	1,318	115	29,806

[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 2021 and 2020 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 (Great Britain and Northern Ireland) to these values to take account of price movements in the interim.

*Forms an integral part of the audited financial statements

2.1 Credit risk

Credit risk mitigants* *(continued)*

Securities financing

In addition to the credit risk mitigants outlined on the previous page, the Group, from time to time, enters securities financing transactions. Securities financing consists of securities borrowing and lending and sale and repurchase agreements. At 31 December 2021, the total fair value of the collateral received was € 3,890 million (2020: € 811 million) in relation to repurchase agreements, reverse repurchase agreements and securities borrowing agreements (note 21 to the consolidated financial statements).

Derivatives

Derivative financial instruments are recognised in the statement of financial position at their fair value. Those with a positive fair value are reported as assets which at 31 December 2021 amounted to € 882 million (2020: € 1,424 million) and those with a negative fair value are reported as liabilities which at 31 December 2021 amounted to € 1,062 million (2020: € 1,201 million).

The enforcement of netting agreements would potentially reduce the statement of financial position carrying amount of derivative assets and liabilities by € 529 million at 31 December 2021 (2020: € 804 million). The Group also has Credit Support Annexes ("CSAs") in place which provide collateral for derivative contracts. At 31 December 2021, € 570 million (2020: € 450 million) of CSAs are included within financial assets as collateral for derivative liabilities and € 100 million (2020: € 257 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.

Investment securities

At 31 December 2021, government guaranteed senior bank debt which amounted to € 317 million (2020: € 294 million) was held within the investment securities portfolio.

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 2021.

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 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 Purchased or Originated Credit Impaired ("POCI"); and
- The ECL calculation must incorporate reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

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

The ECL model applies to financial instruments measured at amortised cost or at fair value through other comprehensive income.
In addition, the ECL approach applies to 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.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

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.

Stage 1 characteristics

Obligations are classified Stage 1 at origination, unless 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 origination lifetime probability of default ("LTPD") (see 'Credit risk at origination') to its current estimated annualised average probability weighted residual LTPD at the reporting date. If the difference between these two LTPDs meets the quantitative definition of SICR, the 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 at least 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 kept under 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.

*Forms an integral part of the audited financial statements

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

SICR assessment *(continued)*

The criteria for this Qualitative 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.

Lender assessed SICR triggers: The qualitative SICR criteria for non-retail portfolio Stage 2 classification has been enhanced and expanded in the year in relation to the Group's leverage lending portfolio and gross connected exposures >€/£ 10 million in Capital Markets and AIB UK. Further specific qualitative SICR indicators have been identified in order to ensure appropriate and timely identification of increased credit risk, which when occur, trigger a SICR event.

The criteria for this lender assessed trigger include, for example:

– A post distressed restructure payment default occurs where the borrower is neither in default nor forborne;
– A material adverse event has occurred for the borrower which may impact the borrower's ability to repay such as: adverse publicity which raises concerns over the viability of a business; loss of key personnel (CEO/CFO/COO) which raises concerns over the strategy/viability of the business or significant negative macroeconomic events (including but not limited to economic or market volatility, changes in legislation and technological threats to an industry, changes in access to markets) where the financial impact to the borrower is deemed material.

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

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

Stage 3 characteristics

Defaulted loans (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 borrower exits Stage 3 subject to probation period, in line with regulatory requirements.

The key criteria resulting in a classification of default are:

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

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

Purchased or originated credit impaired ("POCI")

POCIs are assets originated credit impaired that have a discount of more than or equal to 5% of the contractual value when measured at fair value. The 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 change in lifetime expected credit losses since the initial recognition of the assets rather than the total amount of lifetime expected credit losses.

Measurement of expected credit loss

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

i. Standard approach: This approach is used for the majority of exposures where each ECL input parameter (Probability of Default - PD, Loss Given Default - LGD, Exposure at Default - EAD, and Prepayments - PP) is developed in line with standard modelling methodology. The Group's IFRS 9 models have been developed and approved in line with the Group's Model Risk Management Framework. (An overview of credit risk models is outlined on pages 55 and 56).

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).

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Measurement of expected credit loss *(continued)*

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). Multiple DCFs are captured where gross credit exposure is ≥ € 15 million (Republic of Ireland) or ≥ £ 10 million (UK) to reflect the case specific impacts of up and downside scenarios for these higher value exposures.

    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. Where a single DCF is utilised this 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. Where a range of scenarios are captured through multiple DCF's these are probability weighted to produce the final ECL.

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 any relevant 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 2021 year end ECL estimates are outlined on pages 62 and 63.

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.

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 debt securities investment 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's IFRS 9 *Impairment Policy* does not require calculation of an ECL for short term cash at central banks and other banks which have a low risk of default 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.

*Forms an integral part of the audited financial statements

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

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 47, 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 relevant costs expected to be incurred in the recovery process. If an account returns to performing from default (excluding any loss making concession) or if the discounted post-default recoveries are equal to or greater than the exposure, the realised loss is zero.

The LGD modelling approach depends on whether the facility has underlying security and, if so, the nature of that security. The 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 based on historical experience of discounted recoveries.

For secured loans, the value of the underlying collateral is estimated at the reporting date. This is used to estimate the ECL based on historical experience of discounted recoveries.

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.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Forward looking indicators in the models

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

Write-offs

When the prospects of recovering a loan, either partially or fully, do not improve, a point may come when it will be concluded that as there is no realistic prospect of recovery, the loan and any related ECL will be written-off. The Group determines, based on specific criteria, the point at which there is no reasonable expectation of recovery. When the following criteria exist (or comparable circumstances arise), the loan can be subject to a partial or full write-off:

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

Debt forgiveness may subsequently arise where there is a formal contract with the customer for the write-off of the loan. In addition, certain forbearance solutions and restructuring agreements may include an element of debt write down (debt forgiveness). 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 93 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.

Macroeconomic scenarios and weightings

The macroeconomic scenarios used by the Group for ECL allowance calculation purposes have been developed in a consistent way with that set out in the 2020 Annual Financial Report and have been subject to the Group's established governance process covering the development and approval of macroeconomic scenarios used for planning and internal stress testing purposes. The macroeconomic scenarios and attached probabilities are reviewed by the Asset and Liability Committee ("ALCo") regularly, and such reviews took place frequently during 2021 in response to economic developments. The macroeconomic scenarios 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 COVID-19 pandemic is the main risk to the short term economic outlook during the reporting period. The Irish and UK economies have been more robust than expected in 2021, supported by strong vaccine roll-out campaigns. However, the emergence of new variants of the virus during 2021 continue to have negative impacts on economic activity and employment levels. As part of the process of preparing the ECL calculation, a number of plausible scenarios were considered, as at the reporting date, which reflected a reasonable range of prevailing risks and uncertainties including inter alia possible trajectories for the public health crisis as well as for inflation that might trigger a future economic downturn. In total, four scenarios have been used in the ECL calculation. These four scenarios consist of a Base case scenario, along with three alternative scenarios (comprising one upside, one relatively mild downside scenario that considers unexpected prevalence of the virus and a more severe downside arising from persistently high inflation which necessitates a hike in official interest rates) with the consequent economic impacts. Non-linear effects are captured in the development of risk parameters as well as through the inclusion of both the single upside and two downside scenarios.

*Forms an integral part of the audited financial statements

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Macroeconomic scenarios and weightings *(continued)*

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. Central Bank of Ireland, Bank of England, Department of Finance, ESRI, ECB, IMF, 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 long term projections reflect the relatively limited climate change mitigation policies, mainly comprising the continued gradual substitution of gas for coal, that have been announced so far. Without significantly enhanced mitigating actions, the world is on course to warm by about 2°C above pre-industrial levels by 2050. The AIB long term baseline scenario seeks to follow the IEA's "stated policies" scenario and implies emissions remaining roughly constant. The Group is also participating in the ECB Climate Stress Tests in early 2022 and the scale of the economic shocks applied is quite modest compared to those applied in stress testing for ICAAP and ECL calculations. The impacts considered under this ECB Climate Stress Test process will be repeated every second year. The nature of the shock is different with a long term horizon compared to front loaded shocks as part of quarterly stress tests.

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

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

Very strong growth in economic activity is anticipated in most economies during 2022. The surge in GDP growth in Ireland, the UK, US and euro area reverts to a more normal pace from 2023 onwards. In this scenario, Irish economic activity (as measured by modified domestic demand) has returned to pre-pandemic levels, but this is unlikely to occur until the second quarter of 2022 in the UK.

The rise in unemployment has been mitigated in many countries, including Ireland, by government income support schemes. Our projection for the unemployment rate estimates what this rate would be in the absence of such support measures. This estimate is conservative relative to the range provided by the traditional unemployment rate and the COVID-19 adjusted unemployment rate (which includes recipients of temporary pandemic unemployment payments) published by the Central Statistics Office. In this scenario, unemployment remains relatively high only reverting to a pre-pandemic 'norm' during 2024.

House prices performed much better than expected in 2021 in both Ireland and the UK with supply shortages in the housing market exacerbated by the pandemic. Prices are forecast to rise by 8% on average in Ireland between 2021 and 2022. Expiry of a stamp duty cut and interest rate hikes could weigh on UK prices next year. CRE prices are expected to remain soft in Ireland and UK in 2022, with modest growth of 2% per annum during 2023-2026.

Downside 1 ('Lower growth in 2022'): This scenario assumes that the production and speed of vaccine deployment does not prove fast enough to stop transmission of the virus and emergence of new vaccine resistant variants. Economic activity is slower to recover as a result of the re-introduction of some containment measures during 2022 with business and consumer confidence impacted as uncertainty remains high. Economic growth, as measured by GDP, is two percentage points lower in 2022 and the additional scarring effects from this results in growth being between 2.3% and 2.9% lower, relative to the Base case, across the main economies over the 2022–2026 period.

Irish unemployment rises from 10% at the end of 2021 to 12% in early 2023, before starting to decline while the unemployment rate in the UK remains two percentage points higher than in the Base case by 2026.

House prices in Ireland and the UK are c. 7% and 10% lower, respectively, than in the Base case by the end of 2026. Commercial real estate prices remain under downward pressure in 2022–2023, with prices falling a further 8–9%. There is a moderate recovery in property prices in both countries during 2024–2026.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Macroeconomic scenarios and weightings *(continued)*

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

Irish unemployment rises sharply to 14.5 % by the first quarter in 2023 and remains high over the forecast period, still averaging in excess of 11% in 2025 and 9.5% in 2026. The average rate of unemployment over the period 2022 to 2026 is more than 6 percentage points higher than in the Base case. In the UK, unemployment peaks at c. 9% in 2024, declining to 6.9% by 2026 (2.9 percentage points higher than the Base scenario).

With both the Irish and UK economies in recession, there are very large residential property price falls in both markets (by c.18% and 24.0%, respectively) between 2022 and 2024 with values 23-26% lower than the base by the end of 2026. CRE prices in both Ireland and the UK fall by between 28-30% in the period 2022-2024 and values are 29-30% lower than the Base case by the end of 2026.

Upside ('Quick economic recovery'): More effective vaccine developments and rollouts reduce uncertainty which, in addition to a faster than anticipated rundown of personal savings, underpins a stronger recovery in this scenario than assumed in the Base case for the period 2022-2024. The boost to confidence of both households and businesses leads to a more robust pick-up in consumer spending and investment. In Ireland, GDP grows by 7.5% in 2022 and increases by 5% in 2023 and 4% in 2024. By 2026, the level of GDP is in excess of 3% above what it would be 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 2021 (average over 2022-2026) and at 31 December 2020 (average over 2021-2025).

	December 2021 5 year (2022-2026) average forecast				December 2020 5 year (2021-2025) average forecast			
Macroeconomic factor (%)	Base	Downside ('Lower growth in 2022')	Downside ('Persistent high inflation')	Upside ('Quick economic recovery')	Base	Downside ('Lower growth in 2021')	Downside ('Extended high unemploy-ment')	Upside ('Quick economic recovery')
Republic of Ireland								
GDP growth	3.8	3.4	2.6	4.5	3.7	3.0	2.0	4.4
Residential property price growth	2.9	1.4	(2.1)	5.0	1.7	0.8	(3.6)	3.4
Unemployment rate	5.7	9.7	11.9	4.8	7.2	8.9	11.9	6.6
Commercial property price growth	1.7	0.3	(4.6)	4.0	1.8	1.1	(3.8)	3.1
Employment growth	2.6	2.0	1.4	2.9	2.3	1.9	1.0	2.5
Average disposable income growth	3.5	2.6	1.8	3.8	1.8	1.4	1.3	2.5
Inflation	1.7	1.3	2.4	2.2	1.1	1.0	0.9	1.4
United Kingdom								
GDP growth	2.4	1.8	1.1	3.0	2.9	2.3	1.1	3.7
Residential property price growth	2.0	(0.1)	(3.7)	3.0	1.3	0.4	(4.4)	2.9
Unemployment rate	4.6	6.6	8.0	4.3	5.6	6.8	10.1	4.6
Commercial property price growth	1.5	(0.6)	(5.1)	3.6	2.2	1.2	(3.9)	3.1
Inflation	2.0	1.7	2.5	2.4	1.7	1.5	1.2	1.8

*Forms an integral part of the audited financial statements

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 2021. This is because, due to the increased variability as a result of COVID-19, the average for the five years 2022-2026 above does not provide sufficient insight for each factor across the impacted years.

	Estimate	Base					Downside 1 ('Lower growth in 2022')				
Macroeconomic factor	2021 %	2022 %	2023 %	2024 %	2025 %	2026 %	2022 %	2023 %	2024 %	2025 %	2026 %
Republic of Ireland											
GDP growth	14.0	6.0	4.0	3.4	3.0	2.8	4.0	2.3	3.0	3.5	4.0
Residential property price growth	12.0	4.0	3.0	3.0	2.5	2.0	(3.5)	–	5.0	3.0	2.5
Unemployment rate	10.4	7.2	6.0	5.3	5.0	4.8	11.2	11.4	9.8	8.6	7.3
Commercial property price growth	(3.0)	0.5	2.0	2.0	2.0	2.0	(8.5)	–	4.0	3.0	3.0
Employment growth	1.1	4.9	2.6	2.2	1.8	1.7	1.0	1.0	2.9	2.6	2.7
Average disposable income growth	2.5	2.0	3.5	4.0	4.0	4.0	–	2.5	3.0	3.5	4.0
Inflation	2.2	2.7	1.5	1.5	1.5	1.5	1.5	1.2	1.2	1.3	1.4
United Kingdom											
GDP growth	6.5	5.5	1.8	1.6	1.5	1.4	4.0	0.5	1.0	1.5	1.8
Residential property price growth	3.5	–	1.5	2.5	3.0	3.0	(6.0)	(2.5)	2.0	3.0	3.0
Unemployment rate	5.1	5.5	4.8	4.5	4.2	4.0	6.5	7.0	7.0	6.6	6.0
Commercial property price growth	(0.5)	(0.5)	2.0	2.0	2.0	2.0	(6.0)	(2.5)	1.5	2.0	2.0
Inflation	2.5	2.2	2.0	2.0	2.0	2.0	1.9	1.5	1.6	1.7	1.8

	Downside 2 ('Persistent high inflation')					Upside 1 ('Quick economic recovery')				
Macroeconomic factor	2022 %	2023 %	2024 %	2025 %	2026 %	2022 %	2023 %	2024 %	2025 %	2026 %
Republic of Ireland										
GDP growth	2.5	1.0	2.4	3.3	4.0	7.5	5.0	4.0	3.0	2.8
Residential property price growth	(6.0)	(12.5)	–	4.0	4.0	7.0	6.0	5.0	4.0	3.0
Unemployment rate	12.5	14.0	12.6	11.1	9.5	6.7	5.2	4.4	4.0	3.9
Commercial property price growth	(12.5)	(17.5)	(1.0)	4.0	4.0	4.5	5.5	5.5	2.5	2.0
Employment growth	(0.7)	(0.8)	2.7	2.8	3.0	5.4	3.0	2.4	2.0	1.8
Average disposable income growth	1.0	(0.5)	2.0	2.8	3.5	2.7	3.7	4.1	4.3	4.1
Inflation	4.0	3.2	2.0	1.4	1.2	3.2	2.0	2.0	2.0	2.0
United Kingdom										
GDP growth	2.2	(1.2)	1.0	1.7	2.0	7.0	3.0	2.2	1.5	1.4
Residential property price growth	(10.0)	(15.0)	(0.5)	4.0	3.0	5.0	3.0	3.0	2.0	2.0
Unemployment rate	7.1	8.8	9.1	8.1	6.9	5.2	4.5	4.1	3.9	3.7
Commercial property price growth	(12.0)	(17.0)	(4.5)	3.5	4.5	5.0	4.5	4.0	2.5	2.0
Inflation	4.0	3.3	2.2	1.6	1.4	2.5	2.5	2.4	2.4	2.3

The key changes to the scenario forecasts in the reporting period are driven by the COVID-19 pandemic. The extent of contagion and the wider economic impact of COVID-19 gave rise to elevated uncertainty regarding the outlook and possible outcomes at the previous reporting period (31 December 2020). The disruption to economic activity brought about by a series of public health measures designed to limit social mobility, and subsequent recoveries following the lifting of these restrictions, also resulted in a significant re-assessment of the outlook and balance of risks during 2021.

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 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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Risk management – 2. Individual risk types

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 AIB Group's view that risks remain skewed to the downside due to rising COVID-19 cases and the spread of a new variant which was a cause for concern; rising inflationary pressures, continuing disruptions to supply chains and labour shortages that impede the pace of activity and raise the potential for greater than expected economic scarring. Additionally, other risks remain which also support AIB Group's view that risks have become somewhat tilted to the downside. These include the risk that government supports to businesses and households may be delaying, but not preventing, future defaults and bankruptcies. There are also rising tensions between the UK and the EU relating to Brexit and the Northern Ireland protocol. In addition, excess savings built up during the pandemic may be retained for precautionary motives, rather than spent, impacting on economic growth.

– The weightings also consider the fact that unemployment is trending lower than expected in many economies, with little evidence yet of major scarring in labour markets from the pandemic. House prices are performing better than anticipated. Meanwhile, a much greater than expected rundown of private sector savings in the next couple of years could fuel stronger than anticipated growth, especially given the extent of pent-up consumer demand.

– Risks were adjudged to be evenly balanced at June 2021 (the weighting assigned to downside risks was 25% while the upside scenario weight was also 25%). In the final quarter of 2021, however, the AIB Group view was that the balance of risks had tilted more to the downside due to the above mentioned developments.

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

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

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

*Forms an integral part of the audited financial statements

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 2022' and 'Persistent high inflation' scenarios, the ECL allowance increases by c. 16% and c. 34% respectively. In the 100% upside scenario, the ECL allowance declines by c. 3%, showing that the ECL impact of the two downside scenarios is greater than that of the upside scenario. For 31 December 2021, a 100% downside 'Lower growth in 2022' and 'Persistent high inflation' scenario sees a higher ECL allowance sensitivity of € 304 million and € 645 million respectively compared to base (€ 210 million and € 551 million respectively compared to reported). Lower relative impacts are observed for the AIB UK portfolio.

					ECL allowance at 31 December 2021
	Reported	100% Base	100% Downside Scenario ('Lower growth in 2022')	100% Downside Scenario ('Persistent high inflation')	100% Upside Scenario ('Quick economic recovery')
Loans and advances to customers	Total € m	Total € m	Total € m	Total € m	Total € m
Residential mortgages	382	376	392	434	370
Other personal	222	216	237	257	213
Property and construction	313	284	378	473	266
Non-property business	968	921	1,074	1,236	895
Total	1,885	1,797	2,081	2,400	1,744
Off-balance sheet loan commitments	53	49	63	80	45
Financial guarantee contracts	26	24	30	35	22
	1,964	1,870	2,174	2,515	1,811
Of which:					
AIB UK segment	268	266	277	321	253

					ECL allowance at 31 December 2020
	Reported	100% Base	100% Downside Scenario ('Lower growth in 2021')	100% Downside Scenario ('Extended high unemployment')	100% Upside Scenario ('Quick economic recovery')
Loans and advances to customers	Total € m	Total € m	Total € m	Total € m	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

*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

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

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

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

					2021
Management Judgements	**Residential mortgages € m**	**Other personal € m**	**Property and construction € m**	**Non-property business € m**	**Total € m**
NPE resolution strategy	**207**	**5**	**26**	**28**	**266**
Uncertainty due to the impact of COVID-19	**18**	**9**	**5**	**153**	**185**
Macroeconomic factors	**29**	**–**	**–**	**–**	**29**
Other	**1**	**–**	**1**	**72**	**74**
PMA Total	**255**	**14**	**32**	**253**	**554**

					2020
Management Judgements	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
NPE resolution strategy	442	1	–	–	443
Uncertainty due to the impact of COVID-19	24	9	22	128	183
Other	9	–	(9)	63	63
PMA Total	475	10	13	191	689

NPE resolution strategy

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

This post model adjustment primarily relate to mortgages which have been classified as non-performing for a considerable length of time. In the second half of 2021, an additional cohort of unresolved longer-dated non-performing loans across property, non-property business and other personal together with additional non-performing mortgages have also been included in scope for potential portfolio sales.

The ECL PMA stock has reduced from € 443 million at 31 December 2020 to € 266 million at 31 December 2021 primarily reflecting portfolio sales during 2021 which reduced ECL by € 261 million. This is partially offset by new ECL PMA's of € 110 million for additional exposures identified in the second half of 2021 as requiring increases to the LGD component of the modelled outcome to reflect the expected resolution strategy. The PMA is underpinned by an independent external benchmark exercise and a range of outcomes specific to collateral values underpinning the loans, market conditions and prior loan sale outcomes.

*Forms an integral part of the audited financial statements

2.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Uncertainty due to the impact of COVID-19

Particular focus from Management was on ensuring that sectors which were severely impacted by Government measures to contain COVID-19 retain an appropriate level of ECL. The risk was not considered to be adequately captured in the modelled probability of default where certain sectors (e.g. hospitality) were identified to be highly impacted and where borrowers were receiving government supports which are likely to be withdrawn in the near future.

For certain highly impacted non-property business sector exposures, within Capital Markets, a post model adjustment of € 117 million was applied (€ 13 million relating to Stage 1 and € 104 million relating to Stage 2).

Similarly, in the Retail Banking business unit, € 68 million post model adjustment was applied (€ 56 million relating to Stage 1 and € 12 million relating to Stage 2) across residential mortgages € 18 million, other personal € 9 million, and other non-property business € 41 million in relation to where the borrower is either in receipt of ongoing government supports or the supports have been withdrawn for less than 3 months.

Macroeconomic factors

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

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

Furthermore, due to the impact COVID-19, the employment growth rate parameter within the model had a temporary spike resulting in a reduction of the ECL allowance. This is expected to be a temporary event due to COVID-19 and the ECL was adjusted to reflect a more appropriate level of expected loss outcome.

These adjustments amount to € 29 million (Stage 1 € 9 million, Stage 2 € 8 million and Stage 3 € 12 million).

Other

For the Syndicated & International Finance (SIF) portfolio in Capital Markets, it was previously determined that historically observed relationships between default rates and macroeconomic factors in the modelled probabilities of default needs to be increased for this portfolio.

Accordingly, expert credit judgement has determined a post model adjustment is required of € 53 million at 31 December 2021 (Stage 1 € 24 million, Stage 2 € 29 million).

Other post model adjustments in this category are not individually significant.

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 2021 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 and subsidiaries is initially informed by the output of the quantitative analytical models but may be subject to management adjustments. This ECL output is then scrutinised and approved at individual business unit level (ECL Committee), which also includes subsidiaries, 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.

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Risk management – 2. Individual risk types

2.1 Credit risk

Monitoring, escalating and reporting

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, 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 104, 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'.

2021 Developments in response to COVID-19 and consideration of ESG risks

Credit risk management response to COVID-19

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

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

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

Moving forward, the Group will continue to proactively review borrowers particularly where reliefs such as government supports are withdrawn. This has been considered as part of the governance process and was an explicit consideration as part of year-end and ECL appropriateness. Where an appropriate ECL has been taken to reflect any potential latent risk, this is outlined in the management judgements section "Uncertainty due to the impact of COVID-19".

*Forms an integral part of the audited financial statements

2.1 Credit risk

Monitoring, escalating and reporting

Credit risk management consideration of ESG risks

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

- A heat mapping exercise was conducted to scale individual sub-sector exposures to levels of climate change and environment risks.
- Relevant Business Credit Application Guidelines/Procedures and Credit Sanctioning Policies were updated to require the assessment of certain borrower's exposure to ESG factors, in particular environmental factors and impact of climate change and the appropriateness of mitigating strategies as set out by the borrower.
- An ESG questionnaire was introduced for certain cohorts requiring a more intensive analysis of borrowers in sub-sectors considered as part of the heat mapping exercise to have a higher risk to climate change related and environment risks.
- The property valuation process was updated to obtain BER/EPC ratings where applicable, which will be captured in collateral valuations and recorded on the Group's systems going forward.
- A new Sustainable Lending Framework was introduced which categorises relevant lending activities as green/transition for internal tracking and external disclosure purposes.
- The impact of climate risk was considered as part of the ECL governance process for the position as at December 2021 and it was deemed that insufficient evidence of the likely loss impacts from climate events is available to adjust ECLs materially but that the Group's approach to individual counterparty risk assessment adequately captures climate risk where appropriate. The impact of climate risk will continue to be monitored in 2022 to ensure ECLs appropriately reflect latent risk from potentially emerging climate risks.

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

Credit risk management in the ECL governance process*

The Group considered climate risk in the ECL governance process as follows:

- The Group's approach to individual counterparty risk assessment adequately captures climate risk where appropriate.

The impact of climate risk will continue to be monitored in 2022.

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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 2021 and 2020:

			2021			2020
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)]	42,109	–	42,109	24,932	–	24,932
Items in course of collection	44	–	44	43	–	43
Derivative financial instruments	–	882	882	–	1,424	1,424
Loans and advances to banks	1,323	–	1,323	1,092	–	1,092
Loans and advances to customers	56,265	243	56,508	56,766	75	56,841
Securities financing	3,890	–	3,890	811	–	811
Investment securities[(4)]	4,109	12,589	16,698	3,603	15,675	19,278
Included elsewhere:						
Trade receivables	372	–	372	87	–	87
Accrued interest	307	–	307	212	–	212
	108,419	13,714	122,133	87,546	17,174	104,720
Loan commitments and other credit related commitments	13,727	–	13,727	12,504	–	12,504
Financial guarantees	819	–	819	722	–	722
	14,546	–	14,546	13,226	–	13,226
Total	122,965	13,714	136,679	100,772	17,174	117,946

(1)All amortised cost items are loans and advances and investment securities which are in a 'held-to-collect' business model. Loans and advances to AIB Group plc are excluded.

(2)All items measured at fair value are classified as 'fair value through profit or loss' except investment securities at FVOCI, net investment hedge derivatives and cash flow hedging derivatives.

(3)Included within cash and balances at central banks of € 42,654 million (2020: € 25,550 million).

(4)Excluding equity shares of € 274 million (2020: € 201 million).

*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit exposure overview

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; securities financing; 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 2021 and 2020:

	2021*				2020*			
			Statement of financial position	Income statement			Statement of financial position	Income statement
	Exposure	ECL allowance	Carrying amount	Net credit impairment writeback/ (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	42,654	–	42,654	–	25,550	–	25,550	–
Items in course of collection	44	–	44	–	43	–	43	–
Loans and advances to banks	1,323	–	1,323	–	1,092	–	1,092	–
Loans and advances to customers:								
at amortised cost	58,150	(1,885)	56,265	233	59,276	(2,510)	56,766	(1,421)
at FVTPL	243	n/a	243	–	75	n/a	75	–
	58,393	(1,885)	56,508	233	59,351	(2,510)	56,841	(1,421)
Securities financing	3,891	(1)	3,890	(1)	811	–	811	–
Investment debt securities[(1)]	16,699	(1)	16,698	–	19,279	(1)	19,278	–
Other – Stockbroking client debtors	36	(1)	35	–	–	–	–	–
Loan commitments	13,727	(53)	(53)	2	12,504	(54)	(54)	(35)
Financial guarantee contracts	819	(26)	(26)	4	722	(29)	(29)	(4)
Total				238				(1,460)

[(1)]ECL allowance amounting to € 3 million (2020: € 3 million) included in carrying amount of investment securities at FVOCI.

There was a € 238 million net credit impairment writeback in the year (2020: € 1,460 million charge). This comprised of a € 233 million writeback on loans and advances to customers (net remeasurement of ECL allowance writeback of € 158 million and recoveries of amounts previously written-off of € 75 million) and a € 6 million writeback for off-balance sheet exposures. There was also a € 1 million charge on securities financing measured at amortised cost. (2020: € 1,421 million charge, (net remeasurement € 1,493 million, offset by recoveries € 72 million) and a € 39 million charge for off-balance sheet exposures).

Further details on the net credit impairment charge in the year to 31 December 2021 are set out on page 71 and 225.

*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 2021 and 2020:

Amortised cost

					2021					2020
	Retail Banking	Capital Markets	AIB UK	Group	Total	Retail Banking	Capital Markets	AIB UK	Group	Total
Gross carrying amount	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Residential mortgages	27,744	548	1,115	–	29,407	28,949	610	1,090	–	30,649
Other personal	2,550	63	91	–	2,704	2,569	62	112	23	2,766
Property and construction	636	4,800	1,924	–	7,360	712	4,584	1,964	–	7,260
Non-property business	3,225	10,351	5,090	13	18,679	3,236	9,954	5,398	13	18,601
Total	34,155	15,762	8,220	13	58,150	35,466	15,210	8,564	36	59,276
Analysed by internal credit ratings[1]										
Strong	23,406	9,578	4,436	–	37,420	24,589	7,781	4,233	–	36,603
Satisfactory	6,888	4,010	2,335	13	13,246	5,544	4,898	3,214	36	13,692
Total strong/satisfactory	30,294	13,588	6,771	13	50,666	30,133	12,679	7,447	36	50,295
Criticised watch	1,389	449	296	–	2,134	1,654	1,429	567	–	3,650
Criticised recovery	567	1,309	518	–	2,394	628	307	47	–	982
Total criticised	1,956	1,758	814	–	4,528	2,282	1,736	614	–	4,632
Non-performing	1,905	416	635	–	2,956	3,051	795	503	–	4,349
Gross carrying amount	34,155	15,762	8,220	13	58,150	35,466	15,210	8,564	36	59,276
Analysed by ECL staging										
Stage 1	30,135	11,985	6,261	13	48,394	29,500	9,364	6,709	36	45,609
Stage 2	2,083	3,361	1,324	–	6,768	2,924	5,132	1,352	–	9,408
Stage 3	1,834	416	635	–	2,885	2,858	714	503	–	4,075
POCI	103	–	–	–	103	184	–	–	–	184
Total	34,155	15,762	8,220	13	58,150	35,466	15,210	8,564	36	59,276
ECL allowance – statement of financial position										
Stage 1	120	79	37	–	236	136	90	55	–	281
Stage 2	138	465	97	–	700	209	523	113	–	845
Stage 3	722	75	121	–	918	1,044	144	127	–	1,315
POCI	31	–	–	–	31	69	–	–	–	69
Total	1,011	619	255	–	1,885	1,458	757	295	–	2,510
ECL allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	0.4	0.7	0.6	–	0.5	0.5	1.0	0.8	–	0.6
Stage 2	6.6	13.8	7.4	–	10.3	7.1	10.2	8.4	–	9.0
Stage 3	39.4	18.2	19.0	–	31.8	36.5	20.2	25.1	–	32.3
POCI	29.9	–	–	–	29.9	37.5	–	–	–	37.5
Income statement	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net remeasurement of ECL allowance	(15)	(131)	(12)	–	(158)	545	740	208	–	1,493
Recoveries of amounts previously written-off	(69)	(2)	(4)	–	(75)	(67)	–	(5)	–	(72)
Net credit impairment (writeback)/charge	(84)	(133)	(16)	–	(233)	478	740	203	–	1,421
	%	%	%	%	%	%	%	%	%	%
Net credit impairment (writeback)/charge on average loans	(0.24)	(0.87)	(0.19)	–	(0.40)	1.33	4.65	2.31	–	2.34

[1]Further analysis of internal credit grade profile by ECL staging is set out on pages 72 and 73.

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 2021 and 2020:

FVTPL

					2021					2020
	Retail Banking	Capital Markets	AIB UK	Group	Total	Retail Banking	Capital Markets	AIB UK	Group	Total
Carrying amount	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Property and construction	–	243	–	–	243	–	75	–	–	75
Total	–	243	–	–	243	–	75	–	–	75
Analysed by internal credit ratings										
Strong	–	–	–	–	–	–	75	–	–	75
Satisfactory	–	74	–	–	74	–	–	–	–	–
Total strong/satisfactory	–	74	–	–	74	–	75	–	–	75
Total criticised	–	–	–	–	–	–	–	–	–	–
Non-performing	–	169	–	–	169	–	–	–	–	–
Total	–	243	–	–	243	–	75	–	–	75

Gross loans and advances to customers

Total gross loans and advances to customers reduced by € 1.0 billion in the year to 31 December 2021. Of the total portfolio of € 58.4 billion, € 58.2 billion is measured at amortised cost with the remaining € 0.2 billion being measured at fair value through profit or loss. The reduction in the year was largely due to the sales of non-performing mortgage portfolios completed in the year which resulted in a € 1.0 billion reduction in non-performing loans. Overall, from a segment perspective, Retail Banking and AIB UK decreased by € 1.3 billion and € 0.4 billion respectively. The reduction in AIB UK was primarily due to the Group's decision to exit the SME market in Great Britain. Capital Markets experienced a strong performance in new lending, particularly in the final quarter of 2021 as advances increased by € 0.7 billion in the year. The level of new lending activity in 2021 of € 10.4 billion continues to be impacted by the COVID-19 pandemic. New lending activity remains lower than pre-pandemic levels (2019: € 12.3 billion), however, there was a € 1.2 billion increase versus last year (2020: € 9.2 billion). The increase in new lending was driven by Capital Markets which increased by € 1.0 billion in the year with strong demand experienced in the property and energy sectors. Retail Banking new lending increased € 0.4 billion in the year due to new mortgage lending, however, this was offset by AIB UK which experienced a € 0.2 billion reduction in new lending activity due to reduced lending in key sectors classified as high risk due to the COVID-19 pandemic.

Of the total loans to customers of € 58.4 billion, € 50.8 billion or 87% are rated as either 'strong' or 'satisfactory' which is an increase of € 0.4 billion (2020: € 50.4 billion or 85%), primarily evidenced within Capital Markets. The 'criticised' classification includes 'criticised watch' of € 2.1 billion and 'criticised recovery' of € 2.4 billion, the total of which has decreased by € 0.1 billion in the year. The 'criticised recovery' portfolio increased by € 1.4 billion in the year which was predominately driven by increased levels of customers in receipt of forbearance arrangements migrating from 'criticised watch'. The total performing book has increased by € 0.3 billion to € 55.3 billion or 95% of gross loans and advances to customers (2020: € 55.0 billion or 93%).

Despite the ongoing impact regarding the COVID-19 pandemic, the credit quality of the portfolio has improved in the year. Stage 2 loans have decreased by € 2.6 billion to € 6.8 billion as Stage 1 loans increased by € 2.8 billion to € 48.4 billion. The reduction in Stage 2 loans was driven by the non-property portfolio which decreased by € 1.3 billion, while the property and mortgage portfolios reduced by € 0.7 billion and € 0.5 billion respectively. Redemptions/repayments net of interest credited accounted for € 2.2 billion and net stage transfers from Stage 2 to Stage 1 resulted in a € 0.2 billion reduction.

Stage 3 loans have decreased by € 1.2 billion to € 2.9 billion. The decrease was primarily due to the sales of non-performing mortgage portfolios completed in the year which accounted for € 1.0 billion. Net transfers to Stage 3 accounted for € 0.6 billion and were offset by redemptions/repayments net of interest credited of € 0.7 billion. Transfers to Stage 3 in the year predominately related to the non-property portfolio (€ 0.6 billion) as a result of cases in this sector directly impacted by COVID-19.

The characteristics of each stage including the Group's approach to identifying significant increase in credit risk are outlined on page 52. 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

Non-performing loans

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

					2021
Non-performing loans	**Residential mortgages € m**	**Other personal € m**	**Property and construction € m**	**Non-property business € m**	**Total € m**
At amortised cost	**991**	**247**	**628**	**1,090**	**2,956**
At FVTPL	**–**	**–**	**169**	**–**	**169**
Total non-performing loans and advances to customers	**991**	**247**	**797**	**1,090**	**3,125**
Non-performing loans as a % of total loans and advances to customers	**3.4%**	**9.1%**	**10.5%**	**5.8%**	**5.4%**
ECL allowance as a % of total loans and advances to customers carried at amortised cost	**30%**	**64%**	**28%**	**29%**	**32%**
Split of non-performing loans and advances by time in default					
Legacy/Pre 31 December 2018	***499***	***71***	***161***	***151***	***882***
Non Legacy/Post 31 December 2018	***492***	***176***	***636***	***939***	***2,243***
	991	***247***	***797***	***1,090***	***3,125***

					2020
Non-performing loans	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Total non-performing loans and advances to customers	2,156	234	955	1,004	4,349
Non-performing loans as a % of total loans and advances to customers	7.0%	8.5%	13.2%	5.4%	7.3%
ECL allowance as a % of total loans and advances to customers carried at amortised cost	34%	61%	22%	32%	32%

Total Group non-performing loans have decreased by € 1.2 billion or 28% to € 3.1 billion in the year (2020: € 4.3 billion). The decrease reflects the sales of non-performing mortgage portfolios completed in the year of € 1.0 billion and other net underlying decreases of € 0.2 billion to non-performing loans. The total Group non-performing loans portfolio consists of € 2.9 billion in loans and advances to customers measured at amortised cost together with € 0.2 billion of loans measured at FVTPL. The ECL allowance cover rate on non-performing loans (at amortised cost) has remained at 32% at 31 December 2021 (2020: 32%). Non-performing loans as a percentage of total loans and advances to customers is 5.4% compared to 7.3% at 31 December 2020.

Exposures that entered into default prior to 31 December 2018 amount to € 0.9 billion or 1.5% of total loans and advances to customers and are classified as legacy. These balances relate to exposures which may form part of alternative recovery strategies including future loan sales.

Exposures that have defaulted after 31 December 2018 amount to € 2.2 billion or 3.8% of total loans and advances to customers and are classified as non-legacy. These exposures were largely impacted by COVID-19 and spread across all asset classes. The non-property portfolio (€ 0.9 billion) includes sectors most significantly impacted by COVID-19 restrictions. The ECL allowance reflects stronger credit underwriting standards and asset valuations in addition to a higher propensity to cure, particularly as the macroeconomic environment improves post COVID-19.

2.1 Credit risk – Credit profile of the loan portfolio

ECL allowance

The ECL allowance on loans and advances to customers has decreased by € 0.6 billion to € 1.9 billion in the year. The decrease was predominately in Stage 3 which reduced by € 0.4 billion due to the sales of non-performing mortgage portfolios and net remeasurements within stage. The total ECL cover rate has decreased from 4.2% at 31 December 2020 to 3.2% at 31 December 2021.

Income statement

There was a € 233 million net credit impairment writeback in the year to 31 December 2021 which comprised a net remeasurement of ECL allowance writeback of € 158 million and recoveries of amounts previously written-off of € 75 million (2020: € 1,421 million charge comprising € 1,493 million charge offset by € 72 million of recoveries).

The key drivers of the ECL writeback in the year were improvements in credit quality and stage transfers, along with improvements in the macroeconomic scenarios and weightings. These writebacks were partially offset by an increase in post model adjustments in the second half of the year relating to the Group's NPE reduction strategy and the Group's decision to maintain a cautious ECL approach in specific sectors where evidence of latent risk remains.

There were three components which contributed to the net remeasurement of ECL allowance writeback of € 158 million.

There was a € 161 million writeback comprising of a € 240 million ECL writeback occurring within stage driven by improvements in credit quality, offset by a charge of € 79 million due to net stage movements.

Updated macroeconomic scenarios and weightings applied during 2021 resulted in a € 132 million writeback, which was evident across all asset classes due to improvements in the macroeconomic outlook.

Post model adjustments resulted in a net € 135 million ECL charge. The updated post model adjustments take into consideration the broadening of the portfolio in scope as part of the Group's NPE reduction strategy which may form part of future loan sales. In addition, following improvements in the macroeconomic scenarios and weightings, post model adjustments relating to COVID-19 have been updated to retain the ECL allowance where appropriate in order to protect against latent risk for exposures in high risk sectors as government supports are withdrawn. Further details are outlined under the management judgements section on pages 62 and 63.

Further details on the ECL allowance movements are outlined on pages 94 to 98.

Recoveries of amounts previously written-off of € 75 million (2020: € 72 million) included € 50 million recoveries (2020: € 56 million) which reflects cash recoveries against legacy non-performing exposures in line with the Group's resolution strategies.

Risk management – 2. Individual risk types

2.1 Credit risk – Credit profile of the loan portfolio

Internal credit grade profile by ECL staging

The table below analyses the internal credit grading profile by ECL staging for loans and advances to customers at 31 December 2021 and 2020:

Amortised cost

	2021*					2020*				
	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	36,521	895	–	4	37,420	35,341	1,257	–	5	36,603
Satisfactory	11,023	2,220	–	3	13,246	9,307	4,384	–	1	13,692
Total strong/satisfactory	47,544	3,115	–	7	50,666	44,648	5,641	–	6	50,295
Criticised watch	755	1,377	–	2	2,134	834	2,814	–	2	3,650
Criticised recovery	93	2,276	–	25	2,394	27	953	–	2	982
Total criticised	848	3,653	–	27	4,528	861	3,767	–	4	4,632
Non-performing	2	–	2,885	69	2,956	100	–	4,075	174	4,349
Gross carrying amount	48,394	6,768	2,885	103	58,150	45,609	9,408	4,075	184	59,276
ECL allowance	(236)	(700)	(918)	(31)	(1,885)	(281)	(845)	(1,315)	(69)	(2,510)
Carrying amount	48,158	6,068	1,967	72	56,265	45,328	8,563	2,760	115	56,766
Analysis by asset class										
Residential mortgages										
Strong	22,071	306	–	4	22,381	23,478	318	–	5	23,801
Satisfactory	4,464	192	–	3	4,659	2,654	574	–	1	3,229
Total strong/satisfactory	26,535	498	–	7	27,040	26,132	892	–	6	27,030
Criticised watch	395	549	–	2	946	395	602	–	2	999
Criticised recovery	6	399	–	25	430	6	456	–	2	464
Total criticised	401	948	–	27	1,376	401	1,058	–	4	1,463
Non-performing	1	–	921	69	991	2	–	1,980	174	2,156
Gross carrying amount	26,937	1,446	921	103	29,407	26,535	1,950	1,980	184	30,649
ECL allowance	(34)	(41)	(276)	(31)	(382)	(39)	(73)	(662)	(69)	(843)
Carrying amount	26,903	1,405	645	72	29,025	26,496	1,877	1,318	115	29,806
Other personal										
Strong	1,259	34	–	–	1,293	1,243	51	–	–	1,294
Satisfactory	913	89	–	–	1,002	885	154	–	–	1,039
Total strong/satisfactory	2,172	123	–	–	2,295	2,128	205	–	–	2,333
Criticised watch	65	74	–	–	139	70	84	–	–	154
Criticised recovery	1	22	–	–	23	2	43	–	–	45
Total criticised	66	96	–	–	162	72	127	–	–	199
Non-performing	–	–	247	–	247	1	–	233	–	234
Gross carrying amount	2,238	219	247	–	2,704	2,201	332	233	–	2,766
ECL allowance	(30)	(33)	(159)	–	(222)	(41)	(51)	(142)	–	(234)
Carrying amount	2,208	186	88	–	2,482	2,160	281	91	–	2,532
Property and construction										
Strong	3,948	413	–	–	4,361	2,981	757	–	–	3,738
Satisfactory	1,261	613	–	–	1,874	1,175	924	–	–	2,099
Total strong/satisfactory	5,209	1,026	–	–	6,235	4,156	1,681	–	–	5,837
Criticised watch	58	143	–	–	201	71	317	–	–	388
Criticised recovery	79	217	–	–	296	2	78	–	–	80
Total criticised	137	360	–	–	497	73	395	–	–	468
Non-performing	–	–	628	–	628	90	–	865	–	955
Gross carrying amount	5,346	1,386	628	–	7,360	4,319	2,076	865	–	7,260
ECL allowance	(50)	(91)	(172)	–	(313)	(75)	(133)	(188)	–	(396)
Carrying amount	5,296	1,295	456	–	7,047	4,244	1,943	677	–	6,864

*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit profile of the loan portfolio

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

	2021*					2020*				
	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	9,243	142	–	–	9,385	7,639	131	–	–	7,770
Satisfactory	4,385	1,326	–	–	5,711	4,593	2,732	–	–	7,325
Total strong/satisfactory	13,628	1,468	–	–	15,096	12,232	2,863	–	–	15,095
Criticised watch	237	611	–	–	848	298	1,811	–	–	2,109
Criticised recovery	7	1,638	–	–	1,645	17	376	–	–	393
Total criticised	244	2,249	–	–	2,493	315	2,187	–	–	2,502
Non-performing	1	–	1,089	–	1,090	7	–	997	–	1,004
Gross carrying amount	13,873	3,717	1,089	–	18,679	12,554	5,050	997	–	18,601
ECL allowance	(122)	(535)	(311)	–	(968)	(126)	(588)	(323)	–	(1,037)
Carrying amount	13,751	3,182	778	–	17,711	12,428	4,462	674	–	17,564

*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 – Residential mortgages

Residential mortgages amounted to € 29.4 billion at 31 December 2021, with the majority (96%) relating to residential mortgages in the Republic of Ireland and the remainder relating to the United Kingdom. This compares to € 30.6 billion at 31 December 2020, of which 96% related to residential mortgages in the Republic of Ireland. The split of the residential mortgage portfolio was owner-occupier € 27.6 billion and buy-to-let € 1.8 billion (2020: owner-occupier € 28.5 billion and buy-to-let € 2.1 billion).

Income statement

During 2021, there was a net credit impairment writeback of € 80 million to the income statement, compared to a € 306 million charge in 2020. This was driven by a net remeasurement of ECL allowance writeback of € 55 million and by recoveries of previously written-off loans of € 25 million.

There were three components which contributed to the net remeasurement of ECL allowance writeback of € 55 million.

There was a € 40 million writeback comprising of a € 50 million ECL writeback occurring within stage due to improved credit quality and a charge of € 10 million due to net stage movements.

Updated macroeconomic scenarios and weightings applied during 2021 resulted in a writeback of € 59 million.

Post model adjustments impacting the residential mortgage portfolio were updated to take into consideration the broadening of the portfolio in scope as part of the Group's NPE reduction strategy which may form part of future loan sales, which is the primary reason for a € 44 million increase in ECL charge due to post model adjustments. Further details are outlined under the management judgements section on pages 62 and 63.

At 31 December 2021, the ECL allowance for the Group's residential mortgages portfolio totalled € 0.4 billion, or 1.3% total cover rate (2020: € 0.8 billion and 2.8%).

Residential mortgages – page 75

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

Republic of Ireland residential mortgages – pages 76 to 80

- 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.

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 2021 and 2020:

	2021*					2020*				
	Retail Banking	Capital Markets	AIB UK	Group	Total	Retail Banking	Capital Markets	AIB UK	Group	Total
Gross carrying amount	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Owner occupier	26,181	429	1,038	–	27,648	27,051	452	1,005	–	28,508
Buy-to-let	1,563	119	77	–	1,759	1,898	158	85	–	2,141
Total	27,744	548	1,115	–	29,407	28,949	610	1,090	–	30,649
Analysed by internal credit ratings										
Strong	21,337	352	692	–	22,381	22,648	545	608	–	23,801
Satisfactory	4,165	175	319	–	4,659	2,856	43	330	–	3,229
Total strong/satisfactory	25,502	527	1,011	–	27,040	25,504	588	938	–	27,030
Criticised watch	889	12	45	–	946	928	7	64	–	999
Criticised recovery	415	5	10	–	430	443	10	11	–	464
Total criticised	1,304	17	55	–	1,376	1,371	17	75	–	1,463
Non-performing	938	4	49	–	991	2,074	5	77	–	2,156
Gross carrying amount	27,744	548	1,115	–	29,407	28,949	610	1,090	–	30,649
Analysed by ECL staging										
Stage 1	25,393	511	1,033	–	26,937	25,043	534	958	–	26,535
Stage 2	1,380	33	33	–	1,446	1,824	71	55	–	1,950
Stage 3	868	4	49	–	921	1,898	5	77	–	1,980
POCI	103	–	–	–	103	184	–	–	–	184
Total	27,744	548	1,115	–	29,407	28,949	610	1,090	–	30,649
ECL allowance – statement of financial position										
Stage 1	34	–	–	–	34	34	1	4	–	39
Stage 2	40	1	–	–	41	66	5	2	–	73
Stage 3	270	–	6	–	276	641	–	21	–	662
POCI	31	–	–	–	31	69	–	–	–	69
Total	375	1	6	–	382	810	6	27	–	843
ECL allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	0.1	–	–	–	0.1	0.1	0.1	0.4	–	0.1
Stage 2	2.9	1.8	–	–	2.8	3.6	6.8	4.9	–	3.7
Stage 3	31.1	–	10.9	–	29.9	33.8	–	26.6	–	33.4
POCI	29.9	–	–	–	29.9	37.5	–	–	–	37.5
Income statement	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net remeasurement of ECL allowance	(42)	(5)	(8)	–	(55)	322	4	13	–	339
Recoveries of amounts previously written-off	(24)	–	(1)	–	(25)	(31)	–	(2)	–	(33)
Net credit impairment (writeback)/charge	(66)	(5)	(9)	–	(80)	291	4	11	–	306
	%	%	%	%	%	%	%	%	%	%
Net credit impairment (writeback)/charge on average loans	(0.24)	(0.96)	(0.76)	–	(0.27)	1.00	0.64	0.95	–	0.99

*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

The following table analyses the Republic of Ireland residential mortgage portfolio at amortised cost by ECL staging at 31 December 2021 and 2020:

			2021*			2020*
	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Gross carrying amount	26,610	1,682	28,292	27,503	2,056	29,559
Analysed as to ECL staging						
Stage 1	24,572	1,332	25,904	24,082	1,495	25,577
Stage 2	1,226	187	1,413	1,611	284	1,895
Stage 3	714	158	872	1,631	272	1,903
POCI	98	5	103	179	5	184
Total	26,610	1,682	28,292	27,503	2,056	29,559
ECL allowance – statement of financial position						
Stage 1	32	2	34	29	6	35
Stage 2	35	6	41	51	20	71
Stage 3	203	67	270	553	88	641
POCI	28	3	31	66	3	69
Total	298	78	376	699	117	816
Republic of Ireland residential mortgages at amortised cost	26,312	1,604	27,916	26,804	1,939	28,743
ECL allowance cover percentage	%	%	%	%	%	%
Stage 1	0.1	0.1	0.1	0.1	0.4	0.1
Stage 2	2.8	3.2	2.9	3.1	7.1	3.7
Stage 3	28.4	42.6	30.9	33.9	32.5	33.7
POCI	28.8	51.7	29.9	37.0	56.0	37.5
Income statement	€ m	€ m	€ m	€ m	€ m	€ m
Net remeasurement of ECL allowance	(37)	(10)	(47)	284	42	326
Recoveries of amounts previously written-off	(16)	(8)	(24)	(26)	(5)	(31)
Net credit impairment (writeback)/charge	(53)	(18)	(71)	258	37	295
	%	%	%	%	%	%
Net credit impairment (writeback)/charge on average loans	(0.20)	(0.98)	(0.25)	0.93	1.67	0.99

*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 *(continued)*

Residential mortgages in Ireland amounted to € 28.3 billion at 31 December 2021 compared to € 29.6 billion at 31 December 2020. The decrease in the portfolio was primarily due to the sale of non-performing mortgage portfolios of € 1.0 billion and loan repayments exceeding new lending. Total drawdowns during the year were € 3.0 billion (2020: € 2.4 billion), of which 99% was to owner-occupiers, whilst the weighted average indexed loan-to-value for new residential mortgages was 67% (2020: 69%).

The split of the Irish residential mortgage portfolio is 94% owner-occupier and 6% buy-to-let and comprises 21% tracker rate, 39% variable rate and 40% fixed rate mortgages.

Non-performing loans decreased from € 2.1 billion at 31 December 2020 to € 0.9 billion at 31 December 2021, primarily due to the sale of non-performing mortgage portfolios completed in the year.

Income statement

There was a net credit impairment writeback of € 71 million to the income statement in the year compared to a net credit impairment charge of € 295 million in 2020.

The net remeasurement of ECL allowance writeback of € 47 million was driven by improvements in the grade profiles within stage. ECL writebacks from improvements in the revised macroeconomic assumptions were partially offset by ECL charges associated with post model adjustments. In addition, the Group also recovered € 24 million on loans previously written-off.

The ECL allowance provision cover level at 31 December 2021 for the Irish residential mortgage portfolio is 1.3% (2020: 2.8%), due to the sale of non-performing mortgage portfolios. For the Stage 3 element of the Irish residential mortgage portfolio, € 0.3 billion of ECLs are held providing Stage 3 cover of 31% (2020: € 0.6 billion and 34% respectively).

Residential mortgage arrears

Total loans in arrears (including non-performing loans) by value decreased by 58% during the year, due to the sale of non-performing mortgage portfolios. Total value of arrears in the owner-occupier and buy-to-let portfolios decreased by 60% and 45% respectively.

The number of loans in arrears (based on number of accounts) greater than 90 days was 2.2% at 31 December 2021 and remains below the industry average of 5.6%[(1)]. For the owner-occupier portfolio, the number of loans in arrears greater than 90 days at 1.9% were below the industry average of 4.7%[(1)]. For the buy-to-let portfolio, loans in arrears greater than 90 days at 6.0% were below the industry average of 12.4%[(1)].

[(1)]Source: Central Bank of Ireland ("CBI") Residential Mortgage Arrears and Repossessions Statistics as at 30 September 2021, based on numbers of accounts.

Forbearance

Irish residential mortgages subject to forbearance measures decreased by € 0.9 billion from € 2.1 billion at 31 December 2020 to € 1.2 billion at 31 December 2021. The decrease in the forbearance portfolio was due to the sales of non-performing mortgage portfolios.

Details of forbearance measures are set out on pages 104 to 106.

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)*

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 2021 and 2020:

					2021*					2020*
	At amortised cost					At amortised cost				
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Overall total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Overall total € m
Less than 80%	24,771	1,322	739	86	26,918	21,567	1,559	1,461	124	24,711
81-100%	1,058	68	97	10	1,233	3,853	275	251	42	4,421
100-120%	28	9	19	–	56	103	39	99	7	248
Greater than 120%	42	13	12	–	67	50	21	78	2	151
Total with LTVs	25,899	1,412	867	96	28,274	25,573	1,894	1,889	175	29,531
Unsecured	5	1	5	7	18	4	1	14	9	28
Total	25,904	1,413	872	103	28,292	25,577	1,895	1,903	184	29,559
Of which:										
Owner occupier										
Less than 80%	23,460	1,158	632	85	25,335	20,183	1,325	1,282	123	22,913
81-100%	1,052	56	60	10	1,178	3,773	247	195	42	4,257
100-120%	24	4	14	–	42	89	28	86	7	210
Greater than 120%	35	8	6	–	49	35	11	61	1	108
Total with LTVs	24,571	1,226	712	95	26,604	24,080	1,611	1,624	173	27,488
Unsecured	1	–	2	3	6	2	–	7	6	15
Total	24,572	1,226	714	98	26,610	24,082	1,611	1,631	179	27,503

The weighted average indexed loan-to-value of the stock of residential mortgages at 31 December 2021 was 50% (2020: 57%), new residential mortgages issued during the year was 67% (2020: 69%) and Stage 3 residential mortgages was 54% (2020: 61%).

*Forms an integral part of the audited financial statements

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 2021 and 2020:

	2021					2020				
	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	25,897	1,363	440	92	27,792	25,575	1,852	779	155	28,361
1 - 30 days	7	27	10	–	44	2	21	22	1	46
31 - 60 days	–	18	13	1	32	–	19	27	2	48
61 - 90 days	–	5	7	1	13	–	3	8	–	11
91 - 180 days	–	–	36	2	38	–	–	39	1	40
181 - 365 days	–	–	65	2	67	–	–	114	4	118
Over 365 days	–	–	301	5	306	–	–	914	21	935
Total gross carrying amount of residential mortgages	25,904	1,413	872	103	28,292	25,577	1,895	1,903	184	29,559
ECL allowance	(34)	(41)	(270)	(31)	(376)	(35)	(71)	(641)	(69)	(816)
Carrying value	25,870	1,372	602	72	27,916	25,542	1,824	1,262	115	28,743
Of which:										
Owner-occupier										
Not past due	24,568	1,182	365	89	26,204	24,080	1,574	674	151	26,479
1 - 30 days	4	22	9	–	35	2	17	16	1	36
31 - 60 days	–	17	12	1	30	–	17	26	2	45
61 - 90 days	–	5	7	1	13	–	3	6	–	9
91 - 180 days	–	–	34	2	36	–	–	35	1	36
181 - 365 days	–	–	56	1	57	–	–	83	4	87
Over 365 days	–	–	231	4	235	–	–	791	20	811
Total	24,572	1,226	714	98	26,610	24,082	1,611	1,631	179	27,503

Risk management – 2. Individual risk types

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 2021 and 2020 is set out below:

	2021		2020	
	Stock	Balance outstanding € m	Stock	Balance outstanding € m
Owner-occupier	103	18	432	100
Buy-to-let	12	5	16	3
Total	115	23	448	103

[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 333 properties in 2021 (2020: 67 properties). This decrease relates to the disposal of 66 properties (2020: 93 properties) which were slightly offset by the addition of 15 properties (2020: 39 properties), the majority of which were voluntary surrenders or abandonments. The remaining reductions were primarily due to the inclusion of properties in the sales of non-performing mortgage portfolios which concluded during 2021.

The disposal of 66 residential properties in the Republic of Ireland resulted in a total loss on disposal of € 3 million at 31 December 2021 (before ECL allowance) and compares to 31 December 2020 when 93 residential properties were disposed of resulting in a total loss of € 7 million. COVID-19 has continued to impact the closing of sales throughout 2021. 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 2021 and 2020:

					2021
	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	64	13	12	2	3
Buy-to-let	2	–	–	–	–
Total	66	13	12	2	3

					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

[1]Before ECL allowance.

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 2021 and 2020:

					2021*					2020*
	Retail Banking	Capital Markets	AIB UK	Group	Total	Retail Banking	Capital Markets	AIB UK	Group	Total
Gross carrying amount	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Credit cards	590	6	24	–	620	558	6	22	–	586
Loans/overdrafts	1,960	57	67	–	2,084	2,011	56	90	23	2,180
Total	2,550	63	91	–	2,704	2,569	62	112	23	2,766
Analysed by internal credit ratings										
Strong	1,208	16	69	–	1,293	1,179	35	80	–	1,294
Satisfactory	944	42	16	–	1,002	973	19	24	23	1,039
Total strong/satisfactory	2,152	58	85	–	2,295	2,152	54	104	23	2,333
Criticised watch	135	2	2	–	139	149	2	3	–	154
Criticised recovery	23	–	–	–	23	40	4	1	–	45
Total criticised	158	2	2	–	162	189	6	4	–	199
Non-performing	240	3	4	–	247	228	2	4	–	234
Gross carrying amount	2,550	63	91	–	2,704	2,569	62	112	23	2,766
Analysed by ECL staging										
Stage 1	2,102	54	82	–	2,238	2,032	47	99	23	2,201
Stage 2	208	6	5	–	219	310	13	9	–	332
Stage 3	240	3	4	–	247	227	2	4	–	233
POCI	–	–	–	–	–	–	–	–	–	–
Total	2,550	63	91	–	2,704	2,569	62	112	23	2,766
ECL allowance – statement of financial position										
Stage 1	30	–	–	–	30	40	–	1	–	41
Stage 2	33	–	–	–	33	50	1	–	–	51
Stage 3	156	1	2	–	159	139	1	2	–	142
POCI	–	–	–	–	–	–	–	–	–	–
Total	219	1	2	–	222	229	2	3	–	234
ECL allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	1.4	–	–	–	1.3	1.9	–	1.0	–	1.8
Stage 2	16.0	–	–	–	15.4	16.0	10.5	–	–	15.4
Stage 3	65.1	21.7	42.1	–	64.2	61.2	53.1	44.7	–	60.9
POCI	–	–	–	–	–	–	–	–	–	–
Income statement	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net remeasurement of ECL allowance	12	(2)	–	–	10	91	1	–	–	92
Recoveries of amounts previously written-off	(15)	–	–	–	(15)	(12)	–	–	–	(12)
Net credit impairment (writeback)/charge	(3)	(2)	–	–	(5)	79	1	–	–	80
	%	%	%	%	%	%	%	%	%	%
Net credit impairment (writeback)/charge on average loans	(0.10)	(3.13)	(0.16)	–	(0.16)	3.05	1.42	–	–	2.87

*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 – Other personal *(continued)*

At 31 December 2021, the other personal lending portfolio of € 2.7 billion comprises € 2.1 billion in loans and overdrafts and € 0.6 billion in credit card facilities (2020: € 2.8 billion, € 2.2 billion and € 0.6 billion respectively). Despite the impact of COVID-19, the credit quality of the portfolio improved slightly throughout the year, with 15% categorised as less than satisfactory, of which defaulted loans amounted to € 0.2 billion (2020: 16% and € 0.2 billion).

New lending totalled € 0.9 billion for the year to 31 December 2021 (2020: € 0.9 billion). Demand for personal loans, which accounts for the largest portion of the portfolio, increased in the final quarter of 2021 compared to the same period in 2020 as Government COVID-19 protection measures were comparatively less restrictive to consumer activity.

Stage 3 loans, predominately in Retail Banking increased by € 14 million in 2021, primarily due to COVID-19. At 31 December 2021, the ECL allowance cover was 8% with Stage 3 cover at 64% (2020: 8% and 61% respectively).

Income statement

There was a net credit impairment writeback of € 5 million to the income statement in the year to 31 December 2021 compared to a € 80 million charge for the year to 31 December 2020.

The writeback was mainly due to recoveries of amounts previously written-off which amounted to € 15 million. This was offset by net stage transfers and remeasurements within stage which resulted in a € 13 million charge. ECL writebacks from improvements in the revised macroeconomic assumptions were partially offset due to an ECL charge in post model adjustments regarding potential latent risk due to COVID-19 which resulted in a net writeback of € 3 million.

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 2021 and 2020:

					2021*					2020*
Gross carrying amount	Retail Banking € m	Capital Markets € m	AIB UK € m	Group € m	Total € m	Retail Banking € m	Capital Markets € m	AIB UK € m	Group € m	Total € m
Investment:										
Commercial investment	281	2,907	614	–	3,802	353	3,109	723	–	4,185
Residential investment	89	724	676	–	1,489	127	633	673	–	1,433
	370	3,631	1,290	–	5,291	480	3,742	1,396	–	5,618
Land and development:										
Commercial development	106	377	34	–	517	93	275	37	–	405
Residential development	50	606	124	–	780	51	447	120	–	618
	156	983	158	–	1,297	144	722	157	–	1,023
Contractors	110	78	115	–	303	88	42	119	–	249
Housing associations	–	108	361	–	469	–	78	292	–	370
Total	636	4,800	1,924	–	7,360	712	4,584	1,964	–	7,260
Analysed by internal credit ratings										
Strong	113	3,187	1,061	–	4,361	120	2,617	1,001	–	3,738
Satisfactory	213	994	667	–	1,874	185	1,125	789	–	2,099
Total strong/satisfactory	326	4,181	1,728	–	6,235	305	3,742	1,790	–	5,837
Criticised watch	58	98	45	–	201	109	240	39	–	388
Criticised recovery	25	246	25	–	296	29	42	9	–	80
Total criticised	83	344	70	–	497	138	282	48	–	468
Non-performing	227	275	126	–	628	269	560	126	–	955
Gross carrying amount	636	4,800	1,924	–	7,360	712	4,584	1,964	–	7,260
Analysed by ECL staging										
Stage 1	312	3,358	1,676	–	5,346	315	2,350	1,654	–	4,319
Stage 2	97	1,167	122	–	1,386	137	1,755	184	–	2,076
Stage 3	227	275	126	–	628	260	479	126	–	865
POCI	–	–	–	–	–	–	–	–	–	–
Total	636	4,800	1,924	–	7,360	712	4,584	1,964	–	7,260
ECL allowance – statement of financial position										
Stage 1	5	33	12	–	50	13	51	11	–	75
Stage 2	10	77	4	–	91	15	108	10	–	133
Stage 3	107	39	26	–	172	99	54	35	–	188
POCI	–	–	–	–	–	–	–	–	–	–
Total	122	149	42	–	313	127	213	56	–	396
ECL allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	1.8	1.0	0.7	–	0.9	3.9	2.2	0.7	–	1.7
Stage 2	10.0	6.6	3.8	–	6.6	11.2	6.2	5.2	–	6.4
Stage 3	47.3	14.4	20.7	–	27.5	38.1	11.2	27.9	–	21.7
POCI	–	–	–	–	–	–	–	–	–	–
Income statement	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net remeasurement of ECL allowance	3	(52)	(4)	–	(53)	19	195	31	–	245
Recoveries of amounts previously written-off	(18)	–	(1)	–	(19)	(13)	–	(1)	–	(14)
Net credit impairment (writeback)/charge	(15)	(52)	(5)	–	(72)	6	195	30	–	231
	%	%	%	%	%	%	%	%	%	%
Net credit impairment (writeback)/charge on average loans	(2.31)	(1.14)	(0.27)	–	(1.00)	0.78	4.48	1.43	–	3.20

*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 – Property and construction *(continued)*

The property and construction portfolio consists of € 7.4 billion in loans and advances to customers measured at amortised cost together with € 0.2 billion of loans measured at FVTPL (total € 7.6 billion).

The portfolio measured at amortised cost amounted to 13% of total loans and advances to customers. The portfolio comprised of 72% investment loans (€ 5.3 billion), 18% land and development loans (€ 1.3 billion) and 10% other property and construction loans (€ 0.8 billion). The Capital Markets and AIB UK segments continue to account for the majority of this portfolio at 65% and 26% respectively.

The portfolio measured at amortised cost increased by € 0.1 billion in the year as new lending of € 1.8 billion was mainly offset by redemptions/repayments net of interest credited of € 1.6 billion. Increase in new lending was predominately in the Capital Markets segment which increased by € 0.4 billion in the year. At 31 December 2021, € 6.2 billion of the portfolio was in a strong/satisfactory grade, which is an increase of € 0.4 billion in the year. The level of non-performing loans have reduced by € 0.3 billion in the year to € 0.6 billion. However, this reduction mainly reflects two significant customer loans; one which exited default having completed the probation period and a further defaulted customer loan was reclassified as FVTPL in the year following a restructure and changes to the terms and conditions relating to this loan.

Property and construction loans measured at FVTPL increased by € 168 million to € 243 million in the year, as a result of the aforementioned significant defaulted customer loan which was reclassified as FVTPL.

Income statement

There was a net credit impairment writeback of € 72 million to the income statement in the year to 31 December 2021, compared to a € 231 million charge in 2020. This comprises a net remeasurement writeback of € 53 million and recoveries of previously written-off loans of € 19 million.

The net remeasurement writeback of € 53 million was driven by net transfers and remeasurements within stage of € 38 million and a further writeback of € 35 million due to improvements in the revised macroeconomic assumptions. These writebacks were partially offset by a € 20 million post model adjustment charge which primarily relates to a cohort of unresolved longer-dated non-performing property loans which have been included in scope for future loan sales.

The ECL allowance for the portfolio totalled € 0.3 billion providing ECL allowance cover of 4%. For the Stage 3 portfolio, the ECL allowance cover is 28% (2020: € 0.4 billion, 5% and 22% respectively).

Investment

Investment property loans amounted to € 5.3 billion at 31 December 2021 (2020: € 5.6 billion) of which € 3.8 billion related to commercial investment. The geographic profile of the investment property portfolio is predominately in the Republic of Ireland (€ 3.4 billion) and the United Kingdom (€ 1.3 billion). Commercial Investment in the retail sector, including shopping centres in particular, have been adversely impacted by COVID-19, with 60% of the Group's € 1.1 billion exposure to this sector now designated Stage 2 or Stage 3, with an associated ECL of € 0.1 billion.

At 31 December 2021, there was a net credit impairment writeback of € 78 million to the income statement on the investment property element of the property and construction portfolio (2020: € 168 million charge).

Land and development

At 31 December 2021, land and development loans amounted to € 1.3 billion (2020: € 1.0 billion) of which € 1.0 billion related to loans in the Capital Markets segment, € 0.1 billion in the Retail Banking segment and € 0.2 billion in the AIB UK segment. 2021 was a mixed year for the construction sector in Ireland. The first half of 2021 was characterised by limited construction activity due to COVID-19 restrictions on development sites. These restrictions impacted on the delivery of existing development schemes and delayed the commencement of new schemes. In the second half of 2021, all schemes were fully reopened. This coincided with significant demand for residential development which resulted in an increase in new lending as existing borrowers increased their activity to commence new schemes. Challenges facing the sector include increasing construction costs and disruptions to supply chains. The Group is also monitoring broader government policy for residential and commercial development and potential changes in taxation and planning.

The income statement net credit impairment charge for the year was € 5 million (2020: € 41 million charge).

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 2021 and 2020:

					2021*					2020*
	Retail Banking	Capital Markets	AIB UK	Group	Total	Retail Banking	Capital Markets	AIB UK	Group	Total
Gross carrying amount	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	1,232	351	94	–	1,677	1,202	365	104	–	1,671
Energy	21	996	1,197	–	2,214	17	749	1,049	–	1,815
Manufacturing	185	2,109	248	–	2,542	200	2,023	324	–	2,547
Distribution:										
Hotels	146	1,136	806	–	2,088	153	1,148	891	–	2,192
Licensed premises	179	135	108	–	422	185	213	103	–	501
Retail/wholesale	474	1,040	233	–	1,747	496	1,031	340	–	1,867
Other distribution	93	195	140	–	428	86	193	147	–	426
	892	2,506	1,287	–	4,685	920	2,585	1,481	–	4,986
Transport	212	1,494	503	–	2,209	224	1,184	421	–	1,829
Financial	14	359	135	13	521	16	360	137	13	526
Other services	669	2,536	1,626	–	4,831	657	2,688	1,882	–	5,227
Total	3,225	10,351	5,090	13	18,679	3,236	9,954	5,398	13	18,601
Analysed by internal credit ratings										
Strong	748	6,023	2,614	–	9,385	642	4,584	2,544	–	7,770
Satisfactory	1,566	2,799	1,333	13	5,711	1,530	3,711	2,071	13	7,325
Total strong/satisfactory	2,314	8,822	3,947	13	15,096	2,172	8,295	4,615	13	15,095
Criticised watch	307	337	204	–	848	468	1,180	461	–	2,109
Criticised recovery	104	1,058	483	–	1,645	116	251	26	–	393
Total criticised	411	1,395	687	–	2,493	584	1,431	487	–	2,502
Non-performing	500	134	456	–	1,090	480	228	296	–	1,004
Gross carrying amount	3,225	10,351	5,090	13	18,679	3,236	9,954	5,398	13	18,601
Analysed by ECL staging										
Stage 1	2,328	8,062	3,470	13	13,873	2,110	6,433	3,998	13	12,554
Stage 2	398	2,155	1,164	–	3,717	653	3,293	1,104	–	5,050
Stage 3	499	134	456	–	1,089	473	228	296	–	997
POCI	–	–	–	–	–	–	–	–	–	–
Total	3,225	10,351	5,090	13	18,679	3,236	9,954	5,398	13	18,601
ECL allowance – statement of financial position										
Stage 1	51	46	25	–	122	49	38	39	–	126
Stage 2	55	387	93	–	535	78	409	101	–	588
Stage 3	189	35	87	–	311	165	89	69	–	323
POCI	–	–	–	–	–	–	–	–	–	–
Total	295	468	205	–	968	292	536	209	–	1,037
ECL allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	2.2	0.6	0.7	–	0.9	2.3	0.6	1.0	–	1.0
Stage 2	13.9	18.0	7.9	–	14.4	12.0	12.4	9.1	–	11.6
Stage 3	37.9	26.2	19.2	–	28.6	34.8	39.1	23.3	–	32.4
POCI	–	–	–	–	–	–	–	–	–	–
Income statement	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net remeasurement of ECL allowance	12	(72)	–	–	(60)	113	540	164	–	817
Recoveries of amounts previously written-off	(12)	(2)	(2)	–	(16)	(11)	–	(2)	–	(13)
Net credit impairment (writeback)/charge	–	(74)	(2)	–	(76)	102	540	162	–	804
	%	%	%	%	%	%	%	%	%	%
Net credit impairment (writeback)/charge on average loans	–	(0.72)	(0.04)	–	(0.40)	3.12	4.97	3.00	–	4.10

*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 – 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 largest geographic concentration of the portfolio exposure is to Irish borrowers (48%) with the UK (29%) and USA (12%) being the other main geographic concentrations.

The portfolio increased slightly by € 0.1 billion to € 18.7 billion in the year to 31 December 2021 (31 December 2020: € 18.6 billion). The increase was primarily due to new lending of € 4.5 billion (31 December 2020: € 4.5 billion) and foreign exchange adjustments of € 0.6 billion exceeding redemptions/repayments net of interest credited of € 4.8 billion and disposals of € 0.3 billion. The non-property business portfolio amounted to 32% of total Group loans and advances to customers in the year (31 December 2020: 31%).

COVID-19 continues to impact the asset quality of the non-property business portfolio. Timing of recovery is dependent on sector specific dynamics. Loans graded as strong/satisfactory were unchanged in the year to 31 December 2021 at 81%. The value of loans graded less than satisfactory (including defaulted loans) increased from € 3.5 billion at 31 December 2020 to € 3.6 billion at 31 December 2021. This was specifically evident in the non-property forbearance portfolio as the criticised recovery category increased by € 1.2 billion to € 1.6 billion at 31 December 2021 (31 December 2020: € 0.4 billion). Interest only and term extensions were the most prominent forbearance solutions availed of by customers.

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 has proven to be resilient and robust throughout 2021. Demand for credit to support on-farm investment has been strong and above 2020 levels. Increased input costs are being offset by higher output prices, which is expected to continue assuming normalised weather conditions;
- The energy sub-sector comprises 12% of the portfolio at € 2.2 billion. The increase of € 0.4 billion is driven by new lending to renewable energy initiatives (wind and solar). To date, this sub-sector is proving very resilient to COVID-19;
- The manufacturing sub-sector comprises 14% of the portfolio at € 2.6 billion. Food manufacturing continued to adapt effectively to mitigate the impact of COVID-19 and the sector delivered strong levels of profitability with strong liquidity evident. Non-food manufacturing had a positive year with increasing production and employment levels. However, challenges exist for manufacturing due to inflation, labour (availability and cost) and supply chain pressures;
- The hotels sub-sector comprises 11% of the portfolio at € 2.1 billion. This sector has been severely impacted by Government measures to contain COVID-19. Hotels were either closed or operating at significantly reduced occupancy for a significant proportion of 2020 and the first half of 2021. Hotels catering to domestic leisure visitors experienced strong trade during the summer months. However, hotels reliant on international tourism, conferencing and corporate bookings did not fare as strongly. The emergence of new variants towards the end of the year has impacted trade again and the sector is also facing into increasing cost challenges. A return to pre-COVID-19 occupancy levels is expected to be slow, particularly for those most reliant on international tourism/corporate sector;
- The licensed premises sub-sector comprises 2% of the portfolio at € 0.4 billion. This sector has been severely negatively impacted by Government measures to contain COVID-19. Licensed premises were either closed or operating at significantly reduced capacity in Ireland from March 2020 to June 2021. The reopening of the sector in June 2021 generated a relatively strong sector performance, particularly in suburban and regional locations. The emergence of new variants towards the end of the year has impacted trade again. In the UK, restrictions were less severe throughout 2021 but restrictions towards the end of the year impacted the strongest trading quarter. While near term outlook is improving some challenges remain in the sector including staff availability, labour cost and reduced footfall in urban locations;
- The retail/wholesale sub-sector comprises 9% of the portfolio at € 1.8 billion. There has been a strong recovery in consumer spending following the easing of restrictions. Grocery retail/wholesalers continued to trade well with many businesses experiencing increases in profitability despite increased costs. Non grocery retail continues to face challenges including the transition of ‘bricks and mortar’ to online, rising inflation, staff shortages and reduced footfall, particularly in urban locations;
- The transport sub-sector comprises 12% of the portfolio at € 2.2 billion and consists primarily of logistic, storage and travel businesses. After initial negative impacts due to COVID-19 and Brexit in 2020, logistics and storage rebounded strongly due to increased demand for logistics and warehousing to deal with increased online retail purchasing. However, cost challenges remain due to border and custom delays, fuel costs and labour (cost and availability). The travel sector continued to be severely impacted by COVID-19 throughout 2021 due to international travel restrictions;
- The financial sub-sector comprises 3% of the portfolio at € 0.5 billion. This sub-sector is proving resilient to COVID-19 as companies have been able to operate remotely; and
- The other services sub-sector comprises 26% of the portfolio at € 4.8 billion, which includes businesses such as solicitors, accounting, audit, tax, computer services, research and development, consultancy, hospitals and nursing homes. Performance across this sub-sector has been mixed depending on the impact of COVID-19 on specific sub-sectors throughout 2021.

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

Loans and advances to customers – Non-property business *(continued)*

Income statement

There was a net credit impairment writeback of € 76 million to the income statement in the year to 31 December 2021, compared to a € 804 million charge in 2020. This comprises a net remeasurement writeback of € 60 million and recoveries of previously written-off loans of € 16 million.

The net remeasurement writeback of € 60 million was driven by net stage transfers and remeasurements within stage which accounted for a € 96 million writeback. In addition, the revised macroeconomic assumptions accounted for a further € 31 million writeback. These writebacks were partially offset by post model adjustments which resulted in a net € 67 million charge primarily relating to the Capital Markets non-property portfolio post model adjustment reflecting potential latent risk in sectors highly impacted by COVID-19 and longer-dated non-performing non-property loans which have also been included in scope for future loan sales as outlined under the management judgements section on pages 62 and 63.

The ECL allowance for the portfolio totalled € 1.0 billion providing ECL allowance cover of 5%. For the Stage 3 portfolio, the ECL allowance cover is 29% (2020: € 1.0 billion, 6% 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 at 31 December 2021 and 2020. Given the international profile of the Syndicated & International Finance ("SIF") business, all exposures within this business unit are reported separately.

								2021
	Analysed by ECL stage profile			Gross	Analysed by ECL stage profile			ECL
	Stage 1	Stage 2	Stage 3	carrying amount	Stage 1	Stage 2	Stage 3	allowance
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	1,397	188	87	1,672	9	13	36	58
Energy	2,054	139	2	2,195	11	19	2	32
Manufacturing	1,322	264	56	1,642	8	15	15	38
Distribution:								
Hotels	119	1,524	362	2,005	9	255	44	308
Licensed premises	83	199	140	422	4	34	36	74
Retail/Wholesale	1,171	184	146	1,501	17	26	53	96
Other distribution	222	40	25	287	5	6	12	23
	1,595	1,947	673	4,215	35	321	145	501
Transport	1,306	271	43	1,620	7	26	25	58
Financial	264	14	4	282	2	1	2	5
Other services	3,031	497	210	3,738	26	42	84	152
Total	**10,969**	**3,320**	**1,075**	**15,364**	**98**	**437**	**309**	**844**
SIF	**2,904**	**397**	**14**	**3,315**	**24**	**98**	**2**	**124**
Total	**13,873**	**3,717**	**1,089**	**18,679**	**122**	**535**	**311**	**968**

								2020
	Analysed by ECL stage profile			Gross	Analysed by ECL stage profile			ECL
	Stage 1	Stage 2	Stage 3	carrying amount	Stage 1	Stage 2	Stage 3	allowance
	€ 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	269	29	9	307	2	2	4	8
Other services	2,948	767	193	3,908	30	63	70	163
Total	9,679	4,344	982	15,005	103	471	319	893
SIF	2,875	706	15	3,596	23	117	4	144
Total	12,554	5,050	997	18,601	126	588	323	1,037

The SIF business unit, which is a specialised lending unit within Capital Markets, are 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 portfolio has reduced by € 0.3 billion to € 3.3 billion at 31 December 2021 (2020: € 3.6 billion).

At 31 December 2021, 94% of the SIF lending portfolio is in a strong/satisfactory grade (2020: 96%). 88% of the SIF portfolio is rated by S&P, with 67% rated B+ or above, 18% rated B and 3% rated B- or below. The majority of the loans (70%) are to large borrowers with EBITDA > € 250 million. Exposures are well diversified by name and sector with the top 20 borrowers accounting for 24% 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 (primarily Europe) (2020: 63% in the USA, 3% in the UK and 34% in the Rest of the World (primarily Europe) respectively).

The SIF portfolio had a net credit impairment writeback to the income statement in 2021 of € 12 million (2020: € 195 million charge).

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 2021 and 2020:

Gross exposures to customers

									2021
	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	1,677	614	2,291	1,970	223	98	–	2,291	–
Energy	2,214	1,100	3,314	3,130	146	38	–	3,314	–
Manufacturing	2,542	1,733	4,275	3,821	387	67	–	4,275	–
Distribution	4,685	1,308	5,993	2,880	2,404	709	–	5,993	–
Transport	2,209	632	2,841	2,448	347	46	–	2,841	–
Financial	521	504	1,025	957	65	3	–	1,025	–
Other services	4,831	2,189	7,020	6,108	686	226	–	7,020	–
Property and construction	7,360	2,365	9,725	7,571	1,483	671	–	9,725	243
Residential mortgages	29,407	1,245	30,652	28,167	1,452	930	103	30,652	–
Other personal	2,704	2,856	5,560	4,909	393	258	–	5,560	–
Total	58,150	14,546	72,696	61,961	7,586	3,046	103	72,696	243
Concentration by location[1]									
Republic of Ireland	44,583	11,306	55,889	48,089	5,556	2,141	103	55,889	243
United Kingdom	8,605	2,572	11,177	8,993	1,486	698	–	11,177	–
North America	2,232	182	2,414	2,196	206	12	–	2,414	–
Rest of the World	2,730	486	3,216	2,683	338	195	–	3,216	–
	58,150	14,546	72,696	61,961	7,586	3,046	103	72,696	243

ECL allowance

								2021
	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	59	4	63	10	15	38	–	63
Energy	32	1	33	13	18	2	–	33
Manufacturing	53	9	62	17	27	18	–	62
Distribution	557	20	577	40	388	149	–	577
Transport	67	3	70	11	34	25	–	70
Financial	25	2	27	5	20	2	–	27
Other services	175	13	188	41	62	85	–	188
Property and construction	313	20	333	53	93	187	–	333
Residential mortgages	382	–	382	35	41	275	31	382
Other personal	222	7	229	32	38	159	–	229
Total	1,885	79	1,964	257	736	940	31	1,964
Concentration by location[1]								
Republic of Ireland	1,471	62	1,533	182	516	804	31	1,533
United Kingdom	266	13	279	44	109	126	–	279
North America	50	3	53	19	32	2	–	53
Rest of the World	98	1	99	12	79	8	–	99
	1,885	79	1,964	257	736	940	31	1,964

[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

									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	526	570	1,096	991	96	9	–	1,096	–
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	59,276	13,226	72,502	57,412	10,668	4,238	184	72,502	75
Concentration by location[1]									
Republic of Ireland	45,813	10,328	56,141	44,431	8,102	3,424	184	56,141	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	–
	59,276	13,226	72,502	57,412	10,668	4,238	184	72,502	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.

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 2021 and 2020.

At amortised cost

							2021
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	14	5	1	5	4	21	50
Energy	–	–	–	–	–	2	2
Manufacturing	4	2	–	2	3	8	19
Distribution	34	8	13	47	64	85	251
Transport	6	2	1	13	1	8	31
Financial	–	–	–	–	1	2	3
Other services	25	17	1	12	9	42	106
Property and construction	30	10	4	14	50	163	271
Residential mortgages	50	34	14	42	68	322	530
Other personal	40	10	9	21	29	139	248
Total gross carrying amount	203	88	43	156	229	792	1,511
ECL staging							
Stage 1	65	–	–	–	–	–	65
Stage 2	86	43	15	–	–	–	144
Stage 3	52	43	27	155	228	786	1,291
POCI	–	2	1	1	1	6	11
	203	88	43	156	229	792	1,511
Segment							
Retail Banking	119	58	35	104	144	688	1,148
Capital Markets	17	14	–	19	52	47	149
AIB UK	67	16	8	33	33	57	214
Group	–	–	–	–	–	–	–
	203	88	43	156	229	792	1,511
As a percentage of total gross loans at amortised cost	%	%	%	%	%	%	%
	0.35	0.15	0.07	0.27	0.39	1.36	2.60

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

There were no contractually past due loans measured at FVTPL at 31 December 2021 and 2020.

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

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	2020 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
Capital Markets	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 31 December 2021, total loans past due reduced by € 0.8 billion to € 1.5 billion or 2.6% of total loans and advances to customers (2020: € 2.3 billion or 3.9%).The reduction is directly attributed to the sales of non-performing mortgage portfolios completed in the year as the total residential mortgage loans past due reduced by € 0.7 billion. This reduction was predominantly in the greater than 365 days past due category as the total residential mortgage loans past due at 31 December 2021 amounted to € 0.5 billion or 35% of total loans past due (31 December 2020: € 1.2 billion or 54%).

Non-property business loans which were past due represent 31% or € 0.5 billion (2020: 23% or € 0.5 billion), with property and construction at 18% or € 0.3 billion (2020: 13% or € 0.3 billion), and other personal at 16% or € 0.2 billion (2020: 10% or € 0.2 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 2021 and 2020:

	2021		2020	
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	0.9	3.9	–	2.2
Energy	–	0.3	–	0.2
Manufacturing	1.8	0.8	14.3	1.4
Distribution	6.8	5.6	10.7	4.7
Transport	0.1	0.4	1.5	0.7
Financial	0.1	–	–	–
Other services	5.2	5.4	11.1	4.2
Property and construction	24.6	19.4	19.8	13.6
Residential mortgages	44.4	24.8	60.4	33.3
Other personal	21.4	14.8	33.0	11.6
Total	105.3	75.4	150.8	71.8
Concentration by location[1]				
Republic of Ireland	88.6	70.5	113.3	65.7
United Kingdom	15.2	4.6	24.6	5.4
Rest of the World	1.5	0.3	12.9	0.7
	105.3	75.4	150.8	71.8

[1]By country of risk

The contractual amount outstanding of loans written-off during the year that are subject to enforcement activity amounted to € 5 million (2020: € 23 million) which includes both full and partial write-offs. Total cumulative non-contracted loans written-off at 31 December 2021 amounted to € 1,082 million (2020: € 1,730 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 2021 and 31 December 2021 and the corresponding movements between 1 January 2020 and 31 December 2020.

Accounts that triggered movements between Stage 1 and Stage 2 as a result of failing/curing a quantitative measure only (as disclosed on page 52) 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

					2021*
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
At 1 January	45,609	9,408	4,075	184	59,276
Transferred from Stage 1 to Stage 2	(3,817)	3,817	–	–	–
Transferred from Stage 2 to Stage 1	4,012	(4,012)	–	–	–
Transferred to Stage 3	(116)	(912)	1,028	–	–
Transferred from Stage 3	55	335	(390)	–	–
New loans originated/top-ups	10,460	–	–	–	10,460
Redemptions/repayments	(9,324)	(2,390)	(751)	(16)	(12,481)
Interest credited	1,363	240	69	4	1,676
Write-offs	–	–	(104)	(1)	(105)
Derecognised due to disposals	(295)	(138)	(988)	(72)	(1,493)
Exchange translation adjustments	641	170	45	–	856
Impact of model, parameter and overlay changes	(209)	209	–	–	–
Other movements	15	41	(99)	4	(39)
At 31 December	48,394	6,768	2,885	103	58,150

					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	(125)	(81)	251	2	47
At 31 December	45,609	9,408	4,075	184	59,276

[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

					2021*
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
At 1 January	**281**	**845**	**1,315**	**69**	**2,510**
Transferred from Stage 1 to Stage 2	(61)	204	–	–	143
Transferred from Stage 2 to Stage 1	87	(194)	–	–	(107)
Transferred to Stage 3	(7)	(125)	213	–	81
Transferred from Stage 3	3	32	(73)	–	(38)
Net remeasurement	(43)	(38)	(153)	–	(234)
New loans originated/top-ups	62	–	–	–	62
Redemptions/repayments	(25)	(43)	–	–	(68)
Impact of model and overlay changes	(4)	53	99	(13)	135
Impact of credit or economic risk parameters	(58)	(41)	(33)	–	(132)
Income statement net credit impairment (writeback)/charge	**(46)**	**(152)**	**53**	**(13)**	**(158)**
Write-offs	–	–	(104)	(1)	(105)
Derecognised due to disposals	(4)	(8)	(357)	(24)	(393)
Exchange translation adjustments	5	15	11	–	31
At 31 December	**236**	**700**	**918**	**31**	**1,885**

					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 remeasurement	(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	281	845	1,315	69	2,510

*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)*

Total exposures to which an ECL applies decreased during the year by € 1.1 billion from € 59.3 billion at 1 January 2021 to € 58.2 billion at 31 December 2021.

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 remeasurement of ECL due to change in risk parameters within a stage. An ECL writeback of € 161 million due to stage transfers and net remeasurement within stage occurred due to underlying credit management activity and improvement in credit parameters which inform the modelled outcomes.

The updated macroeconomic scenarios and weightings resulted in a release of € 132 million. This ECL movement is presented separately within 'Impact of credit or economic risk parameters'. This release was most significant within the mortgage portfolio accounting for a release of € 59 million within the portfolio. This was driven by an improvement in macroeconomic forecasts specific to the residential property market and is largely offset by an ECL charge resulting from model and overlay changes.

Model and overlay changes resulted in an ECL charge of € 135 million and further detail on the changes is outlined within the management judgements section on pages 62 and 63. These ensure exposures subject to risk not adequately reflected in the modelled outcomes retain an appropriate ECL.

The gross loan transfers from Stage 1 to Stage 2 of € 3.8 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. 64% 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 6% was caused solely by the backstop of 30 days past due. Of the € 3.8 billion which transferred from Stage 1 to Stage 2 in the year approximately € 2.1 billion is reported as Stage 2 at 31 December 2021.

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 € 4.0 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 and incorporates loans which transferred due to the impact of the updated macroeconomic scenarios and weightings.

Transfers from Stage 2 to Stage 3 of € 0.9 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 loans 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 borrowers that are 90 days or more past due on a material obligation. Of the transfers from Stage 2 to Stage 3 € 0.3 billion had transferred from Stage 1 to Stage 2 earlier in the year.

Transfers from Stage 3 to Stage 2 of € 0.3 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.

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

Stage 1 loans increased by € 2.8 billion in the year to € 48.4 billion with an ECL of € 0.2 billion and resulting cover of 0.5% (31 December 2020: 0.6%).

Stage 2 loans decreased by € 2.6 billion in the year to € 6.8 billion with an ECL of € 0.7 billion and resulting cover of 10.3% (31 December 2020: 9.0%). This was primarily driven by loans returning to Stage 1 where the triggers for significant increase in credit risk no longer apply including loans that have fulfilled a probation period and repayments.

Stage 3 exposures decreased by € 1.2 billion in the year to € 2.9 billion with the ECL cover decreasing from 32.3% to 31.8%. The key driver was portfolio sales of distressed loans.

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 2021 and 2020:

Gross carrying amount movements – Asset class

2021

	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	26,535	1,950	1,980	184	30,649	2,201	332	233	2,766	4,319	2,076	865	–	7,260	12,554	5,050	997	18,601
Transferred from Stage 1 to Stage 2	(1,173)	1,173	–	–	–	(252)	252	–	–	(677)	677	–	–	–	(1,715)	1,715	–	–
Transferred from Stage 2 to Stage 1	1,493	(1,493)	–	–	–	211	(211)	–	–	581	(581)	–	–	–	1,727	(1,727)	–	–
Transferred to Stage 3	(34)	(191)	225	–	–	(13)	(80)	93	–	(25)	(106)	131	–	–	(44)	(535)	579	–
Transferred from Stage 3	11	170	(181)	–	–	3	18	(21)	–	15	29	(44)	–	–	26	118	(144)	–
New loans originated/top-ups	3,136	–	–	–	3,136	859	–	–	859	1,842	–	–	–	1,842	4,623	–	–	4,623
Redemptions/repayments	(3,749)	(233)	(169)	(16)	(4,167)	(961)	(111)	(56)	(1,128)	(902)	(783)	(158)	–	(1,843)	(3,712)	(1,263)	(368)	(5,343)
Interest credited	655	32	19	4	710	193	25	5	223	145	47	15	–	207	370	136	30	536
Write-offs	–	–	(43)	(1)	(44)	–	–	(21)	(21)	–	–	(25)	–	(25)	–	–	(15)	(15)
Derecognised due to disposals	–	(3)	(925)	(72)	(1,000)	(19)	(1)	(3)	(23)	(116)	(20)	(13)	–	(149)	(160)	(114)	(47)	(321)
Exchange translation adjustments	67	3	6	–	76	6	1	–	7	110	18	12	–	140	458	148	27	633
Impact of model, parameter and overlay changes	(1)	1	–	–	–	(1)	1	–	–	(19)	19	–	–	–	(188)	188	–	–
Other movements	(3)	37	9	4	47	11	(7)	17	21	73	10	(155)	–	(72)	(66)	1	30	(35)
At 31 December	26,937	1,446	921	103	29,407	2,238	219	247	2,704	5,346	1,386	628	–	7,360	13,873	3,717	1,089	18,679

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	(110)	(113)	157	(66)
At 31 December	26,535	1,950	1,980	184	30,649	2,201	332	233	2,766	4,319	2,076	865	–	7,260	12,554	5,050	997	18,601

[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

	Residential mortgages					Other personal				Property and construction					Non-property business			2020
	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	39	73	662	69	843	41	51	142	234	75	133	188	–	396	126	588	323	1,037
Transferred from Stage 1 to Stage 2	(5)	27	–	–	22	(10)	49	–	39	(10)	18	–	–	8	(36)	110	–	74
Transferred from Stage 2 to Stage 1	12	(28)	–	–	(16)	8	(30)	–	(22)	11	(19)	–	–	(8)	56	(117)	–	(61)
Transferred to Stage 3	–	(14)	30	–	16	(1)	(31)	46	14	(2)	(9)	16	–	5	(4)	(71)	121	46
Transferred from Stage 3	1	12	(25)	–	(12)	–	4	(12)	(8)	–	2	(5)	–	(3)	2	14	(31)	(15)
Net remeasurement	(7)	(3)	(38)	–	(48)	(17)	(4)	3	(18)	(23)	(7)	(15)	–	(45)	4	(24)	(103)	(123)
New loans originated/top-ups	3	–	–	–	3	12	–	–	12	29	–	–	–	29	18	–	–	18
Redemptions/repayments	(2)	(3)	–	–	(5)	(3)	(1)	–	(4)	(8)	(16)	–	–	(24)	(12)	(23)	–	(35)
Impact of model and overlay changes	11	(7)	53	(13)	44	6	(3)	1	4	(3)	(2)	25	–	20	(18)	65	20	67
Impact of credit or economic risk parameters	(18)	(15)	(26)	–	(59)	(5)	(2)	–	(7)	(22)	(9)	(4)	–	(35)	(13)	(15)	(3)	(31)
Income statement net credit impairment charge	(5)	(31)	(6)	(13)	(55)	(10)	(18)	38	10	(28)	(42)	17	–	(53)	(3)	(61)	4	(60)
Write-offs	–	–	(43)	(1)	(44)	–	–	(21)	(21)	–	–	(25)	–	(25)	–	–	(15)	(15)
Derecognised due to disposals	–	–	(339)	(24)	(363)	–	–	(1)	(1)	(1)	–	(6)	–	(7)	(3)	(8)	(11)	(22)
Exchange translation adjustments	–	–	2	–	2	–	–	–	–	1	1	3	–	5	4	14	6	24
Other movements	–	(1)	–	–	(1)	(1)	–	1	–	3	(1)	(5)	–	(3)	(2)	2	4	4
At 31 December	34	41	276	31	382	30	33	159	222	50	91	172	–	313	122	535	311	968

	Residential mortgages					Other personal				Property and construction					Non-property business			2020
	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 remeasurement	(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	39	73	662	69	843	41	51	142	234	75	133	188	–	396	126	588	323	1,037

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 2021 and 2020:

Nominal amount movements

								2021*
	Loan commitments				Financial guarantee contracts			
	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	11,259	1,113	132	12,504	544	147	31	722
Transferred from Stage 1 to Stage 2	(266)	266	–	–	(17)	17	–	–
Transferred from Stage 2 to Stage 1	814	(814)	–	–	101	(101)	–	–
Transferred to Stage 3	(17)	(7)	24	–	(1)	(1)	2	–
Transferred from Stage 3	11	5	(16)	–	1	1	(2)	–
Net movement	1,023	205	(5)	1,223	115	(13)	(5)	97
At 31 December	12,824	768	135	13,727	743	50	26	819

								2020*
	Loan commitments				Financial guarantee contracts			
	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	11,259	1,113	132	12,504	544	147	31	722

*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

2021*

	Loan commitments				Financial guarantee contracts			
	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	20	30	4	54	3	8	18	29
Transferred from Stage 1 to Stage 2	(4)	15	–	11	(1)	4	–	3
Transferred from Stage 2 to Stage 1	7	(18)	–	(11)	3	(9)	–	(6)
Transferred to Stage 3	–	(1)	2	1	–	–	–	–
Transferred from Stage 3	–	–	–	–	1	–	(1)	–
Net remeasurement	(7)	3	1	(3)	(2)	3	(2)	(1)
Net income statement (credit)/charge	(4)	(1)	3	(2)	1	(2)	(3)	(4)
Other movements	–	–	1	1	1	1	(1)	1
At 31 December	16	29	8	53	5	7	14	26

2020*

	Loan commitments				Financial guarantee contracts			
	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 remeasurement	7	13	1	21	(1)	3	(3)	(1)
Net income statement (credit)/charge	10	22	3	35	–	7	(3)	4
Other movements	–	–	–	–	–	(1)	3	2
At 31 December	20	30	4	54	3	8	18	29

The internal credit grade profile of loan commitments and financial guarantees is set out in the following table:

	2021* € m	2020* € m
Strong	9,564	8,187
Satisfactory	4,399	4,445
Criticised watch	327	413
Criticised recovery	95	18
Default	161	163
Total	14,546	13,226

Non-performing off-balance sheet commitments

Total non-performing off-balance sheet commitments amounted to € 161 million (2020 € 163 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 2021 and 2020:

2021

	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	–	–	1,884	2.6	1,434	0.8	186	0.7	3,504	1.8
Euro government securities	279	2.0	503	1.3	359	0.3	–	–	1,141	1.2
Non Euro government securities	10	0.9	63	0.5	34	0.1	–	–	107	0.4
Supranational banks and government agencies	42	1.8	299	0.9	584	0.3	335	1.7	1,260	0.8
Collateralised mortgage obligations	–	–	–	–	3	2.1	425	1.1	428	1.1
Other asset backed securities	–	–	–	–	–	–	67	0.4	67	0.4
Euro bank securities	1,005	0.4	1,994	0.4	903	0.1	–	–	3,902	0.3
Non Euro bank securities	297	1.5	1,236	1.3	130	1.1	–	–	1,663	1.3
Euro corporate securities	–	–	210	0.9	191	0.8	–	–	401	0.8
Non Euro corporate securities	–	–	68	2.0	48	3.1	–	–	116	2.5
Total at FVOCI	1,633	0.9	6,257	1.4	3,686	0.5	1,013	1.2	12,589	1.1
At amortised cost										
Irish Government securities	–	–	–	–	1,855	0.3	545	0.5	2,400	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	–	–	–	–	265	1.9	836	1.5	1,101	1.6
Euro bank securities	–	–	–	–	87	0.1	–	–	87	0.1
Euro corporate securities	–	–	17	2.2	113	1.8	–	–	130	1.8
Non Euro corporate securities	–	–	16	3.0	22	3.6	–	–	38	3.4
Total at amortised cost	–	–	33	2.6	2,642	0.5	1,434	1.1	4,109	0.7

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

Risk management – 2. Individual risk types

2.1 Credit risk – Investment securities

Debt securities and related ECL analysed by IFRS 9 staging at 31 December 2021 and 2020*

				2021*				2020*
	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	4,110	–	–	4,110	3,604	–	–	3,604
ECL allowance	(1)	–	–	(1)	(1)	–	–	(1)
At amortised cost – carrying value	4,109	–	–	4,109	3,603	–	–	3,603
At FVOCI – carrying value	12,589	–	–	12,589	15,675	–	–	15,675
ECL allowance (included in carrying value)	*(3)*	–	–	*(3)*	*(3)*	–	–	*(3)*
Total carrying value	16,698	–	–	16,698	19,278	–	–	19,278

Debt securities at FVOCI

Debt securities held at fair value through other comprehensive income ("FVOCI") decreased to € 12.6 billion (nominal € 12.2 billion) at 31 December 2021 from a fair value of € 15.7 billion (nominal € 14.9 billion) at 31 December 2020. The main drivers were a decrease in euro bank securities of € 1.3 billion and a decrease in euro commercial paper issued by the Irish Government of € 1.8 billion.

Debt securities at amortised cost

In addition to the existing business model Hold-to-Collect-and-Sell ("HTCS") within Treasury, the Group previously introduced on 1 January 2020 a Hold-to-Collect ("HTC") business model. 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.

*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 2021 and 2020. These include loans and advances to banks of € 1,323 million (2020: € 1,092 million), securities financing of € 3,890 million (2020: € 811 million), and investment debt securities (at amortised cost of € 4,109 million (2020: € 3,603 million) and at FVOCI of € 12,589 million (2020: € 15,675 million)). Information on the credit ratings for loans and advances to customers where an external credit rating is available is disclosed on page 88.

2021	**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	**597**	**–**	**296**	**895**	**1,788**	**3,883**	**72**	**1,182**	**495**	**5,632**	**7,420**
A/A-	**3,756**	**920**	**2,420**	**201**	**7,297**	**1,283**	**248**	**3,721**	**–**	**5,252**	**12,549**
BBB+/BBB/BBB-	**25**	**2**	**37**	**5**	**69**	**399**	**197**	**1,109**	**–**	**1,705**	**1,774**
Sub investment	**1**	**105**	**–**	**–**	**106**	**–**	**–**	**–**	**–**	**–**	**106**
Unrated	**–**	**62**	**–**	**–**	**62**	**–**	**–**	**–**	**–**	**–**	**62**
Total	**4,379**	**1,089**	**2,753**	**1,101**(1)	**9,322**	**5,565**	**517**	**6,012**(2)	**495**	**12,589**	**21,911**
Of which: Stage 1	**4,379**	**1,089**	**2,753**	**1,101**	**9,322**	**5,565**	**486**	**6,012**	**495**	**12,558**	**21,880**
Stage 2	**–**	**–**	**–**	**–**	**–**	**–**	**31**	**–**	**–**	**31**	**31**
Stage 3	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

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	–	–	–	–	–	–	–	–	–	–	–

(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 2021, the Group's top 50 drawn exposures amounted to € 4.9 billion, and accounted for 8.5% (2020: € 4.7 billion and 7.8%) of the Group's on-balance sheet total gross loans and advances to customers. In addition, these customers have undrawn facilities amounting to € 1,089 million (2020: € 862 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 loans 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 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 temporary forbearance measures (such as interest only and capital and interest moratorium), this includes permanent forbearance measures which have been devised to assist existing Republic of Ireland primary residential mortgage customers in financial difficulty. This process may result in debt write-off, where appropriate. The types of existing permanent forbearance solutions currently include; arrears capitalisation, term extension, split mortgages, negative equity trade down, 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 temporary measures (such as interest only and capital and interest moratorium) and permanent measures (such as term extension and arrears capitalisation). 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 2021 and 2020:

					2021
	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	629	37	169	1,039	1,874[1]
Permanent forbearance	564	77	348	1,293	2,282[2]
	1,193	114	517	2,332	4,156
Analysed by internal credit ratings					
Strong	–	–	–	–	–
Satisfactory	–	–	–	–	–
Total strong/satisfactory	–	–	–	–	–
Criticised watch	–	–	–	–	–
Criticised recovery	430	23	296	1,645	2,394
Total criticised	430	23	296	1,645	2,394
Non-performing	763	91	221	687	1,762
Gross carrying amount	1,193	114	517	2,332	4,156
Analysed by ECL staging					
Stage 1	6	1	79	7	93
Stage 2	399	22	217	1,638	2,276
Stage 3	694	91	221	687	1,693
POCI	94	–	–	–	94
Total	1,193	114	517	2,332	4,156
ECL allowance	272	61	139	537	1,009

					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

[1]Of which: interest only € 1,161 million, reduced payment € 164 million, payment moratorium € 521 million (2020: of which: interest only € 1,002 million, reduced payment € 171 million, payment moratorium € 413 million).

[2]Of which: arrears capitalisation and term extension € 864 million, restructure € 255 million, breech/adjustment of covenant € 416 million (2020: of which: arrears capitalisation and term extension € 898 million, restructure € 274 million, low fixed interest rate € 149 million).

Risk management – 2. Individual risk types

2.1 Credit risk

Additional credit quality and forbearance disclosures on loans and advances to customers

Forbearance *(continued)*

The Group's focus continues to be on supporting its existing customers and ensuring they are provided with the appropriate forbearance measures, particularly in the current environment by providing support to customers impacted by COVID-19. The total forbearance portfolio has increased by € 0.8 billion to € 4.2 billion in the year (31 December 2020: € 3.4 billion).

The increase in the year was predominately in the non-property business portfolio which increased by € 1.6 billion to € 2.3 billion (31 December 2020: € 0.7 billion) as permanent and temporary forbearance measures increased by € 1.0 billion and € 0.6 billion respectively. Term extensions and interest only requests were the most prevalent. The Capital Markets and AIB UK segment non-property forbearance portfolios both experienced increases of € 0.8 billion in the year. The increase reflects specific sectors in this portfolio which are highly impacted by COVID-19 such as hotels, licensed premises and retail. These sectors continue to be closely monitored by the Group.

Republic of Ireland residential mortgages

Residential mortgages subject to forbearance measures decreased by € 1.0 billion from € 2.2 billion at 31 December 2020 to € 1.2 billion at 31 December 2021. The decrease in the forbearance portfolio was impacted by the sales of non-performing mortgage portfolios completed during the year. The Group continues to closely monitor the residential mortgage portfolio for potential latent risk as the expiry of government support measures to support customers during COVID-19, may be delaying the realisation of forbearance and affordability issues. The residential mortgage portfolio subject to forbearance consists of € 0.6 billion relating to temporary arrangements and € 0.6 billion relating to permanent solutions. Interest only and arrears capitalisation were the most prominent forbearance solutions availed of by customers.

2.2 Liquidity and funding risk

Liquidity risk is the risk that the Group will not be able to fund its assets and meet its payment obligations as they fall due, without incurring unacceptable costs or losses. Funding is the means by which liquidity is generated, e.g. secured or unsecured, corporate or retail. In this respect, funding risk is the risk that a specific form of liquidity cannot be obtained at an acceptable cost.

Identification and assessment

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

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

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

Management and measurement*

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

- Adherence to both internal limits and regulatory defined liquidity ratios including the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). 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;
- Performing a multiyear projection of the Group's funding sources taking into account its baseline scenario, strategy and operational plans as outlined in the Group's Funding and Liquidity Plan. The purpose of this Plan is to set out a comprehensive, forward looking liquidity and funding strategy for the Group including subsidiary companies;
- Assessing the Funding and Liquidity plan under a range of adverse scenarios, the outcomes of which should ensure sufficient liquidity to implement a sustainable strategy even in a stressed environment;
- Maintaining a Contingency Funding Plan that identifies and quantifies actions that are available to the Group in deteriorating liquidity conditions and emerge from a temporary liquidity crisis as a credit worthy institution;
- Monitoring a further set of triggers and liquidity options outlined in the Group's Recovery Plan, which presents the actions available to the Group to restore viability in the event of extreme stress; and
- Having an approved liquidity cost-benefit allocation mechanism in place to attribute funding costs, benefits and risks to the Group's business lines.

Monitoring, escalating and reporting

The Group liquidity and funding 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 ("ExCo") and the Board are briefed on liquidity and funding 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 liquidity and funding management, including planning, analysis, stress testing, control, governance, policy and contingency planning. This document is submitted to the Joint Supervisory Team and forms the basis of their supervisory review and evaluation process.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.2 Liquidity and funding 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 2021, the Group held € 67,240 million (2020: € 53,816 million) in qualifying liquid assets "QLA"[(1)]/contingent funding of which € 17,366 million (2020: € 10,028 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 2021, the Group liquidity pool was € 49,874 million (2020: € 43,788 million). During 2021, the liquidity pool ranged from € 43,602 million to € 50,932 million (2020: € 29,176 million to € 45,241 million) and the average balance was € 47,196 million (2020: € 38,118 million).

[(1)]QLA are assets 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 2021 by € 6,086 million which was predominantly due to an increase in customer deposits in Ireland, senior debt issuance, customer loan redemptions and proceeds from the sale of loan portfolios offset by covered bond maturities and securities financing activities where cash was exchanged for non QLA eligible collateral.

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, ExCo and Board.

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. The Group adheres to these requirements.

Liquidity metrics	2021 %	2020 %
Liquidity Coverage Ratio	**203**	193
Net Stable Funding Ratio	**160**	148
Loan to Deposit Ratio	**61**	69

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 2021.

The calculated NSFR is based on the second Capital Requirements Regulation (CRR2) that came into force in June 2021 and introduced a binding NSFR requirement of 100% (December 2020 comparative based on the legacy Basel standard).

2.2 Liquidity and funding 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.

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	2021 € m	2020 € m
Total	92,870	81,968
Of which:		
Euro	77,133	68,004
Sterling	13,200	12,207
US dollar	2,347	1,551
Other currencies	190	206

Customer accounts increased by € 10,902 million in 2021 predominantly due to continued COVID-19 related dynamics of precautionary savings and lower consumer consumption. This was reflected across the Group's three significant currencies (EUR, GBP, USD) primarily in Euro current and demand deposit accounts. There was an increase in the value of both GBP and USD deposits of € 1,043 million due to currency movements coupled with an underlying increase in GBP and USD deposits of € 746 million on a constant currency basis.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.2 Liquidity and funding risk *(continued)*

Composition of wholesale funding[1]

The Group maintains access to a variety of sources of wholesale funding including bank deposits, securities financing, debt securities and subordinated debt. At 31 December 2021, total wholesale funding outstanding was € 17,803 million (2020: € 11,706 million) of which € 879 million is due to mature in less than one year (2020: € 927 million).

2021	< 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	84	–	–	–	84	10,000	298	–	10,382
Securities financing	28	17	–	–	45	–	–	–	45
Senior debt	–	–	–	–	–	–	–	–	–
ACS	–	750	–	–	750	1,000	–	25	1,775
Subordinated liabilities and other capital instruments – Externally issued	–	–	–	–	–	–	–	56	56
Subordinated liabilities and other capital instruments – AIB Group plc	–	–	–	–	–	1,911	1,384	2,250	5,545
Total 31 December	112	767	–	–	879	12,911	1,682	2,331	17,803
Of which:									
Secured	28	767	–	–	795	11,000	298	25	12,118
Unsecured	84	–	–	–	84	1,911	1,384	2,306	5,685
	112	767	–	–	879	12,911	1,682	2,331	17,803

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	217	–	–	–	217	4,278	–	–	4,495
Securities financing	185	25	–	–	210	–	–	–	210
Senior debt	–	–	–	–	–	–	–	–	–
ACS	–	500	–	–	500	1,750	–	25	2,275
Subordinated liabilities and other capital instruments – Externally issued	–	–	–	–	–	–	–	50	50
Subordinated liabilities and other capital instruments – AIB Group plc	–	–	–	–	–	1,111	2,065	1,500	4,676
Total 31 December	402	525	–	–	927	7,139	2,065	1,575	11,706
Of which:									
Secured	185	525	–	–	710	6,028	–	25	6,763
Unsecured	217	–	–	–	217	1,111	2,065	1,550	4,943
	402	525	–	–	927	7,139	2,065	1,575	11,706

[1]The maturity analysis has been prepared using the residual contractual maturity of the liabilities.

The Group continued to participate in the ECB three year Targeted Long Term Refinancing Operation III ("TLTRO III") scheme. 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. Deposits by central banks and banks increased by € 5,887 million to € 10,382 million predominantly due to the Group's € 6 billion drawdown in TLTRO III operations in June 2021. For further details, see 'Deposits by central banks and banks' (note 31) to the consolidated financial statements.

During 2021, subordinated liabilities (via AIB Group plc) increased € 875 million primarily reflecting a € 750 million issuance and a € 119 million USD foreign currency translation increase. For further details, see 'Subordinated liabilities and other capital instruments' (note 37) to the consolidated financial statements. Over the twelve months to 31 December 2021, outstanding asset covered securities ("ACS") decreased € 500 million to € 1,775 million due to a contractual maturity. For further details, see 'Debt securities in issue' (note 33) to the consolidated financial statements.

2.2 Liquidity and funding risk *(continued)*

Currency composition of wholesale debt

At 31 December 2021, 89% (2020: 84%) 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.

					2021					2020
	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	10,083	298	–	1	10,382	4,196	283	16	–	4,495
Securities financing	15	–	30	–	45	145	–	65	–	210
Senior debt	–	–	–	–	–	–	–	–	–	–
ACS	1,775	–	–	–	1,775	2,275	–	–	–	2,275
Subordinated liabilities and other capital instruments – Externally issued	12	44	–	–	56	11	39	–	–	50
Subordinated liabilities and other capital instruments – AIB Group plc	4,000	–	1,545	–	5,545	3,250	–	1,426	–	4,676
Total wholesale funding	15,885	342	1,575	1	17,803	9,877	322	1,507	–	11,706
% of total funding	%	%	%	%	%	%	%	%	%	%
	89	2	9	–	100	84	3	13	–	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. As part of managing its funding requirements, the Group encumbers assets as collateral to support wholesale funding initiatives. This would include covered bonds, securities repurchase agreements and other structures that are secured over customer loans. The Group manages encumbrance levels to ensure that the Group has sufficient contingent collateral to maximise balance sheet flexibility.

The Group's encumbrance ratio has increased to 15% at 31 December 2021 (2020: 11%) with € 19,841 million of the Group's assets encumbered (2020: € 12,971 million). The increase in encumbered assets was due to the € 6 billion TLTRO III drawdown during the year. The encumbrance level is based on the amount of assets that are required in order to meet regulatory and contractual commitments.

Risk management – 2. Individual risk types

2.2 Liquidity and funding 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 2021 and 2020:

2021	On demand € m	<3 months but not on demand € m	3 months to 1 year € m	1–5 years € m	Over 5 years € m	Total € m
Financial assets[(1)]						
Derivative financial instruments[(2)]	–	58	28	211	585	882
Loans and advances to banks[(3)]	1,209	113	1	–	–	1,323
Loans and advances to customers[(3)]	2,225	1,489	1,993	16,776	35,910	58,393
Loans and advances – AIB Group plc	15	–	–	–	–	15
Securities financing	–	853	1,324	1,713	–	3,890
Investment securities[(4)]	–	522	1,111	6,290	8,775	16,698
Other financial assets	–	842	–	–	–	842
	3,449	3,877	4,457	24,990	45,270	82,043
Financial liabilities						
Deposits by central banks and banks	78	6	–	10,298	–	10,382
Customer accounts	87,634	4,161	851	192	28	92,866
Customer accounts – AIB Group plc	4	–	–	–	–	4
Securities financing	–	45	–	–	–	45
Derivative financial instruments	–	116	104	170	672	1,062
Debt securities in issue	–	750	–	1,000	25	1,775
Subordinated liabilities and other capital instruments – Externally issued	–	–	–	–	56	56
Subordinated liabilities and other capital instruments – AIB Group plc	–	–	–	3,295	2,250	5,545
Other financial liabilities	1,375	–	–	–	–	1,375
	89,091	5,078	955	14,955	3,031	113,110

2020	On demand € m	<3 months but not on demand € m	3 months to 1 year € m	1–5 years € m	Over 5 years € m	Total € m
Financial assets[(1)]						
Derivative financial instruments[(2)]	–	103	56	372	893	1,424
Loans and advances to banks[(3)]	1,052	40	–	–	–	1,092
Loans and advances to customers[(3)]	2,829	1,494	1,867	16,664	36,497	59,351
Loans and advances – AIB Group plc	20	–	–	–	–	20
Securities financing	–	648	163	–	–	811
Investment securities[(4)]	–	689	2,540	7,343	8,706	19,278
Other financial assets	–	365	–	–	–	365
	3,901	3,339	4,626	24,379	46,096	82,341
Financial liabilities						
Deposits by central banks and banks	212	5	–	4,278	–	4,495
Customer accounts	69,302	8,377	2,961	1,291	26	81,957
Customer accounts – AIB Group plc	12	–	–	–	–	12
Securities financing	–	210	–	–	–	210
Derivative financial instruments	–	20	42	197	942	1,201
Debt securities in issue	–	500	–	1,750	25	2,275
Subordinated liabilities and other capital instruments – Externally issued	–	–	–	–	50	50
Subordinated liabilities and other capital instruments – AIB Group plc	–	–	–	3,176	1,500	4,676
Other financial liabilities	972	–	–	–	–	972
	70,498	9,112	3,003	10,692	2,543	95,848

[(1)]Excludes balances at central banks € 42,109 million (2020: € 24,932 million).
[(2)]Shown by maturity date of contract.
[(3)]Shown gross of expected credit losses.
[(4)]Excluding equity shares.

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2.2 Liquidity and funding 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 2021 and 2020:

	On demand	<3 months but not on demand	3 months to 1 year	1–5 years	Over 5 years	Total
						2021
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Financial liabilities						
Deposits by central banks and banks	**78**	**6**	**–**	**10,124**	**–**	**10,208**
Customer accounts	**87,634**	**4,160**	**853**	**194**	**32**	**92,873**
Customer accounts – AIB Group plc	**4**	**–**	**–**	**–**	**–**	**4**
Securities financing	**–**	**45**	**–**	**–**	**–**	**45**
Derivative financial instruments	**–**	**140**	**152**	**391**	**355**	**1,038**
Debt securities in issue	**–**	**783**	**5**	**1,051**	**32**	**1,871**
Subordinated liabilities and other capital instruments – Externally issued	**–**	**–**	**62**	**13**	**127**	**202**
Subordinated liabilities and other capital instruments – AIB Group plc	**–**	**31**	**87**	**3,697**	**2,262**	**6,077**
Other financial liabilities	**1,375**	**–**	**–**	**–**	**–**	**1,375**
	89,091	**5,165**	**1,159**	**15,470**	**2,808**	**113,693**

	On demand	<3 months but not on demand	3 months to 1 year	1–5 years	Over 5 years	Total
						2020
	€ m	€ m	€ m	€ m	€ m	€ m
Financial liabilities						
Deposits by central banks and banks	212	5	(15)	4,237	–	4,439
Customer accounts	69,302	8,393	2,966	1,293	26	81,980
Customer accounts – AIB Group plc	12	–	–	–	–	12
Securities financing	–	210	–	–	–	210
Derivative financial instruments	–	67	179	562	371	1,179
Debt securities in issue	–	533	5	1,801	32	2,371
Subordinated liabilities and other capital instruments – Externally issued	–	–	62	–	239	301
Subordinated liabilities and other capital instruments – AIB Group plc	–	31	88	3,619	1,541	5,279
Other financial liabilities	972	–	–	–	–	972
	70,498	9,239	3,285	11,512	2,209	96,743

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.2 Liquidity and funding 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 note 43 'Contingent liabilities and commitments' to the consolidated financial statements.

The following table analyses undiscounted cash flows potentially payable under guarantees and similar contracts at 31 December 2021 and 2020:

						2021
	On demand	<3 months but not on demand	3 months to 1 year	1–5 years	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Contingent liabilities	819	–	–	–	–	819
Commitments	13,727	–	–	–	–	13,727
	14,546	–	–	–	–	14,546

						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

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2.3 Capital adequacy risk*

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

Identification and assessment

Capital adequacy risk is primarily evaluated through the annual financial planning and the Group's 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. An annual material risk assessment is conducted to identify all relevant (current and anticipated) material risks which are then assessed from a capital perspective.

Management and measurement

The ICAAP is fully integrated and embedded in the strategic, financial and risk management processes of the Group. The Business Model and Capital Adequacy Framework 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. 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. 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.

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 new 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.

The Board reviews and approves the ICAAP on an annual basis and is also responsible for approving a capital adequacy statement attesting that the Board has reviewed and is satisfied with the capital adequacy of the Group.

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 setting out the evolution of the Group's capital position. The risk profile including performance against risk appetite is presented to the Board Risk Committee and Board via the CRO report. The escalation process as stipulated under the RAS policy is commenced in the event of a breach of either the RAS watch trigger or limit for any of the metrics. This ensures Board and Regulator notification within approved timeframes. 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.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.4 Financial risks (a) Market risk

Market risk is 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.

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.

Identification and assessment

The key risks that the Group assumes in market risk as a result of its banking and trading book activities that have been identified as part of the MRA 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 Group's Treasury function.

Market risk scenarios are developed to test the capital requirements for this risk in the quarterly stress-testing process and the annual ICAAP.

Management and measurement*

The Market Risk Management framework and policies set out the key requirements for managing market risk. The key aspects of this are:

- 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 Group documents its 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; and
- Market risk is managed against a range of Board approved VaR limits which cover market risk in the trading book, interest rate risk 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.

Market risk is managed and measured 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.

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.

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.

*Forms an integral part of the audited financial statements

2.4 Financial risks (a) Market risk *(continued)*

The following table sets out financial assets and financial liabilities at 31 December 2021 and 2020 subject to market risk analysed between trading and non-trading portfolios, showing the principal market risks to which the assets and liabilities are exposed:

2021

		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	42,654	–	42,654	Interest rate, foreign exchange
Trading portfolio financial assets	8	8	–	Interest rate, foreign exchange, equity
Derivative financial instruments	882	458	424	Interest rate, foreign exchange, credit spreads, equity, inflation swap rates
Loans and advances to banks	1,323	–	1,323	Interest rate, foreign exchange
Loans and advances to customers	56,508	–	56,508	Interest rate, foreign exchange
Securities financing	3,890	–	3,890	Interest rate, credit spreads, foreign exchange
Investment securities	16,972	–	16,972	Interest rate, foreign exchange, credit spreads, equity
Liabilities subject to market risk				
Deposits by central banks and banks	10,382	–	10,382	Interest rate, foreign exchange
Customer accounts	92,866	–	92,866	Interest rate, foreign exchange
Securities financing	45	–	45	Interest rate, credit spreads, foreign exchange
Trading portfolio financial liabilities	2	2	–	Interest rate, foreign exchange, equity
Derivative financial instruments	1,062	565	497	Interest rate, foreign exchange, credit spreads, equity, inflation swap rates
Debt securities in issue	1,775	–	1,775	Interest rate, credit spreads, foreign exchange
Subordinated liabilities and other capital instruments – Externally issued	56	–	56	Interest rate, credit spreads
Subordinated liabilities and other capital instruments – AIB Group plc	5,545	–	5,545	Interest rate, credit spreads

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	1,092	–	1,092	Interest rate, foreign exchange
Loans and advances to customers	56,841	–	56,841	Interest rate, foreign exchange
Securities financing	811	–	811	Interest rate, credit spreads, 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	4,495	–	4,495	Interest rate, foreign exchange
Customer accounts	81,957	–	81,957	Interest rate, foreign exchange
Securities financing	210	–	210	Interest rate, credit spreads, foreign exchange
Derivative financial instruments	1,201	646	555	Interest rate, foreign exchange, credit spreads, equity, inflation swap rates
Debt securities in issue	2,275	–	2,275	Interest rate, credit spreads
Subordinated liabilities and other capital instruments – Externally issued	50	–	50	interest rate, credit spreads, foreign exchange
Subordinated liabilities and other capital instruments – AIB Group plc	4,676	–	4,676	Interest rate, credit spreads, foreign exchange

Risk management – 2. Individual risk types

2.4 Financial risks (a) Market risk *(continued)*

Market risk profile

The table below shows the sensitivity of the Group's banking book to an immediate and sustained +/- 100 basis point, +25 basis point and +50 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:

December 2021	€ m - 100bps	€ m + 25bps	€ m + 50bps	€ m + 100bps
Euro	(193)	13	33	195
Sterling	(59)	14	29	57
Other (mainly US $)	(20)	5	10	20
Total	(272)	32	72	272

December 2020	€ m - 100bps	€ m + 25bps	€ m + 50bps	€ m + 100bps
Euro	(134)	12	23	139
Sterling	(63)	19	37	74
Other (mainly US $)	(5)	1	3	6
Total	(202)	32	63	219

The above sensitivity table is computed under the assumption that all market rates (RFRs/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.

Euro currency NII sensitivity to rising rates is subdued while Euribor rates are below zero due to the impact of floors on reference rates in certain loan contracts.

The interest rate sensitivity increased during the year as a result of additional balances held at the Central Bank, driven by the c. € 11 billion increase in deposits from customers throughout the year.

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.

Group interest rate and foreign exchange rate VaR are calculated to a 95% confidence level with a one day holding period, and equity VaR is calculated to a 99% confidence level with a one day holding period. All VaR measures remained within limits throughout 2021 and at 31 December 2021, interest rate VaR stood at € 7.5 million, foreign exchange rate VaR at € 0.07 million and equity VaR at € 0.15 million. 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.

Interest rate sensitivity*

The net interest rate sensitivity of the Group at 31 December 2021 and 2020 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 rate sensitive financial instruments, and are shown separately below.

*Forms an integral part of the audited financial statements

2.4 Financial risks (a) Market risk – Interest rate sensitivity *(continued)*

	0<1 Month € m	1<3 Months € m	3<12 Months € m	1<2 Years € m	2<3 Years € m	3<4 Years € m	4<5 Years € m	5 years + € m	Non-interest bearing € m	Trading € m	2021* Total € m
Assets											
Trading portfolio financial assets	–	–	–	–	–	–	–	–	–	8	8
Loans and advances to banks	1,047	–	1	–	–	–	–	–	275	–	1,323
Loans and advances to customers	35,168	7,191	3,498	2,996	3,454	2,757	2,759	682	(1,997)	–	56,508
Securities financing	3,890	–	–	–	–	–	–	–	–	–	3,890
Investment securities	2,640	783	1,071	1,989	1,222	918	1,459	6,616	274	–	16,972
Other assets	42,109	–	–	–	–	–	–	–	6,622	458	49,189
Total assets	84,854	7,974	4,570	4,985	4,676	3,675	4,218	7,298	5,174	466	127,890
Liabilities											
Deposits by central banks and banks	10,382	–	–	–	–	–	–	–	–	–	10,382
Customer accounts	50,274	385	850	162	–	–	–	26	41,169	–	92,866
Securities financing	28	17	–	–	–	–	–	–	–	–	45
Trading portfolio financial liabilities	–	–	–	–	–	–	–	–	–	2	2
Debt securities in issue	–	750	–	1,000	–	–	–	25	–	–	1,775
Subordinated liabilities and other capital instruments[(1)]	–	–	–	1,162	2,132	500	1,750	57	–	–	5,601
Other liabilities	–	–	–	–	–	–	–	–	2,987	565	3,552
Equity	–	–	–	–	–	–	–	–	13,667	–	13,667
Total liabilities and equity	60,684	1,152	850	2,324	2,132	500	1,750	108	57,823	567	127,890
Derivatives affecting interest rate sensitivity	10,359	(2,319)	(1,803)	(2,199)	(1,966)	(228)	(1,434)	(410)	–	–	
Interest sensitivity gap	13,811	9,141	5,523	4,860	4,510	3,403	3,902	7,600	(52,649)	(101)	
Cumulative interest sensitivity gap	13,811	22,952	28,475	33,335	37,845	41,248	45,150	52,750	101	–	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	14,344	4,862	3,101	4,103	4,152	3,004	2,972	5,883	(43,756)	(103)	
Cumulative interest sensitivity gap	14,344	19,206	22,307	26,410	30,562	33,566	36,538	42,421	(1,335)	(1,438)	
($ in euro equivalents)	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	
Interest sensitivity gap	1,781	586	56	(20)	(31)	30	150	(41)	(1,402)	(18)	
Cumulative interest sensitivity gap	1,781	2,367	2,423	2,403	2,372	2,402	2,552	2,511	1,109	1,091	
(£ in euro equivalents)	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	
Interest sensitivity gap	(2,195)	3,633	2,367	776	390	370	770	1,758	(7,428)	19	
Cumulative interest sensitivity gap	(2,195)	1,438	3,805	4,581	4,971	5,341	6,111	7,869	441	460	
(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	(120)	59	–	–	–	–	10	–	(63)	1	
Cumulative interest sensitivity gap	(120)	(61)	(61)	(61)	(61)	(61)	(51)	(51)	(114)	(113)	

(1)Includes subordinated loans – AIB Group plc (€ 4,676 million).

*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)*

2020*	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	Total € m
Assets											
Loans and advances to banks	830	–	–	–	–	–	–	–	262	–	1,092
Loans and advances to customers	37,602	8,554	3,265	1,932	2,571	2,076	2,577	864	(2,600)	–	56,841
Securities financing	104	544	163	–	–	–	–	–	–	–	811
Investment securities	2,328	1,306	2,490	1,530	2,301	1,523	901	6,899	201	–	19,479
Other assets	24,933	–	–	–	–	–	–	–	6,599	650	32,182
Total assets	65,797	10,404	5,918	3,462	4,872	3,599	3,478	7,763	4,462	650	110,405
Liabilities											
Deposits by central banks and banks	4,495	–	–	–	–	–	–	–	–	–	4,495
Customer accounts	37,762	848	2,853	775	157	224	4	23	39,311	–	81,957
Securities financing	185	25	–	–	–	–	–	–	–	–	210
Debt securities in issue	–	500	–	750	1,000	–	–	25	–	–	2,275
Subordinated liabilities and other capital instruments[1]	–	–	–	–	1,111	2,065	500	1,050	–	–	4,726
Other liabilities	–	–	–	–	–	–	–	–	2,671	646	3,317
Equity	–	–	–	–	–	–	–	–	13,425	–	13,425
Total liabilities and equity	42,442	1,373	2,853	1,525	2,268	2,289	504	1,098	55,407	646	110,405
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	3,921	2,622	3,513	8,049	(50,945)	4	
Cumulative interest sensitivity gap	16,551	26,171	30,785	32,836	36,757	39,379	42,892	50,941	(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	3,577	2,337	3,292	6,490	(42,699)	(2)	
Cumulative interest sensitivity gap	15,000	22,823	25,243	26,903	30,480	32,817	36,109	42,599	(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	

[1]Includes subordinated loans – AIB Group plc (€ 3,808 million).

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2.4 Financial risks (a) Market risk *(continued)*

Interest rate benchmark reform

Authorities and regulators have been 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. In line with regulatory guidance and transformed market practice, SONIA (Sterling Overnight Index Average) has effectively replaced GBP LIBOR and SOFR (Secured Overnight Financing Rate) has been adopted to replace USD LIBOR in pricing new loans.

The transition not only impacted financial market participants, but also many of the Group's customers who had an IBOR referenced in their contract. IBORs were extensively embedded within the Group's processes, hence, the transformation had far reaching impacts in terms of pricing, operations, risk, accounting, data and technology infrastructure, along with potential conduct risk implications.

The Group established a bank-wide Interest Rate Benchmark Reform Transition Programme ("the Programme") with sponsorship from the Chief Financial Officer to manage the effort. The Programme spanned all business lines and had cross-functional support to ensure an orderly transition was achieved by the 31 December 2021 deadline. The Programme, which is formally concluding in the first quarter of 2022, oversaw the successful execution of all business readiness, technology, GBP LIBOR contract re-papering, customer communication and conduct activities.

The Group proactively engaged with its customer base and market counterparties to complete the repapering of substantially all GBP LIBOR contracts by 31 December 2021, with a minimum number transitioning to synthetic GBP LIBOR (a regulatory-approved form of Libor with limited application) at that point. New RFR lending products have also been introduced and adopted across the Group's key currencies. Following the conclusion of the formal Programme, residual IBOR transition activities will be undertaken by the relevant business and support functions under established procedures. In particular, the focus will move to proactively managing the € 2.4 billion of USD LIBOR lending and € 2.4 billion of USD LIBOR related derivatives.

Details on the Group's adoption of the "Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform" can be found in note 1 accounting policy (q).

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)	**2021**	2020
+ 10% move in GBP and USD FX rates	**(0.18%)**	(0.17%)
– 10% move in GBP and USD FX rates	**0.20%**	0.16%

The above analysis is subject to certain simplifying assumptions such as GBP/EUR and USD/EUR foreign exchange rates moving in the same direction and at the same time.

Risk management – 2. Individual risk types

2.4 Financial risks (b) Pension risk

Pension risk is the risk that:
– The funding position of the Group's defined benefit schemes would deteriorate to such an extent that additional contributions would be required to cover its funding obligations towards current and former employees;
– The capital position of the Group is negatively affected as funding deficits will be fully deductible from regulatory capital; and
– There could be a negative impact on industrial relations if the funding level of the scheme was to deteriorate significantly.

Risk identification and assessment

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.

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.

Management and measurement*

The pension risk framework and policies set out the key risk management rules in place for this risk. 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.

The Irish scheme continued to de-risk in 2021, with further allocations to liability matching assets. As part of a strategy to increase the holding in inflation linked assets, the allocation to the Liability Driven Investment ("LDI") portfolio, which is used to hedge the scheme's liabilities against both interest rate and inflation risk, has increased. Inflation swap exposures account for 12% of scheme assets as at 31 December 2021 and inflation linked bond holdings account for 31% of assets, an increase from 23% as at 31st December 2020. The LDI fund is comprised of a mixture of nominal bonds, inflation linked bonds and inflation derivatives. The scheme maintained a similar weighting in equities in 2021 and continues to have an equity protection strategy in place.

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. The next actuarial valuation of the Irish scheme as at 30 June 2021 is ongoing and due to be completed by no later than 31 March 2022. No deficit funding is anticipated at this time as the Irish scheme continues to meet 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 March 2022. The Group and the Trustee of the UK scheme agreed funding payments under an arrangement agreed in December 2019 which is described below.

As part of the investment strategy in the UK scheme, it was significantly de-risked in 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 £ 18.5 million was made in 2021. Under this funding arrangement, the Group also expects to make payments of £ 18.5 million in both 2022 and 2023, with a final balancing payment, based on latest estimates of c. £ 60 million. This is subject to change prior to finalisation.

*Forms an integral part of the audited financial statements

2.4 Financial risks (b) Pension risk *(continued)*

Monitoring, escalating and reporting*

Pension risk is monitored and controlled in line with the requirements of the Group's pension risk framework and policy. The surplus or deficit is monitored on a monthly basis by the Group's risk team and is currently reported monthly in both the financial risk report to the Group Assets and Liabilities Committee and the Group Chief Risk Officer ("CRO") report to Group Risk Committee and Board Risk Committee.

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.

2.4 Financial risks (c) Equity risk

Banking book equity investment risk refers to the possibility of losses arising in the equity investment portfolio of the Group due to changes in the economic value of the investments. Where the uncertainty is expressed as a potential loss in value, it represents a risk to the income and capital position of the Group.

Identification and assessment

All equity proposals are considered to ensure all aspects of the proposal are fully and consistently addressed. Where a proposal for a new equity investment or divestment opportunity arises, the business sponsor must engage with the Equity Capital team when developing the proposal, and liaise with Finance to assess the accounting and regulatory implications. The business will review and comment on all proposals and recommend proposals for approval through the appropriate governance process. All new investments need to adhere to relevant regulatory and accounting requirements.

Management and measurement

Exposures are reported on in line with Risk appetite requirements. Risk measurement is also captured through stress testing. A forward looking stress test must be produced on a quarterly basis. The stress test will project the impact on the capital requirements for the business, of stresses to the underlying risk factor. Management projections of the future business mix must be factored into the analysis and be consistent with projections included in business area plans for equity risk. Where appropriate, risk exposures must be proxied with historical data to enable standard risk measurement techniques to be applied.

Monitoring, escalating and reporting

The Equity Capital team reviews risk exposure levels on an ongoing basis, ensures there is no undue risk concentration and considers whether the level of risk exposures remains appropriate. Exposures are currently reported monthly to Risk and the Group Assets and Liabilities Committee ("ALCo") and any limit/policy breaches or exceptions are recorded that arose during the period.

Risk provide management with an independent perspective on the risk-taking activities within the equity investment portfolio monthly via the Financial Risk ALCo report, RAS limit report and the CRO report. Additionally, there is a quarterly valuation review process in place and Board and segment limits are applied and reported on and an escalation process is set out in the Equity Policy.

*Forms an integral part of the audited financial statements

Risk management – 2. Individual risk types

2.5 Business model risk

Business model risk is 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's material risk assessment process identifies the key elements of business model risk. The process includes identifying the associated sub-risks such as strategic planning risk, strategic execution risk and governance risk and the emerging risk drivers including weak credit demand, increased competition and market volatility.

The Group also identifies and assesses the 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 ICAAP and ILAAP processes.

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 discussions 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 impact of inorganic initiatives such as the recent acquisition of Goodbody and the proposed Ulster Bank commercial loan book on the Group's financial outcomes and business model risk profile is assessed as part of the approval process and through the financial planning process.

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 business 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.

The Group reviews underlying assumptions on its external operating environment to identify potential risks 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.

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 business 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. Monitoring of the risk profile via the CRO report, including performance against risk appetite is presented to the Board Risk Committee and Board. The escalation process, as stipulated under the RAS policy, is commenced in the event of a breach of either the RAS watch trigger or limit for any of the metrics. This ensures Board and Regulator notification within approved timeframes.

2.6 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.

Identification and assessment

Operational risk is identified and assessed by the Group's material risk assessment which is a top-down process and it also identifies the sub risks such as information security (including cyber risk), change risk, physical safety and property risk, continuity and resilience risk, product and proposition risk, third party risk, IT risk, data risk (including data quality risk) and legal risk. The risk and control assessment is the Group's core bottom-up process for the identification and assessment of operational risk across the Group.

The risk and control assessment 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. Service assessments and risk assessments are performed on all critical or important outsourcing arrangements and are recorded on SHIELD.

SHIELD provides all areas with one consistent view of the operational risks, controls, actions and events across the Group. Risk and control assessments are regularly reviewed and updated by business unit management.

The potential impact of the identified risks are then assessed through the ICAAP and stress-testing processes where scenarios relating to this risk such as internal/external fraud, systems failure, property damage, third party technical issues, disruptive weather conditions, are developed and incorporated into the overall outcomes.

Management and measurement

The Operational Risk Framework sets out the principles, supporting policies, roles and responsibilities, governance arrangements and processes for operational risk management across the Group. Each sub risk has a supporting policy in place to outline the minimum control standards and core policy rules that must be adhered to. The nine material operational sub risks are owned and actively monitored under the Operational Risk Framework and underlying Policies to ensure material operational risks are managed effectively within the Group RAS limits. The Operational Risk Framework and policies set out the process for risk and control assessments, identification of the key non-financial risks arising from key business processes and activities. It also includes the process for the escalation of the relevant RAS metric limit and watch-trigger breaches.

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 such as:

- comprehensive crime/computer-crime/cyber/professional indemnity/civil liability;
- employment practices liability; and
- directors and officers liability and a suite of general insurance policies to cover such things as property and business interruption, terrorism, employee and public liability and personal accident.

Operational risk is measured through a series of risk appetite metrics and key risk indicators, these include metrics on operational risk losses and events; cyber security, change initiatives, quality and accessibility of priority data, service availability and third party risks.

Monitoring, escalating and reporting

In addition to risk appetite measures and limits, operational risk is monitored on a regular basis via the Group's risk governance committees. This provides senior management, through the Operational Risk Committee and Group Risk Committee and the Board through Board Risk Committee with timely updates on the Group's operational risk profile. The profile update details the current status of the Group's key operational risks and includes an overview of current trends. It also includes an update on recent major risk events and any remediation actions/lessons identified following events.

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

Risk management – 2. Individual risk types

2.7 Regulatory compliance risk

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

Identification and assessment

The Group's material risk assessment and risk and control assessment forms the basis for identifying the key drivers of regulatory compliance risk. The associated sub-risks risk include prudential regulation, conduct of business regulation, financial crime and data protection. The material risk assessment has identified other key risks in this regard as:

- The complexity and volume of regulatory change for example PSD2 eCommerce SCA, AMLD, CRR II, Loan Origination and the rapidly evolving international sanctions environment, raises the risk of regulatory compliance failure and/or regulatory sanction.

The key areas of focus of both the Central Bank of Ireland ("CBI") and the Joint Supervisory Teams ("JST") includes:

- CBI Consumer Protection Outlook report and Dear CEO letters;
- Tracker Mortgage Examination;
- Regulated firms that are subject to the regulation from the CBI and JST are fully compliant with their obligations and are treating their customers, existing and new, in a fair and transparent way, including the embedding of directives and regulations;
- Consumer protection following the COVID-19 pandemic;
- Continued focus on the full implementation of the suite of prudential requirements including Capital Requirements Directive ("CRD") and Capital Requirements Regulation ("CRR"), and the binding technical standards and guidelines; and
- Climate and ESG issues where the CBI has noted its expectations for firms to follow including the requirements relating to governance, risk management frameworks, scenario analysis, disclosures and strategy, and business model risks.

Management and measurement

The Regulatory Compliance Risk Management Framework sets out the principles, roles and responsibilities, and governance arrangements and is supported by a number of key policies.

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

The key steps in upstream regulation risk management are:

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

2.7 Regulatory compliance risk *(continued)*

Monitoring, escalating and reporting

Regulatory compliance risks are monitored on a monthly basis via the Group's risk governance committees. This occurs initially at the Regulatory and Conduct Risk Committee ("RCR") and key items are brought through to Group Risk Committee and Board Risk Committee for discussion and escalation where appropriate. This includes an update on recent significant events and any remediation actions or lessons identified following events.

The RCR is the forum that provides risk oversight of regulatory and conduct risks of the Group including oversight of its subsidiaries. The RCR was established by, and is accountable to, the Group Risk Committee, to oversee regulatory and conduct risks across the Group, including monitoring, reviewing the regulatory and conduct risk profile, compliance with risk appetite and other approved policy limits. It is also responsible for reviewing risk policies and recommending these for approval to the Group Risk Committee.

Compliance Advisory establish written guidance to staff on the appropriate implementation of relevant laws, rules and standards through relevant regulatory compliance policies and support the first line business units in understanding and implementing their regulatory compliance obligations and management of the associated regulatory compliance risks in line with the Regulatory Compliance and Conduct Risk Appetite Statements. As part of their role engaging with the first line, Compliance Advisory assist the business in maintaining a positive and transparent relationship with the Regulators in respect of regulatory compliance and conduct matters.

Group Risk Assurance ("GRA") provides independent review and objective assurance on the quality and effectiveness of the Group's internal control system, including the Risk Governance Policies and Frameworks in accordance with a Board approved risk-based assurance plan.

2.8 Conduct risk

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

The effective management of conduct risk requires embedding of a strong conduct culture with a customer centric approach to conduct risk management as articulated in the Group's values, behaviours and code of conduct.

The conduct risk priorities for the Group include:
- A Customer First culture, as articulated by the brand values, behaviours and code of conduct, is embedded and demonstrated throughout the organisation;
- A mature Group Conduct Risk Framework aligned with the Group's Strategy, is embedded in the organisation that provides oversight of conduct risks at Executive Committee and Board level; and
- Customers, existing and new, are treated in a fair and transparent way.

Identification and assessment

The Group's material risk assessment and risk and control assessment forms the basis for identifying the key elements of conduct risk. The Group has identified the main risk drivers 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 societal expectations of banks can influence the conduct decisions by the appropriate authorities;
- Increased competition in terms of resources, skills, financial service industry participants including competitors where the customer engages digitally and remuneration practices;
- Negative macroeconomic environment can result in unexpected bank and/or employee behaviour and potential increased market instability and wholesale market conduct risk; and
- Climate change-related risks (both physical and transition) may result in poor customer outcomes such as products not aligned to climate risk drivers.

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

Group Conduct completes horizon scanning and benchmarking to identify future conduct risk considerations within business and regulatory environments. In addition, Risk, through the Compliance and Group Risk Assurance function, identify upstream conduct risk and communicate to the relevant business areas.

Risk management – 2. Individual risk types

2.8 Conduct risk *(continued)*

Management and measurement

The Group has a Conduct Risk Framework and Conduct Risk Policy which applies to the Group including all subsidiaries. This Framework and Policy, as well as other supporting policies, are in place to drive the consistent management of this risk such as:

- 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. These are subject to review by the Group Conduct Risk function prior to approval and also throughout the year to test the embeddedness of the strategy;
- All new products, propositions, training and awareness building are independently assessed by the Group Conduct Risk function to ensure they are aligned to the Group's conduct strategy and cannot be implemented without their approval. More consistent complaints management has been developed by differentiating between complex and less complex complaints, 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. This has resulted in improved closure times, customer satisfaction rates, improvements to products as feedback from complaints to product areas has improved; and
- The Conduct risk RAS is owned by the Compliance function, consisting of qualitative statements and key risk indicator metrics. The key risk indicators establish specific limits, ceilings and floors that relate to the qualitative RAS. Risk, through the Compliance and Group Risk Assurance function, provide independent challenge of potential and identified conduct risks and provide advice to business segments on Conduct risk issues.

Business conduct dashboards measure key management information trends under the five key conduct risk areas, as reflected in the Group's conduct strategy.

- Trends and themes are monitored including social media and root cause analysis is conducted of underlying issues.
- The Group Head of Conduct in the first line of defence is a member of a number of key working groups and fora regarding the management and measurement of conduct risk, and provides challenge on RAS metrics which are monitored monthly, customer solutions and the resolution of materialised conduct risks.

Monitoring, escalating and reporting

The Group Conduct Committee together with Business 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. Significant conduct events are assessed and remedial actions implemented where necessary. These are escalated based on a materiality assessment, in line with the Conduct Risk Framework.

Conduct risks and controls are monitored on a monthly basis via the Group's risk governance committees. This provides the Group Risk Committee and the Board Risk Committee with relevant updates on the conduct risk profile. The profile update details the current status of the Group's key conduct risks, includes an overview of current trends, an update on recent significant events and any remediation actions or lessons identified following events. From a Prudential perspective the Group reports the financial impact of conduct risk events through the annual operational risk ICAAP, quarterly COREP submissions and the biennial EBA Stress Testing exercise.

The Regulatory and Conduct Risk Committee ("RCR") is the forum that provides risk oversight of regulatory and conduct risks of the Group including oversight of its subsidiaries. The RCR was established by, and is accountable to, the Group Risk Committee to oversee regulatory and conduct risks across the Group. This includes monitoring and reviewing the Group's regulatory and conduct risk profile, compliance with risk appetite and other approved policy limits, reviewing risk policies and recommending these for approval to the Group Risk Committee.

2.9 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 the inability to evolve the culture aligned to its values and behaviours.

Identification and assessment

The material risk assessment identifies the Group's key material risks including people and culture risk and its sub-risks including attrition risk, engagement risk, capability risk and culture risk and the emerging risk drivers including changing workforce demographics, future COVID-19 variants, remote/hybrid working for longer term, changing market perceptions as employer of choice, changing business model, ineffective leadership and negative media coverage through the completion of a top-down review.

Bottom-up risk assessments are then captured through the risk and control assessment process in each business area across the Group. The risk and control assessment in 2021 has identified the key people and culture risks to be capacity, resourcing, recruitment and retention. The risk and control assessment is the Group's core bottom-up process which serves to ensure that key risks are proactively identified, evaluated, monitored and reported, and that appropriate action is taken. The risk and control assessment includes a requirement to perform a self-assessment of the risks at each business unit level. The potential impact of these risks are then assessed through the ICAAP and stress-testing processes where scenarios relating to this risk such as employment practices and workplace safety are developed and incorporated into the overall outcomes.

Management and measurement

There is a People and Culture Risk Framework in place which is supported by various HR policies to drive the consistent management of this risk. Key management actions include:

- Significant enhancement of the Group's wellbeing, engagement, inclusion and diversity strategies which has been one of the Group's key response strategies and mitigants to the unprecedented challenges of COVID-19.
- 2021 has seen an acceleration in the competition for talent with expectations that the external environment is going to remain strong in terms of demand for talent. The Group has responded with a very strong focus on senior talent identification and has in particular generated increased internal talent mobility. There has also been significant investment in terms of developing staff capabilities across the Group.
- Continuing the Group's Culture development journey with progress being made throughout the year. The Group continues to be an active member of the Irish Banking Culture Board.
- Continued embedding of 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.
- Further re-iteration of the Group's 'Speak up' policy through the "Speak Your Mind" week held in 2021 that encouraged employees to speak their mind, and in particular the importance of reporting wrongdoing. This 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 ongoing quantum and pace of the transformation and change agenda across the Group impacting on resource contention and capacity, together with the accelerated pace of recruitment across the external market in certain highly skilled and specialised areas. A number of positive initiatives are underway to address these issues.
- Ongoing use of the Aspire Performance Management Programme ("Aspire"), which facilitates quality performance discussions with staff that contributes 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.
- There has been significant investment in terms of developing capabilities across the bank including running a number of Leadership Development and Talent Management programs during the year. Efforts are also underway to develop an internal talent repository capturing the existing skills, capabilities, knowledge and experience of the workforce enabling the bank to scenario plan for the future.
- People and culture risk is measured through a series of RAS metrics such as taking accountability using the 'How' performance management metric, top performers attrition rates, senior attrition rates and mandatory training completion rates.

Risk management – 2. Individual risk types

2.9 People and culture risk *(continued)*

Monitoring, escalating and reporting

In addition to risk appetite measures and limits, people and culture risks are monitored on a monthly basis via the Group's risk governance committees. This provides senior management, through the Operational Risk Committee, Group Risk Committee and the Board with timely updates on the Group's operational risk profile. The profile update details the current status of the Group's key people and culture risks. It also includes an overview of current trends, an update on recent significant events and any remediation actions or lessons identified following events. This allows the Group Risk Committee and Board Risk Committee to understand and discuss key people and culture risk metrics, with escalation to the Board where appropriate.

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, 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 balanced scorecard and culture dashboard.

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

2.10 Model risk

Model risk is the potential loss an institution 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 Group's material risk assessment and the risk and control assessment forms the basis for identifying the key elements of the risk. The material risk assessment identifies the key sub-risks including oversight, data, development, implementation and use and the emerging risk drivers such as climate risk through a top-down review. The risk and control assessment is the Group's core bottom-up process in the identification and assessment of model risk across the Group.

The RCA includes a requirement to perform a self-assessment of the risks at each business unit level. The potential impact of model risk is assessed through the ICAAP. As model risk is generally mitigated through specific model adjustments, there is no explicit capital requirement generated from this risk, it is indirectly assessed through the other risks.

Management and measurement

There is a Model Risk Framework and supporting policies in place to drive the consistent management of this risk. This sets out the key controls required to mitigate model risk across the model lifecycle, from initiation of a model build through to implementation, use and ongoing monitoring. The key controls include:

- A complete inventory of all models in the Group, with a clear tiering of models to ensure key controls such as model validation and monitoring are being applied on a risk-based approach.
- Requirement for clear hand-offs between each stage in the lifecycle to mitigate the risk of issues propagating through the lifecycle of the model.
- Models are built, validated and monitored by suitably qualified analytical personnel, supported by relevant business, risk and finance functions.
- The best available data, both internal and external, must be used, and any data weaknesses are appropriately mitigated through the model build.
- The use of industry standard techniques are applied for stages in the model lifecycle where appropriate.
- All material 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.

Model risk is measured using a composite assessment of model outcomes across the lifecycle for all models in the inventory.

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, the outcomes of validation and other reviews are brought to the appropriate committees based on the model materiality assessment, for oversight to ensure all models remain fit for their intended use and that any issues are appropriately escalated.

Model monitoring on material models is reported to committees quarterly to ensure the model is performing as expected, with appropriate actions raised when models fall below the required performance levels.

An overall assessment of model risk is performed on a quarterly basis and is reported to the Group Risk Committee and Board Risk Committee. The status of model risk is reported on a monthly basis in the CRO report, which includes an update on recent significant events and any remediation actions that are underway.

Governance and oversight

Governance and oversight – Directors' report *for the financial year ended 31 December 2021*

The Directors of Allied Irish Banks, p.l.c. ('the Company') present their report and the audited financial statements for the financial year ended 31 December 2021. The Statement of Directors' Responsibilities is shown on page 164.

For the purposes of this report, 'the Group' comprises the Company and its subsidiaries in the financial year ended 31 December 2021.

Results
The Group's profit attributable to the ordinary shareholders of the Company amounted to € 652 million and was arrived at as shown in the consolidated income statement on page 177.

Dividend
On 2 March 2022 the Board approved an interim dividend of € 20 million payable in March 2022. The Board also recommended a final dividend of € 122 million for approval by the sole shareholder. There was no dividend paid during 2021.

Buyback of ordinary shares
At the AIB Group plc Annual General Meeting ("AGM") on 6 May 2021, shareholders approved AIB Group plc entering into a Directed Buyback Contract (the "DBB Contract") with the Minister for Finance (the "Minister"), the terms of which would permit AIB Group plc to make off-market purchases of shares from the Minister of up to 4.99 percent of AIB Group plc's issued share capital in any 12 month period, subject to the agreement of the Minister at that time. Any such off-market purchases would be made at the "relevant market price" in accordance with the terms set out in the DBB Contract. No such off-market purchases have been made to date.

In the event that AIB Group plc undertakes a buyback of its ordinary shares from the Minister pursuant to the DBB Contract, it is anticipated that the Company will undertake a corresponding buyback of its ordinary shares from AIB Group plc in accordance with the terms of an intra-group share buyback agreement to be entered into between AIB Group plc and the Company, the terms of which will substantially track the DBB Contract.

Both AIB Group plc and the Company have received regulatory approval from the ECB to undertake buybacks of ordinary shares, each in an aggregate consideration amount of up to € 91 million.

Going concern
The financial statements for the financial year ended 31 December 2021 have been prepared on a going concern basis as the Directors are satisfied, having considered the principal risks 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 2022 to 2024, liquidity and funding forecasts and capital resources projections, all of which were prepared under base and stress scenarios.

In addition, the Directors considered the principal risks and uncertainties which could materially affect the Group's future business performance and profitability and which are outlined on pages 8 to 10.

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 is set out in note 38 of 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 operating and financial review on pages 20 to 34 contains 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 2021, the Board of Directors of the Company was comprised of Mr Jim Pettigrew, Ms Anik Chaumartin, Mr Donal Galvin, Mr Basil Geoghegan, Ms Tanya Horgan, Dr Colin Hunt, Ms Sandy Kinney Pritchard, Ms Carolan Lennon, Ms Elaine MacLean, Mr Andy Maguire, Mr Brendan McDonagh, Ms Helen Normoyle, Ms Ann O'Brien, Mr Fergal O'Dwyer, Mr Jan Sijbrand and Mr Raj Singh.

Since 31 December 2020, the following Board changes occurred with effect from the dates shown:

- Mr Fergal O'Dwyer was appointed as Independent Non-Executive Director on 22 January 2021.
- Mr Andy Maguire was appointed as Independent Non-Executive Director on 15 March 2021.
- Mr Donal Galvin was appointed as Executive Director on 28 May 2021.
- Ms Anik Chaumartin was appointed as Independent Non-Executive Director on 1 July 2021.
- Ms Tanya Horgan was appointed as Independent Non-Executive Director on 14 September 2021.
- Mr Jan Sijbrand was appointed as Independent Non-Executive Director on 14 September 2021.
- Mr Jim Pettigrew was appointed as Non-Executive Director and Chair on 28 October 2021. He was considered independent on appointment.

Biographical details of each Director are provided on pages 12 to 15.

The appointment and replacement of Directors, and their powers, are governed by law and the Constitution of the Company.

Directors' and Secretary's Interests in Shares

The beneficial interests of the Directors and the Company Secretary in office at 31 December 2021, and of their spouses and minor children, in AIB Group plc's ordinary shares as the parent company of Allied Irish Banks, p.l.c. are as follows:

Ordinary shares	31 December 2021	1 January 2021*
Directors:		
Anik Chaumartin	–	–
Donal Galvin	–	–
Basil Geoghegan	9,835	9,835
Tanya Horgan	–	–
Colin Hunt	40,000	22,500
Sandy Kinney Pritchard	10,000	10,000
Carolan Lennon	7,700	7,700
Elaine MacLean	–	–
Andy Maguire	–	–
Brendan McDonagh	20,000	20,000
Helen Normoyle	2,000	2,000
Ann O'Brien	–	–
Fergal O'Dwyer	10,000	–
Jim Pettigrew	–	–
Jan Sijbrand	–	–
Raj Singh	–	–
Company Secretary:		
Conor Gouldson	15,210	15,210

*Or date of appointment if later.

There is no requirement for Directors, or the Company Secretary, to hold shares in the parent company AIB Group plc.

There were no changes in the interests of the Directors and the Company Secretary shown above between 31 December 2021 and 2 March 2022.

Directors' Remuneration

The Group's policy with respect to Directors' remuneration is included in the Corporate Governance Remuneration statement on pages 155 to 160. Details of the total remuneration of the Directors in office during 2021 and 2020 are shown in the Corporate Governance Remuneration statement on pages 155 to 160.

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 50 to 53 of the AIB Group plc 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 our business model is included on pages 6 to 7 of the AIB Group plc Annual Financial Report 2021 and the table on pages 28 to 30 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 78 to 82 of the AIB Group plc Annual Financial Report 2021.

Substantial interests in the share capital

At 31 December 2021, the Company had 2,714,381,238 Ordinary Shares of 0.625 each in issue. AIB Group plc is the sole shareholder, holding 100% of the issued share capital of the Company.

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 2021 to 2 March 2022.

Corporate governance

The Corporate Governance report is set out on pages 135 to 139 and forms part of this report.

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 161 and 162, 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 381.

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 8 to 10.

Branches outside the State

The Company has previously established branches, within the meaning of EU Council Directive 89/666/EEC (implemented in Ireland by the European Communities (Branch Disclosures) Regulation 1993, in the United Kingdom and the United States of America.

Governance and oversight – Directors' report *for the financial year ended 31 December 2021*

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 ("AGM") on that date. Furthermore, Deloitte were re-appointed as auditors of the Company via written resolution of the sole shareholder on 24 June 2021 and shall hold office until the conclusion of the next AGM 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 AGM. Deloitte have indicated a willingness to continue in office in accordance with section 383(2) of the Companies Act 2014. Subject to this approval at the next AGM, Deloitte will step down as auditor at the conclusion of the 2023 AGM, having at that point served as the Group's statutory auditor for the maximum legally permitted unbroken tenure in office of 10 years.

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 Directors' Report may be found in the following pages of the report:

	Page
2021 Results – Financial Performance	2
Risk management	39 to 130
Non-adjusting events after the reporting period	306

The Directors' Report for the financial year ended 31 December 2021 comprises these pages and the sections of the report referred to under 'Other information' above, which are incorporated into the Directors' Report by reference.

Jim Pettigrew
Chair

Colin Hunt
Chief Executive Officer

2 March 2022

Governance and oversight – Corporate Governance report

> "The Group's corporate governance arrangements have proven to be resilient and capable of operating effectively when faced with the challenges of the pandemic."

Jim Pettigrew,
Chair

Chair's introduction

Dear Shareholder,

On behalf of the Board, I am pleased to present our Corporate Governance Report for 2021. This report sets out how corporate governance standards are applied across the Group and includes statements of compliance with our key corporate governance requirements.

Further information on governance practices in place in the Company are available on the AIB Group plc website at www.aib.ie/investorrelations.

The Board strives to ensure ongoing adherence to the various applicable requirements as well as to the underlying principles and ways of working recommended by those requirements.

I am satisfied that the Board and the Group has operated within an effective and robust corporate governance environment which provides the framework to ensure sound and timely decision making in the best interests of the Group and its stakeholders.

Jim Pettigrew
Chair

Corporate Governance Framework

Statements of Compliance

For the purposes of this report, which discusses corporate governance arrangements, 'the Group' comprises Allied Irish Banks, p.l.c. and its subsidiaries. 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 2021.

Central Bank of Ireland's Corporate Governance Requirements for Credit Institutions 2015 and European Union (Capital Requirements) Regulations 2014

Allied Irish Banks, p.l.c., which is 100% owned by 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).

During 2021, Allied Irish Banks, p.l.c. was materially compliant with all of the 2015 Requirements and with the corporate governance aspects of CRD. As previously reported, Mr Richard Pym retired as Chair in March 2020. At the Board's request, the Deputy Chair, Mr Brendan McDonagh, carried out the role and responsibilities of a Chair in the period from March 2020 up to the appointment of Mr Jim Pettigrew as Chair in October 2021.

Governance and oversight – Corporate Governance report

UK Corporate Governance Code and Irish Corporate Governance Annex

Allied Irish Banks, p.l.c. is not directly subject to the UK Corporate Governance Code 2018 (the 'Code') which is publicly available on www.frc.org.uk or the Irish Corporate Governance Annex (the 'Irish Annex'). AIB Group plc, the holding company, by virtue of its listing on the London Stock Exchange and on the Euronext Dublin Stock Exchange, is subject to the provisions of the Code and of the Irish Annex. The governance arrangements for AIB Group plc and the Company are mirrored. Additional details on compliance by AIB Group plc with the Code are available in the AIB Group plc Annual Financial Report 2021.

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 ('CEO'), 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. The governance framework and organisational structure are sufficient to ensure that no one individual has unfettered powers of decision or exercises excessive influence. Key roles and responsibilities are clearly defined, documented and communicated to key stakeholders via the Group's website (www.aib.ie/investorrelations). 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 on the Group's website (www.aib.ie/investorrelations).

Board Focus

Information on the focus of the Board during 2021 is outlined on page 178 of the AIB Group plc Annual Financial Report 2021 which is available on the Group's website: www.aib.ie/investorrelations. 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 140 to 154.

Conflicts of Interest

The Board approved Code of Conduct and Conflicts of Interest Policy for Directors sets out how actual, potential or perceived conflicts of interest are to be evaluated, reported and managed to ensure that Directors act at all times in the best interests of the Group and its stakeholders. Executive Directors, as employees of the Group, are also subject to the Group's Code of Conduct and Conflicts of Interests Policy for employees.

Stakeholder Engagement

The five 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 and to take stakeholder views into consideration in its decision making, the Board strives to ensure that effective engagement is maintained with these groups. In terms of our investors, since Allied Irish Banks, p.l.c. and AIB Group plc have common Directors and concurrent Board meetings, this ensures that the Board of Allied Irish Banks, p.l.c. is aware of shareholder issues and concerns, as they arise.

The Group engages with stakeholders through various means such as face-to-face meetings including regular and structured engagement and also out of course meetings on specific topics, research, focus groups and surveys, media engagement, direct partnerships and collaboration, sponsorship and community initiatives, participation in expert forums and events, and through the Group's in-house experts liaising directly with associated business, public or charitable groups.

Further details on the Group's stakeholder engagement can be found on pages 34 and 35, and page 178 of the AIB Group plc Annual Financial Report 2021 which is available on the Group's website (www.aib.ie/investorrelations).

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, and a further reduction in 2022 to date, the State currently holds 70.97% of the issued ordinary shares of AIB Group plc.

The relationship between the Group and the State is governed by a Relationship Framework which is available on the Group's website at www.aib.ie/investorrelations.

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 Group's regulatory and legal obligations.

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.

Board Meetings

The Board met on 18 occasions during 2021. 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 on a regular basis. The remainder of its agenda is built from the indicative annual work programme, strategic items for consideration, 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 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
Anik Chaumartin *Appointed 01/07/2021*	7	7	8	8						
Donal Galvin *Appointed 28/05/2021*	9	9								
Basil Geoghegan	18	18	12	12	13	13				
Tanya Horgan *Appointed 14/09/2021*	4	4			4	4				
Colin Hunt	18	18								
Sandy Kinney Pritchard	18	18	16	16	13	13				
Carolan Lennon	18	16			10	10	3	2		
Elaine MacLean	18	18					10	10	8	8
Andy Maguire *Appointed 15/03/2021*	13	12			11	10				
Brendan McDonagh	18	18	16	15	13	13	10	10	8	8
Helen Normoyle	18	18					10	10		
Ann O'Brien	18	18	16	16					8	8
Fergal O'Dwyer *Appointed 22/01/2021*	18	18	16	16						
Jim Pettigrew *Appointed 28/10/2021*	2	2					2	2		
Jan Sijbrand *Appointed 14/09/2021*	4	4			4	4				
Raj Singh	18	18			13	12				

The composition of the Board and Board Committees of AIB Group plc and Allied Irish Banks, p.l.c. are mirrored and meetings are held concurrently.

Professional Development and Continuous Education Programme

The Board's professional development and continuous education programme continued throughout 2021 and was designed in conjunction with the indicative work programme to ensure that training was delivered at a time when it would be of most benefit or relevance to the Board.

The sessions were delivered by a mix of internal and external subject matter experts and the topics included the Internal Capital and Liquidity Adequacy Assessment Processes, Stress Testing, Sustainability and Climate Risk, IFRS 9 and Internal Rating Based Models, Anti-Money Laundering and Financial Crime, Cyber Security, Recovery and Resolution Planning, Fitness and Probity Pre-Approval Controlled Function Ongoing Obligations, Regulatory Reporting Requirements, the European Banking Market, Market Abuse and Inside Information, and Anti-Bribery and Corruption. Directors also have access to an online Corporate Governance Library and a suite of Group specific online training courses. Additional training and individual sessions with subject matter experts on areas of interest to the Directors are facilitated upon request.

A structured induction programme is ready to be delivered to any incoming Director and includes a series of meetings with senior management, relevant briefings, together with any specific 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 2021, the Board consisted of the Chair, who was deemed independent on appointment, thirteen Independent Non-Executive Directors and two Executive Directors, being the Chief Executive Officer and the Chief Financial Officer.

Governance and oversight – Corporate Governance report

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. The skills included in the Board Skills Matrix were identified taking into account the Group's strategic priorities and relevant regulatory requirements. Each Director was selected for appointment on the basis of their knowledge, skills and experience which enable them to effectively discharge their duties, ensure the effective governance of the Group, and contribute to its long term, sustainable success.

In addressing appointments to the Board, a role profile for the proposed new Director 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 is followed.

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 Group 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.

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 12 to 15.

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 or on request from the 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 Company Secretary, and in certain cases the Board as a whole and/or the Central Bank of Ireland, must be sought.

There is a procedure in place to assess and seek Board approval for any additional external roles proposed by Directors to ensure that there will be no impact on their ongoing suitability or ability to continue to dedicate sufficient time to their Group roles. There is also a procedure in place to monitor Non-Executive Director time commitment on an ongoing basis and the results of this monitoring are reported to the Nomination and Corporate Governance Committee.

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 2021, namely Ms Anik Chaumartin, Mr Basil Geoghegan, Ms Tanya Horgan, Ms Carolan Lennon, Ms Elaine MacLean, Mr Andy Maguire, Mr Brendan McDonagh, Ms Helen Normoyle, Ms Ann O'Brien, Mr Fergal O'Dwyer, Ms Sandy Kinney Pritchard, Mr Jan Sijbrand, and Mr Raj Singh were independent in character and judgement and free from any business or other relationship with the Group that could affect their judgement.

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 Chair, Mr Jim Pettigrew, was determined as independent on appointment.

Inclusion and Diversity

Employee inclusion and diversity in the Group is addressed through policy, practices and values which recognise that a productive workforce comprises of diverse backgrounds, cultures, experiences, characteristics and work styles. The Group has implemented a Diversity and Inclusion Code and 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 which in 2021 endorsed the Group's inclusion and diversity strategy supported by short term activities and targets as one of the key focus areas of the Culture Programme. The Board also considers inclusion and diversity as part of the Group's People strategy and Future of Work strategy.

The Board is supported in its oversight by its Committees, specifically by the Nomination and Corporate Governance Committee which considers diversity as a key element within the context of succession planning for the Executive Committee and its succession pipeline within the Group. In addition, the Sustainable Business Advisory Committee considers inclusion and diversity in the Group as it relates to that Committee's role in overseeing the Group's efforts to promote economic and social inclusion as part of the sustainability agenda.

With regard to diversity among Directors, there is a Board Diversity Policy in place which sets out the approach to diversity on the Board. This Policy 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 Committee, in conjunction with Board succession and skills planning, and any proposed changes to the Policy are presented to the Board for approval. In 2021, the Committee recommended and the Board approved an increase in the Policy's target from 30% to 40% female representation on the Board in recognition of the Group's strong track record and commitment to continued progress.

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 2021 have been conducted in line with the Policy.

At 31 December 2021, the percentage of females on the Board stood at 44% and thus exceeded the target of 40% set out in the Policy.

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 an external evaluation in 2020 facilitated by Praesta Ireland, the Board agreed to conduct an internal evaluation in 2021, which was facilitated by the Corporate Governance function.

The process undertaken in 2021 included an anonymous online survey of Board Members and a shorter survey of Executive Committees Members, as well as one-to-one meetings between the Directors, the Deputy Chair and the newly appointed Chair to discuss the overall effectiveness of the Board and the individual performance of Directors.

The evaluation included the Board and each of its Committees. Overall, the final report was positive and demonstrated the strength of the Board and its Committees. A full overview of the 2021 effectiveness evaluation and its results are outlined on page 184 of the AIB Group plc Annual Financial Report 2021 which is available on the Group's website at https://aib.ie/investorrelations.

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 respective reports on pages 140 to 149.

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 2021 can be found in the Report of the Remuneration Committee on pages 153 to 154.

Governance and oversight – Report of the Board Audit Committee

> "Despite unprecedented COVID-19 pandemic challenges to the business and to our customers, I report with confidence that the opinion of the Audit Committee continues to be that the Group has met its obligations for financial reporting and disclosure, and that the internal control framework is both effectively designed and operated."

Sandy Kinney Pritchard,
Committee Chair

Chair's Overview

On behalf of the Board Audit Committee (the "Committee"), I am pleased to report on the Committee's focus of attention and how it has discharged its responsibilities for the year ended 31 December 2021.

2021 proved to be another challenging year in terms of monitoring the effectiveness of internal and business control environments alongside reviewing the Group's financial performance in light of the COVID-19 pandemic, however, encouragingly it was a year in which the resilience of the Group was proven.

In line with its Terms of Reference, which can be found on the Group's website at www.aib.ie/investorrelations, the Committee ensured that it was fully aligned with the Group's strategy and values and supported the Board in its responsibilities relating to the monitoring of the Group's financial and narrative reporting process, reviewing and monitoring the effectiveness of risk management and internal control systems, overseeing the Group's Internal Audit function, ensuring appropriate whistleblowing arrangements and advising the Board on the appointment and independence of the Group's external Auditor.

Over the year, the Committee continued to focus on the impact of the COVID-19 pandemic on the credit risk profile of the Group and the calculation of credit impairment allowances remained a priority. Whilst there were significant positive developments over the year, including portfolio sales and recovery rates, the Committee remained cognisant of a number of headwinds to the credit environment, most notably the potential impact of the removal of government supports, the pace of economic recovery and inflation challenges. With these factors in mind, the Committee is satisfied that the closing ECL stock amount of € 1,885 million is appropriate at this time.

Deloitte will complete their maximum allowable term of 10 years in office as statutory Auditor when they report in 2023 on the financial year ending 31 December 2022. As such, during the year, the Committee oversaw the process for the selection of a new Auditor. Following a competitive and transparent tender process, which included presentations by relevant firms, the Committee recommended to the Board the appointment of PricewaterhouseCoopers ("PwC") as Auditor in 2023. This appointment will be subject to approval by the shareholders in a general meeting in due course. The Committee look forward to working with the current Auditor, Deloitte, and PwC on the smooth and effective transition of the audit.

The Committee reviewed the outcomes of half-year and year end overall assessments of the control environment undertaken by Group Internal Audit ("GIA"), noting that the system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. On reviewing these reports from GIA, alongside reports from the Auditor, the Committee concurred that it was satisfied with the overall effectiveness of the control environment.

Committee Membership

The Committee currently comprises five Non-Executive Directors, all of whom are considered by the Board to be independent and whom the Board have determined have the skills, competence and recent and relevant experience to enable the Committee to discharge its responsibilities.

Mr Basil Geoghegan left the Committee in August 2021. I would like to take this opportunity to thank Basil for his significant contribution during his tenure on the Committee. Following their appointments to the Board, Mr Fergal O'Dwyer and Ms Anik Chaumartin joined the Committee in January 2021 and July 2021, respectively. Both Fergal and Anik have provided valuable insights and enriched the Committee's deliberations, given their significant experience in the areas of finance, accounting and audit. To ensure co-ordination of the work of the Committee with the Board Risk Committee, two members of the Committee are also Members of the Board Risk Committee, with this common membership providing ongoing oversight of risk and finance issues. Additionally, a number of joint meetings of the Committee and the Board Risk Committee were also held during the year. The biographies of Committee Members are set out on pages 12 to 15, with details of the Committee's membership and attendance at meetings outlined on page 137.

The Chief Financial Officer, Chief Risk Officer, Group Head of Internal Audit and the Lead Audit Partner from Deloitte normally attend all Committee meetings. In order to provide additional opportunity for open dialogue and feedback, the Committee holds closed sessions with members of Executive Management, the Group Head of Internal Audit and the Lead Audit Partner throughout the year without members of Management being present.

The Committee has exercised its authority delegated by the Board for ensuring the integrity of the Group's published financial information by reviewing and challenging the judgements and disclosures made by Management, and the assumptions and estimates on which they are based. The Committee has applied judgement in deciding which of the issues it considered to be significant in the financial statements, and the following pages set out the material matters that it has considered in these deliberations. Management reporting to the Committee from across the business has provided the opportunity for the Committee to challenge, probe and seek assurance from management, enabling the Committee to provide an independent perspective.

Into 2022, the Committee will continue to focus on delivery against its mandated responsibilities, with oversight of the ongoing effectiveness of the three lines of defence model across the Group and continued scrutiny of the overall control environment, particularly in light of the programme of change delivered by the Group's transformation programme and inorganic growth initiatives. In addition to the Committee's standing obligations, I expect there to be increased focus on the evolving areas of climate-related disclosures and audit reform, both of which will be kept to the forefront of the Committee's attention.

Ongoing critical priorities will include further consideration of ECL outcomes, monitoring of the Group's material restitution programmes, and overseeing the smooth transition of the Group Auditor ahead of 2023 year end.

I would like to take this opportunity to sincerely thank my fellow Committee colleagues for their continued support and diligence during 2021.

Sandy Kinney Pritchard
Committee Chair

Governance and oversight – Report of the Board Audit Committee

Financial Reporting – Activities for the year

A key activity for the Committee is the consideration of significant matters relating to the Annual Financial Report, with key accounting judgements and disclosures subject to in depth review with Management and Deloitte. A summary of these judgements is set out below, and the judgements are disclosed in detail within note 2 “Critical accounting judgements and estimates” on page 211.

Key Issue	Committee Consideration	Committee Conclusion
IFRS 9 and the Impairment of Financial Assets	The process for undertaking the assessment of ECL amounts requires use of a number of accounting judgements, estimates and assumptions, some of which are highly subjective and very sensitive to risk factors such as changes to economic conditions, including determining the criteria for a significant increase in credit risk and for being classified as credit impaired; applying the definition of default policy for classifying financial instruments as credit impaired; assumptions for measuring ECL and the estimation and methodology for post-model adjustments. In assessing these key judgements and estimates, the Committee received and reviewed regular reports from Management on the ECL position. The Committee met in joint session 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 these scenarios. Modelled outcomes were adjusted for management judgements and post model adjustments amounting to € 550 million were approved. 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.	Following detailed assessment of the conclusions made by Management, and the approval of the underlying scenarios therein, the Commitee is satisfied that the judgements and assumptions utilised in determining the total ECL provision stock of € 1,885 million, and year end writeback of € 238 million, are appropriate.
Going Concern	The Directors are required to make an assessment of the Group’s ability to operate as a going concern for at least a 12 month period from publication of this Annual Financial Report. The Committee was asked to express an opinion to the Board as to whether a statement to this effect could properly be made. In considering this statement, the Committee assessed the Group’s detailed forecasts, as well as the capital position of the Group, with due regard for potential stress events and the impact of the macroeconomic environment.	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.
Retirement Benefit Obligations	There is a significant degree of judgement and estimation 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 payment increases, and approved these assumptions as inputs in the calculation of the IAS 19 pensions position and specifically for the AIB Group Irish pension scheme.	Based on the work performed, the Committee is satisfied that the assumptions supporting the retirement benefit obligations are reasonable.

Key Issue	Committee Consideration	Committee Conclusion
Deferred Taxation	The Group has recognised deferred tax assets for unutilised losses of € 2,840 million (€ 2,763 million in 2020). The recognition of deferred tax assets is reliant on the assessment of future profitability and the sufficiency of those profits to absorb losses carried forward. A number of significant judgements are made as to the projection of long term future profitability due to the period over which recovery extends. In assessing the recognition of the deferred tax assets, the Committee considered a range of evidence presented by Management. The Committee noted, for unutilised losses in Ireland which represent the vast majority of the Group's deferred tax assets, that based on the Group's three year financial plan, with the application of a profit growth rate of 2% from 2025, that it is assessed that it will take in excess of 20 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. For the UK, 15 years is the period that taxable profits are considered more likely than not. The Committee considered the current uncertainties in longer term profitability forecasting in the context of the early stage of implementation of the new AIB UK strategy at 31 December 2021.	In light of the evidence presented by Management, the Committee agreed that they were supportive of the recognition policy in place for the deferred tax assets, and agreed that the management judgement applied was appropriately supported by the Group's long term financial and strategic plans.
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. Further details of the Group's provisions for liabilities and commitments are shown in note 36 to the financial statements, with further detail regarding the Belfry investment funds and related review programme within this note. Significant management judgement and estimation is required in this process which, of its nature, may require revisions to earlier judgements and estimates, particularly in establishing provisions and the range of reasonable potential losses. It is accepted that a range of outcomes are possible, however, the provision in place at 31 December 2021 reflects Management's best estimate of provision amounts based on the information available.	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.

Governance and oversight – Report of the Board Audit Committee

Other Key Areas of Focus

Financial Reporting

During the course of the year, the Committee considered each of the areas above and the significant matters pertaining to this Annual Financial Report and the Group's Half-Yearly Financial Report for the six months ended 30 June 2021. The Committee concluded that it could recommend to the Board for approval on the basis that the information therein was a fair, balanced and understandable assessment of the Company's position and prospects.

In addition, as integral to that review of both this Annual Financial Report and the Half-Yearly Financial Report, the Committee considered the minutes of the Group Disclosure Committee, in advance of making any recommendations.

The Company's Pillar 3 report is subject to the same review processes as its Annual Financial Report and accounts. The Committee therefore reviewed the year end 2020 and Half-Yearly 2021 Pillar 3 disclosures, as well as the Pillar 3 Policy, and made positive recommendations in that regard.

Internal Audit

The Committee is responsible for considering and approving the remit of the Internal Audit function, approving the internal audit plan, and ensuring it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. It also receives the function's reports and evaluates the adequacy of the Group's responses to them. The Committee ensures that the Internal Audit function has adequate standing and is free from management or other restrictions which may impair its independence.

Given the significant change in Committee composition over 2021, outlined earlier in the report, coupled with a newly appointed Group Head of Internal Audit in 2020, the Committee Chair requested that an independent External Quality Assessment of Internal Audit be undertaken. The outcome of that review, which concluded in mid-2021, reported that the Internal Audit function operates efficiently within the Group. However, in response to the Group's Strategy and external environment, it was agreed that the function would benefit from additional resourcing, with a focus on specific skills and capabilities in critical domains such as Credit Risk. The function will also focus on the further adoption of best in class Data Analytics audit techniques, thus ensuring that the team continues to be in the best possible position to protect the Group into the future.

In December 2020, the Committee considered and approved the annual internal audit plan for 2021, which was based on an assessment of the key risks faced by the Group. Progress in respect of the plan was monitored throughout the year. With the approval of the Committee, the audit plan may be revised during the year based on the ongoing assessment of the key risks or in response to the requirements of the Group. Due to the demands of the COVID-19 pandemic in 2021, the plan was subject to revisions, with a number of audits added during the year and a number of intended audits for completion being moved to the first quarter of 2022. Any revisions to the annual plan were considered with due regard for the overall risk profile of the Group.

The Group Head of Internal Audit provides the Committee with regular assessments of the skills required to conduct the audit plan and whether the internal audit budget is sufficient to recruit and retain staff, or to procure subject matter expert resources with relevant experience.

Significant findings of internal audit reports and Management's responses were discussed at meetings of the Committee throughout the year. Any overdue actions were reviewed and challenged by the Committee. During the year, the Chair of the Committee met regularly with the Group Head of Internal Audit between scheduled meetings of the Committee to discuss audit issues arising and insights into the control environment. The Group Head of Internal Audit has unrestricted access to the Chair of the Board Audit Committee.

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. Additionally, the Committee considered Group Internal Audit's approach for ensuring adherence to Article 191 of the Capital Requirements Regulation including the output of the Annual General Risk Assessment relating to Internal Models and the related annual work plan as detailed in the 2022–2024 Audit Plan.

External Audit

The Committee has primary responsibility for overseeing the relationship with, and performance of the Group's existing Auditor, Deloitte. The Audit Committee reviewed the terms of engagement and monitored the independence and effectiveness of the Auditor. The remuneration of the Auditor for the year 2021 was also considered by the Committee and recommended to the Board for approval.

The Committee provided oversight of the Auditor, including a review of the Auditor's internal policies and procedures for maintaining independence and objectivity and consideration of their approach to audit quality and materiality. The Committee reviewed and approved the audit plan (for both the half-year and annual audit) as presented by Deloitte at the Audit Committee meetings in 2021. The Committee also reviewed the performance of the Auditor and assessed the qualifications and expertise of their resources as well as considering the Auditor's findings, conclusions and recommendations arising from their work.

In line with monitoring the objectivity, independence and effectiveness of the Auditor and in accordance with the EU Audit Regulations 537/2014 and Directive 2014/56/EU, which was transposed into Irish law on 25 July 2018, an update was received in relation to the Group's policy on the hiring of former employees of the Auditor.

The Group's policy is that the Auditor and its affiliates may be used for non-audit services that are not in conflict with the Auditor's independence and where sound commercial reasons exist. This policy, which outlines the types of non-audit fees for which the use of the Auditor is pre-approved or requires specific approval, was reviewed and approved by the Committee and all non-audit services and fees were approved in accordance with Group policy. Further details on the approach can be found at the Group's website at: https://aib.ie/investorrelations. Details of fees paid for audit and non-audit services are outlined in note 14.

Appointment of External Auditor

Deloitte were appointed as the Group's Auditor in 2013 and, in accordance with the relevant regulatory requirements, will complete their maximum term of 10 years with the audit for the year ended 31 December 2022.

The Committee oversaw the tender process of the appointment of the next Group Auditor. It was agreed that the tender process should be concluded in 2021 to ensure future compliance with the UK Corporate Governance Code and EU legislation.

In mid-2021, following an evaluation by the Committee, a number of firms who were considered to have the required resources and competencies were invited to participate in the process. Written submissions and presentations from the proposed firms were evaluated and a shortlist of firms, who demonstrated the calibre, resources and experience needed to deliver the audit were selected to make presentations to the Audit Tender Selection Committee, a subcommittee chaired by the Audit Committee Chair. This subcommittee also included Non-Executive Director, Executive Director and Executive Management membership, including the Chair of the UK Audit Committee.

Following the presentations and an evaluation of the capabilities, competencies and resources of the shortlisted firms, a recommendation was made to the Board that PwC be selected as Auditor of the Group with effect for financial year end 31 December 2023. A resolution to this effect will be presented to the shareholders at the Annual General Meeting of the Company in due course.

A transition plan setting out the agreed principles, framework and timeline to ensure the efficient transfer of the audit from the existing Auditor Deloitte to PwC will be prepared and considered by the Committee to ensure a smooth transition.

Governance and oversight – Report of the Board Audit Committee

Speak Up and Code of Conduct

The Committee reviews the arrangements in place that allow workers to raise any concerns, in confidence, about possible wrongdoings in financial reporting or other matters. Given this important role in relation to whistleblowing and protected disclosures, the Committee Chair met with the Group Head of Speak Up to discuss material cases and enhancements to Speak Up arrangements over the course of the year. The Group has a Speak Up Policy, which allows workers to safely and confidentially report concerns about suspected wrongdoing related to the Group through designated channels, including through a dedicated Speak Up channel and to nominated senior leaders. To ensure that the Speak Up policy and whistleblowing options are embedded in the operations of the Group, all employees received training and were tested to ensure their understanding.

The Committee also considered the operation of the enhanced Code of Conduct Framework and assisted the Board in its assessment of the adequacy of the arrangements. The Committee also received updates from Management on the operation of the Speak Up process and the Committee further considered reports on the operation of the Group Code of Conduct.

Internal Controls

The Group's internal control and risk management systems are embedded within the organisation structure and it is the Committee's responsibility to review the adequacy and effectiveness of the control environment on behalf of the Board.

Throughout the year the Committee:
- Received updates from the Chief Financial Officer, aligned to the half-year and year end reporting timelines, regarding the testing, operation and effectiveness of the system of controls over financial reporting.
- Reviewed and advised the Board on the appropriateness of the Directors' statements in this Annual Financial Report relating to the Group's systems of internal controls.
- Reviewed the outcomes of half-year and year end overall assessments of the control environment undertaken by Group Internal Audit.
- Reviewed quarterly reports from the Chief Credit Officer regarding the credit control environment.
- Received an update on the continuous improvement initiatives and streamlining efficiencies in relation to "Key Control Enhancement Themes" – IT, Governance, Change and Third Party Management.
- Considered the approach to combined assurance across the Group, as well as the operation of the three lines of defence model.

The Committee, having assessed the above information over the year, is satisfied that the internal control and risk management framework is operating effectively.

Subsidiary Oversight

This year, the Committee sought to further strengthen collaboration between the Group Audit Committees. The Committee Chair met with the material subsidiary audit committee Chairs outside of the regular scheduled Committee meetings in order to discuss audit committee priorities and to gain a full understanding of matters of relevance for the individual subsidiaries. To develop a better understanding of the key issues and challenges across the Group, the Committee Chair also attended a number of material subsidiary audit committee meetings throughout the Group. 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 those audit committees to ensure effective oversight and awareness of any issues and discussion themes.

Governance and oversight – Report of the Board Risk Committee

"During the year, the Committee maintained oversight of the risks arising from the impact of COVID-19, as well as considering the potential impact of the delivery and implementation of the Group's inorganic growth initiatives on the overall risk profile."

Brendan McDonagh,
Committee Chair

Chair's Overview

On behalf of the Board Risk Committee (the "Committee"), I am pleased to report on how the Committee has discharged its duties during 2021. The objective of this report is to provide an insight into the workings of, and the key matters considered by, the Committee during the course of 2021.

The primary purpose of the Committee is to assist and advise the Board in fulfilling its risk governance and oversight role. In addition to satisfying the wide-ranging responsibilities of the Committee as set out in its Terms of Reference, during the year the Committee maintained oversight of the risks arising from the impact of COVID-19, and considered the potential impact of the delivery and implementation of the Group's inorganic growth initiatives on the overall risk profile. A detailed summary of the key areas of focus for the Committee throughout 2021 has been set out for your information overleaf.

Committee Membership

The Committee currently consists of seven Non-Executive Directors, all considered by the Board to be independent.

Ms Carolan Lennon stepped down from the Committee in October 2021. I would like to take this opportunity to thank Carolan for her significant contribution during her time as Committee Member. I am very pleased to welcome Mr Andy Maguire who joined the Committee in March 2021, and the Committee was further strengthened by the addition of two new Members in September, Mr Jan Sijbrand and Ms Tanya Horgan. I look forward to working with our new Committee Members over the coming years.

To ensure co-ordination of the work of the Committee with the Board Audit Committee, both myself and Ms Sandy Kinney Pritchard, the Board Audit Committee Chair, are members of both Committees. This approach assists with providing effective oversight of risk and finance matters. 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 attendance at meetings are outlined on page 137.

The Group Chief Risk Officer has unrestricted access to the Committee, and attends all Committee meetings. The Chief Financial Officer, Group Head of Internal Audit, the lead External Audit partner and the Chair of AIB Group (UK) p.l.c. are also invited to attend all Committee meetings.

Looking ahead to 2022, delivery against the ongoing regulatory compliance commitments and obligations of the Group will continue to be reviewed on an ongoing basis. In addition, the Committee will continue to focus on the management of strategic and emerging risks for the Group throughout the delivery of the overall strategic objectives. Aligned to the emerging risk profile and the external operating environment, there will also be an increased emphasis on the increasingly prevalent Environmental, Social and Governance risk agenda and on the threats posed from the external cyber risk landscape. Other risk areas, including any potential tail risk arising from the COVID-19 pandemic, will continue to be monitored through the ongoing reporting provided to the Committee.

In what has been a busy year for the Committee, I would also like to thank my fellow Committee Members for their contributions over the past twelve months.

I would also like to take this opportunity to extend my thanks to the outgoing Chief Risk Officer ("CRO"), Ms Deirdre Hannigan, for her commitment and dedication to the role since she joined the Group in 2017. Deirdre has made a significant contribution to driving the positive risk culture which has developed in the organisation, and has delivered enhancements to the three lines of defence model. The Committee wishes her well in the next stage of her career.

Brendan McDonagh
Committee Chair

Governance and oversight – Report of the Board Risk Committee

Key Areas of Focus

Credit Risk	During 2021, the Committee considered overall credit quality and received regular updates on customers impacted by COVID-19. The Committee also considered the impact of the pandemic on individual sectors, and the associated risk ratings applied to those sectors. The focus of the Committee shifted from the initial response by the Group to COVID-19 to the ongoing credit management and oversight of the Group credit portfolio. The Committee assessed the credit risk profile and trends, including the performance of significant credit transactions on a regular basis. The Committee also met in conjunction with the Board Audit Committee to review, challenge, and approve the macroeconomic scenarios for use in the Group's Expected Credit Loss ("ECL") models. An improvement in the Credit Risk profile was reported to the Committee during 2021, reflective of a slowdown in the migration to default across portfolios, and the trajectory of new lending quality across all asset classes. Notwithstanding these improvements, the Committee has remained cognisant of the external pressures on inflation and the impact of COVID-19 restrictions, as well as the long term impact of Brexit for customers.
Regulatory Compliance Risk Management	Oversight of the Group's adherence to, and delivery of, regulatory compliance commitments is a key focus for the Committee. Throughout the year, both the CRO and the Group Chief Compliance Officer provided updates regarding the status of the regulatory compliance risk profile at each of its scheduled meetings. The Committee also received regular updates regarding the delivery of specific regulatory change programmes, including the Payment Services Directive 2 ("PSD2") Strong Customer Authentication eCommerce programme, and a review of progress against the delivery of adherence to the European Banking Authority ("EBA") guidelines on Loan Origination and Monitoring ("LOaM"). The area of financial crime was considered on a regular basis throughout the year, through ongoing reporting as well as a number of standalone updates provided by the Money Laundering Reporting Officer. The Committee received reports regarding the outcome of the 2021 Group Financial Crime Business Risk Assessment, which reviewed the Anti-Money Laundering/Counter Terrorist Financing and Financial Sanctions risks and controls across the Group, including relevant subsidiaries. Given the importance of ensuring that the Group keep pace with the external threat landscape and related legal and regulatory requirements, the Committee also received updates in relation to the establishment of a programme to manage the implementation of the 5th Anti-Money Laundering Directive ("5AMLD"), as well as the embedding of a revised Financial Crime Operating Model.
Business Model, Financial and Market Risks	The Group continued to be active from a corporate development perspective, with a number of inorganic transactions undertaken during the year with a view to strengthening the Group's overall business model. The Committee is cognisant of the potential risks arising from the delivery of the strategic aims of the Group, both in terms of the business model risk profile and the potential impact on the operational risk profile of the Group. In providing oversight of the risks associated with these key change initiatives, the Committee received updates in terms of the manner in which entities, including Goodbody, would be integrated into the overall risk management framework of the Group. The Committee also received regular reports regarding the status of business model risk in the context of delivery of the Financial Plan and medium term targets. Given the potential impact of external factors outside the direct influence of the Group, including economic cycles and technological changes, financial and market risk is also managed through Board-approved risk appetite limits with comprehensive polices in place to ensure that the risks posed by changes and mismatches in interest rates are effectively managed. In terms of their oversight role, the Committee considered a financial risk deep-dive during the course of the year with particular attention given to the Interest Rate Risk in the Banking Book ("IRRBB") and macroeconomic factors, including inflation.
Conduct Risk	Delivery of fair customer outcomes and the related management of conduct risk continue to be a central objective for the Group. To that end, the Committee received regular reporting regarding the status of the conduct risk profile throughout the year, including an overview of current trends, the status of open restitution programmes, and customer complaints metrics, including the status of SME complaints.

Risk Appetite, Risk Profile and Risk Strategy	The Committee provided oversight of the Group Risk Appetite Statement ("RAS") throughout the year, and made recommendations to the Board in that regard. The risk profile of the Group was monitored on an ongoing basis against agreed Group RAS Metrics through regular reports from the CRO 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.
Capital, Funding and Liquidity	Regular reviews are undertaken to ensure that the Group is compliant with internal minimum capital and liquidity targets and regulatory liquidity requirements. With this in mind, the Committee reviewed the results of regular stress testing, as well as documents underpinning the ICAAP and ILAAP. In conjunction with the Board Audit Committee, the Committee also reviewed the macroeconomic scenarios for use in stress testing and the ICAAP models, and recommended those scenarios 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.
Operational Risk	Managing operational risk continues to be a key focus for the Group, due to the complexity and volume of change, the IT infrastructure and cyber risk. The Committee focused on ensuring that the Group has an effective framework for managing operational risk, including the use of key risk and control indicators for flagging operational risk events. The Committee received regular updates on the Operational Risk profile and considered a deep-dive on organisational operational challenges over the course of 2021. Updates were also received on the Group's approach to third party management, providing enhanced oversight of key outsourcing and critical arrangements across the Group in line with the EBA Guidelines on outsourcing.
Cyber Security Risk	Throughout 2021, the Committee received regular updates from the Chief Technology Officer on cyber security. Additionally, cyber training was provided to the Board as part of the continuous education programme. There continues to be significant focus on cyber capability and IT resilience, with the development of an enhanced Cyber Strategy Framework into 2022 which will form the basis for future iterations of the Group's Cyber Strategy.
Model Risk	The Committee received regular updates on model capabilities and considered a revision to the IRB Rollout plan, which was subsequently recommended to the Board for approval. Additionally, quarterly Model Risk Reports were considered, with an assessment of model risk improvements and progress against deadlines undertaken. The various model risk improvements and the status of the quality and adequacy of those models was assessed through independent validation, the outcome of which was also reported to the Committee.
Regulatory Engagement	Throughout the year, the Committee considered the management action plans put in place to address findings identified as part of regulatory inspections, and also received regular updates on ongoing regulatory programmes. The Committee received regular reports on the structured and holistic approach to engagement with all regulators across the Group, given the importance of continuously fostering strong stakeholder relationships.
Climate Risk	During the year, the Committee approved amendments to the Risk Management Framework and the Group Credit Risk Policy in relation to climate risk. Qualitative risk appetite statements were updated for two of the Group's material risks, Credit and Business Model risk. These take into account Environmental, Social and Governance ("ESG") issues when considering Group strategy and when lending in climate related risk areas. Management will continue to monitor transitional and physical climate change risks in 2022 with plans to identify key risk indicators and develop quantitative risk appetite metrics for managing climate and environmental exposure in line with Group strategy.

Governance and oversight – Report of the Nomination and Corporate Governance Committee

> "There was significant progress made on the Board Succession Plan over the course of the year with the appointment of the Chair, five other Non-Executive Directors and one Executive Director to the Board."

Elaine MacLean,
Committee Chair

Chair's Overview

I am pleased to present the report of the Nomination and Corporate Governance Committee (the "Committee") for the year ended 31 December 2021 which sets out the Committee's main areas of focus over the past year and priorities for 2022. 2021 saw significant changes in Board composition and built on the succession planning work undertaken by the Committee in recent years, most notably on the Chair selection process which culminated with the appointment of Mr Jim Pettigrew as Non-Executive Chair of the Board on 28 October 2021. I would like to thank Ms Carolan Lennon, our Senior Independent Director, for leading this search process.

There was significant progress made on the Board Succession Plan over the course of the year with the appointment of the Chair, five other Non-Executive Directors and one Executive Director to the Board. These appointments mark the successful conclusion of a number of Director selection processes which had sought to enhance the overall skills profile of the Board taking into account the Board Skills Matrix and the future strategic direction of the Group. The Committee is satisfied that the new Board Members bring a diverse range of skills that complement the skills of existing Directors and ensure an effective and appropriate balance of knowledge, skills and experience on the Board. The current Board size of sixteen Directors reflects the need to balance the onboarding of newer Directors and ensure an appropriate transition period and continuity of leadership to position the Board to remain effective in its leadership and oversight of the Group into the future as Board members with longer tenure prepare to retire from the Board in the coming years.

The number of Board appointments during 2021 meant a considerable amount of time was dedicated to the onboarding and induction of the new Non-Executive Directors and the Committee oversaw this process. In addition, the Group's acquisition of Goodbody meant additional subsidiary board composition planning and appointments for the Committee to consider. A summary of the other key areas of focus for the Committee throughout 2021 is set out below.

Looking ahead, the Committee's key priorities for 2022 will include ensuring the orderly and planned retirement of longer-serving Directors, material subsidiary board composition, and Executive Committee succession planning and appointments.

Committee Membership

The Committee currently consists of five Members: four Non-Executive Directors considered by the Board to be independent and the Non-Executive Chair of the Board who was deemed independent on appointment. Ms Carolan Lennon and Mr Jim Pettigrew were appointed on 1 October and 28 October 2021, respectively, and joined myself, Mr Brendan McDonagh and Ms Helen Normoyle on the Committee. The biographies of the Committee Members and a record of attendance at meetings are set out on pages 12 to 15 and page 137.

The Chief Executive Officer and Chief People Officer normally attend Committee meetings except where the business of the meeting relates to their successors. The Committee also met with no Management present on a number of occasions.

I would like to thank my fellow Committee Members for their continued commitment through another busy year.

Elaine MacLean
Committee Chair

Key Areas of Focus

Board Succession Planning, Renewals and Board Committee Composition	The size, structure, composition and succession plans of the Board and Board Committees was a standing item on the agenda of scheduled Committee meetings in 2021. Considerations in this regard included oversight and monitoring of the search processes which concluded in 2021, reviewing Director tenure and ongoing suitability, and making recommendations to the Board to refresh Board Committee composition. The Committee used the services of both Egon Zehnder and MERC Partners Spencer Stuart during 2021 to support Non-Executive Director searches. 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. 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 appointment of a number of new Non-Executive Directors to the Board over the course of 2021 provided the opportunity for the Committee to consider and make recommendations to refresh Committee membership where appropriate. Details of changes to Committee membership during 2021 are available in each of the Committee reports. The current Committee memberships and any additional roles held by Directors are set out on pages 12 to 15.
Chair Search	As previously reported, Mr Richard Pym retired as Chair on 6 March 2020. While work to identify a successor had commenced prior to his resignation, the process took longer than anticipated. The search was led by the Senior Independent Director, Ms Carolan Lennon, and Egon Zehnder were engaged as the external search agents. The Committee considered the shortlisted candidates' skills and experience, independence, fitness and probity, capacity to devote sufficient time to the role and broader diversity and collective suitability requirements before recommending the final preferred candidate to the Board. The process concluded successfully with the appointment of Mr Jim Pettigrew as Chair on 28 October 2021.
Executive Succession Planning and Appointments	Executive succession planning was considered on an ongoing basis by the Committee during the year. In addition to broader succession planning activities, the Committee considered specific proposals regarding Head of Control Function and Executive Committee member appointments. The Committee recommended a preferred candidate for the role of the Chief Risk Officer to the Board for approval. The Committee oversaw the process to identify a successor for the role of AIB Group UK Managing Director and approved a proposal in February 2022.
Diversity	The Committee reviewed the Board Diversity Policy and recommended an increase in the gender diversity target to 40% to reflect the Group's ambition and to build on its strong track record on diversity. At 31 December 2021, the percentage of females on the Board was 44%. In relation to management, the Committee considered diversity as a key component within the succession plan for the Executive Committee and its succession pipeline which aims for gender balance, a number of female talent development initiatives, and the further embedding of broader inclusion and diversity considerations within senior selection processes. In line with reporting requirements under the UK Code, at 31 December 2021, the gender balance of senior management, which for this purpose is considered to be the Executive Committee, was 45% female and 55% male, and of their direct reports was 41% female and 59% male.

Governance and oversight – Report of the Nomination and Corporate Governance Committee

Corporate Governance

The Committee undertook its annual schedule of work in relation to the Group's governance arrangements, corporate governance compliance, and related policies including:

- a review of the internal policies on the assessment of suitability of members of the Board and key function holders;
- a review of the Board's Code of Conduct and Conflicts of Interest Policy for Directors;
- a review of the Board Diversity Policy and diversity target;
- a review of the ongoing independence of Non-Executive Directors;
- a review and assessment of sufficient time commitment for incoming Directors and existing Board members;
- a review of the ongoing collective suitability of the Board;
- oversight of compliance with applicable corporate governance requirements and guidelines;
- oversight of upstream regulatory developments in corporate governance and best practice;
- oversight of the internal Board Effectiveness Evaluation 2021; and
- consideration of workforce engagement processes via the Designated Non-Executive Director.

Further details on a number of these matters are available in the Corporate Governance Report on pages 135 to 139.

Subsidiary Board and Committee Composition

The Committee considered a number of executive and non-executive appointments to the Group's material subsidiary boards and their committees, including for AIB Group (UK) p.l.c., AIB Mortgage Bank u.c., EBS d.a.c. and Goodbody Stockbrokers u.c. Such appointments included the recommended appointment of independent Non-Executive members of the Group Board to the subsidiary boards and committees, where established, to ensure appropriate information flow, oversight, consistency and alignment between the Group and its subsidiaries.

The Committee also considered Non-Executive Director term anniversaries and made recommendations for re-appointment to the subsidiary boards where relevant, taking account of ongoing suitability considerations.

Governance and oversight – Report of the Remuneration Committee

> "The Committee would like to see the implementation of a competitive, performance-based remuneration model across the Group which meets regulatory requirements 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 2021. This report provides an overview of the Committee's key areas of focus in 2021 and its priorities for the year ahead.

The remuneration restrictions contained in certain agreements with the Irish State following the recapitalisation of the Group in 2010 and 2011 continue to impact the Group's remuneration structures and the Committee's independent judgement and discretion to authorise remuneration outcomes that are linked to the delivery of the Group's long term strategy. The Committee awaits the outcome of the Minister for Finance's review into the retail banking sector and the remuneration restrictions in place.

The Committee would like to see the implementation of a competitive, performance-based remuneration model across the Group which meets regulatory requirements and best practice guidance and operates in the best interests of employees, shareholders and other stakeholders by supporting and promoting the long term, sustainable success of the Group.

Further detail on the Group Remuneration Policy and the Committee's oversight of same is available in the Corporate Governance Remuneration Statement which follows this report.

The Committee's remit broadened in 2021 following the acquisition of Goodbody which remains a separately regulated legal entity within the Group and will continue to operate a variable remuneration structure for its employees. The Committee spent a considerable amount of time in 2021 deliberating the most appropriate governance approach for the Goodbody variable remuneration structures. Other key areas of focus for the Committee during 2021 are set out below.

A priority for the Committee in 2022 is continued focus on the implementation, governance and oversight of the remuneration structures in place across the Group. This will include oversight of the variable remuneration arrangements for Goodbody employees, engaging with the Board Risk Committee as required.

Committee Membership

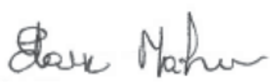
The Committee currently consists of four Members: three Independent Non-Executive Directors, namely myself, Mr Brendan McDonagh and Ms Ann O'Brien, and the Chair of the Board, Mr Jim Pettigrew, who was considered independent on appointment. Mr Pettigrew joined the Committee with effect from 1 January 2022. In addition to being a Committee Member, Mr Brendan McDonagh is also the Chair of the Board Risk Committee and this cross-membership supports information flow and co-ordination between the work of the two Committees. The biographies of the Committee Members and a record of attendance at meetings are outlined on pages 12 to 15 and page 137.

The Committee was supported in its work by the Group Reward team and by PricewaterhouseCoopers LLP (PwC UK). PwC UK was appointed as independent remuneration adviser by the Committee in 2019, following a review of potential advisers and the services provided. PwC UK is a signatory to the voluntary code of conduct in relation to remuneration consulting in the UK.

Aside from their work supporting the Committee, during 2021, PwC UK and its network firms provided professional services in the ordinary course of business including advisory, regulatory and taxation related services to AIB and may, from time to time, provide services to individual Directors as part of directorship or executive roles held outside of the Group. The Committee is satisfied that the advice received is independent and objective.

The Chief Executive Officer, the Chief People Officer and other members of Management are invited to attend meetings at the Committee's request and where required for the business of the meeting. The Chief Risk Officer is a permanent attendee at meetings to provide a risk view on any matters submitted for the Committee's consideration except where the Committee is considering the Chief Risk Officer's own remuneration or that of peers. The Committee operates under the principle that no individual shall be involved in decisions regarding their own remuneration and no member of Management is permitted to attend where a matter for discussion relates to their own remuneration.

I would like to thank my fellow Committee Members for the commitment they have shown throughout 2021.



Elaine MacLean
Committee Chair

Governance and oversight – Report of the Remuneration Committee

Key Areas of Focus

Remuneration Policy	The Committee conducted its annual review of the Group Remuneration Policy and was satisfied that the Policy was operating effectively and as intended. The Committee also considered how executive remuneration aligned to wider employee remuneration, how the Policy aligned to the culture of the Group and its five strategic pillars, and how the Group's remuneration policies and practices were transparent to the wider employee population. Further details on the Remuneration Policy is available in the Corporate Governance Remuneration Statement which follows this report.
Goodbody Remuneration Governance	During the year the Committee: • considered and approved the remuneration governance approach, establishing responsibility for oversight of remuneration matters within Goodbody and the appropriate engagement and communication mechanism between the Goodbody Board and the Group Board on remuneration matters; • considered and approved the identification of a number of Goodbody roles as Material Risk Takers (MRTs) of the Group; and • considered and approved the recommended approach for 2021 variable remuneration subject to the appropriate risk adjustment at an organisational and individual level.
Remuneration of Individuals	The Committee considered a number of individual remuneration proposals at Executive Director, Executive Committee and Head of Control Function level in line with its terms of reference.
Subsidiary Chair and Non-Executive Director Fees	The Committee considered proposals to revise the fee structure in place for the Chair and Non-Executive Directors of a number of the Group's material subsidiaries. These changes were recommended to the Board for approval with a view to ensuring alignment in the fee structure across the Group's entities, with the market and best practice.
Gender Pay Gap Reporting	The Committee received updates on analysis and benchmarking undertaken with regard to the Group's preparation for the introduction of Gender Pay reporting requirements in Ireland.
Committee Briefings	In preparation for the integration of Goodbody into the Group, the Committee received briefings on the applicable regulatory requirements under the Capital Requirements Directive V and the Investment Firms Directive.
Compliance and Annual Reviews	The Committee conducted its programme of annual reviews including a review of the process for identifying MRTs and the limited variable commission schemes in operation across the Group. Each review was accompanied by a view from the Risk function to support the Committee in its oversight of same. The Committee approved a change to the timing of the MRT process to make the process more pro-active going forward. Further details on the identification of MRTs is available in the Corporate Governance Remuneration Statement which follows this report.

Directors' Remuneration

Details of the total remuneration of the Directors in office during 2021 and 2020 are provided in the Corporate Governance Remuneration Statement on pages 155 to 160.

External Directorships held by Executive Directors

Dr Colin 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 he receives no remuneration from either role.

Mr Donal Galvin does not hold any Non-Executive Directorships outside of the Group. He is a Non-Executive Director of Goodbody. Mr Galvin does not receive remuneration for this role.

Limitations on such external directorships are outlined in the Capital Requirements Directive and both of the Group's Executive Directors are fully compliant with these limitations.

Governance and oversight – Corporate Governance Remuneration statement

Remuneration Constraints

The Group has been required to comply with certain executive pay and compensation restrictions following the Group's re-capitalisation by the Irish Government in 2010 and 2011. The application of market aligned remuneration policies and practices are significantly constrained by the terms of Subscription and Placing Agreements entered into between AIB and the Irish Government. In particular, AIB is precluded from introducing any new bonus or incentive schemes, allowances or other fringe benefits without prior agreement with the State. Consequently, the absence of performance based variable pay, combined with the requirement to operate within an overall cap on individual salaries and allowances of € 500,000, precludes AIB from aligning the remuneration of key executives and other key employees with the achievement of longer term customer, financial and strategic targets for the vast majority of employees.

The Group's inability to apply market aligned remuneration practices and, in particular, the inability to offer executive remuneration on an equal footing with competitors for talent in the market represents a key risk to the Group. The Remuneration Committee endeavours to monitor and address this risk on an ongoing basis.

As part of the acquisition of Goodbody in 2021 (see note 27), it was agreed with the Department of Finance that the remuneration restrictions that apply to AIB would not apply to Goodbody employees, and that they could continue to remain eligible for variable remuneration.

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 the Group's customers and shareholders; to attract, develop and retain the best people and to safeguard the Group's capital, liquidity and risk positions. The Board recognises that the long term success of the Group is dependent on the talent of employees and, in particular, the ability to consistently perform at the highest level in the best interests of our customers.

The 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 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 complies with the relevant remuneration requirements of S.I. No. 81 of 2020 – European Union (Shareholders' Rights) Regulations 2020, although the constraints on variable remuneration in AIB mean that some of the requirements of both it and the Code are not applicable to the Group at this time. This is something the Group will continue to keep under review.

Details regarding the application of the remuneration-related aspects of the UK Corporate Governance Code are available in the Corporate Governance Remuneration Statement on pages 201 to 207 in the AIB Group plc Annual Financial Report which is available on the Group website at https://aib.ie/investorrelations.

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 V), the Investment Firms Directive (IFD) and relevant guidelines issued by the European Banking Authority (EBA) and other regulatory authorities. In the general 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.

Governance and oversight – Corporate Governance Remuneration statement

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 2021. There were no employees whose total remuneration exceeded € 1 million during 2021.

The Group published its gender pay gap report for 2020 in 2021 in relation to its UK based employees. The disclosures are available on the AIB (GB) website, www.aibgb.co.uk.

Material Risk Takers and Risk Oversight

The Group is required to maintain a list of employees whose professional activities have a material impact on the Group's risk profile. 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 Remuneration 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 2021

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 2021, remuneration across the Group continued to be principally comprised of fixed pay elements encompassing base salary, allowances, employer pension contributions and non-financial benefits. 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 places considerable emphasis on the need for employees to plan for an appropriate standard of living in retirement and an appropriate pension scheme is available to all employees for that purpose. Further details in respect of the Group's fixed pay elements (including standard pension contributions and those for Executive Directors and ExCo Members) are outlined in the table on page 158. All of the Group's defined benefit pension schemes were closed to future accrual by 31 December 2013 and all Group employees accrue pension benefits on a defined contribution basis from 1st January 2014. Further details in respect of the Group's fixed pay elements are provided in the table below.

Increases to salary in 2021 were awarded following the annual pay review process, through promotion, progression and, in exceptional cases, through out-of-course increases to retain key talent and skills.

For 2021, a decision was taken to award flat pay increases of € 600/ £ 540/ $ 705 to our non-manager employees (Career Levels 1–3). Managers at Level 4 and above received no increase in 2021, irrespective of their performance. These increases represented a one year agreement with employee representatives. The next annual pay review is due to take place in April 2022. Through the Appreciate programme, recognition awards were made to all employees, apart from members of the Executive Committee, during 2021, which they could choose to redeem for Appreciate programme points, or have a donation made to charity. All eligible employees received at least one award (total value of € 125).

The remuneration of Executive Directors and members of the Executive Committee was determined and approved by the Remuneration Committee within the remuneration constraints set by the State.

The Group operates three business specific variable commission schemes which are designed to protect the rights and interests of customers via robust customer centric performance criteria, the prevention of conflicts of interest and the assessment and mitigation of risks to the customer. For those limited numbers of employees who currently participate in these schemes, sustainability risk is considered as part of the determination of final award outcomes.

As stated earlier, a separate reward structure applies to employees of Goodbody, which is not subject to the remuneration restrictions of the Group, as agreed with the Department of Finance. The remuneration structures at Goodbody comply with all applicable remuneration regulatory requirements.

Remuneration of Executive Directors and ExCo

The remuneration of Executive Directors and Executive Committee ("ExCo") members 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 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 Financial Officer were Executive Directors of the Group during 2021. 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 Financial Officer receives 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 2021. 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

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 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 (excluding Goodbody employees), including Executive Directors, are managed in accordance with existing remuneration restrictions. The annual base salary for each Executive Director is set out in the Directors' Remuneration Report.
Allowances	To provide a contribution to market aligned benefits and allowances generally available in the market.	Non-pensionable cash allowances are provided to eligible employees according to their career level.	Non-pensionable allowances for senior career levels range from € 10,000 to € 20,000 per annum (£ 8,300 to £ 11,000 in the UK). Allowances of up to € 30,000 per annum (£ 14,000 in the UK) are payable to 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 2021 and 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	2021 Total € 000
Executive Directors						
Colin Hunt			500	–	100	600
Donal Galvin			283	13	56	352
(Appointed 28 May 2021)						
			783	13	156	952
Non-Executive Directors						
Anik Chaumartin	38					38
Basil Geoghegan	81					81
Tanya Horgan	22					22
Sandy Kinney Pritchard	95					95
Carolan Lennon	109					109
Elaine McLean	85					85
Andy Maguire	64					64
Brendan McDonagh[1(a)]	218					218
(Deputy Chair)						
Helen Normoyle	85	30				115
Ann O'Brien	95					95
Fergal O'Dwyer	71					71
Jim Pettigrew	63					63
(Chair)						
Jan Sijbrand	22					22
Raj Singh	80					80
	1,128	30				1,158
Former Directors						
Anne Maher[5]						17
Tomás O'Midheach[6]			59	–	8	67
Total						2,194

[1]Fees paid to Non-Executive Directors in 2021 were as follows:

(a) In 2020, 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 the Chair of the Board was appointed in October 2021. This additional remuneration ceased at that time;

(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, Ms Helen Normoyle earned fees as quoted during 2021;

[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 Defined Contribution Scheme, in respect of which she earned fees as quoted, during 2021.

[6]Mr O'Midheach, a former Executive Director, resigned from the Group with effect from the end of January 2021. The amount quoted represents his normal salary, pension contributions and allowances, in accordance with Mr O'Midheach's employment contract, up to the date of his resignation.

*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	2020 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	220					220
(Deputy Chair)						
Helen Normoyle	78					78
Ann O'Brien	84					84
Raj Singh	80					80
	823					823
Former Directors						
Richard Pym	68					68
Tom Foley	56	56				112
Tomás O'Midheach			485	15	97	597
Anne Maher						41
Total						2,241

Interests in shares

The beneficial interests of the Directors and the Company Secretary in office at 31 December 2021, and of their spouses and minor children, in AIB Group plc's ordinary shares as the parent company of Allied Irish Banks, p.l.c., are set out in the Directors' Report on page 133.

Share options

No share options were granted or exercised during 2021, and there were no options to subscribe for ordinary shares outstanding in favour of the Executive Directors or Company Secretary at 31 December 2021.

Performance shares

There were no conditional grants of awards of ordinary shares outstanding to Executive Directors or the Company Secretary at 31 December 2021.

Apart from the interests set out in the Directors' Report on page 133, the Directors and Company Secretary in office at 31 December 2021 and their spouses and minor children, have no other interests in the shares of the parent company, AIB Group plc.

The year end closing price of AIB Group plc's ordinary shares on the Main Market of the Euronext Dublin Stock Exchange was € 2.41 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 – Internal controls

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 accounts, and which accords with the Central Bank of Ireland's Corporate Governance requirements for Credit Institutions 2015.

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 & 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 finances 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 statement and 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. BRC oversees and challenges the risk management function, which is managed on a day-to-day basis by the Chief Risk Officer ("CRO"), and liaises regularly with the CRO to ensure the Risk Function is adequately resourced and has appropriate access to information to enable it to perform its functions effectively and in accordance with relevant professional standards. The Committee further provides advice on the ongoing viability of the Group, taking into account the Group's overall position and principal risks.
- 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.
- The Chief Financial Officer ("CFO"), the Chief Risk Officer ("CRO") and the Group Internal Auditor are involved in all meetings of the BAC and BRC.
- The 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 reward fairly and responsibly, with a clear link to corporate and individual performance in compliance 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 its 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, climate and broader environmental impacts, reputation and trust and external reporting.
- The TDAC is 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, data and cyber security.
- 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 material subsidiaries. It keeps Board governance arrangements, corporate governance compliance and related policies under review and makes appropriate recommendations to the Board to ensure corporate governance practices are consistent with best practice standards.

*Forms an integral part of the audited financial statements

Governance and oversight – Internal controls

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 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 and exceptions are reported to the GRC and BRC through the CRO report. Elements of the CRO report are also contained in the Executive Management Report reported to the full Group Board. 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 the Group's Fitness and Probity programme.

For further information on the risk management framework of the Group, see pages 40 to 44 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.

Financial statements

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 12 to 15 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 2021 and of its profit for the year then ended;
- the Company financial statements prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the state of the Company's affairs as at 31 December 2021;
- 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

Jim Pettigrew
Chair

Colin Hunt
Chief Executive Officer

2 March 2022

Independent Auditor's Report

Independent auditor's report to the members of Allied Irish Banks, p.l.c.

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

Opinion on the financial statements of Allied Irish Banks, p.l.c. (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 2021 and of the profit of the Group for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements we have audited comprise:

The Group financial statements:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated Statement of Financial Position;
- the Consolidated Statement of Changes in Equity;
- the Consolidated Statement of Cash Flows; and
- the related notes 1 to 57, 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 of Cash Flows; and
- the related notes a to aj, 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 assets; • Defined benefit obligations; • Provisions for liabilities and commitments; and • IT systems and controls. Within this report, any new key audit matters are identified with ⮝ and any key audit matters which are the same as the prior year are identified with ⮞.
Materiality	We determined materiality for: – the Group to be € 54 million which is 0.4% of Total Equity of the Group; and – the Company to be € 54 million which is 0.5% of Total Equity of the Company.

Independent Auditor's Report

Scoping	We focused the scope of our Group audit primarily on the audit work in Allied Irish Banks, p.l.c. and three legal entities, all of which were subject to individual statutory audit work, whilst the other legal entities were subject to specified audit procedures, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations in those entities. These audits and specified audit procedures covered over 94% of the Group's total assets and 92% of the Group's total operating income.
Significant changes in our approach	There were no significant changes in our approach which we feel require disclosure.

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 models. 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 potential prolonged impacts of COVID-19 and the continuing impacts of Brexit on the ecomony; 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;
- understanding the Group and Company's Capital and Liquidity process, including under stressed scenarios;
- obtaining the updated financial planning exercise covering the period 2022 to 2024 undertaken by the Group in the second half of 2021;
- assessing whether the level of forecasted profits in the updated financial plan were appropriate by challenging the growth, profitability and economic assumptions 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.

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. Expected credit loss allowances on loans and advances to customers was € 1,885 million at 31 December 2021 (2020: € 2,510 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; – The definition of default; – Accounting interpretations and assumptions used to build the models that calculate the ECL; – The determination of key assumptions, including collateral valuation and cashflow timings, used in discounted cash flows ("DCFs") of individually assessed loans; – The completeness and accuracy of data used to calculate the ECL; – The completeness and valuation of post-model adjustments determined by Management for certain higher risk portfolios and to address known model limitations; and – Establishing the number and relative weightings for forward looking macroeconomic scenarios applied in measuring the ECL. This is highly subjective given that such assumptions are subject to significant uncertainty related to future economic outcomes, including the potential prolonged impacts of COVID-19 and the continuing impacts of Brexit. This results in a wide range of possible outcomes. Please also refer to page 140 (Report of the Board Audit Committee), page 202 (Accounting Policy (s) – Impairment of financial assets), Note 2 – Critical accounting judgements and estimates, Note 13 – Net credit impairment writeback/(charge) and Note 22 – 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 potential prolonged impacts of COVID-19.

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 portfolio sales and non-contracted write-offs, as well as recoveries on amounts previously written-off.

We evaluated the adequacy of disclosures made in the financial statements. In particular, we focused on challenging Management that the disclosures were sufficiently clear in highlighting the significant uncertainties that exist in respect of the ECL allowance and the sensitivity of the allowance to changes in the underlying assumptions.

Based on the evidence obtained, we found that the ECLs on loans and advances to customers are within a range we consider to be reasonable.

Recognition of deferred tax assets

Key audit matter description

Deferred tax assets of € 2,840 million (2020: € 2,763 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 residual 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 2022 to 2024. Growth assumptions and profitability levels underpinning the plan have been revised upwards compared to previous years and results in a decrease 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.

Please refer to page 140 (Report of the Board Audit Committee), page 192 (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 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 € 6,241 million (2020: € 6,226 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 140 (Report of the Board Audit Committee), page 191 (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 have evaluated the design and determined the implementation of 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.

Independent Auditor's Report

Provisions for liabilities and commitments	
Key audit matter description	The calculation of provisions for liabilities and commitments, including the Financial Services and Pensions Ombudsman ("FSPO") decision, the tracker mortgage examination and the sale of a series of property investment funds, known as Belfry, 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 € 79 million (2020: € 80 million) in regard to the FSPO Decision. In regard to the tracker mortgage examination the Group has recorded a provision of € 70 million (2020: € 70 million) for related enforcement fines expected to be imposed. The Group has recorded a provision of € 75 million (2020: Nil) for the anticipated cost of redress and other related costs that may be payable under the Belfry programme. Please refer to page 140 (Report of the Board Audit Committee), page 207 (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 provisions for liabilities and commitments, and we also assessed Management review and governance controls. We reviewed the relevant regulatory and legal correspondence. We challenged the reasonableness of assumptions used by Management and tested the underlying data and assumptions used in the determination of the provisions recorded. We reviewed the basis for recording and retaining a provision taking into consideration the information available and the requirements of IAS 37. Given the inherent uncertainty in the calculation of the provisions and their 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 liabilities and commitments 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. We regard this area as a key audit matter owing to the high level of IT dependency within the Group, as well as the associated complexity and the risk that automated controls are not designed and operating effectively.
How the scope of our audit responded to the key audit matter	We examined the design of the governance framework associated with the Group's IT architecture. We gained an understanding and tested relevant General IT Controls for systems we considered relevant to the financial reporting process, including access management, programme development and change management. We gained an understanding of relevant IT controls over applications, operating systems and databases that are relevant for the financial reporting process and tested their operating effectiveness. We assessed the 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.

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.

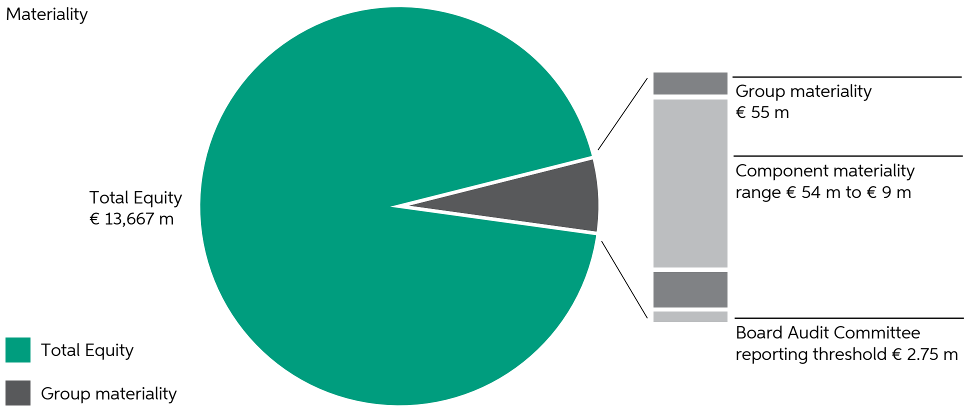
Independent Auditor's Report

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 € 54 million which is approximately 0.4% of the Group's Total Equity. 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 0.5% of Company Total Equity. We have selected Total Equity as an appropriate benchmark for Company materiality as the Company's primary purpose is to act as a holding Company with investments in the Group's primary subsidiary and therefore a profit based measure is not relevant.



We agreed with the Board Audit Committee that we would report to them any audit differences in excess of € 2.75 million as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Board Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Identification and scoping of components

We determined the scope of our Group audit by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group engagement team, or by auditors within Deloitte network firms operating under our instruction ("component auditors"). Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

Based on that assessment, we focused our Group audit work in Allied Irish Banks, p.l.c. and the three 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 whether there were any additional significant risks of material misstatement arising from the aggregated financial information of the remaining entities not subject to audit or specified audit procedures.

Working with other auditors

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), 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 132 to 162 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.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in those parts of the directors' report as specified for our review.

The Companies Act 2014 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 2021. 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.

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 9 years, covering the years ending 2013 to 2021.

The non-audit services prohibited by IAASA's Ethical Standard were not provided and we remained independent of the Company in conducting the audit.

Our audit opinion is consistent with the additional report to the Board Audit Committee we are required to provide in accordance with ISA (Ireland) 260.

Independent Auditor's Report

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

2 March 2022

Notes: An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in Ireland governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Consolidated income statement

for the financial year ended 31 December 2021

	Notes	2021 € m	2020 € m
Interest income calculated using the effective interest rate method	4	2,003	2,050
Other interest income and similar income	4	81	77
Interest and similar income	4	2,084	2,127
Interest and similar expense	5	(293)	(262)
Net interest income		1,791	1,865
Dividend income	6	3	26
Fee and commission income	7	648	570
Fee and commission expense	7	(160)	(169)
Net trading income/(loss)	8	15	(32)
Net gain on other financial assets measured at FVTPL	9	78	86
Net gain on derecognition of financial assets measured at amortised cost	10	1	24
Other operating income	11	8	3
Other income		593	508
Total operating income		2,384	2,373
Operating expenses	12	(1,679)	(1,544)
Impairment and amortisation of intangible assets	25	(198)	(214)
Impairment and depreciation of property, plant and equipment	26	(129)	(101)
Total operating expenses		(2,006)	(1,859)
Operating profit before impairment losses		378	514
Net credit impairment writeback/(charge)	13	238	(1,460)
Operating profit/(loss)		616	(946)
Share of equity accounted investments	24	21	15
Loss on disposal of property		(3)	–
Profit/(loss) before taxation		634	(931)
Income tax credit	15	16	190
Profit/(loss) for the year		650	(741)
Attributable to:			
– Equity holders of the parent		652	(739)
– Non-controlling interests	40	(2)	(2)
Profit/(loss) for the year		650	(741)

Consolidated statement of comprehensive income

for the financial year ended 31 December 2021

	Notes	2021 € m	2020 € m
Profit/(loss) for the year		**650**	(741)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit asset/(liability), net of tax	15	**17**	(38)
Net change in fair value of equity investments at FVOCI, net of tax	15	**–**	(18)
Total items that will not be reclassified subsequently to profit or loss		**17**	(56)
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Net change in foreign currency translation reserves, net of tax	15	**87**	(70)
Net change in cash flow hedges, net of tax	15	**(391)**	71
Net change in fair value of investment debt securities at FVOCI, net of tax	15	**(54)**	(55)
Total items that will be reclassified subsequently to profit or loss when specific conditions are met		**(358)**	(54)
Other comprehensive income for the year, net of tax		**(341)**	(110)
Total comprehensive income for the year attributable to owners of the parent		**309**	(851)
Attributable to:			
– Equity holders of the parent		**311**	(849)
– Non-controlling interests		**(2)**	(2)
Total comprehensive income for the year		**309**	(851)

Consolidated statement of financial position

as at 31 December 2021

	Notes	2021 € m	2020 € m
Assets			
Cash and balances at central banks	48	**42,654**	25,550
Items in course of collection		**44**	43
Disposal groups and non-current assets held for sale	16	**8**	14
Trading portfolio financial assets	17	**8**	–
Derivative financial instruments	18	**882**	1,424
Loans and advances to banks	19	**1,323**	1,092
Loans and advances to customers	20	**56,508**	56,841
Loans and advances – AIB Group plc		**15**	20
Securities financing	21	**3,890**	811
Investment securities	23	**16,972**	19,479
Investments accounted for using the equity method	24	**127**	98
Intangible assets and goodwill	25	**996**	937
Property, plant and equipment	26	**631**	725
Other assets	28	**483**	235
Current taxation		**37**	57
Deferred tax assets	29	**2,834**	2,711
Prepayments and accrued income		**424**	339
Retirement benefit assets	30	**54**	29
Total assets		**127,890**	110,405
Liabilities			
Deposits by central banks and banks	31	**10,382**	4,495
Customer accounts	32	**92,866**	81,957
Customer accounts – AIB Group plc		**4**	12
Securities financing	21	**45**	210
Trading portfolio financial liabilities	17	**2**	–
Derivative financial instruments	18	**1,062**	1,201
Debt securities in issue	33	**1,775**	2,275
Lease liabilities	34	**346**	382
Current taxation		**10**	1
Deferred tax liabilities	29	**53**	44
Retirement benefit liabilities	30	**54**	68
Other liabilities	35	**1,235**	955
Accruals and deferred income		**287**	258
Provisions for liabilities and commitments	36	**501**	396
Subordinated liabilities and other capital instruments – Externally issued	37	**56**	50
Subordinated liabilities and other capital instruments – AIB Group plc	37	**5,545**	4,676
Total liabilities		**114,223**	96,980
Equity			
Share capital	38	**1,696**	1,696
Share premium	38	**1,386**	1,386
Reserves		**9,471**	9,227
Total shareholders' equity		**12,553**	12,309
Other equity interests – AIB Group plc	39	**1,115**	1,115
Non-controlling interests	40	**(1)**	1
Total equity		**13,667**	13,425
Total liabilities and equity		**127,890**	110,405

Jim Pettigrew
Chair
2 March 2022

Colin Hunt
Chief Executive Officer
2 March 2022

Donal Galvin
Chief Financial Officer
7 March 2023

Conor Gouldson
Group Company Secretary
7 March 2023

Consolidated statement of changes in equity

for the financial year ended 31 December 2021

	Attributable to equity holders of parent												
	Share capital	Share premium	Other equity interests	Capital reserves	Capital redemption reserves	Revaluation reserves	Investment 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 2021	1,696	1,386	1,115	1,133	14	14	206	540	7,919	(599)	13,424	1	13,425
Total comprehensive income for the year													
Profit for the year	–	–	–	–	–	–	–	–	652	–	652	(2)	650
Other comprehensive income *(note 15)*	–	–	–	–	–	–	(54)	(391)	17	87	(341)	–	(341)
Total comprehensive income for the year	–	–	–	–	–	–	(54)	(391)	669	87	311	(2)	309
Transactions with owners, recorded directly in equity													
Contributions by and distributions to owners of the Group:													
Distributions paid to other equity interests *(note 39)*	–	–	–	–	–	–	–	–	(67)	–	(67)	–	(67)
Other movements	–	–	–	–	–	(1)	–	–	1	–	–	–	–
Total contributions by and distributions to owners of the Group	–	–	–	–	–	(1)	–	–	(66)	–	(67)	–	(67)
At 31 December 2021	1,696	1,386	1,115	1,133	14	13	152	149	8,522	(512)	13,668	(1)	13,667

Consolidated statement of changes in equity

for the financial year ended 31 December 2020

	Attributable to equity holders of parent												
	Share capital	Share premium	Other equity interests	Capital reserves	Capital redemption reserves	Revaluation reserves	Investment 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	1,386	990	1,133	14	14	623	469	8,438	(529)	14,234	1	14,235
Total comprehensive income for the year													
Loss for the year	–	–	–	–	–	–	–	–	(739)	–	(739)	(2)	(741)
Other comprehensive income *(note 15)*	–	–	–	–	–	–	(73)	71	(38)	(70)	(110)	–	(110)
Total comprehensive income for the year	–	–	–	–	–	–	(73)	71	(777)	(70)	(849)	(2)	(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
Additional Tier 1 Securities													
Redemption *(note 39)*	–	–	(494)	–	–	–	–	–	(9)	–	(503)	–	(503)
Issuance *(note 39)*	–	–	619	–	–	–	–	–	–	–	619	–	619
Distributions paid to other equity interests *(note 39)*	–	–	–	–	–	–	–	–	(77)	–	(77)	–	(77)
Total contributions by and distributions to owners of the Group	–	–	125	–	–	–	–	–	(86)	–	39	2	41
Realised gains on equity shares held at fair value through other comprehensive income	–	–	–	–	–	–	(344)	–	344	–	–	–	–
At 31 December 2020	1,696	1,386	1,115	1,133	14	14	206	540	7,919	(599)	13,424	1	13,425

Consolidated statement of cash flows

for the financial year ended 31 December 2021

	Notes	2021 € m	2020 € m
Cash flows from operating activities			
Profit/(loss) before taxation for the year		634	(931)
Adjustments for:			
– Non-cash and other items	49	272	2,086
– Change in operating assets	49	(2,312)	1,982
– Change in operating liabilities	49	15,344	13,304
– Taxation refund/(paid)		13	(28)
Net cash inflow from operating activities		13,951	16,413
Cash flows from investing activities			
Purchase of investment securities	23	(2,517)	(6,444)
Proceeds from sales, redemptions and maturity of investment securities	23	4,928	4,074
Additions to property, plant and equipment	26	(31)	(21)
Disposal of property, plant and equipment		10	11
Additions to intangible assets	25	(204)	(236)
Acquisition cost of subsidiary	27	(60)	–
Investments accounted for using the equity method	24	(8)	–
Net cash inflow/(outflow) from investing activities		2,118	(2,616)
Cash flows from financing activities			
Net proceeds on issue of Additional Tier 1 Securities – AIB Group plc	39	–	619
Net proceeds on issue of subordinated liabilities and other capital instruments – AIB Group plc	37	750	1,000
Redemption of capital instruments – issued externally		–	(1,253)
Distributions paid to other equity interests	39	(67)	(77)
Repayment of lease liabilities	26	(43)	(50)
Interest paid on subordinated liabilities and other capital instruments		(130)	(145)
Net cash inflow from financing activities		510	94
Change in cash and cash equivalents		16,579	13,891
Opening cash and cash equivalents		26,559	12,923
Effect of exchange translation adjustments		419	(255)
Closing cash and cash equivalents	48	43,557	26,559

Notes to the consolidated financial statements

Notes to the consolidated financial statements

1 Accounting policies

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1 Accounting policies *(continued)*

The significant accounting policies that the Group applied in the preparation of the financial statements are set out in this section.

(a) Reporting entity

Allied Irish Banks, p.l.c. ('the parent company' or 'the Company') is a company domiciled in Ireland and registered under the Company's Act 2014 as a public limited company under company number 24173. The address of the Company's registered office is 10 Molesworth Street, Dublin 2, Ireland. The consolidated financial statements include the financial statements of Allied Irish Banks, p.l.c. and its subsidiary undertakings, collectively referred to as the 'Group', where appropriate, including certain special purpose entities and the Group's interest in associates/joint ventures 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.

The Company is a wholly owned subsidiary of AIB Group plc, being the ultimate parent company of AIB Group.

(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 2021. 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 Financials 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.

Voluntary change in accounting policy – presentation of securities financing

The Group has voluntarily changed its accounting policy for the presentation of certain financial instruments relating to securities financing. A new line item and a related note (note 21) 'Securities Financing' was introduced for both assets and liabilities in the consolidated statement of financial position. In previous years, securities borrowings were reported in 'Loans and advances to banks', reverse repurchase agreements were reported in 'Loans and advances to banks' and 'Loans and advances to customers' and securities sold under agreements to repurchase were reported in 'Deposits by central banks and banks' and 'Customer accounts'. The comparatives for 2020 have been restated accordingly. This approach was adopted following a significant increase in securities borrowing and reverse repurchase agreement transactions. The Group believes this accounting policy changes provides reliable and more relevant information as it provides greater transparency of the level of securities financing activity by the Group.

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 may involve making estimates concerning the likelihood of future events, the actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. The judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in the areas of expected credit losses on financial instruments; 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 211 to 216.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(c) Basis of preparation *(continued)*

Going concern

The financial statements for the year ended 31 December 2021 have been prepared on a going concern basis as the Directors are satisfied, having considered the 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. This includes capital forecasts and internally generated stress scenarios with additional scenarios to take account of the inorganic initiatives that the Group has committed to. The scenarios include the potential prolonged impacts of COVID-19 and the continuing impacts of Brexit. The period of assessment used by the Directors is 12 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 2021, the Group applied for the first time certain standards and amendments which are effective for annual periods beginning on or after 1 January 2021 (unless otherwise stated), The following are amendments to standards and interpretations which had an insignificant impact on these annual financial statements:

– Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2.

Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

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

(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;

(v) reclassify to profit or loss, or transfer directly to retained earnings if required by IFRS, the amounts recognised in other comprehensive income in relation to the subsidiary; and

(vi) 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 a business using the acquisition method except for a business 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 in its capacity as a trustee

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.

Investments accounted for using the equity method

The Group's investments accounted for using the equity method comprise its investments in associates and joint ventures.

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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(d) Basis of consolidation *(continued)*
Investments in associated undertakings and joint ventures 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 or joint venture.

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 or joint venture after tax reflects the Group's proportionate interest 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 instruments 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 rate method.

Effective interest rate

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

The application of the method has the effect of recognising income receivable and expense payable on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating the effective interest rate for financial instruments, other than credit impaired assets, the 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 rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The gross carrying amount of a financial asset is the amortised cost before adjusting for any loss allowance.

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 rate basis;
- Interest on investment debt securities measured at FVOCI calculated on an effective interest rate basis;
- Interest on financial assets measured at FVTPL;
- Net interest income and expense on qualifying hedge derivatives designated as cash flow hedges or fair value hedges which are recognised in interest income or interest expense; and
- Interest income and funding costs of trading portfolio financial assets.

The Group policy for the recognition of leasing income is set out in Accounting policy (n).

Targeted Long Term Refinancing Operation III ("TLTRO III")

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").

TLTRO III has specific terms attached to it which are different from other sources of funding available to banks including other sources of funds provided by the European Central Bank ("ECB"). The financial conditions incorporated into TLTRO III reflect ECB monetary policy initiatives to prospectively reduce the cost of funding for banking institutions. Accordingly, the Group has concluded that the ECB has established a separate market for TLTRO programmes and TLTRO III transactions are at market rates and the requirements of IAS 20 *Accounting for Government Grants* do not apply.

The borrowing rate applicable to the TLTRO III loans is linked to the lending patterns of the Group and are subject to the achievement of predefined lending performance thresholds based on the eligible net lending of the Group in certain specified periods.

The amount of interest income recognised during the period on TLTRO III depends on whether the Group had a reasonable expectation of meeting the relevant lending performance thresholds. The Group interprets reasonable expectations as highly probable (i.e. the probability of meeting the lending targets is substantially greater than the probability that it will not). As a result, if interest income is recognised during the period based on the expectation of meeting the targets, there should be only a limited possibility that the interest may need to be reversed in future periods.

If the Group does not have a reasonable expectation that the lending targets will be met but subsequently determines it will meet the relevant lending performance thresholds, it revises its estimates of receipts and recalculates the present value of the estimated future contractual cash flows that are discounted at the original effective interest rate and recognises the adjustment in the Group's consolidated income statement as negative interest on financial liabilities at amortised cost.

(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, either at a 'point in time' or 'over time' if the performance obligation is performed over a period of time unless the income has been included in the effective interest rate calculation.

1 Accounting policies *(continued)*

(h) Fee and commission income *(continued)*

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.

(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.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(j) Employee benefits *(continued)*

Retirement benefit obligations *(continued)*

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.

Remeasurements of the net defined benefit liability/(asset), comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability/(asset)) are recognised in other comprehensive income. Amounts recognised in other comprehensive income in relation to remeasurements of the net defined benefit liability/(asset) will not be reclassified to profit or loss in a subsequent period.

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.

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.

1 Accounting policies *(continued)*

(k) Income tax, including deferred income tax *(continued)*

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 it is probable that sufficient taxable profits will be available to allow all of the asset to be recovered.

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

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

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and financial liabilities including derivative contracts, provisions for pensions and other post-retirement benefits, and in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future. In addition, 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. In a situation where the Group commits to purchase financial assets under a contract which is not considered a regular-way transaction, the assets to be acquired are not recognised until the acquisition contract is settled. In this case, the contract to acquire the financial asset is a derivative that is measured at FVTPL in the period between the trade date and the settlement date.

Financial assets measured at amortised cost or at fair value through other comprehensive income ("FVOCI") are recognised initially at fair value adjusted for direct and incremental transaction costs. Financial assets measured at fair value through profit or loss ("FVTPL") are recognised initially at fair value and transaction costs are taken directly to the income statement.

Derivatives are measured initially at fair value on the date on which the derivative contract is entered into. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. Profits or losses are only recognised on initial recognition of derivatives when there are observable current market transactions or valuation techniques that are based on observable market inputs.

Classification and subsequent measurement

On initial recognition, a financial asset is classified and subsequently measured at amortised cost, FVOCI or FVTPL.
The classification and subsequent measurement of financial assets depend on:
- The 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:

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(l) Financial Assets *(continued)*

– 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 rate 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.

– 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.

1 Accounting policies *(continued)*

(l) Financial Assets *(continued)*

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.

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 rate 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 rate method.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. Any gain or loss on the extinguishment or remeasurement of a financial liability is recognised in profit or loss.

Issued financial instruments are classified as equity when the Group has no contractual obligation to transfer cash, or other financial assets or to issue a variable number of its own equity instruments. Incremental costs directly attributable to the issue of equity instruments are shown as a deduction from the proceeds of issue, net of tax.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(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.

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.

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.

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 remeasurement 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.

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 remeasuring the carrying amount to reflect any reassessment or lease modifications.

The lease liability is measured at amortised cost using the effective interest rate method. It is remeasured 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 remeasured 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 allocate the consideration in the modified contract to the lease components, determine the lease term of the modified lease and remeasure the lease liability by discounting the revised lease payments using a revised discount rate.

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 by reference to 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.

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. 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.

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 rate 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 whereas interest rate swaps, currency swaps, cross currency interest rate swaps and credit derivatives are used for hedging purposes.

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

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

Derivatives

Derivatives are measured initially at fair value on the date on which the derivative contract is entered into and subsequently remeasured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and from valuation techniques using discounted cash flow models and option pricing models as appropriate. Derivatives are included in assets when their fair value is positive, and in liabilities when their fair value is negative, unless there is the legal ability and intention to settle an asset and liability on a net basis.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(q) Derivatives and hedge accounting *(continued)*

Derivatives *(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 *Financial Instruments: Recognition and Measurement* hedge accounting requirements until macro hedge accounting is addressed by the IASB as part of a separate project. This is an accounting policy choice allowed by IFRS 9 *Financial Instruments*.

All derivatives are carried at fair value and the accounting treatment of the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Where derivatives are held for risk management purposes, and where transactions meet the criteria specified in IAS 39, 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 rate method. For debt securities measured at FVOCI, the fair value adjustment for hedged items is recognised in the income statement using the effective interest rate method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

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 asset.

POCIs are financial assets originated credit impaired where the difference between the discounted contractual cash flows and the fair value at origination is greater than or equal to 5%. The 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 and a modification gain or loss is taken to profit or loss immediately. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

The stage allocation for modified assets which are not derecognised is by reference to the credit risk at initial recognition of the original, unmodified contractual terms i.e. the date of initial recognition is not reset.

Where renegotiation of the terms of a financial asset leads to a customer granting equity to the 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.

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

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 remeasurement. However, financial assets within the scope of IFRS 9 continue to be measured in accordance with that standard.

Impairment losses subsequent to classification of assets as held for sale are recognised in the income statement. Subsequent increases in fair value, less costs to sell of the assets that have been classified as held for sale are recognised in the income statement to the extent that the increase is not in excess of any cumulative impairment loss previously recognised in respect of the asset. Assets classified as held for sale are not depreciated.

Gains and losses on remeasurement and impairment losses subsequent to classification as disposal groups and non-current assets held for sale are shown within continuing operations in the income statement, unless they qualify as discontinued operations.

Disposal groups and non-current assets held for sale which are not classified as discontinued operations are presented separately from other assets and liabilities on the statement of financial position. Prior periods are not reclassified.

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

Restructuring costs

Where the Group has a formal plan for restructuring a business and has raised valid expectations in the areas affected by the restructuring by starting to implement the plan or announcing its main features, provision is made for the anticipated cost of restructuring, including retirement benefits and redundancy costs, when an obligation exists. The provision raised is normally utilised within twelve months. Future operating costs are not provided for.

Legal claims and other contingencies

Provisions are made for legal claims where the Group has present legal or constructive obligations as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Contingent liabilities are possible obligations whose existence will be confirmed only by the occurrence of uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably estimated. Contingent liabilities are not recognised but are disclosed in the notes to the financial statements unless the possibility of the transfer of economic benefit is remote.

A provision is recognised for a constructive obligation where a past event has led to an obligating event. This obligating event has left the Group with little realistic alternative but to settle the obligation and the Group has created a valid expectation in other parties that it will discharge the obligation.

(aa) Equity

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

On extinguishment of equity instruments, gains or losses arising are recognised net of tax directly in the statement of changes in equity.

Share capital

Share capital represents funds raised by issuing shares in return for cash or other consideration. Share capital comprises ordinary shares 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.

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.

1 Accounting policies *(continued)*

(aa) Equity *(continued)*

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.

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.

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- an exemption from the initial recognition exemption provided in IAS 12.15(b) and IAS 12.24.

Accordingly, the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

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

Other

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

2 Critical accounting judgements and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates.

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

Significant judgements

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

– Deferred taxation;
– Impairment of financial assets;
– Retirement benefit obligations; and
– Provisions for liabilities and commitments.

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:

- *The estimated utilisation period for such losses in Ireland is within the timeframe that taxable profits are considered more likely than not; and*
- *15 years is the period that taxable profits are considered more likely than not in the UK.*

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 these 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 changing banking landscape in Ireland following the commitment by KBC and Ulster Bank to exit the Irish market and evidenced by the proposed acquisition of certain Ulster Bank loans by the Group;
– the recent inorganic activity of the Group including the recently completed acquisition of Goodbody;
– the turnaround evident in the financial performance over the years 2014–2019 and 2021 including the growth in the Irish economy in this period;
– external forecasts for Ireland and the UK 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 the 2009 to 2013 prior years.

Notes to the consolidated financial statements

2 Critical accounting judgements and estimates *(continued)*

Deferred taxation *(continued)*

The Board considered negative evidence and the inherent uncertainties in any long term financial assumptions and projections, including:

- the enduring impact of COVID-19 in 2020 and 2021 with its severe impact on the economy and the resultant impairment charge taken in 2020 which resulted in a loss in that 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 residual 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 Organisation for Economic Co-operation and Development ("OECD") tax reform, 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.

Profitability and growth were reassessed in the annual planning exercise covering the period 2022 to 2024 undertaken by the Group in the second half of 2021. Growth assumptions and profitability levels underpinning the plan have been revised upwards 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 2022 to 2024 as a base and a profit growth rate of 2% from 2025, it was assessed that it will take in excess of 20 years for the deferred tax asset (€ 2.8 billion) to be utilised. Furthermore, under this scenario, it is expected that c. 92% will be utilised within 20 years (2020: c. 72%) and c. 64% utilised within 15 years (2020: c. 50%). If the growth rate assumption was decreased by 1%, then the utilisation period increases by a further c. 2 years. The Group's analysis of this and other scenarios examined would not alter the basis of recognition or the current carrying value. In 2020, the Group reported that it expected that it would take in excess of 25 years for the deferred tax asset to be utilised.

Given the relative size of the Group's operations in the UK compared to the role that the Irish operations play in supporting a functioning banking environment, a different judgement has been applied to the period that taxable profits are considered more likely than not in the UK. Despite 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.

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 € 2,840 million (2020: € 2,763) of which € 2,645 million (2020: € 2,675 million) relates to Irish tax losses and € 195 million (2020: € 88 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. Details of the Group's expected credit loss ("ECL") allowance are set out in note 22.

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

The most significant judgements applied by the Group in determining the ECL allowance are as follows:

- *Determining the criteria for a significant increase in credit risk and for being classified as credit impaired;*
- *Applying the definition of default policy for classifying financial assets as credit impaired;*
- *Choosing the appropriate models for measuring ECL; and*
- *Determining an appropriate methodology for post-model adjustments.*

The significant management judgements and the governance process, relating to ECL, are set out on page 62 and 63 in the Risk Management section.

2 Critical accounting judgements and estimates *(continued)*

Retirement benefit obligations

The Group's accounting policy for retirement benefit schemes is set out in accounting policy (j) in note 1.

The most significant judgement, applied by the Group, is 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.

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 2017, the Board implemented this process which has continued to date. Under this process, the Group decided in February 2021 and February 2022 that the funding of discretionary increases was not appropriate in either year in relation to the Irish scheme. 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. A discussion on the assumption of the Trustee's ability to grant increases at any point in the future is set out in the section below on critical accounting estimates.

Provisions for liabilities and commitments

The Group's accounting policy for provisions for liabilities and commitments is set out in accounting policy (z) 'Non-credit risk provisions' in note 1. Details of the Group's provision for liabilities and commitments are shown in note 36.

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

The 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.

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

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:

- 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 30.

The most significant source of estimation uncertainty in relation to deferred tax is the forecast profit that is used to determine the Group's UK deferred tax asset, which is based on the Group's annual plan.

The deferred tax asset for unutilised tax losses in the UK amounts to £ 164 million at 31 December 2021 (31 December 2020: £ 79 million).

On an annual basis profitability and growth are reassessed in the annual planning exercise undertaken by the Group. Growth assumptions and profitability levels underpinning the plan are reassessed and reflect the revised macroeconomic outlook and the current market as well as revised business strategies. Recognising the current uncertainties in longer term profitability forecasting and, given the early stage of implementation of the new AIB UK strategy at 31 December 2021, minimal growth has been forecast beyond 2023. The forecast expected profits for the 15 year period have increased compared to expected profits in 2020 reflecting the benefits of the revised UK strategy together with the impact of a higher rate environment.

Separately, legislation has been enacted to increase the UK Corporation Tax rate from 19% to 25% from 1 April 2023. This change has resulted in an increase of the Group's UK deferred tax asset from unutilised losses by £ 22 million.

Forecast profits are subject to uncertainty with a range of possibilities. Subsequent forecasts of profits in future years may be higher or lower which could result in a significant risk of adjustment to the carrying amounts of deferred tax assets, within the next financial year.

Notes to the consolidated financial statements

2 Critical accounting judgements and estimates *(continued)*

Impairment of financial assets

The Group's accounting policy for impairment of financial assets is set out in accounting policy (s) in note 1. Details of the Group's expected credit loss ("ECL") allowance are set out in note 22.

The calculation of the ECL allowance is complex and therefore an entity must consider large amounts of information in their determination. This process requires significant use of estimates and assumptions, some of which by their nature, are highly subjective and very sensitive to risk factors such as changes to economic conditions. Changes in the ECL allowance can materially affect net income.

ECL allowance for Loans and advances to customers at 31 December 2021 amounted to € 1,885 million (2020: € 2,510 million). The ECL for financial assets represents management's best estimate of the expected credit losses on the various portfolios at the respective reporting dates.

The key estimates and assumptions that the Directors have used in determining the ECL allowance are as follows:
- *Discounted cash-flows ("DCFs") for certain Stage 3 credit impaired obligors;*
- *Establishing the number and relative weightings for forward looking scenarios;*
- *The assumptions for measuring ECL (e.g. PD, LGD and EAD and the parameters to be included within the models); and*
- *The estimation of post model adjustments where required.*

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

Discounted cash-flows ('DCFs') are the most significant input to the ECL calculation for Stage 3 credit impaired obligors where the gross credit exposure is ≥ € 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 and the economic landscape which are continuously evolving. Accordingly, developments with regard to the pandemic and changes in local and international factors could have a material bearing on the ECL allowance within the next financial year. The Group's sensitivity to a range of macroeconomic factors under (i) base forecast; (ii) upside; and (iii) downside scenarios is set out on page 61 of the Risk Management section of this report.

The Group has developed a standard approach for the measurement of ECL for the majority of the Group's exposures where each ECL input parameter (e.g. PD, LGD and EAD) is developed in line with standard modelling methodology. These are discussed further on page 53 and 54 of the Risk Management section. In addition, where the estimate of ECL does not adequately capture all available forward looking information about the range of possible outcomes, or where there is a significant degree of uncertainty, management may consider it appropriate for an adjustment to ECL. These are referred to as post model adjustments and are set out in detail on page 62.

On an ongoing basis, the various estimates and assumptions are reviewed in light of differences between actual and previously calculated expected losses. These are then recalibrated and refined to reflect current and evolving economic conditions. The management process for the calculation of ECL allowance is underpinned by second-line levels of review. The ECL allowance is, in turn, reviewed and approved by 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 63.

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 Group's retirement benefit obligations are set out in note 30.

The key estimates and assumptions that the Directors have used in determining the retirement benefit obligation are as follows:
- *In a situation where the Group believes the Trustee has the ability to grant discretionary increases without any funding being provided by the Group, the Group has assumed that the Trustee will grant increases and as a result the scheme's liabilities include an estimate for this matter; and*
- *The significant actuarial assumptions used to determine the present value of the retirement benefit obligation.*

During the second half of 2020 the Trustee of the Irish scheme awarded an increase of 1.1% in respect of pensions eligible for discretionary pension increases backdated to 1 April 2020 notwithstanding the decision by the Group not to fund increases in pensions in payment. This reflected 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.

2 Critical accounting judgements and estimates *(continued)*

Retirement benefit obligations *(continued)*

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's ability to grant further increases without any funding from the Group. At 31 December 2021, this has been assessed as an assumed rate of pension increase of 0.65% per annum (2020: 0.2%) and has increased Scheme's liabilities as at that date by € 350 million (2020: € 100 million).

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. Details of the assumptions adopted by the Group in calculating the schemes' liabilities are set out in note 30 to the financial statements. A sensitivity analysis for the principal assumptions used to measure the schemes' liabilities is set out in note 30 to the financial statements.

Provisions for liabilities and commitments

The Group's accounting policy for provisions for liabilities and commitments is set out in accounting policy (z) in note 1. Details of the Group's provision for liabilities and commitments are shown in note 36.

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

The recognition and measurement of liabilities, in certain instances, may involve a high degree of uncertainty, and thereby, considerable time is expended on research in establishing the facts, scenario testing, assessing the probability of the outflow of resources and estimating the amount of any loss. However, at the earlier stages of provisioning, the amount provided for can be very sensitive to the assumptions used and there may be a wide range of possible outcomes in particular cases. Accordingly, in such cases, it is often not practicable to quantify a range of possible outcomes. In addition, it is also not practicable to measure ranges of outcomes in aggregate in a meaningful way because of the diverse nature of these provisions and the differing fact patterns. The estimated potential losses will change over time and the actual losses may vary significantly.

The overall provision amounting to € 501 million comprised: € 79 million in respect of the FSPO decision relating to tracker mortgage customers; € 70 million in respect of CBI penalties; € 75 million in respect of the anticipated cost of redress and other related costs that may be payable in relation to the review of the sale of Belfry funds during the period 2002 to 2006 and a number of separate provisions, the majority of which are not individually significant and do not have a significant risk of 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 € 79 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 not practicable to quantify a range of outcomes.

Note 36 sets out the background on the Group's sale of a series of investment property funds, known as Belfry, to c. 2,500 individual investors (c. £ 214 million invested) during the period 2002 to 2006. The Group instigated a programme, which is ongoing, to review all investments in the Belfry funds on a case by case basis and to determine if redress may be due in certain instances. The Group has recorded a provision of € 75 million for the anticipated cost of redress and other related costs that may be payable under this programme. While the programme principles and its approach are established, the redress strategy is currently being defined. As a result the anticipated cost of redress is subject to uncertainty, with a range of possible outcomes, with the final outcome being higher or lower depending on finalisation of such matters.

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

Notes to the 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. Details of the fair value of financial instruments are shown in note 47.

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.

The key estimates and assumptions that the Directors have used, in determining the fair value of the financial instruments, are as follows:
- *The estimation of expected cash flows for the instruments;*
- *The assumption of an appropriate risk free rate; and*
- *The assumption of 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 particular 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.

3 Segmental information

Segment overview

The Group's performance is managed and reported across the Retail Banking, AIB Capital Markets ("Capital Markets") (previously Corporate, Institutional & Business Banking), 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.

Capital Markets

Capital Markets provides institutional, corporate and business banking services to the Group's larger customers and customers requiring specific sector or product expertise. Capital Markets' 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, Capital Markets 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. Capital Markets also has syndicated and international finance teams based in Dublin and in New York. In 2021 Goodbody became part of Capital Markets, bringing additional capability in wealth management, corporate finance and wider capital markets propositions.

AIB UK

AIB UK offers corporate, 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) identified changes to the AIB UK business model including the withdrawal from SME lending in Great Britain to refocus on corporate business, particularly in renewables, infrastructure, health and manufacturing and a reduction in branch footprint in Northern Ireland.

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 Technology, Operations, 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.

Notes to the consolidated financial statements

3 Segmental information *(continued)*

							2021
	Retail Banking € m	Capital Markets € m	AIB UK € m	Group € m	Total € m	Exceptional items[1] € m	Total € m
Operations by business segment							
Net interest income	1,024	460	216	91	1,791	–	1,791
Net fee and commission income*	333	106	45	4	488	–	488
Other	34	31	8	37	110	(5)[4][6]	105
Other income	367	137	53	41	598	(5)	593
Total operating income	1,391	597	269	132	2,389	(5)	2,384
Other operating expenses	(911)	(154)	(163)	(306)	(1,534)	(310)	(1,844)
Of which: Personnel expenses	*(397)*	*(107)*	*(88)*	*(146)*	*(738)*	*(58)*[2]-[4]	*(796)*
General and administrative expenses	*(326)*	*(36)*	*(53)*	*(97)*	*(512)*	*(209)*[3]-[6]	*(721)*
Depreciation, impairment and amortisation	*(188)*	*(11)*	*(22)*	*(63)*	*(284)*	*(43)*[4][6]	*(327)*
Bank levies and regulatory fees	(2)	(1)	(1)	(158)	(162)	–	(162)
Total operating expenses	(913)	(155)	(164)	(464)	(1,696)	(310)	(2,006)
Operating profit/(loss) before impairment losses	478	442	105	(332)	693	(315)	378
Net credit impairment writeback	86	137	15	–	238	–	238
Operating profit/(loss)	564	579	120	(332)	931	(315)	616
Share of equity accounted investments	16	1	4	–	21	–	21
Loss on disposal of property	–	–	–	–	–	(3)[4]	(3)
Profit/(loss) before taxation	580	580	124	(332)	952	(318)	634

[1]Exceptional items are shown separately above. These are items that Management view as distorting comparability of performance year-on-year.
Exceptional items include:
[2]Termination benefits;
[3]Restitution costs;
[4]Restructuring costs;
[5]Inorganic transaction costs; and
[6]Other.

For further information on these items see page 24.

					2021
***Analysis of net fee and commission income**	Retail Banking € m	Capital Markets € m	AIB UK € m	Group € m	Total € m
Customer accounts	160	15	15	18	208
Card income	93	7	11	–	111
Foreign exchange fees	38	25	8	(4)	67
Credit related fees	9	27	14	–	50
Specialised payment services fees	133	–	–	–	133
Other fees and commissions	50	35	1	(15)[1]	71
Fees received for services provided to AIB Group plc	–	–	–	8	8
Fee and commission income	483	109	49	7	648
Specialised payment services expenses	(118)	–	–	–	(118)
Card expenses	(28)	(1)	(4)	–	(33)
Other fee and commission expenses	(4)	(2)	–	(3)	(9)
Fee and commission expense	(150)	(3)	(4)	(3)	(160)
	333	106	45	4	488

[1]Reflects the allocation of the Group's segment fee and commission income to Retail Banking and Capital Markets segments.

Further information on 'Net fee and commission income' is set out in note 7.

3 Segmental information *(continued)*

							2020
	Retail Banking	Capital Markets	AIB UK	Group	Total	Exceptional items[1]	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Operations by business segment							
Net interest income	1,115	439	214	97	1,865	–	1,865
Net fee and commission income*	291	66	43	1	401	–	401
Other	43	55	5	2	105	2[(2)(7)]	107
Other income	334	121	48	3	506	2	508
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 items are shown separately above. These are items that Management view as distorting comparability of performance year-on-year.
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 24.

					2020
***Analysis of net fee and commission income**	Retail Banking € m	Capital Markets € m	AIB UK € m	Group € m	Total € m
Customer accounts	132	14	16	18	180
Card income	83	7	9	–	99
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
Fees received for services provided to AIB Group plc	–	–	–	6	6
Fee and commission income	451	68	47	4	570
Specialised payment services expenses	(131)	–	–	–	(131)
Card expenses	(25)	(2)	(4)	–	(31)
Other fee and commission expenses	(4)	–	–	(3)	(7)
Fee and commission expense	(160)	(2)	(4)	(3)	(169)
	291	66	43	1	401

[(1)]Reflects the allocation of the Group's segment fee and commission income to Retail Banking and Capital Markets 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)*

Other amounts – statement of financial position

	Retail Banking € m	Capital Markets € m	AIB UK € m	Group € m	Total € m
					31 December 2021
Loans and advances to customers:					
– measured at amortised cost	**33,144**	**15,143**	**7,965**	**28**	**56,280**
– measured at FVTPL	**–**	**243**	**–**	**–**	**243**
Total loans and advances to customers	**33,144**	**15,386**	**7,965**	**28**	**56,523**[(1)]
Customer accounts	**65,227**	**14,470**	**11,831**	**1,342**	**92,870**[(2)]

	Retail Banking € m	Capital Markets € m	AIB UK € m	Group € m	Total € m
					31 December 2020
Loans and advances to customers:					
– measured at amortised cost	34,008	14,453	8,269	56	56,786
– measured at FVTPL	–	75	–	–	75
Total loans and advances to customers	34,008	14,528	8,269	56	56,861[(1)]
Customer accounts	56,874	12,735	10,959	1,401	81,969[(2)]

[(1)]Includes AIB Group plc – € 15 million (2020: € 20 million).
[(2)]Includes AIB Group plc – € 4 million (2020: € 12 million).

				Year to 31 December 2021
Geographic information[(1)(2)]	**Ireland € m**	**United Kingdom € m**	**Rest of the World € m**	**Total € m**
Gross external revenue	**2,202**	**180**	**2**	**2,384**
Inter-geographical segment revenue	**(105)**	**100**	**5**	**–**
Total revenue	**2,097**	**280**	**7**	**2,384**

				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

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 2021
Geographic Information	**Ireland € m**	**United Kingdom € m**	**Rest of the World € m**	**Total € m**
Non-current assets[(3)]	**1,562**	**62**	**3**	**1,627**

				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

[(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.

4 Interest and similar income

	2021 € m	2020 € m
Interest on loans and advances to customers at amortised cost	1,765	1,888
Interest on loans and advances to banks at amortised cost	7	12
Interest on securities financing at amortised cost	3	–
Interest on investment securities	70	116
Interest income on financial assets	**1,845**	**2,016**
Deposits by central banks and banks at amortised cost	103	7
Customer accounts at amortised cost	55	27
Negative interest on financial liabilities	**158**	**34**
Interest income calculated using the effective interest rate method	**2,003**	**2,050**
Interest income on finance leases and hire purchase contracts	74	75
Interest income on financial assets at FVTPL	7	2
Other interest income and similar income	**81**	**77**
Total interest and similar income	**2,084**	**2,127**

The Group presents interest resulting from negative effective interest rates on financial liabilities as interest income rather than as offset against interest expense.

Included in “negative interest on financial liabilities” is negative interest expense of € 102 million (2020: € 5 million), from the TLTRO programme. The accounting policy and related judgements made by the Group in relation to interest income recognition for TLTRO are set out in note 1 (f).

Under the conditions of the TLTRO programme, interest rates can be as favourable as 50 basis points below the average interest rate on the ECB’s deposit facility. This applies to all TLTRO operations outstanding over the discrete periods from 24 June 2020 to 23 June 2021, and from 24 June 2021 to 23 June 2022, for banks that show growth in lending volumes equal to or above 0% between the special reference periods of 1 March 2020 to 31 March 2021 and 1 October 2020 to 31 December 2021 respectively.

Interest income of c. € 36 million was initially based on an EIR of -0.5% (the Main Refinancing Operations rate minus 50 bps), as the Group assessed that it did not have a reasonable expectation that the relevant lending targets would be met. When it was subsequently determined that the Group had a reasonable expectation that the relevant lending targets would be met, the Group recognised additional interest income of € 66 million in the year (c. € 15 million for the special reference period from 1 March 2020 to 31 March 2021 and c. € 51 million for the special reference period from 1 October 2020 to 31 December 2021).

Interest income includes a credit of € 161 million (2020: a credit of € 145 million) transferred from other comprehensive income in respect of cash flow hedges which is included in ‘Interest on loans and advances to customers’ at amortised cost.

Notes to the consolidated financial statements

5 Interest and similar expense

	2021 € m	2020 € m
Interest on deposits by central banks and banks	1	3
Interest on customer accounts	53	82
Interest on securities financing	–	1
Interest on debt securities in issue	3	8
Interest on lease liabilities	12	13
Interest on subordinated liabilities and other capital instruments[1]	95	111
Interest expense on financial liabilities	164	218
Cash and balances at central banks	115	36
Loans and advances to banks	3	3
Securities financing	6	1
Investment securities	5	4
Negative interest on financial assets at amortised cost	129	44
Interest expense calculated using the effective interest rate method	293	262

[1]Includes interest expense of € 138 million (2020: € 121 million) on instruments with AIB Group plc.

The Group presents interest resulting from negative effective interest rates on financial assets as interest expense rather than as offset against interest income.

Interest expense includes a charge of € 19 million (2020: a charge of € 24 million) transferred from other comprehensive income in respect of cash flow hedges which is included within '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.

6 Dividend income

	2021 € m	2020 € m
NAMA subordinated bonds at FVOCI	–	23
Equity investments at FVTPL	3	3
Total	3	26

7 Net fee and commission income

	2021 € m	2020 € m
Customer accounts[1]	208	180
Card income[1]	111	99
Foreign exchange fees	67	54
Credit related fees	50	40
Specialised payment services fees[2]	133	146
Other fees and commissions[3]	71	45
Fees received for services provided to AIB Group plc	8	6
Fee and commission income	648	570
Specialised payment services expenses[2]	(118)	(131)
Card expenses[4]	(33)	(31)
Other fee and commissions expenses	(9)	(7)
Fee and commission expense	(160)	(169)
	488	401

[1]Customer accounts income amounting to € 180 million and card income of € 99 million were reported together as 'Retail banking customer fees' at 31 December 2020. For 31 December 2021, these items are reported separately to better represent the various fees included in each category. The comparatives have been reclassified accordingly.

[2]Specialised payment services: fee income and fee expenses in respect of services and prepaid credits for cellular phone and utilities sold to third parties.

[3]Other fees and commissions includes asset management and advisory fees € 6 million (2020: Nil), stockbroking client fees and commissions € 18 million (2020: Nil), wealth commissions € 23 million (2020: € 17 million), insurance commissions € 12 million (2020: € 14 million) and other commissions € 12 million (2020: € 14 million).

[4]Card expenses includes credit card commissions of € 31 million (2020: € 28 million), and ATM expenses of € 2 million (2020: € 3 million).

Fees and commissions which are an integral part of the effective interest rate are recognised as part of interest and similar income (note 4) or interest and similar expense (note 5).

8 Net trading income/(loss)

	2021 € m	2020 € m
Foreign exchange contracts	(16)	(11)
Interest rate contracts and debt securities[1]	29	7
Credit derivative contracts	(3)	(11)
Equity investments, index contracts and warrants	5	(17)
	15	(32)

[1]Includes a gain of € 16 million (2020: loss of € 5 million) in relation to XVA adjustments. (XVA comprises counterparty valuation adjustments ("CVA") and funding valuation adjustments ("FVA")).

The total hedging ineffectiveness on cash flow hedges reflected in the consolidated income statement amounted to Nil (2020: Nil).

Notes to the consolidated financial statements

9 Net gain on other financial assets measured at FVTPL

	2021 € m	2020 € m
Loans and advances to customers[1]	20	41
Investment securities – equity	58	45
Total	78	86

[1]Excludes interest income (note 4).

10 Net gain on derecognition of financial assets measured at amortised cost

	2021	
	Carrying value of derecognised financial assets measured at amortised cost € m	Gain from derecognition € m
Loans and advances to customers	1,100	1

	2020	
	Carrying value of derecognised financial assets measured at amortised cost € m	Gain from derecognition € m
Loans and advances to customers	464	24

Derecognition in 2021 arose from the sale of portfolios of non-performing loans, the sale of a portfolio of performing small and medium enterprise (“SME”) loans in AIB UK and the sale of individual loans (for credit management purposes) from a specific loan portfolio where credit deterioration had occurred.

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.

11 Other operating income

	2021 € m	2020 € m
Gain on disposal of investment securities at FVOCI – debt	18	17
Loss on termination of hedging swaps[1]	(12)	(17)
Miscellaneous operating income	2	3
	8	3

[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 (2020: € 1 million) transferred from other comprehensive income in respect of cash flow hedges.

12 Operating expenses

	2021 € m	2020 € m
Personnel expenses:		
Wages and salaries	597	593
Termination benefits[(1)]	51	31
Retirement benefits[(2)]	91	92
Social security costs	67	65
Other personnel expenses[(3)(4)]	15	20
	821	801
Less: staff costs capitalised[(5)]	(25)	(25)
Personnel expenses	796	776
General and administrative expenses	548	536
Restitution and associated costs	173[(6)]	117
	721	653
Bank levies and regulatory fees	162[(7)]	115
Operating expenses	**1,679**	1,544

[(1)]Includes charges for voluntary severance programmes of € 51 million (2020: € 31 million). This includes a charge of £ 10 million (2020: £ 19 million) for the anticipated cost of voluntary severance arising as part of the restructuring of the UK business.
[(2)]Comprises a defined contribution charge of € 79 million (2020: a charge of € 78 million), a charge of € 3 million in relation to defined benefit expense (2020: a charge of € 5 million), and a long term disability payments/death in service benefit charge of € 9 million (2020: a charge of € 9 million). For details of retirement benefits, see note 30.
[(3)]Share-based payment* charge of Nil (2020: Nil).
[(4)]Other personnel expenses include staff training, recruitment and various other staff costs
[(5)]Staff costs capitalised relate to intangible assets.
[(6)]Relates primarily to the Belfry provisions (see note 36) and the associated costs related to the Tracker Mortgage Examination.
[(7)]This includes a provision of € 31 million (of which € 25 million relates to prior periods) in relation to the annual fee to the Single Resolution Fund. For details of provisions, see note 36.

The average number of employees for 2021 and 2020 is set out in note 51.

*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 writeback/(charge)

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

	2021			2020		
Credit impairment writeback/(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 remeasurement of ECL allowance						
Loans and advances to banks	–	–	–	–	–	–
Loans and advances to customers	158	–	158	(1,493)	–	(1,493)
Securities financing	(1)	–	(1)	–	–	–
Loan commitments	2	–	2	(35)	–	(35)
Financial guarantee contracts	4	–	4	(4)	–	(4)
Investment securities – debt	–	–	–	(1)	1	–
Credit impairment writeback/(charge)	163	–	163	(1,533)	1	(1,532)
Recoveries of amounts previously written-off	75	–	75	72	–	72
Net credit impairment writeback/(charge)	238	–	238	(1,461)	1	(1,460)

Notes to the consolidated financial statements

14 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.

	2021 € m	2020 € m
Auditor's remuneration *(excluding VAT):*		
Audit of Group financial statements	2.7	2.8
Other assurance services	0.8	0.6
Other non-audit services	0.1	0.9
Taxation advisory services	–	–
	3.6	4.3

All the above amounts were paid to the Group Auditor for services provided to the Group and its subsidiaries.

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 total remuneration paid to overseas auditors (excluding Deloitte Ireland LLP):

	2021 € m	2020 € m
Auditor's remuneration excluding Deloitte Ireland LLP *(excluding VAT)*	1.2	0.7

15 Taxation

	2021 € m	2020 € m
Current tax		
Corporation tax in Ireland		
Current tax on income for the year	(8)	–
Adjustments in respect of prior years	3	61
	(5)	61
Foreign tax		
Current tax on income for the year	(13)	28
Adjustments in respect of prior years	–	–
	(13)	28
Current tax (charge)/credit for the year	(18)	89
Deferred tax		
Origination and reversal of temporary differences	(26)	(2)
Adjustments in respect of prior years	7	24
Deferred tax assets written down	–	(32)
Recognition of deferred tax assets in respect of current period losses	4	103
Increase in carrying value of deferred tax assets in respect of carried forward losses	49	8
Deferred tax credit for the year	34	101
Total tax credit for the year	16	190
Effective tax rate	(2.5)%	20.4%

Factors affecting the effective tax rate

The following table sets out the difference between the tax (charge)/credit that would result from applying the standard corporation tax rate in Ireland of 12.5% and the actual tax charge for the year:

	2021		2020	
	€ m	%	€ m	%
Profit/(loss) before tax	634		(931)	
Tax (charge)/credit at standard corporation tax rate in Ireland of 12.5%	(79)	12.5	116	12.5
Effects of:				
Foreign (profits)/losses taxed at other rates	(9)	1.4	12	1.3
Expenses not deductible for tax purposes	(12)	1.9	(15)	(1.6)
Exempted income, income at reduced rates and tax credits	2	(0.3)	–	–
Share of results of investments accounted for using the equity method shown post tax in the income statement	2	(0.3)	2	0.2
(Income)/losses taxed at higher tax rates	(11)	1.7	7	0.8
Tax legislation on equity distributions	8	(1.3)	10	1.1
(Deferred tax assets not recognised)/reversal of amounts previously not recognised	82	(13.0)	(7)	(0.8)
Deferred tax assets written down	–	–	(32)	(3.4)
Other differences	1	–	1	–
Change in tax rates	22	(3.5)	11	1.2
Adjustments to tax charge in respect of prior years	10	(1.6)	85	9.1
Tax credit	16	(2.5)	190	20.4

As noted in accounting policy note 1(k), 'Income tax, including deferred income tax', current and deferred tax is provided for based on legislation and rates expected to apply when income taxes become payable/refundable or deferred tax assets are realised/deferred tax liabilities are settled. This necessarily involves some estimation because the tax law is uncertain and its application requires a degree of judgement which authorities may dispute. 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

15 Taxation *(continued)*

Analysis of selected other comprehensive income

	2021			2020		
	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						
Remeasurement of defined benefit asset/(liability)	19	(2)	17	(50)	12	(38)
Total	19	(2)	17	(50)	12	(38)
Foreign currency translation reserves						
Amounts reclassified from the foreign currency translation 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	–	–	–	–	–	–
Recognised in other comprehensive income:						
– Net (losses) on net investment hedges	(100)	13	(87)	–	–	–
– Exchange differences on translation of foreign operations	174	–	174	(70)	–	(70)
Total	74	13	87	(70)	–	(70)
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	(141)	18	(123)	(120)	15	(105)
Hedging (losses)/gains recognised in other comprehensive income	(307)	39	(268)	201	(25)	176
Total	(448)	57	(391)	81	(10)	71
Investment debt securities at FVOCI reserves						
Fair value (gains) transferred to income statement	(18)	2	(16)	(17)	2	(15)
Fair value (losses) recognised in other comprehensive income	(44)	6	(38)	(45)	5	(40)
Total	(62)	8	(54)	(62)	7	(55)
Investment equity securities measured at FVOCI reserves						
Fair value (losses) recognised in other comprehensive income	–	–	–	(21)	3	(18)
Total	–	–	–	(21)	3	(18)

16 Disposal groups and non-current assets held for sale

	2021 € m	2020 € m
Property and non-financial assets held for sale[(1)]	8	14
Total disposal groups and non-current assets held for sale	8	14

[(1)]Includes property surplus to requirements and repossessed assets which are expected to be disposed of within one year.

17 Trading portfolio

	Trading portfolio financial assets		Trading portfolio financial liabilities	
	2021 € m	2020 € m	2021 € m	2020 € m
Equity securities	8	–	2	–
	8	–	2	–

18 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 2021 and 2020:

	2021			2020		
	Notional principal amount	Fair values		Notional principal amount	Fair values	
Derivative financial instrument[(1)]	€ m	Assets € m	Liabilities € m	€ m	Assets € m	Liabilities € m
Interest rate contracts	51,694	806	(839)	50,430	1,353	(1,145)
Exchange rate contracts	11,277	76	(200)	7,848	70	(46)
Equity contracts	174	–	(17)	49	–	(1)
Credit derivatives	175	–	(6)	350	1	(9)
Total	63,320	882	(1,062)	58,677	1,424	(1,201)

[(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. During the year there was increased forward hedging of foreign currency funding, and management of Euro surplus liquidity, in light of uncertainty in markets regarding COVID-19, ongoing EU/UK trade discussions and geopolitical tensions.

Notes to the consolidated financial statements

18 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:

				2021				2020
	Less than 1 year	1 to 5 years	5 years +	Total	Less than 1 year	1 to 5 years	5 years +	Total
Residual maturity	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Notional principal amount	22,480	20,804	20,036	63,320	18,180	19,064	21,433	58,677
Positive fair value	86	211	585	882	159	372	893	1,424

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	
	2021 € m	2020 € m	2021 € m	2020 € m
Ireland	59,897	55,688	576	992
United Kingdom	3,304	2,857	295	418
United States of America	119	132	11	14
	63,320	58,677	882	1,424

Trading book 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.

Banking book 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 risk that counterparties to derivative contracts (both trading and banking book) 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 Netting Agreements and increased clearing of derivatives through Central Clearing Counterparties (CCP's). As the traded instruments are recognised at market value, any changes in market value directly affect reported income for a given period. The notional principal and fair value amounts for instruments held for risk management purposes entered into by the Group at 31 December 2021 and 2020, are presented within this note.

18 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 2021 and 2020. A description of how the fair values of derivatives are determined is set out in note 47.

	2021			2020		
	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	5,286	334	(353)	5,134	556	(475)
Cross-currency interest rate swaps	–	–	–	42	1	(1)
Interest rate options bought and sold	1,776	4	(3)	1,564	1	(1)
Total interest rate derivatives – OTC	7,062	338	(356)	6,740	558	(477)
Interest rates derivatives – OTC – central clearing						
Interest rate swaps	5,311	44	(26)	4,273	21	(113)
Total interest rate derivatives – OTC – central clearing	5,311	44	(26)	4,273	21	(113)
Total interest rate derivatives	12,373	382	(382)	11,013	579	(590)
Foreign exchange derivatives – OTC						
Foreign exchange contracts	9,809	76	(160)	7,742	70	(46)
Currency options bought and sold	1	–	–	106	–	–
Total foreign exchange derivatives	9,810	76	(160)	7,848	70	(46)
Equity derivatives – OTC						
Equity index options bought and sold	12	–	–	18	–	–
Equity total return swaps	162	–	(17)	31	–	(1)
Total equity derivatives	174	–	(17)	49	–	(1)
Credit derivatives – OTC – central clearing						
Credit derivatives	175	–	(6)	350	1	(9)
Total credit derivatives	175	–	(6)	350	1	(9)
Total derivatives held for trading	22,532	458	(565)	19,260	650	(646)

Notes to the consolidated financial statements

18 Derivative financial instruments *(continued)*

	2021			2020		
	Notional principal amount	Fair values Assets	Fair values Liabilities	Notional principal amount	Fair values Assets	Fair values Liabilities
	€ m	€ m	€ m	€ m	€ m	€ m
Derivatives held for hedging						
Derivatives designated as fair value hedges – OTC						
Interest rate swaps	2,324	22	(28)	3,626	41	(59)
Total derivatives designated as fair value hedges – OTC	2,324	22	(28)	3,626	41	(59)
Derivatives designated as fair value hedges – OTC – central clearing						
Interest rate swaps	16,902	234	(164)	15,483	177	(382)
Total interest rate fair value hedges – OTC – central clearing	16,902	234	(164)	15,483	177	(382)
Total derivatives designated as fair value hedges	19,226	256	(192)	19,109	218	(441)
Derivatives designated as cash flow hedges – OTC						
Interest rate swaps	1,940	35	(53)	3,114	89	(79)
Cross currency interest rate swaps	82	–	(6)	880	73	–
Total interest rate cash flow hedges – OTC	2,022	35	(59)	3,994	162	(79)
Derivatives designated as cash flow hedges – OTC – central clearing						
Interest rate swaps	18,073	133	(206)	16,314	394	(35)
Total interest rate cash flow hedges – OTC – central clearing	18,073	133	(206)	16,314	394	(35)
Total derivatives designated as cash flow hedges	20,095	168	(265)	20,308	556	(114)
Derivatives designated as net investment hedges – OTC						
Forward exchange contracts	1,467	–	(40)	–	–	–
Total derivatives designated as net investment hedges – OTC	1,467	–	(40)	–	–	–
Total derivatives held for hedging	40,788	424	(497)	39,417	774	(555)
Total derivative financial instruments	63,320	882	(1,062)	58,677	1,424	(1,201)

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 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 2021 is positive € 26 million (2020: negative € 252 million) and the net mark to market on the related hedged items at 31 December 2021 is negative € 27 million (2020: positive € 248 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.

18 Derivative financial instruments *(continued)*

Nominal values and average interest rates by residual maturity

At 31 December 2021 and 2020, the Group held the following hedging instruments of interest rate risk and foreign exchange rate risk in fair value, cash flow and net investment hedges respectively:

2021	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)	283	166	676	4,163	6,618	11,906
Average interest rate (%)[(1)]	0.34	0.09	0.65	0.43	0.23	0.32
Liabilities						
Hedges of debt securities in issue						
Nominal principal amount (€ m)	–	750	–	1,000	25	1,775
Average interest rate (%)[(1)]	–	0.63	–	0.88	5.12	0.83
Hedges of subordinated debt						
Nominal principal amount (€ m)	–	–	–	5,545	–	5,545
Average interest rate (%)[(1)]	–	–	–	2.51	–	2.51
Cash flow hedges – Interest rate swaps[(2)]						
Hedges of financial assets						
Nominal principal amount (€ m)	94	1,567	2,238	4,687	7,689	16,275
Average interest rate (%)[(3)]	0.22	0.08	0.43	0.48	0.29	0.34
Hedges of financial liabilities						
Nominal principal amount (€ m)	422	1,508	280	767	843	3,820
Average interest rate (%)[(3)]	0.22	0.21	0.54	0.95	1.75	0.72
Net investment hedges – Forward exchange contracts						
Nominal principal amount (€ m)	387	850	230	–	–	1,467
Forward FX rate[(4)]	0.87	0.87	0.86	–	–	0.87

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	–	1,750	25	2,275
Average interest rate (%)[(1)]	–	2.25	–	0.77	5.12	1.14
Hedges of subordinated debt						
Nominal principal amount (€ m)	–	–	–	3,676	1,000	4,676
Average interest rate (%)[(1)]	–	–	–	2.75	2.88	2.78
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

[(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.

[(4)]Being the forward FX rates on the hedging derivatives which are being used to hedge the Group's net investment in foreign operations.

Notes to the consolidated financial statements

18 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 2021 and 2020:

2021

(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	11,906	139	(171)	Derivative financial instruments	401	4	Net trading income
Debt securities in issue	1,775	27	–	Derivative financial instruments	(16)	–	Net trading income
Subordinated debt	5,545	90	(21)	Derivative financial instruments	(111)	–	Net trading income

2021

(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	12,264		9		Investment securities	(397)	–
Debt securities in issue		(1,788)		(14)	Debt securities in issue	16	–
Subordinated debt		(5,566)		(22)	Subordinated liabilities and other capital instruments	111	–

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	2,275	51	–	Derivative financial instruments	(12)	–	Net trading income
Subordinated debt	4,676	164	–	Derivative financial instruments	67	–	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		(2,304)		(29)	Debt securities in issue	12	–
Subordinated debt		(4,802)		(127)	Subordinated liabilities and other capital instruments	(67)	–

[1]The mark to market on fair value hedging derivatives, excluding accruals of € 38 million, is positive € 26 million (2020: € 29 million and negative € 252 million).

*Statement of financial position

18 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 2021 and 2020:

											2021
		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	16,275	153	(209)	Derivative financial instruments	(606)	(514)	–	Net trading income	–	161	Interest and similar income
Derivative liabilities	3,820	15	(56)	Derivative financial instruments	67	66	–	Net trading income	–	(19)	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.

						2021
	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	606	(13)	(11)	221	193
Interest rate risk	Customer accounts	(67)	(38)	(33)	–	–

[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

18 Derivative financial instruments *(continued)*

Cash flow hedges of interest rate *(continued)*

2020

		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	15,937	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

	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	(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

18 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:

2021	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	Total € m
Forecast receivable cash flows	**62**	**52**	**125**	**102**	**341**
Forecast payable cash flows	**50**	**24**	**28**	**21**	**123**

2020	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	Total € m
Forecast receivable cash flows	12	7	6	14	39
Forecast payable cash flows	46	44	99	37	226

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:

2021	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	Total € m
Forecast receivable cash flows	**62**	**52**	**125**	**102**	**341**
Forecast payable cash flows	**118**	**77**	**118**	**50**	**363**

2020	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	Total € m
Forecast receivable cash flows	12	7	6	14	39
Forecast payable cash flows	111	96	177	49	433

Ineffectiveness reflected in the income statement that arose from cash flow hedges at 31 December 2021 amounted to Nil (2020: 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 2021 was a loss of € 391 million (2020: a gain of € 71 million).

18 Derivative financial instruments *(continued)*

Hedges of net investment in foreign operations

The tables below set out the amounts relating to (a) items designated as hedging instruments and (b) the hedged items in hedges of the net investment in foreign operations together with the related hedge ineffectiveness at 31 December 2021.

		Carrying amount					Hedge ineffectiveness		Amounts reclassified from foreign currency translation reserves to the income statement		2021
	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	
Foreign exchange contracts											
Derivative assets	1,467	–	(40)	Derivative financial instruments	(100)	(100)	–	Net trading income	–	–	Other Income
Derivative liabilities	–	–	–	Derivative financial instruments	–	–	–	Net trading income	–	–	Other Income

	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 foreign currency translation reserves for continuing hedges pre tax	Amounts in the foreign currency translation reserves for continuing hedges post tax	Amounts remaining in the foreign currency translation reserves from any hedging relationship for which hedge accounting is no longer applied pre tax	Amounts remaining in the foreign currency translation reserves from any hedging relationship for which hedge accounting is no longer applied post tax
						2021
(b) Hedged items		€ m	€ m	€ m	€ m	€ m
Net investment in UK subsidiary	Reserves	100	(100)	(87)	–	–

*Statement of financial position

19 Loans and advances to banks

	2021 € m	2020 € m
At amortised cost		
Funds placed with central banks	361	378
Funds placed with other banks	962	714
	1,323	1,092
ECL allowance	–	–
Total loans and advances to banks	1,323	1,092

Loans and advances to banks by geographical area[1]	2021 € m	2020 € m
Ireland	814	569
United Kingdom	505	521
United States of America	4	2
	1,323	1,092

[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 € 590 million (2020: € 445 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).

Notes to the consolidated financial statements

20 Loans and advances to customers

	2021 € m	2020 € m
At amortised cost		
Loans and advances to customers	56,496	57,684
Amounts receivable under finance leases and hire purchase contracts	1,654	1,592
	58,150	59,276
ECL allowance	(1,885)	(2,510)
	56,265	56,766
Mandatorily at fair value through profit or loss		
Loans and advances to customers	243	75
Total loans and advances to customers	56,508	56,841
Additional information:		
Amounts which are repayable on demand or at short notice	2,225	2,829
Amounts due from associated undertakings[1]	3	1

[1]Undrawn commitments amount to € 81 million and are for less than one year (2020: € 117 million).

Loans and advances to customers include cash collateral amounting to € 12 million (2020: € 14 million) placed with derivative counterparties.

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:

	2021 € m	2020 € m
Gross receivables		
Not later than 1 year	653	618
Later than 1 year and not later than 2 years	453	431
Later than 2 years and not later than 3 years	332	320
Later than 3 years and not later than 4 years	203	200
Later than 4 years and not later than 5 years	97	101
Later than five years	18	20
Total	1,756	1,690
Unearned future finance income	(116)	(114)
Deferred costs incurred on origination	14	16
Present value of minimum payments	1,654	1,592
ECL allowance for uncollectible minimum payments receivable[1]	87	81

[1]Included in ECL allowance on financial assets (note 22).

21 Securities financing

Securities financing consists of (a) securities borrowing and lending and (b) sale and repurchase transactions.

Securities borrowing and securities lending transactions are generally entered into on a collateralised basis, with debt securities and equities, usually advanced or received as collateral.

Sale and repurchase transactions involve purchases (or sales) of investments with agreements to resell (or repurchase) substantially identical investments at a certain date in the future at a fixed price. These are referred to as reverse repurchase agreements and securities sold under agreements to repurchase.

As set out in note 1(c), the Group has elected to voluntarily change its accounting policy for the presentation of financial instruments relating to securities financing. Following a significant increase in securities borrowing and reverse repurchase agreements a decision was taken to introduce this new line item 'Securities financing' for both assets and liabilities in the consolidated statement of financial position. The comparatives for 2020 have been restated accordingly.

			2021			2020
	Banks € m	Customers € m	Total € m	Banks € m	Customers € m	Total € m
Assets						
Reverse repurchase agreements	1,463	–	1,463	194	104	298
Securities borrowing transactions	1,506	921	2,427	513	–	513
Total	2,969	921	3,890[1]	707	104	811
Liabilities						
Securities sold under agreements to repurchase	45	–	45	195	15	210
Total	45	–	45	195	15	210

[1]Classified as ECL Stage 1 and have an ECL of € 1 million at 31 December 2021.

In accordance with the terms of the reverse repurchase agreements and securities borrowing 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 2021, the total fair value of the collateral received was € 3,890 million (2020: € 811 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 and securities borrowing agreements.

Securities sold under agreements to repurchase mature within six months and are secured by debt securities and eligible assets. At 31 December 2021, in relation to securities sold under agreements to repurchase, the Group had pledged collateral with a fair value of € 45 million (2020: € 209 million). These transactions were conducted under the normal market agreements for standard repurchase transactions.

Notes to the consolidated financial statements

22 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.

	2021 € m	2020 € m
At 1 January	**2,511**	1,238
Exchange translation adjustments	**30**	(17)
Net remeasurement of ECL allowance – investment securities-debt	**–**	1
Net remeasurement of ECL allowance – banks	**–**	–
Net remeasurement of ECL allowance – customers	**(158)**	1,493
Net remeasurement of ECL allowance – securities financing	**1**	–
Changes in ECL allowance due to write-offs	**(105)**	(151)
Changes in ECL allowance due to disposals	**(393)**	(57)
Acquisition of subsidiary – stockbroking client debtors	**1**	–
Other	**1**	4
At 31 December	**1,888**	2,511
Amount included in financial assets measured at amortised cost:		
Investment securities – debt	**1**	1
Loans and advances to banks	**–**	–
Loans and advances to customers	**1,885**	2,510
Securities financing	**1**	–
Other assets – stockbroking client debtors	**1**	–
At 31 December	**1,888**	2,511

23 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 2021 and 2020.

						2021
	Carrying value € m	Unrealised gross gains € m	Unrealised gross losses € m	Net unrealised gains/ (losses) € m	Tax effect € m	Net after tax € m
Debt securities at FVOCI						
Irish Government securities	3,504	199	(4)	195	(24)	171
Euro government securities	1,141	25	(1)	24	(3)	21
Non Euro government securities	107	1	(1)	–	–	–
Supranational banks and government agencies	1,260	10	(18)	(8)	1	(7)
Collateralised mortgage obligations	428	1	(2)	(1)	–	(1)
Other asset backed securities	67	–	–	–	–	–
Euro bank securities	3,902	31	(15)	16	(2)	14
Non Euro bank securities	1,663	11	(5)	6	(1)	5
Euro corporate securities	401	10	(1)	9	(1)	8
Non Euro corporate securities	116	5	–	5	(1)	4
Total debt securities at FVOCI	12,589	293	(47)	246	(31)	215
Debt securities at amortised cost						
Irish Government securities	2,400					
Euro government securities	90					
Non Euro government securities	55					
Supranational banks and government agencies	208					
Asset backed securities	1,101					
Euro bank securities	87					
Euro corporate securities	130					
Non Euro corporate securities	38					
Total debt securities at amortised cost	4,109					
Equity securities						
Equity investments at FVOCI	–	–	–	–	–	–
Equity investments at FVTPL	274	133	(5)	128	(24)	104
Total equity securities	274	133	(5)	128	(24)	104
Total investment securities	16,972					

Notes to the consolidated financial statements

23 Investment securities *(continued)*

						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)]The carrying value includes € 1,804 million in Euro commercial paper issued by the Irish Government.

Credit impairment losses recognised in the income statement in 2021 amounted to Nil (2020: Nil). For further details see note 13.

23 Investment securities *(continued)*

The following table sets out an analysis of movements in investment securities:

					2021
	Debt securities at FVOCI	Debt securities at amortised cost	Equity investments measured at		Total
			FVOCI	FVTPL	
	€ m	€ m	€ m	€ m	€ m
At 1 January	**15,675**	**3,603**	**–**	**201**	**19,479**
Exchange translation adjustments	**198**	**18**	**–**	**–**	**216**
Purchases/acquisitions	**1,956**	**515**	**–**	**46**	**2,517**
Sales/disposals/redemptions	**(1,329)**	**–**	**–**	**(31)**	**(1,360)**
Maturities	**(3,548)**	**(20)**	**–**	**–**	**(3,568)**
Amortisation of discounts net of premiums	**(43)**	**(7)**	**–**	**–**	**(50)**
Net change in FVTPL	**–**	**–**	**–**	**58**	**58**
Movement in unrealised losses	**(320)**	**–**	**–**	**–**	**(320)**
At 31 December	**12,589**	**4,109**	**–**	**274**	**16,972**
Of which:					
Listed	**12,589**	**4,109**	**–**	**26**	**16,724**
Unlisted	**–**	**–**	**–**	**248**	**248**
	12,589	**4,109**	**–**	**274**	**16,972**

					2020
	Debt securities at FVOCI	Debt securities at amortised cost	Equity investments measured at		Total
			FVOCI	FVTPL	
	€ 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

Notes to the consolidated financial statements

23 Investment securities *(continued)*

The following table distinguishes 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 at 31 December 2021 and 2020:

						2021
	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	3,074	151	3,225	(45)	(2)	(47)
Equity securities at FVTPL	2	42	44	–	(5)	(5)
Total	3,076	193	3,269	(45)	(7)	(52)

						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	249	156	405	(1)	–	(1)
Equity securities at FVTPL	12	22	34	(2)	(5)	(7)
Total	261	178	439	(3)	(5)	(8)

For details of the credit quality of the investment securities portfolio, see the 'Risk management' section of this report.

24 Investments accounted for using the equity method

Included in the income statement is the contribution net of tax from investments accounted for using the equity method as follows:

Income statement	2021 € m	2020 € m
Share of equity accounted investments		
– joint ventures	–	–
– associates	21	15
	21[1]	15[1]

Share of net assets including goodwill	2021 € m	2020 € m
At 1 January	98	83
Investments in associated undertakings[2]	5	–
Investment in joint venture[3]	3	–
Income for the year	21	15
At 31 December[4]	127	98
Of which listed on a recognised stock exchange	–	–

[1] Includes AIB Merchant Services € 22 million (2020: € 15 million).
[2] In 2021, this includes an investment amounting to € 5 million in Synch Payments d.a.c.
[3] In 2021, this relates to an initial investment amounting to € 3 million in AIB JV Holdings Limited being the Group's joint venture with Great-West LifeCo Inc.
[4] Comprises the Group's investment in AIB Merchant Services, Fulfil Holdings Limited, Synch Payments d.a.c, Clearpay d.a.c and AIB JV Holdings Limited.

The following is the principal associate company of the Group at 31 December 2021 and 2020:

Name of associate	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group 2021 %	2020 %
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 and joint ventures are accounted for using the equity method in these consolidated financial statements.

Banking transactions between the Group and its associated undertakings/joint ventures are entered into in the normal course of business. For further information see notes 20 and 32.

Disclosures relating to the Group's potential exposure to chargeback risk in AIB Merchant Services are set out in note 43.

In accordance with Sections 316 and 348 of the Companies Act 2014 and the European Communities (Credit Institutions: Financial Statements) Regulations 2015, Allied Irish Banks, p.l.c. will annex a full listing of associated undertakings to its annual return to the Companies Registration Office.

There was no unrecognised share of losses of associates or joint ventures at 31 December 2021 or 2020.

Change in the Group's ownership interest in associates

During 2020 and 2021, there was no change in the Group's ownership interest in associates.

Significant restrictions

There is no significant restriction on the ability of associates or joint ventures 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

25 Intangible assets and goodwill

	Software externally purchased € m	Software internally generated € m	Software under construction € m	Goodwill € m	Other € m	2021 Total € m
Cost						
At 1 January	292	1,334	172	70	40	1,908
Additions	10	99	95	–	–	204
Acquisition of subsidiary	–	1[(1)]	–	50[(2)]	–	51
Transfers in/(out)	–	99	(99)	–	–	–
Amounts written-off[(3)]	(64)	(65)	(1)	–	–	(130)
Exchange translation adjustments	–	4	–	–	–	4
At 31 December	238	1,472	167	120	40	2,037
Amortisation/impairment						
At 1 January	274	685	–	–	12	971
Amortisation for the year	9	182	–	–	6	197
Impairment for the year[(4)]	–	–	1	–	–	1
Amounts written-off[(3)]	(64)	(65)	(1)	–	–	(130)
Exchange translation adjustments	–	2	–	–	–	2
At 31 December	219	804	–	–	18	1,041
Carrying value at 31 December	19	668	167	120	22	996

	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[(3)]	(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[(4)]	–	24	6	–	–	30
Amounts written-off[(3)]	(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

[(1)]Relates to intangible assets recognised on the acquisition of subsidiary (note 27).
[(2)]Relates to the acquisition of subsidiary (note 27). The goodwill was tested for impairment at 31 December 2021 and no impairment was identified.
[(3)]Relates to assets which are no longer in use with a Nil carrying value.
[(4)]Included in 'Impairment and amortisation of intangible assets' in the consolidated income statement.

Future capital expenditure in relation to both intangible assets and property, plant and equipment is set out in note 26.

26 Property, plant and equipment

	Owned assets					Leased assets		2021
	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	172	43	128	397	8	491	3	1,242
Transfers in/(out)	2	–	2	1	(5)	–	–	–
Additions	4	–	1	23	3	5	1	37
Acquisition of subsidiary *(note 27)*	–	–	1	2	–	5	–	8
Net remeasurements	–	–	–	–	–	(11)	–	(11)
Transfers (to)/from held for sale	(4)	–	–	–	–	–	–	(4)
Amounts written-off[1]	(1)	(2)	(9)	(47)	(1)	(14)	(1)	(75)
Exchange translation adjustments	1	–	1	1	–	3	–	6
At 31 December	174	41	124	377	5	479	3	1,203
Depreciation/impairment								
At 1 January	45	14	46	308	–	103	1	517
Depreciation charge for the year	5	1	11	24	–	44	2	87
Impairment charge for the year[2]	2	–	5	4	1	30	–	42
Amounts written-off[1]	(1)	(2)	(9)	(47)	(1)	(14)	(1)	(75)
Transfers (to)/from held for sale	(1)	–	–	–	–	–	–	(1)
Exchange translation adjustments	–	–	–	1	–	1	–	2
At 31 December	50	13	53	290	–	164	2	572
Carrying value at 31 December	124	28	71	87	5	315	1	631

[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

26 Property, plant and equipment *(continued)*

								2020
	Owned assets					Leased assets		
	Property			Equipment	Assets under construction	Right-of-use assets		Total
	Freehold	Long leasehold	Leasehold under 50 years			Property	Other	
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Cost								
At 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 remeasurements	–	–	–	–	–	(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.

The carrying value of property occupied by the Group for its own activities was € 223 million (2020: € 238 million) in relation to owned assets and € 305 million in relation to right-of-use assets (2020: € 388 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 (2020: Nil).

26 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).

	2021 € m	2020 € m
Estimated outstanding commitments for capital expenditure not provided for in the financial statements	1	1
Capital expenditure authorised but not yet contracted for	18	32

Leased assets

Property

The Group leases property for its offices and retail branch outlets. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. 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 the right-of-use asset.

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	2021 € m	2020 € m
Depreciation expense on right-of-use assets	46	56
Interest on lease liabilities *(note 5)*	12	13
Expense relating to short term leases	1	1
Income from sub-leasing right-of-use assets	–	2

Amounts recognised in statement of cash flows	2021 € m	2020 € m
Total cash outflow for leases during the year[1]	55	63

[1]Includes amounts reported as interest expense on lease liabilities of € 12 million (2020: € 13 million) and amounts reported as principal repayments on lease liabilities of € 43 million (2020: € 50 million).

Notes to the consolidated financial statements

27 Acquisition of subsidiary

The accounting policy for business combinations is set out in note 1(d) to the financial statements in 'Basis of consolidation'.

On 31 August 2021, following receipt of all regulatory approvals, the Group acquired Goodbody, a leading Irish provider of wealth management, corporate finance and capital markets services, by acquiring 100% of the voting shares of GANMAC Holdings (BVI) Limited and its subsidiaries. AIB Group's acquisition of Goodbody is a critical advancement in the Group's strategy to provide enhanced customer offerings, particularly in capital markets, corporate finance and wealth management. Under the terms of the agreement, AIB acquired the entire share capital for a total consideration, including deferred contingent consideration, of € 139 million. The Group incurred acquisition-related costs amounting to € 2 million on legal fees and due diligence costs which were incurred and expensed in 2020. These are included in 'General and administrative expenses' (note 12).

Identifiable assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of Goodbody at the date of acquisition were as follows:

	2021 € m
Assets	
Loans and advances to banks	62
Intangible assets	1
Property, plant and equipment	8
Trading portfolio financial assets	11
Other assets[1]	101
Prepayments	2
Total assets	**185**
Liabilities	
Lease liabilities	5
Trading portfolio financial liabilities	2
Other liabilities[2]	76
Deposits by central banks and banks	3
Current tax liabilities	1
Accruals and deferred income	9
Total liabilities	**96**
Total identifiable net assets at fair value	89
Goodwill arising on acquisition	50
Total consideration	**139**
Consideration satisfied by:	
Cash payments	122
Deferred contingent consideration	17
Total consideration	**139**
Net cash outflow arising on acquisition	
Cash consideration	122
Less: cash and cash equivalents acquired	(62)
Total outflow in the Consolidated Statement of Cash Flows	**60**

[1]Includes stockbroking client debtors of € 81 million.
[2]Includes stockbroking client creditors of € 69 million.

27 Acquisition of subsidiary *(continued)*

Measurement of fair values

The fair value of the trade receivables amounts to € 80 million. The gross amount of trade receivables is € 81 million and it is expected that the full contractual amounts can be collected.

The principal factor contributing to the recognition of goodwill of € 50 million is the expected future earnings of Goodbody. This reflects, in particular, the expected returns from AIB's existing customer base. This is also enabled by skilled employees providing a differentiated service offering. In addition, due to the fungibility of existing Goodbody customers and the nature of the industry in which Goodbody operates no material separately identifiable intangible assets were identified or recognised by the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

Deferred contingent consideration

Deferred contingent consideration amounting to € 17 million has been agreed with certain shareholders of Goodbody. This comprises a payment of € 8 million on the first anniversary of the acquisition date and a payment of € 9 million on the second anniversary of the acquisition date. The Group has recognised the full value of contingent consideration that could be paid under the agreement on the basis that it expects to make those payments and any potential decreases, are not considered material.

Revenue and profit

For the four months to 31 December 2021, Goodbody contributed revenue amounting to € 24 million and a loss of € 2 million to the Group's results. If the acquisition had occurred on 1 January 2021, consolidated revenue would have been € 75 million, and consolidated profit for the year would have been € 3 million.

Goodbody is reported in the Capital Markets operating segment for the four months to 31 December 2021.

28 Other assets

	2021 € m	2020 € m
Proceeds due from disposal of loan portfolio[1]	302	–
Fair value of hedged asset positions[2]	(38)	80
Stockbroking client debtors	35	–
Items in transit	97	34
Other[3]	87	121
Total	**483**	235

[1]ECL – Nil.
[2]The fair value of the hedged asset positions only relates to when the hedged item is at amortised cost.
[3]Includes sundry debtors € 33 million (2020: € 84 million).

Notes to the consolidated financial statements

29 Deferred taxation

	2021 € m	2020 € m
Deferred tax assets:		
Transition to IFRS 9	15	24
Assets used in the business	14	13
Retirement benefits	13	13
Assets leased to customers	15	15
Unutilised tax losses	2,840	2,763
Other	7	8
Total gross deferred tax assets	**2,904**	2,836
Deferred tax liabilities:		
Transition to IFRS 9	(1)	(1)
Transition to IFRS 15	–	(1)
Cash flow hedges	(20)	(77)
Retirement benefits	(15)	(7)
Assets used in the business	(22)	(21)
Investment securities	(26)	(34)
Acquisition of subsidiary	(3)	(4)
Other	(36)	(24)
Total gross deferred tax liabilities	**(123)**	(169)
Net deferred tax assets	**2,781**	2,667
Represented on the statement of financial position:		
Deferred tax assets	2,834	2,711
Deferred tax liabilities	(53)	(44)
	2,781	2,667

For each of the years ended 31 December 2021 and 2020, full provision has been made for capital allowances and other temporary differences.

Analysis of movements in deferred taxation	2021 € m	2020 € m
At 1 January	2,667	2,557
Exchange translation and other adjustments	4	(3)
Deferred tax through other comprehensive income	76	12
Income statement *(note 15)*	34	101
At 31 December	**2,781**	2,667

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 211 and 212.

At 31 December 2021, recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled € 2,781 million (2020: € 2,667 million). The most significant tax losses arise in the Irish tax jurisdiction and their utilisation is dependent on future taxable profits.

The amount of recognised deferred tax assets arising from unused tax losses amounts to € 2,840 million (2020: € 2,763 million) of which € 2,645 million (2020: € 2,675 million) relates to Irish tax losses and € 195 million (2020: € 88 million) relates to UK tax losses.

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 2021 of € 2,738 million (2020: € 2,646 million) are expected to be recovered after more than 12 months.

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. Legislation has been enacted to increase the UK Corporation Tax rate from 19% to 25% from 1 April 2023. This change has resulted in an increase of the Group's UK deferred tax asset for unutilised losses by £ 22 million. Furthermore, the expected profits for the 15 year period has increased reflecting the benefits of the revised UK strategy. The deferred tax asset for unutilised tax losses in the UK subsidiary amounts to £ 164 million at 31 December 2021 (2020: £ 79 million).

For certain other subsidiaries and branches, the Group has concluded that it is more likely than not that there will be insufficient profits to support full recognition of deferred tax assets.

The Group has not recognised deferred tax assets in respect of: Irish tax on unused tax losses at 31 December 2021 of € 161 million (2020: € 161 million); overseas tax (UK and USA) on unused tax losses of € 3,142 million (2020: € 3,270 million); and foreign tax credits for Irish tax purposes of € 12 million (2020: € 12 million). Of these tax losses totalling € 3,303 million for which no deferred tax is recognised: € 8 million expires in 2032; € 39 million in 2033; € 25 million in 2034; and € 5 million in 2035.

The Irish Government agreed to the statement on new international tax rules issued in October 2021 by the OECD/G20 Inclusive Framework. This included the proposal for a new global minimum effective tax rate of 15% on multinationals from 2023. In December 2021, the OECD published "model rules" for the minimum effective tax rate, and the European Commission published a draft Directive which is broadly aligned with the model rules. It is expected that the Group will be within the scope of the new rules. During 2022 the Group will review the expected guidance from the OECD, as well as any legislation introduced in Ireland. It is not possible at this time to estimate the impact, if any, on the Group's deferred tax assets and liabilities.

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 (2020: Nil).

Deferred tax recognised directly in equity amounted to Nil (2020: Nil).

Notes to the consolidated financial statements

29 Deferred taxation *(continued)*

Analysis of income tax relating to other comprehensive income

					2021
	Gross € m	Tax € m	Net of tax € m	Non-controlling interests net of tax € m	Net amount attributable to equity holders of the parent € m
Profit for the year	634	16	650	(2)	652
Net change in foreign currency translation reserves	74	13	87	–	87
Net change in cash flow hedging reserves	(448)	57	(391)	–	(391)
Net change in fair value of investment securities at FVOCI	(62)	8	(54)	–	(54)
Remeasurement of defined benefit asset/(liability)	19	(2)	17	–	17
Total comprehensive income for the year	**217**	**92**	**309**	**(2)**	**311**
Attributable to:					
Equity holders of the parent	219	92	311	–	311
Non-controlling interests	(2)	–	(2)	(2)	–

					2020
	Gross € m	Tax € m	Net of tax € m	Non-controlling interests net of tax € m	Net amount attributable to equity holders of the parent € m
Loss for the year	(931)	190	(741)	28	(769)
Net change in foreign currency translation reserves	(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)
Remeasurement of defined benefit asset/(liability)	(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	–

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 € 79 million (2020: € 78 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 15,792 members comprising 4,238 pensioners and 11,554 deferred members at 31 December 2021. 7,648 members have benefits accrued from 2007 to 2013 under a hybrid arrangement. In addition, there are 969 members comprising 133 pensioners and 836 deferred members at 31 December 2021 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 pages 122 and 123 of this report.

Valuations

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. The next actuarial valuation of the Irish scheme as at 30 June 2021 is ongoing and due to be completed by no later than 31 March 2022. No deficit funding is anticipated at this time as the Irish scheme continues to meet 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 March 2022.

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 the majority 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. Since the initial de-risking transaction in 2019, additional members (including deferred and subsequent retirees) have been added to the buy-in policy, with a partial surrender of a portion of the APP to fund the cost.

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 in both 2022 and 2023, with a final balancing payment, based on latest estimates of c. £ 60 million. This is subject to change prior to finalisation.

Notes to the consolidated financial statements

30 Retirement benefits *(continued)*

Contributions

Total contributions to all defined benefit pension schemes operated by the Group in 2021 amounted to € 22 million (2020: € 36 million). There were no contributions made to the Irish Scheme in 2021 (2020: Nil). Contributions of £ 18.5 million were made to the UK scheme (2020: £ 30.5 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 2022 are estimated to be € 22.5 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 2021 and 2020. The assumptions have been set based upon the advice of the Group's actuary.

Financial assumptions	2021 %	2020 %
Irish scheme		
Rate of increase of pensions in payment[(1)]	**0.65**	0.20
Discount rate	**1.38**	1.10
Inflation assumptions[(2)]	**2.00**	0.95
UK scheme		
Rate of increase of pensions in payment	**3.30**	2.90
Discount rate	**1.80**	1.40
Inflation assumptions (RPI)	**3.30**	2.90
Other schemes		
Rate of increase of pensions in payment	**0.00 – 3.30**	0.00 – 2.90
Discount rate	**1.38 – 2.75**	1.10 – 2.40
Inflation assumptions	**2.00 – 3.30**	0.95 – 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 process, the Group decided in February 2021 and February 2022 that the funding of discretionary increases was not appropriate in either year in relation to the Irish scheme.

Rate of increase of pensions in payment – Irish scheme

Notwithstanding a decision by the Board in February 2020 not to fund discretionary increases, the Trustee of the Irish scheme awarded a 1.1% increase to pensions eligible for discretionary pension increases with effect from 1 April 2020. This increase resulted in an actuarial loss in 2020.

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 0.65% (31 December 2020: 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 adjusted the scheme liabilities by € 350 million at 31 December 2021 (31 December 2020: € 100 million).

Mortality assumptions

The life expectancies underlying the value of the scheme liabilities for the Irish and UK schemes at 31 December 2021 and 2020 are shown in the following table.

		Life expectancy – years			
		Irish scheme		UK scheme	
		2021	2020	**2021**	2020
Retiring today age 63					
	Males	**24.9**	25.3	**25.0**	25.0
	Females	**26.7**	27.2	**26.8**	26.8
Retiring in 10 years at age 63					
	Males	**25.5**	26.1	**25.4**	25.4
	Females	**27.5**	28.2	**27.8**	27.7

The mortality assumptions for the Irish and UK schemes were updated in 2021 to reflect emerging market experience. The table shows that a member of the Irish scheme retiring at age 63 on 31 December 2021 is assumed to live on average for 24.9 years for a male (25.0 years for the UK scheme) and 26.7 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 2021 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 2021 and 2020.

	2021				2020			
	Defined benefit obligation € m	Fair value of scheme assets € m	Asset ceiling/ minimum funding[1] € m	Net defined benefit (liabilities) assets € m	Defined benefit obligation € m	Fair value of scheme assets € m	Asset ceiling/ minimum funding[1] € m	Net defined benefit (liabilities) assets € m
At 1 January	(6,226)	6,627	(440)	(39)	(5,904)	6,474	(591)	(21)
Included in profit or loss								
Past service cost	–	–	–	–	(1)	–	–	(1)
Interest (cost)/income	(72)	77	(5)	–	(90)	98	(8)	–
Administration costs	–	(3)	–	(3)	–	(4)	–	(4)
	(72)	74	(5)	(3)	(91)	94	(8)	(5)
Included in other comprehensive income								
Remeasurements gain/(loss):								
– Actuarial gain/(loss) arising from:								
– Experience adjustments	109	–	–	109	(11)	–	–	(11)
– Changes in demographic assumptions	95	–	–	95	3	–	–	3
– Changes in financial assumptions	(288)	–	–	(288)	(502)	–	–	(502)
– Return on scheme assets excluding interest income	–	393	–	393	–	301	–	301
– Asset ceiling/minimum funding adjustments	–	–	(290)	(290)	–	–	159	159
				19[2]				(50)[2]
Translation adjustment on non-euro schemes	(82)	83	–	1	64	(63)	–	1
	(166)	476	(290)	20	(446)	238	159	(49)
Other								
Contributions by employer	–	22	–	22	–	36	–	36
Benefits paid	223	(223)	–	–	215	(215)	–	–
	223	(201)	–	22	215	(179)	–	36
At 31 December	(6,241)	6,976	(735)	–	(6,226)	6,627	(440)	(39)

	31 December 2021 € m	31 December 2020 € m
Recognised on the statement of financial position as:		
Retirement benefit assets		
UK scheme	44	26
Other schemes	10	3
Total retirement benefit assets	54	29
Retirement benefit liabilities		
Irish scheme	–	–
EBS scheme	(31)	(43)
Other schemes	(23)	(25)
Total retirement benefit liabilities	(54)	(68)
Net pension deficit	–	(39)

[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 € 17 million (2020: € 38 million), see page 178.

30 Retirement benefits *(continued)*

Scheme assets

The following table sets out an analysis of the scheme assets:

	2021 € m	2020 € m
Cash and cash equivalents	**138**	193
Equity instruments		
Quoted equity instruments:		
Basic materials	**71**	70
Consumer goods	**114**	109
Consumer services	**168**	150
Energy	**91**	66
Financials	**235**	204
Healthcare	**189**	168
Industrials	**155**	140
Technology	**305**	249
Telecoms	**121**	113
Utilities	**49**	48
Total quoted equity instruments	**1,498**	1,317
Unquoted equity instruments	**–**	–
Total equity instruments	**1,498**	1,317
Debt instruments		
Quoted debt instruments:		
Corporate bonds	**874**	881
Government bonds	**1,557**	1,775
Total quoted debt instruments	**2,431**	2,656
Real estate[(1)(2)]	**295**	257
Derivatives	**7**	14
Investment funds		
Quoted investment funds:		
Alternatives	**23**	11
Bonds	**284**	279
Cash	**10**	6
Equity	**266**	262
Fixed interest	**125**	128
Forestry	**42**	40
Liability driven investment	**470**	117
Multi-asset	**16**	12
Property	**–**	–
Total quoted investment funds	**1,236**	855
Total investment funds	**1,236**	855
Mortgage backed securities[(2)]	**214**	238
Insurance contracts[(3)]	**1,157**	1,097
Fair value of scheme assets at 31 December	**6,976**	6,627

[(1)]Located in Europe.
[(2)]A quoted market price in an active market is not available.
[(3)]For valuation see page 257.

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 2021. 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)	(182)	202	(52)	53
Inflation (0.25% movement)	65	(62)	51	(48)
Future mortality (1 year change in life expectancy)	113	(113)	49	(48)

Maturity of the defined benefit obligation

The weighted average duration of the Irish scheme at 31 December 2021 is 17 years and of the UK scheme at 31 December 2021 is 19 years.

Asset-liability matching strategies

The Irish scheme continued to de-risk in 2021, with further allocations to liability matching assets. As part of a strategy to increase the holding in inflation linked assets, the allocation to the Liability Driven Investment ("LDI") portfolio, which is used to hedge the scheme's liabilities against both interest rate and inflation risk, has increased. The LDI fund is comprised of a mixture of nominal bonds, inflation linked bonds and inflation derivatives. Due to an increase in values from market movements, the scheme maintained a similar weighting in equities in 2021 and continues to have 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

Other long term employee benefits include 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 2021, the Group contributed € 9 million (2020: € 9 million) towards insuring these benefits which are included in Operating expenses (note 12).

31 Deposits by central banks and banks

	2021 € m	2020 € m
Central Banks		
Eurosystem refinancing operations	10,000	4,000
Borrowings – secured	298	278
– unsecured	–	–
	10,298	4,278
Banks		
Other borrowings – unsecured	84	217
	10,382	4,495

Eurosystem refinancing operations are credit facilities from the Eurosystem secured by a fixed charge over securities and relates to TLTRO III. The Group participated in TLTRO III for € 4 billion in September 2020 and a further € 6 billion in June 2021. For further details on TLTRO III see notes 4 and 50.

Deposits by central banks and banks include cash collateral at 31 December 2021 of € 51 million (2020: € 204 million) received from derivative counterparties in relation to net derivative positions and from repurchase agreement counterparties.

Financial assets pledged

Financial assets pledged for secured borrowings and providing access to future funding facilities with central banks and banks are detailed in the following table:

	2021			2020		
	Central banks € m	Banks € m	Total € m	Central banks € m	Banks € m	Total € m
Total carrying value of financial assets pledged	11,011	16	11,027	4,768	17	4,785
Of which:						
Government securities	5,751	16	5,767	2,473	17	2,490
Other securities[1]	5,260	–	5,260	2,295	–	2,295

[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

	2021 € m	2020 € m
Current accounts	57,895	49,013
Demand deposits	29,762	20,426
Time deposits	5,183	12,493
Other – non-controlling interests[1]	26	25
	92,866	81,957
Of which:		
Non-interest bearing current accounts	41,169	39,310
Interest bearing deposits, current accounts and short term borrowings	51,697	42,647
	92,866	81,957
Amounts include:		
Due to associated undertakings	280	277

[1]Relates to long term loans from minority shareholders in Augmentum Limited, see note 40.

Customer accounts include cash collateral of € 59 million (2020: € 81 million) received from derivative counterparties in relation to net derivative positions.

At 31 December 2021, the Group's five largest customer deposits amounted to 1% (2020: 1%) of total customer accounts.

33 Debt securities in issue

	2021 € m	2020 € m
Issued by subsidiaries		
Bonds and medium term notes:		
Euro Medium Term Note Programme	–	–
Bonds and other medium term notes	1,775	2,275
	1,775	2,275

Analysis of movements in debt securities in issue

	2021 € m	2020 € m
At 1 January	2,275	3,525
Matured	(500)	(1,250)
At 31 December	1,775	2,275

34 Lease liabilities

	2021 € m	2020 € m
At 31 December	**346**	382

Maturity analysis – contractual undiscounted cash flows:		
Not later than one year	**52**	53
Later than one year and not later than five years	**169**	182
Later than five years	**185**	240
Total undiscounted lease liabilities at end of year	**406**	475

Analysis of movements in lease liabilities	2021 € m	2020 € m
At 1 January	**382**	429
Lease payments[1]	**(55)**	(63)
Interest expense[1]	**12**	13
Additions	**5**	6
Acquisition of subsidiary	**5**	–
Disposals	**(1)**	–
Net remeasurements	**(3)**	(1)
Foreign exchange translation adjustments	**1**	(2)
At 31 December	**346**	382

[1]Repayment of principal portion of the lease liabilities amounted to € 43 million (2020: € 50 million), i.e. lease payments net of interest expense.

35 Other liabilities

	2021 € m	2020 € m
Notes in circulation	**96**	145
Items in transit	**71**	81
Creditors	**32**	42
Fair value of hedged liability positions[1]	**36**	156
Stockbroking client creditors	**35**	–
Bank drafts	**421**	193
Items in course of collection	**180**	11
Other[2]	**364**	327
	1,235	955

[1]The fair value of the hedged liability positions only relates to when the hedging item is at amortised cost.
[2]Includes invoice discounting credit balances on customer accounts € 103 million (2020: € 96 million).

Notes to the consolidated financial statements

36 Provisions for liabilities and commitments

2021	Onerous contracts € m	Legal claims € m	ROU[1] commit-ments € m	Other provisions € m	ECLs on loan commit-ments € m	ECLs on financial guarantee contracts € m	Total € m
At 1 January 2021	2	34	15	262	54	29	396
Charged to income statement	–	30[2]	–	166[2]	38[3]	7[3]	241
Released to income statement	–	(4)[2]	–	(11)[2]	(40)[3]	(11)[3]	(66)
Dilapidation provisions	–	–	2	–	–	–	2
Provisions utilised	–	(29)	–	(47)	–	–	(76)
Exchange translation adjustments	–	–	–	2	1	1	4
At 31 December 2021	2	31	17	372	53	26	501[4]

2020	Onerous contracts € m	Legal claims € m	ROU[1] commit-ments € m	Other provisions € m	ECLs on loan commit-ments € m	ECLs on financial guarantee contracts € m	Total € 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]

[1]Provisions for dilapidations included in measurement of right-of-use assets ('ROU').
[2]Included in note 12 'Operating expenses'.
[3]Included in 'Net credit impairment writeback/(charge)' (note 13). In 2020, a debit of € 3 million was also included in 'Net gain 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 € 368 million (31 December 2020: € 228 million).

(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 2021 for customer redress and compensation and other related costs amounted to € 79 million (31 December 2020: € 80 million) in respect of certain mortgage customers – the '06-09 Ts & Cs[1] who never had a tracker' cohort.

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

The Group continued to engage with stakeholders during 2020 and 2021 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 € 79 million, following utilisations of € 1 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.

36 Provisions for liabilities and commitments *(continued)*

(a) Other provisions (continued)

Tracker Mortgage Examination: In respect of customer redress and compensation a provision of € 8 million is held at 31 December 2021 (31 December 2020: € 8 million) for the ongoing appeals process and any individual impacted accounts which may be identified under the Tracker Mortgage Examination.

The provision at 31 December 2021 for 'Other costs' amounted to € 8 million (31 December 2020: € 8 million).

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

Provisions for restructuring costs arising from the implementation of the UK's strategy increased by € 20 million in 2021. Following utilisations of € 29 million, the closing provision at 31 December 2021 was € 19 million (2020: € 28 million) and this includes € 13 million for the expected cost of termination benefits for staff who have yet to leave under the restructuring.

Regulatory provision

The Group conducted a review of certain technical matters relating to previous submissions to the Single Resolution Board which was the basis of the annual fee to the Single Resolution Fund. Arising from this review, the Group has provided € 31 million (of which € 25 million relates to prior periods) in relation to matters arising from this review. This is still subject to finalisation with the relevant regulatory authorities.

(b) Belfry related provisions – legal claims/other provisions

During the period 2002 to 2006 the Group sold a series of investment property funds, known as Belfry, to c. 2,500 individual investors (c. £ 214 million invested). Following losses in those funds, c. 270 investors (who had invested c. £ 30 million) served claims against the Group which had been ongoing in the Courts since 2015. In July 2021 the Group agreed to settle those claims. As a result, a charge was recorded under "legal claims" amounting to € 25 million, including amounts for all legal and settlement costs associated with these claims. These were utilised in full by 31 December 2021.

The Group instigated a programme, which is ongoing, to review all investments in the Belfry funds on a case by case basis and to determine if redress may be due in certain instances. The Group has recorded an additional provision of € 75 million under "other provisions" above for the anticipated cost of redress and other related costs that may be payable under this programme.

While the programme principles and its approach are established, the redress strategy is currently being defined. As a result the anticipated cost of redress is subject to uncertainty, with a range of possible outcomes, with the final outcome being higher or lower depending on finalisation of such matters.

(c) 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 89 and 100 in the 'Risk management' section of this report.

Notes to the consolidated financial statements

37 Subordinated liabilities and other capital instruments

		2021 € m	2020 € m
Dated loan capital – European Medium Term Note Programmes:			
€ 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)	(a)	12	11
£ 368m 12.5% Subordinated Notes due June 2019			
– nominal value £ 79 million (maturity extended to 2035 as a result of the SLO)	(a)	43	38
£ 500m Callable Fixed/Floating Rate Notes due March 2025			
– nominal value £ 1 million (maturity extended to 2035 as a result of the SLO)	(a)	1	1
		56	50
Subordinated tier 2 loan – AIB Group plc			
€ 500 million subordinated tier 2 loan due November 2029, Callable 2024	(b)	500	500
€ 1 billion subordinated tier 2 loan due May 2031, Callable 2026	(b)	1,000	1,000
Subordinated loans – AIB Group plc			
€ 500 million subordinated loan due March 2023	(c)	500	500
$ 750 million subordinated loan due October 2023	(c)	662	611
€ 750 million subordinated loan due May 2024	(c)	750	750
$ 1 billion subordinated loan due April 2025	(c)	883	815
€ 500 million subordinated loan due July 2025	(c)	500	500
€ 750 million subordinated loan due November 2027	(c)	750	–
		4,045	3,176
		5,601	4,726

Maturity of dated loan capital	2021 € m	2020 € m
Dated loan capital outstanding is repayable as follows:		
5 years or more	56	50
Subordinated loans outstanding are repayable as follows:		
Less than 5 years	3,295	3,176
5 years or more	2,250	1,500

Dated loan capital

The dated loan capital in this section is subordinated in right of payment to the senior creditors, including depositors, of the respective issuing entities.

(a) Other dated subordinated loan capital

Following the liability management exercises in 2011 and the Subordinated Liabilities Order ("SLO") in April 2011, residual balances remained on the dated loan capital instruments above. The SLO, which was effective from 22 April 2011, changed the terms of all of those outstanding dated loan 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.

Under the EU (Bank Recovery and Resolution) Regulations 2015, these notes are loss absorbing at the point of non-viability.

37 Subordinated liabilities and other capital instruments *(continued)*

(b) Subordinated tier 2 loans – AIB Group plc

– In November 2019, AIB Group plc lent € 500 million to Allied Irish Banks, p.l.c. This loan is subordinated and ranks as tier 2 capital.

The loan matures on 19 November 2029 but may be prepaid in whole, but not in part, at the option of Allied Irish Banks, p.l.c. on the call 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 loan bears interest on the outstanding principal amount at a fixed rate of 2.0% 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 a margin of 2.275% per annum.

The loans are junior in right of payment to all senior obligations of the borrower and pari passu with all other subordinated claims against the borrower.

Under the EU (Bank Recovery and Resolution) Regulations 2015, this loan is loss absorbing at the point of non-viability.

– In September 2020, AIB Group plc lent € 1 billion to Allied Irish Banks, p.l.c. This loan is subordinated and ranks as tier 2 capital.

The loan matures on 30 May 2031 but may be prepaid in whole, but not in part, at the option of Allied Irish Banks, p.l.c. on the call 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 loan bears interest on the outstanding principal amount at a fixed rate of 3.0% payable annually in arrears on 19 November each year. The interest rate will be reset on 30 May 2026 to Eur 5 year Mid Swap rate plus a margin of 3.425% per annum.

The loans are junior in right of payment to all senior obligations of the borrower and pari passu with all other subordinated claims against the borrower.

Under the EU (Bank Recovery and Resolution) Regulations 2015, this loan is loss absorbing at the point of non-viability.

(c) Subordinated loans – AIB Group plc

During 2021, AIB Group plc as he lender entered into the following loan agreement with Allied Irish Banks, p.l.c. as the borrower, whereby the obligations were unsecured and subordinated:

– In May 2021, AIB Group plc lent € 750 million at (a) a fixed rate of 0.625% per annum in respect of the period from, and including, the drawdown date 17 May 2021 and to, but excluding, the call date 17 November 2026, and (b) thereafter, the rate equal to the Single Mid-Swap Rate plus 0.875% per annum. Interest is payable annually in arrears on 17 November commencing on 17 November 2021 up to and including the maturity date. The loan is due to be repaid in full on maturity date, 17 November 2027, unless previously prepaid.

The borrower, may, at its option, prepay the loans for certain changes in tax law; or if a loss absorption disqualification event has occurred which relates to the borrower or to its regulatory group, i.e. the consolidated entities of Allied Irish Banks, p.l.c. for regulatory purposes. Repayment of these loans prior to the contractual maturity date is subject to the approval of the relevant regulator.

The loans may be subject to the exercise of Irish Statutory loss absorption powers by the relevant resolution authority.

In addition, the US$ 1 billion loan may be voluntarily prepaid on the call date, subject to certain conditions and regulatory approval.

In the event of a winding-up of Allied Irish Banks, p.l.c., its obligations under the loans shall rank as senior non-preferred claims and as such AIB Group plc's claims in respect of the principal, interest and any other amount in respect of the individual loans shall rank:
(a) junior in right of payment to all senior claims (excluding senior non-preferred claims);
(b) pari passu with all other senior non-preferred claims; and
(c) in priority to all Own Funds claims and all other subordinated claims against Allied Irish Banks, p.l.c. other than senior non-preferred claims.

Notes to the consolidated financial statements

38 Share capital

	31 December 2021		31 December 2020	
	Number of shares m	€ m	Number of shares m	€ m
Authorised				
Ordinary share capital				
Ordinary shares of € 0.625 each	**4,000.0**	**2,500**	4,000.0	2,500
Issued and fully paid				
Ordinary share capital				
Ordinary shares of € 0.625 each	**2,714.4**	**1,696**	2,714.4	1,696

Share premium	2021 € m	2020 € m
At beginning and end of period:	**1,386**	1,386

Movements in share capital

There were no movements in issued share capital during 2021 and 2020.

Allied Irish Banks, p.l.c. had 2,714,381,238 ordinary shares of nominal value € 0.625 per share in issue at 31 December 2021.

Structure of the Company's share capital

The following table shows the structure of the Company's share capital:

	31 December 2021		31 December 2020	
	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 2021 € m	31 December 2020 € m
Equity	**13,667**	13,425
Dated capital *(note 37)*	**1,556**	1,550
Total capital resources	**15,223**	14,975

39 Other equity interests

		2021 € m	2020 € m
Issued by Allied Irish Banks, p.l.c.			
Issued to 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**	619
Total		**1,115**	1,115

Distributions amounting to € 67 million (2020: € 47 million) were paid on the Additional Tier 1 Securities issued to AIB Group plc and distributions amounting to Nil (2020: € 30 million) were paid on the Additional Tier 1 Securities issued externally. Other equity interests 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') to AIB Group plc. The transaction costs incurred were € 4 million.

Interest on the securities, at a fixed rate of 5.375% 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 sum of the relevant reset reference rate and the margin of 5.827%. 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 constitute direct, unsecured, unguaranteed and subordinated obligations of the issuer and rank pari passu and without any preference among themselves.

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 issuer or of the Group at any time falls below 7%, subject to certain conditions, the Company shall write down the prevailing principal amount of the AT1 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.

(b) In June 2020, the Company issued € 625 million nominal value of Additional Tier 1 Perpetual Contingent Temporary Write-Down Securities ('AT1s') to AIB Group plc. The transaction costs incurred were € 6 million.

Interest on the securities, at a fixed rate of 6.375% 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 sum of the relevant reset reference rate and the margin of 6.754%. 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 issuer or of the Group at any time falls below 7%, subject to certain conditions, the Company shall write down the prevailing principal amount of the AT1 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.

Notes to the consolidated financial statements

40 Non-controlling interests in subsidiaries

	2021 € m	2020 € m
At 1 January	1	1
Additions	–	2
Non-controlling interests share of net loss	(2)	(2)
At 31 December	(1)	1

Augmentum Limited is 75% owned by Allied Irish Banks, p.l.c. 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.

41 Capital reserves and capital redemption reserves

	2021			2020		
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.

Capital redemption reserves	2021 € m	2020 € 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 € 529 million at 31 December 2021 (2020: € 804 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 2021, € 570 million (2020: € 450 million) of CSAs are included within financial assets and € 100 million (2020: € 257 million) of CSAs are included within financial liabilities.

Notes to the consolidated financial statements

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 2021 and 2020:

					Related amounts not offset in the statement of financial position		2021
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	18	788	–	788	(529)	(56)	203
Securities financing							
Reverse repurchase agreements	21	4,788	(3,325)	1,463	(1,463)	(10)	(10)
Securities borrowings	21	2,427	–	2,427	(2,427)	–	–
Total		8,003	(3,325)	4,678	(4,419)	(66)	193

					Related amounts not offset in the statement of financial position		2021
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
Securities financing							
Securities sold under agreements to repurchase	21	3,370	(3,325)	45	(45)	(32)	(32)
Derivative financial instruments	18	1,049	–	1,049	(529)	(526)	(6)
Total		4,419	(3,325)	1,094	(574)	(558)	(38)

42 Offsetting financial assets and financial liabilities *(continued)*

					Related amounts not offset in the statement of financial position		2020
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	18	1,244	–	1,244	(804)	(202)	238
Securities financing							
Reverse repurchase agreements	21	3,116	(2,818)	298	(301)	(27)	(30)
Securities borrowings	21	513	–	513	(510)	–	3
Total		4,873	(2,818)	2,055	(1,615)	(229)	211

					Related amounts not offset in the statement of financial position		2020
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
Securities financing							
Securities sold under agreements to repurchase	21	3,028	(2,818)	210	(209)	(8)	(7)
Derivative financial instruments	18	1,181	–	1,181	(804)	(394)	(17)
Total		4,209	(2,818)	1,391	(1,013)	(402)	(24)

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; and
– securities financing – amortised cost.

Notes to the consolidated financial statements

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 2021 and 2020:

				2021
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	**788**	Derivative financial instruments	**882**	**94**
Securities financing				
Reverse repurchase agreements	**1,463**			
Securities borrowing	**2,427**	Securities financing	**3,890**	**–**

				2021
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**
Securities financing				
Securities sold under agreement to repurchase	**45**	Securities financing	**45**	**–**
Derivative financial instruments	**1,049**	Derivative financial instruments	**1,062**	**13**

				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
Securities financing				
Reverse repurchase agreements	298			
Securities borrowing	513	Securities financing	811	–

				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
Securities financing				
Securities sold under agreement to repurchase	210	Securities financing	210	–
Derivative financial instruments	1,181	Derivative financial instruments	1,201	20

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	
	2021 **€ m**	2020 € m
Contingent liabilities[1] – credit related		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	**775**	631
Other contingent liabilities	**44**	91
	819	722
Commitments[2]		
Documentary credits and short term trade-related transactions	**129**	92
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year	**9,135**	8,537
1 year and over	**4,463**	3,875
	13,727	12,504
	14,546	13,226

[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.

For details of the credit ratings and geographic concentration of contingent liabilities and commitments, see pages 89 and 100 in the 'Risk management' section of this report.

Provisions for ECLs on loan commitments and financial guarantee contracts are set out in note 36.

Notes to the consolidated financial statements

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 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.

Chargeback risk

As outlined in note 24, the Group has a 49.9% equity interest in Zolter Services d.a.c. which owns a 100% subsidiary, 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, UK, Europe and a number of markets globally.

As a merchant acquirer, FMPI processes payments for point of sale and ecommerce 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 loss.

The FMPI management team and Board of Directors regularly monitors and assesses the potential financial losses arising from chargebacks. At 31 December 2021, 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. While the COVID-19 vaccine rollout has been successful to date and many of the business restrictions previously in place have been removed there remains residual uncertainty in relation to potential chargeback loss due to the related concerns affecting merchants and the sustainability of their business models. 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 losses.

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.

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.

Notes to the consolidated financial statements

44 Subsidiaries and consolidated structured entities

The following sets out details of the parent company in the Group and its material subsidiary companies at 31 December 2021 and 2020:

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.

All subsidiaries of Allied Irish Banks, p.l.c., 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.

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;
– AIB PFP Scottish Limited Partnership.

Further details on these SPEs are set out in note 46.

There are no contractual arrangements that could require Allied Irish Banks, p.l.c. or its subsidiaries to provide financial support to the consolidated structured entities listed above. During the year, neither Allied Irish Banks, p.l.c. nor any of its subsidiaries provided financial support to a consolidated structured entity and there is no current intention to provide financial support.

The Group has no interests in unconsolidated structured entities.

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 'Securities financing' (note 21). 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 note 22. 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.

Notes to the consolidated financial statements

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 € 9.5 billion, internal Group companies hold € 7.8 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 2021, the carrying amount of the transferred financial assets which the Group continues to recognise is € 3.2 billion (2020: € 3.7 billion) (fair value is € 2.9 billion (2020: € 3.8 billion)) and the carrying amount of the associated liabilities is Nil (2020: Nil).

Arising from the acquisition of EBS on 1 July 2011, the Group took 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.

The liquidation of this company was completed in February 2021.

Mespil 1 RMBS d.a.c.

The liquidation of this company was completed in February 2021.

45 Off-balance sheet arrangements and transferred financial assets *(continued)*

The following table summarises as at 31 December 2021 and 2020, the carrying value and fair value of financial assets which did not qualify for derecognition together with their associated financial liabilities.

					2021
	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	**3,368**(1)(2)	**45**(1)	**3,371**	**45**	**3,326**
Covered bond programmes					
Residential mortgage backed	**2,820**(3)	**1,775**(4)	**2,693**	**1,799**	**894**

					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

(1)See note 22.

(2)Includes € 3,306 million of assets pledged in relation to securities lending arrangements (2020: € 2,813 million).

(3)The asset pools of € 15 billion (2020: € 15 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 € 2,820 million (2020: € 3,184 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 payments of £ 18.5 million in both 2022 and 2023, with a final balancing payment, based on latest estimates of c £ 60 million. This is subject to change prior to finalisation.

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.

Notes to the consolidated financial statements

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 2021, the Group recognised € 0.5 million (cumulative € 8.7 million) (2020: € 0.6 million (cumulative € 8.2 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.

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 2021, the Group recognised € 2 million (cumulative € 98 million) (2020: € 2 million (cumulative € 96 million)) in the income statement for the servicing of financial assets transferred to NAMA.

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 2021 and 2020:

					2021
	At fair value through profit or loss	At fair value through other comprehensive income		At amortised cost	Total
	Mandatorily	Debt investments	Hedging derivatives		
	€ m	€ m	€ m	€ m	€ m
Financial assets					
Cash and balances at central banks	–	–	–	42,654[1]	42,654
Items in course of collection	–	–	–	44	44
Trading portfolio financial assets	8	–	–	–	8
Derivative financial instruments	714[2]	–	168	–	882
Loans and advances to banks	–	–	–	1,323	1,323
Loans and advances to customers[3]	243	–	–	56,280	56,523
Securities financing	–	–	–	3,890	3,890
Investment securities	274	12,589	–	4,109	16,972
Other financial assets	–	–	–	842	842
	1,239	12,589	168	109,142	123,138
Financial liabilities					
Deposits by central banks and banks	–	–	–	10,382	10,382
Customer accounts[4]	–	–	–	92,870	92,870
Securities financing	–	–	–	45	45
Trading portfolio financial liabilities	2	–	–	–	2
Derivative financial instruments	757[5]	–	305	–	1,062
Debt securities in issue	–	–	–	1,775	1,775
Subordinated liabilities and other capital instruments[6]	–	–	–	5,601	5,601
Other financial liabilities	–	–	–	1,375	1,375
	759	–	305	112,048	113,112

[1] Includes cash on hand € 545 million.
[2] Held for trading € 458 million and fair value hedges € 256 million.
[3] Includes loans and advances to AIB Group plc of € 15 million.
[4] Includes customer accounts due to AIB Group plc of € 4 million.
[5] Held for trading € 565 million and fair value hedges € 192 million.
[6] Includes subordinated loans – AIB Group plc of € 5,545 million.

Notes to the consolidated financial statements

46 Classification and measurement of financial assets and financial liabilities *(continued)*

	At fair value through profit or loss	At fair value through other comprehensive income		At amortised cost	2020 Total
	Mandatorily	Debt investments	Hedging derivatives		
	€ m	€ m	€ m	€ m	€ m
Financial assets					
Cash and balances at central banks	–	–	–	25,550[1]	25,550
Items in course of collection	–	–	–	43	43
Derivative financial instruments	868[2]	–	556	–	1,424
Loans and advances to banks	–	–	–	1,092	1,092
Loans and advances to customers[3]	75	–	–	56,786	56,861
Securities financing	–	–	–	811	811
Investment securities	201	15,675	–	3,603	19,479
Other financial assets	–	–	–	365	365
	1,144	15,675	556	88,250	105,625
Financial liabilities					
Deposits by central banks and banks	–	–	–	4,495	4,495
Customer accounts[4]	–	–	–	81,969	81,969
Securities financing	–	–	–	210	210
Derivative financial instruments	1,087[5]	–	114	–	1,201
Debt securities in issue	–	–	–	2,275	2,275
Subordinated liabilities and other capital instruments[6]	–	–	–	4,726	4,726
Other financial liabilities	–	–	–	972	972
	1,087	–	114	94,647	95,848

[1]Includes cash on hand € 618 million.
[2]Held for trading € 650 million and fair value hedges € 218 million.
[3]Includes loans and advances to AIB Group plc of € 20 million.
[4]Includes customer accounts due to AIB Group plc of € 12 million.
[5]Held for trading € 646 million and fair value hedges € 441 million.
[6]Includes subordinated loans – AIB Group plc of € 4,676 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 classified 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 2021.

The methods used for calculation of fair value in 2021 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 (2020: 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.

Where XVA valuation adjustments have been applied to a derivative instrument, the entire instrument is classified as Level 3 in the fair value hierarchy on the basis that a component of the XVA valuation is derived from unobservable inputs.

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 294. 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)*

Securities financing

The fair value of securities financing assets and liabilities approximate their carrying amount as these balances are generally short-dated and fully collateralised.

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 2021 and 2020:

Notes to the consolidated financial statements

47 Fair value of financial instruments *(continued)*

					2021
	Carrying amount	Fair Value			
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
	€ m	€ m	€ m	€ m	€ m
Financial assets measured at fair value					
Trading portfolio financial assets					
Equity securities	8	8	–	–	8
Derivative financial instruments:					
Interest rate derivatives	806	–	505	301(1)	806
Exchange rate derivatives	76	–	76	–	76
Loans and advances to customers at FVTPL	243	–	–	243	243
Investment debt securities at FVOCI:					
Government securities	4,752	4,752	–	–	4,752
Supranational banks and government agencies	1,260	1,260	–	–	1,260
Asset backed securities	495	456	39	–	495
Bank securities	5,565	5,565	–	–	5,565
Corporate securities	517	517	–	–	517
Equity investments at FVTPL	274	26	–	248	274
	13,996	12,584	620	792	13,996
Financial assets not measured at fair value					
Cash and balances at central banks	42,654	545(2)	42,109	–	42,654
Items in the course of collection	44	–	–	44	44
Loans and advances to banks	1,323	–	361	962	1,323
Loans and advances to customers:					
Mortgages(3)	29,088	–	–	27,509	27,509
Non-mortgages	27,177	–	–	27,245	27,245
Total loans and advances to customers	56,265	–	–	54,754	54,754
Loans and advances – AIB Group plc	15	–	–	15	15
Securities financing					
Reverse repurchase agreements	1,463	–	–	1,463	1,463
Securities borrowing	2,427	–	–	2,427	2,427
Investment debt securities measured at amortised cost	4,109	2,982	–	1,138	4,120
Other financial assets	842	–	–	842	842
	109,142	3,527	42,470	61,645	107,642
Financial liabilities measured at fair value					
Trading portfolio financial liabilities					
Equity securities	2	2	–	–	2
Derivative financial instruments:					
Interest rate derivatives	839	–	743	96(1)	839
Exchange rate derivatives	200	–	200	–	200
Equity derivatives	17	–	17	–	17
Credit derivatives	6	–	6	–	6
	1,064	2	966	96	1,064
Financial liabilities not measured at fair value					
Deposits by central banks and banks:					
Other borrowings	84	–	–	84	84
Secured borrowings	10,298	–	10,298	–	10,298
Customer accounts:					
Current accounts	57,895	–	–	57,895	57,895
Demand deposits	29,762	–	–	29,762	29,762
Time deposits	5,209	–	–	5,220	5,220
Customer accounts – AIB Group plc	4	–	–	4	4
Securities financing:					
Securities sold under agreements to repurchase	45	–	–	45	45
Debt securities in issue	1,775	1,766	13	20	1,799
Subordinated liabilities and other capital instruments	5,601	58	5,765	16	5,839
Other financial liabilities	1,375	–	–	1,375	1,375
	112,048	1,824	16,076	94,421	112,321

(1)Includes € 244 million derivative assets and € 38 million derivative liabilities categorised as level 3 on the basis that a component of the XVA valuation is derived from unobservable inputs.
(2)Comprises cash on hand.
(3)Includes residential and commercial mortgages.

47 Fair value of financial instruments *(continued)*

					2020
	Carrying amount	Fair Value			
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
	€ m	€ m	€ m	€ m	€ m
Financial assets measured at fair value					
Derivative financial instruments:					
Interest rate derivatives	1,353	–	864	489[(1)]	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[(2)]	24,932	–	25,550
Items in the course of collection	43	–	–	43	43
Loans and advances to banks	1,092	–	378	714	1,092
Loans and advances to customers:					
Mortgages[(3)]	29,901	–	–	30,459	30,459
Non-mortgages	26,865	–	–	26,983	26,983
Total loans and advances to customers	56,766	–	–	57,442	57,442
Loans and advances – AIB Group plc	20	–	–	20	20
Securities financing:					
Reverse repurchase agreements	298	–	–	298	298
Securities borrowing	513	–	–	513	513
Investment debt securities measured at amortised cost	3,603	2,973	–	796	3,769
Other financial assets	365	–	–	365	365
	88,250	3,591	25,310	60,191	89,092
Financial liabilities measured at fair value					
Derivative financial instruments:					
Interest rate derivatives	1,145	–	1,065	80[(1)]	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	4,278	–	4,278	–	4,278
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
Customer accounts – AIB Group plc	12	–	–	12	12
Securities financing:					
Securities sold under agreements to repurchase	210	–	–	210	210
Debt securities in issue	2,275	2,291	36	–	2,327
Subordinated liabilities and other capital instruments	4,726	–	4,961	–	4,961
Other financial liabilities	972	–	–	972	972
	94,647	2,291	9,275	83,411	94,977

(1) Includes € 440 million derivative assets and € 36 million derivative liabilities categorised as level 3 on the basis that a component of the XVA valuation is derived from unobservable inputs.
(2) Comprises cash on hand.
(3) 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 2021 and 2020.

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:

								2021
	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 2021	**489**	**–**	**–**	**75**	**177**	**741**	**80**	**80**
Transfers into/out of level 3[(1)]	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total gains or (losses) in:								
Profit or loss:								
Net trading income	**(188)**	**–**	**–**	**–**	**–**	**(188)**	**16**	**16**
Net change in FVTPL	**–**	**–**	**–**	**21**	**58**	**79**	**–**	**–**
	(188)	**–**	**–**	**21**	**58**	**(109)**	**16**	**16**
Other comprehensive income:								
Net change in fair value of investment securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Net change in fair value of cash flow hedges	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Purchases/additions	**–**	**–**	**–**	**181**[(2)]	**44**	**225**	**–**	**–**
Sales/disposals	**–**	**–**	**–**	**(1)**	**(31)**	**(32)**	**–**	**–**
Cash received:								
Principal	**–**	**–**	**–**	**(33)**	**–**	**(33)**	**–**	**–**
At 31 December 2021	**301**	**–**	**–**	**243**	**248**	**792**	**96**	**96**

								2020
	€ 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

(1) Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

(2) Relates to the restructuring of loans measured at FVTPL, that were previously carried at amortised cost.

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 categorised as Level 3 in the fair value hierarchy held at 31 December 2021 and 2020:

	2021 € m	2020 € m
Net trading income – (losses)/gains	(151)	89
Gains on equity investments at FVTPL	51	23
Losses on loans and advances at FVTPL	(12)	–
	(112)	112

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:

Financial instrument		Fair value 2021 € m	Fair value 2020 € m	Valuation technique	Significant unobservable input	Range of estimates 31 December 2021	Range of estimates 31 December 2020
Uncollateralised customer derivatives	Asset	301	489	CVA	LGD	29% – 46% (Base 38%)	58% – 74% (Base 68%)
	Liability	96	80		PD	0.5% – 2.6% (Base 1.2%, 1 year PD)	0.4% – 1.9% (Base 0.9%, 1 year PD)
				FVA	Funding spreads	(0.2%) to 0.3%	(0.2%) to 0.3%
Visa Inc. Series B Preferred Stock	Asset	50	31	Quoted market price (to which a discount has been applied)	Final conversion rate	0% – 90%	0% – 90%
Loans and advances to customers measured at FVTPL	Asset	243	75	Discounted cash flows*	Discount on market value	(1)% – 9%	(1)% – 5%
				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

Interest rate derivatives (assets and liabilities) include negative XVA valuation adjustments amounting to net € 28 million (2020: € 41 million). The sensitivity to unobservable inputs for this XVA valuation adjustment at 31 December 2021 ranges from (i) negative € 23 million to positive € 12 million for CVA (2020: negative € 38 million to positive € 19 million) and (ii) negative € 5 million to positive € 3 million for FVA (2020: negative € 7 million to positive € 3 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.

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 having occurred 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. 69% haircut (2020: 80%). 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 € 2 million to positive € 21 million at 31 December 2021 (2020: negative € 1 million to positive € 4 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 2021 and 2020:

				2021
	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	14	(27)	–	–
Investment securities – equity	48[1]	(34)[1]	–	–
Loans and advances to customers measured at FVTPL	21	(2)	–	–
Total	83	(63)	–	–
Classes of financial liabilities				
Derivative financial liabilities	–	(1)	–	–
Total	–	(1)	–	–

				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)	–	–

[1]Relates to a significant equity investment, the carrying value of which was € 50 million at 31 December 2021 (2020: € 31 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:

	2021 € m	2020 € m
Cash and balances at central banks	42,654	25,550
Loans and advances to banks[(1)(2)]	903	659
Securities financing[(3)]	–	350
Total	43,557	26,559

[(1)]Included in 'Loans and advances to banks' total of € 1,323 million (2020: € 1,092 million) set out in note 19.

[(2)]Includes € 4 million relating to restricted balances held in trust in respect of certain payables which are included in 'Other liabilities' (note 35).

[(3)]Certain securities financing transactions may meet the definition of cash equivalents. These amounted to Nil at 31 December 2021 (2020: € 350 million).

Cash and balances at central banks (net of ECL allowance of Nil) comprise:

	2021 € m	2020 € m
Central Bank of Ireland	35,223	19,256
Bank of England	6,555	5,522
Federal Reserve Bank of New York	331	154
Other (cash on hand)	545	618
Total	42,654	25,550

The Group is required to hold minimum reserve balances with the Central Bank of Ireland.

The Group is also required by law to maintain reserve balances with the Bank of England. At 31 December 2021, these amounted to € 361 million (2020: € 378 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.

Notes to the consolidated financial statements

49 Statement of cash flows

Non-cash and other items included in profit before taxation

Non-cash items	2021 € m	2020 € m
Loss on disposal of property	3	–
Net gain on derecognition of financial assets measured at amortised cost	(1)	(24)
Dividends received from equity investments	(3)	(26)
Investments accounted for using the equity method	(21)	(15)
Net credit impairment (writeback)/charge	(163)	1,532
Change in other provisions	183	80
Retirement benefits – defined benefit expense	3	5
Depreciation, amortisation and impairment	327	315
Interest on subordinated liabilities and other capital instruments	141	151
Gain on disposal of investment securities	(18)	(17)
Loss on termination of hedging swaps	12	17
Amortisation of premiums and discounts	50	66
Net gain on equity investments measured at FVTPL	(58)	(45)
Net loss on loans and advances to customers at FVTPL	12	–
Change in prepayments and accrued income	(81)	22
Change in accruals and deferred income	6	(84)
Effect of exchange translation and other adjustments[1]	(101)	119
Total non-cash items	291	2,096
Contributions to defined benefit pension schemes	(22)	(36)
Dividends received from equity investments	3	26
Total other items	(19)	(10)
Non-cash and other items for the year ended 31 December	272	2,086

Change in operating assets[1]	2021 € m	2020 € m
Change in items in course of collection	(1)	14
Change in trading portfolio financial assets	3	–
Change in derivative financial instruments	(2)	(13)
Change in loans and advances to banks	45	(79)
Change in loans and advances to customers	1,022	1,799
Change in securities financing	(3,415)	(223)
Change in other assets	36	484
	(2,312)	1,982

Change in operating liabilities[1]	2021 € m	2020 € m
Change in deposits by central banks and banks	5,859	3,708
Change in customer accounts	9,923	10,916
Change in securities financing	(165)	210
Change in debt securities in issue	(500)	(1,250)
Change in notes in circulation	(49)	(68)
Change in other liabilities	276	(212)
	15,344	13,304

[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

Allied Irish Banks, p.l.c. is the parent company of the Group. Related parties include its owner, 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 the Group.

(a) Transactions with owner and with subsidiary and associated undertakings and joint arrangements

(i) Transactions with AIB Group plc

The following were the principal transactions during 2021 between AIB Group plc (the owner) and Allied Irish Banks, p.l.c. (the subsidiary company):

– 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 7);
– Allied Irish Banks, p.l.c. issued subordinated debt to AIB Group plc amounting to € 750 million (note 39); and
– Interest expense on subordinated debt from the parent company, AIB Group plc, amounted to € 138 million (note 5).

(ii) Transactions with subsidiary undertakings

Banking transactions between Allied Irish Banks, p.l.c. and its subsidiaries are entered into in the normal course of business. These include loans, deposits, provisions of derivative contracts, foreign currency contracts and the provision of guarantees on an 'arm's length basis'. Balances between Allied Irish Banks, p.l.c. and its subsidiaries are detailed in notes d, e, f, g. i, j, p, q and aa to the parent company financial statements. 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 OECD guidelines on transfer pricing which are the internationally accepted principles in this area, and take account of the functions, risks and assets involved. In accordance with IFRS10 *Consolidated Financial Statements*, transactions with subsidiaries have been eliminated on consolidation.

(b) Associated undertakings and joint arrangements

From time to time, the Group provides certain banking and financial services for associated undertakings. These transactions are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than the normal risk of collectability or present other unfavourable features. Details of loans to associates are set out in note 20 to the consolidated financial statements.

(c) Non-controlling interests

The Group has accepted a deposit from the non-controlling interests in a subsidiary which is detailed in note 32.

(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. As at 31 December 2021, the Group had 24 KMP (2020: 17 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 159 and 160.

	2021 € m	2020 € m
Short term compensation[1]	5.7	5.9
Post-employment benefits[2]	0.8	0.9
Termination benefits	–	–
Total	**6.5**	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	2021 € m	2020 € m
At 1 January	1.56	3.00
Loans issued during the year	–	–
Loan repayments during the year/change of KMP/other	(0.05)	(1.44)
At 31 December	**1.51**	1.56

Total commitments outstanding refers to the total of any undrawn amounts on credit cards and/or overdraft facilities provided to KMP. Total commitments outstanding as at 31 December 2021 were € 0.13 million (2020: € 0.13 million).

Deposit and other credit balances held by KMP and their close family members as at 31 December 2021 amounted to € 3.21 million (2020: € 2.28 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 16 Directors in office during the year, 6 of whom availed of credit facilities (2020: 6). Of the Directors who availed of credit facilities, 3 had balances outstanding at 31 December 2021 (2020: 3 of 6).

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

	Balance at 31 December 2020 € 000	Amounts advanced during 2021 € 000	Amounts repaid during 2021 € 000	Balance at 31 December 2021 € 000
Tanya Horgan				
Loans	59	–	4	55
Overdraft/credit card*	–	–	–	–
Total	59	–	4	55
Interest charged during the year				2
Maximum debit balance during the year**				59
Colin Hunt:				
Loans	741	–	50	691
Overdraft/credit card*	12	–	–	12
Total	753	–	50	703
Interest charged during the year				5
Maximum debit balance during the year**				760
Carolan Lennon:				
Loans	–	–	–	–
Overdraft/credit card*	13	–	–	8
Total	13	–	–	8
Interest charged during the year				–
Maximum debit balance during the year**				15

*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 and Mr Fergal O'Dwyer held overdraft facilities which were not used during the year. Ms Ann O'Brien held a credit card facility with the Group, which had a Nil opening and closing balance, and a maximum debit balance of less than € 100 in the period.

Ms Anik Chaumartin, Mr Donal Galvin, Mr Basil Geoghegan, Ms Sandy Kinney Pritchard, Mr Andy Maguire, Ms Elaine MacLean, Mr Brendan McDonagh, Mr Jim Pettigrew, Mr Jan Sijbrand and Mr Raj Singh had no credit facilities with the Group in 2021.

All facilities are performing to their terms and conditions. An expected credit loss allowance is held for all loans and advances. Accordingly, a total expected credit loss allowance of under € 500 was held on the above facilities at 31 December 2021.

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 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.

50 Related party transactions *(continued)*

(f) Companies Act 2014 disclosures *(continued)*

(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 7 persons; 2020: 9 persons):

	Balance at 31 December 2021 € 000	Balance at 31 December 2020 € 000
Loans	**691**	369
Overdraft/credit card*	**8**	9
Total	**699**	378
Interest charged during the year	**15**	5
Maximum debit balance during the year**	**927**	426

An expected credit loss allowance is held for all loans and advances. Accordingly, a total expected credit loss allowance of € 32,000 was held on the above facilities at 31 December 2021.

*Amounts advanced and repaid are not shown for overdraft/credit card facilities as these are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).
**The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

(iii) Aggregate balance of loans and guarantees held by Directors and their connected persons

The aggregate balance of loans and guarantees held by Directors and their connected persons as at 31 December 2021 represents c. 0.01% of the net assets of the Group (2020: c. 0.01%).

(g) Summary of relationship with the Irish Government

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

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 framework, the authority and responsibility for strategy and commercial policies (including business plans and budgets) and conducting AIB's day-to-day operations rest with the Board and AIB's management team, however, AIB remains subject to certain obligations which require advance consultation with or approval by the State.

These obligations relate to, inter alia:
- The composition of the board;
- Declaration and payment of dividends;
- Restrictions on various types of remuneration;
- Buy-backs or redemptions by the Group of its shares; and
- Material acquisitions/disposals.

The relationship of the Irish Government with AIB is outlined under the following headings:

- ***Ordinary shares***
  At 31 December 2021, the Irish Government held 1,930,436,543 ordinary shares in AIB Group plc (71.12% of total), accordingly, AIB is under the control of the Irish Government. Subsequent to the year end, the State's shareholding in the Company reduced to 70.97% as at 2 March 2022 as part of a pre-arranged trading plan that was previously announced.

- ***Issue of warrants to the Minister for Finance***
  In 2017, AIB issued warrants to the Minister to subscribe for 271,166,685 ordinary shares of AIB representing 9.99% of the issued share capital. For further details see note 38.

Notes to the consolidated financial statements

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 2021, c. € 474 million is outstanding across the following individual schemes: Future Growth Loan Scheme; Brexit/COVID-19 Working Capital Loan Schemes and the COVID-19 Credit Guarantee Scheme.

Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009

The Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 was one of various stabilisation measures implemented by the State to support the Irish banking system including the Group. The Group no longer has any guaranteed liabilities under the scheme however, certain of the covenants in the scheme continue to apply to the Group including reporting covenants, until the scheme is terminated by the Minister for Finance.

– ***NAMA***

The Group has provided NAMA with a series of indemnities relating to transferred assets. Any indemnity payment would result in an outflow of economic benefit for the Group.

In early 2020, the NAMA subordinated bonds were fully redeemed.

– ***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 and a further € 6 billion in June 2021. At 31 December 2021, the amounts outstanding, totalling € 10 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. See notes 4 and 32 for further details in relation to the Group's participation in the TLTRO programme.

These facilities, together with other assets and liabilities with Irish Government entity counterparties, are set out below.

– ***Other transactions with the Irish Government and entities under its control***

In addition to the above matters, AIB also enters into other normal banking transactions with the Irish Government, its agencies and entities under its control. This includes transactions with (i) Government related entities, (ii) local government and commercial semi-state bodies and (iii) financial institutions under Irish Government control/significant influence. Other transactions include the payment of taxes, pay related social insurance, local authority rates, and the payment of regulatory fees, as appropriate.

(i) Irish Government and related entities

The following table outlines the amounts outstanding at 31 December 2021 and 2020 with Irish Government and related entities which are considered individually significant (excluding accrued interest). Related entities includes departments of the Irish Government located in the State and embassies, consulates and other institutions of the Irish Government located outside the State. The Post Office Savings Bank ("POSB") and the National Treasury Management Agency ("NTMA") are also included.

50 Related party transactions *(continued)*

(g) Summary of relationship with the Irish Government *(continued)*

	2021 Balance € m	2020 Balance € m
Assets		
Cash and balances at central banks[(1)]	**35,222**	19,256
Investment securities[(2)]	**5,904**	7,715
Liabilities		
Deposits by central banks and banks[(3)]	**10,000**	4,000
Customer accounts[(4)]	**165**	293

[(1)]Cash and balances at the central bank represent the placements which the Group holds with the Central Bank.
[(2)]Investment securities at 31 December 2021 comprise € 5,904 million (2020: € 7,715 million) in Irish Government securities held in the normal course of business.
[(3)]This relates to funding received from the ECB through the Central Bank which is detailed under 'Funding Support' above.
[(4)]Includes € 20 million (2020: € 130 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.

(ii) Local government[(1)] and Commercial semi-state bodies[(2)]

During 2021 and 2020, AIB entered into banking transactions in the normal course of business with local government bodies and semi-state bodies. These transactions include the granting of loans and the acceptance of deposits, as well as derivative and clearing transactions. There were no individually significant amounts outstanding in the period with local government or with semi-state bodies.

[(1)]This category includes local authorities, borough corporations, county borough councils, county councils, boards of town commissioners, urban district councils, non-commercial public sector entities, public voluntary hospitals and schools.
[(2)]Semi-state bodies is the name given to organisations within the public sector operating with some autonomy. They include commercial organisations or companies in which the State is the sole or main shareholder.

(iii) Financial institutions under Irish Government control/significant influence

The Irish Government has a controlling interest in Permanent tsb plc and also had significant influence over Bank of Ireland. Due to AIB's related party relationship with the Irish Government, balances between these financial institutions and AIB are considered related party transactions in accordance with IAS 24.

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.

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 2021 and 2020:

	2021 € m	2020 € m
Assets		
Loans and advances to banks	**1**	–
Investment securities	**85**	117

Notes to the consolidated financial statements

50 Related party transactions *(continued)*

(g) Summary of relationship with the Irish Government *(continued)*

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.

Significant progress was made towards a conclusion and any residual matters are expected to close in 2022. AIB maintains its position that no financial loss is expected to occur.

Irish bank levy

The bank levy is calculated based on each financial institution's Deposit Interest Retention Tax ("DIRT") payment in a base year with 2019 being the base year for 2021. The annual levy paid by the Group for 2021 and reflected in operating expenses (note 12) in the income statement amounted to € 37 million (2020: € 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 2021 and 2020:

Average number of staff (Full time equivalents)	2021	2020
Ireland	8,188	8,305
United Kingdom	922	997
United States of America	44	54
Total	**9,154**	9,356

The following table shows the segmental analysis of average employees for 2021 and 2020:

	2021	2020
Retail Banking[1]	4,376	4,251
Capital Markets	766	667
AIB UK	844	920
Group[1][2]	3,168	3,518
Total	**9,154**	9,356

[1] Following changes in the organisation structure during the year, there has been a net transfer of c. 350 FTEs from Group to Retail Banking.

[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 Technology, Operations, Finance, Risk, Legal, Corporate Governance & Customer Care, Human Resources, Corporate Affairs, Strategy & Sustainability and Group Internal Audit.

The average number of employees for 2021 and 2020 set out above excludes employees on career breaks and other unpaid long term leaves.

Actual full time equivalent numbers at 31 December 2021 were 8,916 (2020: 9,193).

52 Regulatory compliance

During the years ended 31 December 2021 and 2020, the Group and its regulated subsidiaries complied with their externally imposed capital ratios.

53 Financial and other information

	2021 %	2020 %
Operating ratios		
Operating expenses/operating income	**84.1**	78.3
Other income/operating income	**24.9**	21.4

Rates of exchange	2021	2020
€/$*		
Closing	**1.1326**	1.2271
Average	**1.1831**	1.1417
€/£*		
Closing	**0.8403**	0.8990
Average	**0.8598**	0.8897

*Throughout this report, US dollar is denoted by $ and Pound sterling is denoted by £.

	Assets		Liabilities and equity	
Currency Information	2021 € m	2020 € m	2021 € m	2020 € m
Euro	**103,935**	89,350	**105,510**	90,381
Other	**23,955**	21,055	**22,380**	20,024
	127,890	110,405	**127,890**	110,405

54 Dividends

No final dividend on ordinary shares was paid in respect of the financial year ended 31 December 2020.

On 2 March 2022 the Board approved the payment of an interim dividend of € 20 million.

The Board is recommending a final dividend of 4.5 cent per ordinary share, amounting in total to € 122 million, for approval by the sole shareholder.

The financial statements for the year ended 31 December 2021 do not reflect these dividends which will be accounted for in shareholders' equity as an appropriation of distributable reserves in 2022.

Notes to the consolidated financial statements

55 Proposed acquisition

Ulster Bank loans

On 28 June 2021, the Group confirmed that Allied Irish Banks, p.l.c. had entered into a binding agreement with NatWest Holdings Limited and Ulster Bank Ireland DAC for the acquisition of performing Ulster Bank corporate and commercial loans (portfolio of c. € 4.2 billion for a total consideration of c. € 4.1 billion).

The exact size of the portfolio and consideration payable depends on movements in the portfolio up to completion which will occur on a phased basis. The transaction remains subject to regulatory approval.

Based on information as at 31 December 2021, the eligible portfolio of loans, that are subject to the agreement, amounted to € 3.7 billion reflecting repayments and new business drawdowns during the period. Additional movements are anticipated in the portfolio up to completion.

56 Non-adjusting events after the reporting period

No significant non-adjusting events have taken place since 31 December 2021.

57 Approval of financial statements

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

Allied Irish Banks, p.l.c. company financial statements and notes

Allied Irish Banks, p.l.c. company statement of financial position

as at 31 December 2021

	Notes	2021 € m	2020 € m
Assets			
Cash and balances at central banks	ae	35,893	20,152
Items in course of collection		40	38
Disposal groups and non-current assets held for sale	c	2	1
Derivative financial instruments	d	951	1,465
Loans and advances to banks	e	9,220	7,888
Loans and advances to customers	f	23,405	22,761
Securities financing	g	6,269	3,552
Investment securities	i	24,558	27,863
Investments accounted for using the equity method		26	18
Investments in Group undertakings	j	4,670	4,588
Intangible assets	k	791	771
Property, plant and equipment	l	541	615
Other assets	m	97	181
Current taxation		3	19
Deferred tax assets	n	2,431	2,394
Prepayments and accrued income		362	292
Retirement benefit assets	o	–	–
Total assets		109,259	92,598
Liabilities			
Deposits by central banks and banks	p	11,281	4,961
Customer accounts	q	77,112	67,456
Securities financing		376	507
Derivative financial instruments	d	1,174	1,317
Debt securities in issue	r	–	–
Lease liabilities	s	292	328
Current taxation		1	1
Deferred tax liabilities	n	14	17
Retirement benefit liabilities	o	22	25
Other liabilities	t	710	465
Accruals and deferred income		219	185
Provisions for liabilities and commitments	u	388	280
Subordinated liabilities and other capital instruments – Externally issued	v	56	50
Subordinated liabilities and other capital instruments – AIB Group plc	v	5,545	4,676
Total liabilities		97,190	80,268
Equity			
Share capital	w	1,696	1,696
Share premium	w	1,386	1,386
Reserves		7,872	8,133
Total shareholders' equity		10,954	11,215
Other equity interests – Externally issued	x	–	–
Other equity interests – AIB Group plc	x	1,115	1,115
Total equity		12,069	12,330
Total liabilities and equity		109,259	92,598

The parent company recorded a profit after taxation of € 233 million for the year ended 31 December 2021 (2020: loss after taxation € 1,247 million).

Jim Pettigrew
Chair
2 March 2022

Colin Hunt
Chief Executive Officer
2 March 2022

Donal Galvin
Chief Financial Officer
7 March 2023

Conor Gouldson
Group Company Secretary
7 March 2023

Allied Irish Banks, p.l.c. company statement of changes in equity

for the financial year ended 31 December 2021

	Share capital	Share premium	Other equity interests	Capital reserves	Capital redemption reserves	Revaluation reserves	Investment securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Total equity
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2021	1,696	1,386	1,115	156	14	9	64	515	7,449	(74)	12,330
Total comprehensive income for the year											
Profit for the year	–	–	–	–	–	–	–	–	233	–	233
Other comprehensive income	–	–	–	–	–	–	(94)	(337)	4	–	(427)
Total comprehensive income for the year	–	–	–	–	–	–	(94)	(337)	237	–	(194)
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners											
Distributions paid to other equity interests	–	–	–	–	–	–	–	–	(67)	–	(67)
Other movements	–	–	–	–	–	2	–	–	(2)	–	–
Total contributions by and distributions to owners	–	–	–	–	–	2	–	–	(69)	–	(67)
At 31 December 2021	1,696	1,386	1,115	156	14	11	(30)	178	7,617	(74)	12,069

Allied Irish Banks, p.l.c. company statement of changes in equity

for the financial year ended 31 December 2020

	Share capital	Share premium	Other equity interests	Capital reserves	Capital redemption reserves	Revaluation reserves	Investment securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Total equity
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2020	1,696	1,386	990	156	14	9	336	465	8,454	(74)	13,432
Total comprehensive income for the year											
Loss for the year	–	–	–	–	–	–	–	–	(1,247)	–	(1,247)
Other comprehensive income	–	–	–	–	–	–	56	50	–	–	106
Total comprehensive income for the year	–	–	–	–	–	–	56	50	(1,247)	–	(1,141)
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners											
Additional Tier 1 Securities											
Redemption	–	–	(494)	–	–	–	–	–	(9)	–	(503)
Issuance	–	–	619	–	–	–	–	–	–	–	619
Distributions paid to other equity interests	–	–	–	–	–	–	–	–	(77)	–	(77)
Total contributions by and distributions to owners	–	–	125	–	–	–	–	–	(86)	–	39
Realised gains on equity shares held at fair value through other comprehensive income	–	–	–	–	–	–	(328)	–	328	–	–
At 31 December 2020	1,696	1,386	1,115	156	14	9	64	515	7,449	(74)	12,330

Allied Irish Banks, p.l.c. company statement of cash flows

for the financial year ended 31 December 2021

	Notes	2021 € m	2020 € m
Cash flows from operating activities			
Profit/(loss) before taxation for the year		254	(1,423)
Adjustments for:			
Non-cash and other items	af	649	2,209
Change in operating assets	af	(4,579)	4,963
Change in operating liabilities	af	15,866	12,769
Taxation refund/(paid)		6	(2)
Net cash inflow from operating activities		12,196	18,516
Cash flows from investing activities			
Purchase of investment securities	i	(2,473)	(8,578)
Proceeds from sales, redemptions and maturity of investment securities	i	5,529	4,013
Additions to property, plant and equipment	l	(26)	(20)
Disposal of property, plant and equipment		1	4
Additions to intangible assets	k	(192)	(222)
Investments accounted for using the equity method		(8)	–
Repayment of capital	j	57	217
Investment in Group undertakings	j	(122)	(1,543)
Dividends received from subsidiary undertakings		14	23
Net cash inflow/(outflow) from investing activities		2,780	(6,106)
Cash flows from financing activities			
Net proceeds on issue of Additional Tier 1 Securities – AIB Group plc		–	619
Net proceeds on issue of subordinated liabilities and other capital instruments – AIB Group plc		750	1,000
Redemption of capital instruments – issued externally		–	(1,253)
Distributions paid to other equity interests		(67)	(77)
Repayment of lease liabilities	s	(33)	(40)
Interest paid on subordinated liabilities and other capital instruments		(130)	(145)
Net cash inflow from financing activities		520	104
Change in cash and cash equivalents		15,496	12,514
Opening cash and cash equivalents		21,061	8,592
Effect of exchange translation adjustments		60	(45)
Closing cash and cash equivalents	ae	36,617	21,061

Notes to Allied Irish Banks, p.l.c. company financial statements

a Accounting policies

Where applicable, the accounting policies adopted by Allied Irish Banks, p.l.c. ('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 184 to 210.

The parent company financial statements and related notes set out on pages 307 to 372 have been prepared in accordance with International Financial Reporting Standards (collectively "IFRSs") as adopted by the EU and applicable for the financial year ended 31 December 2021. They also comply with those parts of the Companies Act 2014 applicable to companies reporting under IFRS and with the European Union (Credit Institutions: Financial Statements) Regulations 2015.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates.

A description of the critical accounting judgements and estimates is set out in note 2 to the consolidated financial statements on pages 211 to 216.

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

	2021 € m	2020 € m
Personnel expenses:		
Wages and salaries	520	528
Termination benefits[(1)]	35	7
Retirement benefits[(2)]	77	78
Social security costs	58	58
Other personnel expenses[(3)]	12	17
	702	688
Less: staff costs capitalised[(4)]	(24)	(24)
Personnel expenses	678	664
General and administrative expenses	444	440
Restitution and associated costs	154[(5)]	88
	598	528
Bank levies and regulatory fees	121[(6)]	75
Operating expenses	**1,397**	1,267

[(1)]Includes charges for voluntary severance programmes of € 35 million (2020: € 7 million).

[(2)]Comprises a defined contribution charge of € 68 million (2020: a charge of € 68 million), a charge of € 1 million in relation to defined benefit expense (2020: a charge of € 1 million), and a long term disability payments/death in service benefit charge of € 8 million (2020: € 9 million) (note o).

[(3)]Includes staff training, recruitment and various other staff costs.

[(4)]Staff costs capitalised relate to intangible assets.

[(5)]Relates primarily to the Belfry provisions (see note 36 to the consolidated financial statements) and the associated costs related to the Tracker Mortgage Examination.

[(6)]This includes a provision of € 27 million (of which € 22 million relates to prior periods) in relation to the annual fee to the Single Resolution Fund.

c Disposal groups and non-current assets held for sale

	2021 € m	2020 € m
Property and non-financial assets held for sale[(1)]	2	1
Total disposal groups and non-current assets held for sale	**2**	**1**

[(1)]Includes property surplus to requirements which is expected to be disposed of within one year.

d Derivative financial instruments

Details of derivative transactions entered into and their purpose are described in note 18 to the consolidated financial statements.

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 2021 and 2020:

	2021			2020		
	Notional principal amount	Fair values		Notional principal amount	Fair values	
Derivative financial instrument[(1)]	€ m	Assets € m	Liabilities € m	€ m	Assets € m	Liabilities € m
Interest rate contracts	81,844	875	(951)	79,714	1,394	(1,261)
Exchange rate contracts	11,238	76	(200)	7,858	70	(46)
Equity contracts	174	–	(17)	49	–	(1)
Credit derivatives	175	–	(6)	350	1	(9)
Total	**93,431**	**951**	**(1,174)**	87,971	1,465	(1,317)

[(1)]Interest rate, exchange rate, equity and credit derivative contracts are entered into for both hedging and trading purposes.

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:

	2021				2020			
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	26,841	27,312	39,278	93,431	40,774	24,648	22,549	87,971
Positive fair value	90	226	635	951	161	400	904	1,465

Allied Irish Banks, p.l.c. has the following concentration of exposures in respect of notional principal amount and positive fair value of interest rate, exchange rate, equity and credit derivative contracts. The concentrations are based primarily on the location of the office recording the transaction.

	Notional principal amount		Positive fair value	
	2021 € m	2020 € m	2021 € m	2020 € m
Ireland	92,449	87,004	716	1,167
United Kingdom	863	835	224	284
United States of America	119	132	11	14
	93,431	87,971	**951**	1,465

Notes to Allied Irish Banks, p.l.c. company financial statements

d 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 2021 and 2020. A description of how the fair values of derivatives are determined is set out in note 47 to the consolidated financial statements.

			2021			2020
	Notional principal amount	Fair values Assets	Fair values Liabilities	Notional principal amount	Fair values Assets	Fair values Liabilities
	€ m	€ m	€ m	€ m	€ m	€ m
Derivatives held for trading						
Interest rate derivatives – over the counter ("OTC")						
Interest rate swaps	25,513	361	(428)	26,887	606	(527)
Cross-currency interest rate swaps	–	–	–	42	1	(1)
Interest rate options bought and sold	1,951	4	(5)	1,605	1	(1)
Total interest rate derivatives – OTC	27,464	365	(433)	28,534	608	(529)
Interest rates derivatives – OTC – central clearing						
Interest rate swaps	6,061	49	(26)	5,023	31	(113)
Total interest rate derivatives – OTC – central clearing	6,061	49	(26)	5,023	31	(113)
Total interest rate derivatives	33,525	414	(459)	33,557	639	(642)
Foreign exchange derivatives – OTC						
Foreign exchange contracts	11,236	76	(200)	7,752	70	(46)
Currency options bought and sold	2	–	–	106	–	–
Total foreign exchange derivatives	11,238	76	(200)	7,858	70	(46)
Equity derivatives – OTC						
Equity index options bought and sold	12	–	–	18	–	–
Equity total return swaps	162	–	(17)	31	–	(1)
Total equity derivatives	174	–	(17)	49	–	(1)
Credit derivatives – OTC						
Credit derivatives	175	–	(6)	350	1	(9)
Total credit derivatives	175	–	(6)	350	1	(9)
Total derivatives held for trading	45,112	490	(682)	41,814	710	(698)

d Derivative financial instruments *(continued)*

	2021 Notional Principal amount € m	2021 Fair values Assets € m	2021 Fair values Liabilities € m	2020 Notional Principal amount € m	2020 Fair values Assets € m	2020 Fair values Liabilities € m
Derivatives held for hedging						
Derivatives designated as fair value hedges – OTC						
Interest rate swaps	1,299	–	(28)	2,101	–	(59)
Total derivatives designated as fair value hedges – OTC	1,299	–	(28)	2,101	–	(59)
Derivatives designated as fair value hedges – OTC – central clearing						
Interest rate swaps	16,152	229	(164)	14,733	167	(382)
Total interest rate fair value hedges – OTC – central clearing	16,152	229	(164)	14,733	167	(382)
Total derivatives designated as fair value hedges	17,451	229	(192)	16,834	167	(441)
Derivatives designated as cash flow hedges – OTC						
Interest rate swaps	12,712	99	(88)	12,129	121	(143)
Cross currency interest rate swaps	82	–	(6)	880	73	–
Total interest rate cash flow hedges – OTC	12,794	99	(94)	13,009	194	(143)
Derivatives designated as cash flow hedges – OTC – central clearing						
Interest rate swaps	18,074	133	(206)	16,314	394	(35)
Total interest rate cash flow hedges – OTC – central clearing	18,074	133	(206)	16,314	394	(35)
Total derivatives designated as cash flow hedges	30,868	232	(300)	29,323	588	(178)
Total derivatives held for hedging	48,319	461	(492)	46,157	755	(619)
Total derivative financial instruments	93,431	951[1]	(1,174)[2]	87,971	1,465[1]	(1,317)[2]

[1]Includes exposure to subsidiary undertakings of € 140 million (2020: € 176 million).

[2]Includes amounts due to subsidiary undertakings of € 131 million (2020: € 119 million).

Notes to Allied Irish Banks, p.l.c. company financial statements

d Derivative financial instruments *(continued)*

Nominal values and average interest rates by residual maturity

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

						2021
	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)**	283	166	676	4,163	6,618	11,906
Average interest rate **(%)**[(1)]	0.34	0.09	0.65	0.43	0.23	0.32
Liabilities						
Hedges of debt securities in issue						
Nominal principal amount **(€ m)**	–	–	–	–	–	–
Average interest rate **(%)**[(1)]	–	–	–	–	–	–
Hedges of subordinated debt						
Nominal principal amount **(€ m)**	–	–	–	5,545	–	5,545
Average interest rate **(%)**[(1)]	–	–	–	2.51	–	2.51
Cash flow hedges – Interest rate swaps[(2)]						
Hedges of financial assets						
Nominal principal amount **(€ m)**	602	2,869	3,001	9,094	7,832	23,398
Average interest rate **(%)**[(3)]	0.21	0.15	0.29	0.17	0.30	0.22
Hedges of financial liabilities						
Nominal principal amount **(€ m)**	511	1,676	801	1,843	2,639	7,470
Average interest rate **(%)**[(3)]	0.22	0.21	0.31	0.93	0.96	0.66

						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)**	–	–	–	–	–	–
Average interest rate **(%)**[(1)]	–	–	–	–	–	–
Hedges of subordinated debt						
Nominal principal amount **(€ m)**	–	–	–	3,676	1,000	4,676
Average interest rate **(%)**[(1)]	–	–	–	2.75	2.88	2.78
Cash flow hedges – Interest rate swaps[(2)]						
Hedges of financial assets						
Nominal principal amount **(€ m)**	729	3,954	2,969	6,922	7,535	22,109
Average interest rate **(%)**[(3)]	0.18	0.13	0.20	0.32	0.37	0.29
Hedges of financial liabilities						
Nominal principal amount **(€ m)**	525	2,350	962	1,633	1,744	7,214
Average interest rate **(%)**[(3)]	0.14	0.07	0.25	0.92	1.28	0.58

[(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.

d 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 2021 and 2020:

							2021
		Carrying amount[1]					
	Nominal	Assets	Liabilities	Line item in SOFP* where the hedging instrument is included	Change in fair value used for calculating hedge ineffectiveness for the year	Hedge ineffectiveness recognised in the income statement	Line item in the income statement that includes hedge ineffectiveness
(a) Hedging instruments	€ m	€ m	€ m		€ m	€ m	
Interest rate swaps hedging:							
Investment securities – debt	11,906	139	(171)	Derivative financial instruments	401	4	Net trading income
Debt securities in issue	–	–	–	Derivative financial instruments	–	–	Net trading income
Subordinated debt	5,545	90	(21)	Derivative financial instruments	(111)	–	Net trading income

							2021
	Carrying amount of hedged items recognised in the SOFP*		Accumulated amount of fair value hedge adjustments on the hedged items included in the carrying amount of the hedged item		Line item in SOFP* where hedged item is included	Change in fair value of hedged items used for calculating hedge ineffectiveness for the year	Accumulated amount of fair value hedge adjustments remaining in the SOFP* for any hedged items that have ceased to be adjusted for hedging gains and losses
	Assets	Liabilities	Assets	Liabilities			
(b) Hedged items	€ m	€ m	€ m	€ m		€ m	€ m
Investment securities – debt	12,264		9		Investment securities	(397)	–
Debt securities in issue		–		–	Debt securities in issue	–	–
Subordinated debt		(5,566)		(22)	Subordinated liabilities and other capital instruments	111	–

							2020
		Carrying amount[1]					
	Nominal	Assets	Liabilities	Line item in SOFP* where the hedging instrument is included	Change in fair value used for calculating hedge ineffectiveness for the year	Hedge ineffectiveness recognised in the income statement	Line item in the income statement that includes hedge ineffectiveness
(a) Hedging instruments	€ m	€ m	€ m		€ m	€ m	
Interest rate swaps hedging:							
Investment securities – debt	12,158	3	(441)	Derivative financial instruments	(81)	(3)	Net trading income
Debt securities in issue	–	–	–	Derivative financial instruments	(1)	–	Net trading income
Subordinated debt	4,676	164	–	Derivative financial instruments	67	–	Net trading income

							2020
	Carrying amount of hedged items recognised in the SOFP*		Accumulated amount of fair value hedge adjustments on the hedged items included in the carrying amount of the hedged item		Line item in SOFP* where hedged item is included	Change in fair value of hedged items used for calculating hedge ineffectiveness for the year	Accumulated amount of fair value hedge adjustments remaining in the SOFP* for any hedged items that have ceased to be adjusted for hedging gains and losses
	Assets	Liabilities	Assets	Liabilities			
(b) Hedged items	€ m	€ m	€ m	€ m		€ m	€ m
Investment securities – debt	12,822		404		Investment securities	78	–
Debt securities in issue		–		–	Debt securities in issue	1	–
Subordinated debt		(4,802)		(127)	Subordinated liabilities and other capital instruments	(67)	–

[1]The mark to market on fair value hedging derivatives, excluding accruals of € 24 million is positive € 13 million (2020: € 8 million and negative € 282 million).

*Statement of financial position

d 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 2021 and 2020:

											2021
		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	23,398	162	(238)	Derivative financial instruments	(656)	(561)	–	Net trading income		175	Interest and similar income
Derivative liabilities	7,470	70	(62)	Derivative financial instruments	178	176	–	Net trading income		(36)	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.

						2021
	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	656	(30)	(26)	222	194
Interest rate risk	Customer accounts	(178)	12	10	–	–

[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.

d Derivative financial instruments *(continued)*
Cash flow hedges of interest rate *(continued)*

2020

(a) Hedging Instruments	Nominal amount	Carrying amount: Assets	Carrying amount: 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: Hedge Ineffectiveness recognised in the income statement	Hedge ineffectiveness: Line item in the income statement that includes hedge ineffectiveness	Amounts reclassified from cash flow hedging reserves to the income statement: Amounts for which hedge accounting had been used but for which the hedged future cash flows are no longer expected to occur	Amounts reclassified from cash flow hedging reserves to the income statement: Amounts that have been transferred because the hedged item has affected the income statement	Amounts reclassified from cash flow hedging reserves to the income statement: Line item in the income statement affected by the reclassification
	€ m	€ m	€ m		€ m	€ m	€ m		€ m	€ m	
Interest rate swaps[1]											
Derivative assets	22,109	587	(7)	Derivative financial instruments	92	105	–	Net trading income	–	160	Interest and similar income
Derivative liabilities	7,214	1	(171)	Derivative financial instruments	(42)	(48)	–	Net trading income	–	(39)	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	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
		€ m	€ m	€ m	€ m	€ m
Interest rate risk	Loans and advances to customers	(92)	545	477	206	181
Interest rate risk	Customer accounts	42	(163)	(143)	–	–

[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.

Notes to Allied Irish Banks, p.l.c. company financial statements

d 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:

2021	**Within 1 year € m**	**Between 1 and 2 years € m**	**Between 2 and 5 years € m**	**More than 5 years € m**	**Total € m**
Forecast receivable cash flows	**69**	**59**	**136**	**103**	**367**
Forecast payable cash flows	**100**	**64**	**89**	**53**	**306**

2020	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	Total € m
Forecast receivable cash flows	13	7	6	15	41
Forecast payable cash flows	64	60	115	44	283

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:

2021	**Within 1 year € m**	**Between 1 and 2 years € m**	**Between 2 and 5 years € m**	**More than 5 years € m**	**Total € m**
Forecast receivable cash flows	**69**	**59**	**136**	**103**	**367**
Forecast payable cash flows	**168**	**117**	**179**	**82**	**546**

2020	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	Total € m
Forecast receivable cash flows	13	7	6	15	41
Forecast payable cash flows	129	111	192	57	489

e Loans and advances to banks

	2021 € m	2020 € m
At amortised cost		
Funds placed with other banks – third parties	727	559
Funds placed with other banks – subsidiary undertakings	8,493	7,329
Total gross loans and advances to banks	9,220	7,888
ECL allowance		
Third parties	–	–
Subsidiary undertakings	–	–
Total ECL allowance	–	–
Total loans and advances to banks	9,220	7,888

Loans and advances to banks by geographical area[1]	2021 € m	2020 € m
Ireland	9,129	7,810
United Kingdom	90	77
United States of America	1	1
	9,220	7,888

[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 € 654 million (2020: € 495 million) placed with derivative counterparties in relation to net derivative positions and placed with repurchase agreement counterparties.

Notes to Allied Irish Banks, p.l.c. company financial statements

f Loans and advances to customers

	2021 € m	2020 € m
At amortised cost		
Loans and advances to customers	23,359	23,076
Amounts receivable under finance leases and hire purchase contracts	1,027	961
	24,386	24,037
ECL allowance (note h)	(1,224)	(1,351)
	23,162	22,686
Mandatorily at fair value through profit or loss		
Loans and advances to customers	243	75
Total loans and advances to customers	23,405	22,761
Of which:		
Due from third parties – gross	19,505	19,070
– ECL allowance	(1,224)	(1,351)
	18,281	17,719
– at FVTPL	243	75
	18,524	17,794
Due from owner and subsidiary undertakings – gross	4,881	4,967
– ECL allowance	–	–
	4,881	4,967
	23,405	22,761
Of which repayable on demand or at short notice	6,026	6,093
Amounts include:		
Due from associated undertakings[(1)]	3	1

[(1)]Undrawn commitments amount to € 81 million and are for less than one year (2020: € 117 million).

Loans and advances to customers include cash collateral amounting to € 12 million (2020: € 14 million) placed with derivative counterparties.

For details of credit quality of loans and advances to customers, refer to note ah 'Credit risk information'.

Amounts receivable under finance leases and hire purchase contracts

The following balances principally comprise of hire purchase agreements involving vehicles, plant, machinery and equipment:

	2021 € m	2020 € m
Gross receivables		
Not later than 1 year	393	368
Later than 1 year and not later than 2 years	288	265
Later than 2 years and not later than 3 years	214	203
Later than 3 years and not later than 4 years	136	130
Later than 4 years and not later than 5 years	62	66
Later than five years	12	11
Total	1,105	1,043
Unearned future finance income	(91)	(98)
Deferred costs incurred on origination	13	16
Present value of minimum payments	1,027	961
ECL allowance for uncollectible minimum payments receivable[(1)]	54	50

[(1)]Included in ECL allowance on financial assets (note h).

g Securities financing

Securities financing consists of (a) securities borrowing and lending and (b) sale and repurchase transactions.

Securities borrowing and securities lending transactions are generally entered into on a collateralised basis, with debt securities and equities, usually advanced or received as collateral.

Sale and repurchase transactions involve purchases (or sales) of investments with agreements to resell (or repurchase) substantially identical investments at a certain date in the future at a fixed price. These are referred to as reverse repurchase agreements and securities sold under agreements to repurchase.

As set out in note 1(c), to the consolidated financial statements, the Group has elected to voluntarily change its accounting policy for the presentation of financial instruments relating to securities financing. Following a significant increase in securities borrowing and reverse repurchase agreements a decision was taken to introduce this new line item 'Securities financing' for both assets and liabilities in the consolidated statement of financial position. The comparatives for 2020 have been restated accordingly.

			2021			2020
	Banks € m	Customers € m	Total € m	Banks € m	Customers € m	Total € m
Assets						
Reverse repurchase agreements	3,845	–	3,845	2,935	104	3,039
Securities borrowing transactions	1,503	921	2,424	513	–	513
Total[(1)]	5,348	921	6,269	3,448	104	3,552
Liabilities						
Securities sold under agreements to repurchase	45	331	376	195	312	507
Total[(2)]	45	331	376	195	312	507

[(1)]Includes amounts due from subsidiary undertakings of € 2,382 million (2020: €2,741 million).
[(2)]Includes amounts due to subsidiary undertakings of € 331 million (2020:€ 297 million).

In accordance with the terms of the reverse repurchase agreements and securities borrowing 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 2021, the total fair value of the collateral received was € 6,269 million (2020: € 4,172 million), of which € 1,861 million (2020: € 21 million) had been resold or repledged. These transactions were conducted under terms that are usual and customary to standard reverse repurchase agreements and securities borrowing agreements.

Securities sold under agreements to repurchase mature within six months and are secured by debt securities and eligible assets. At 31 December 2021 in relation to securities sold under agreements to repurchase, the Group had pledged collateral with a fair value of € 376 million (2020: € 544 million). These transactions were conducted under the normal market agreements for standard repurchase transactions.

Notes to Allied Irish Banks, p.l.c. company financial statements

h ECL allowance on financial assets

The following table shows the movements on the ECL allowance on financial assets. Further information is disclosed in note ah 'Credit risk information'.

								2021
	Banks	Customers						Securities financing
	Total	Inter-group	Residential mortgages	Other personal	Property and construction	Non-property business	Total	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January	–	–	68	231	319	733	1,351	–
Exchange translation adjustments	–	–	–	–	1	6	7	–
Net remeasurement of ECL allowance	–	–	19	9	(51)	(42)	(65)	1
Changes in ECL allowance due to write-offs	–	–	(22)	(19)	(14)	(4)	(59)	–
Changes in ECL allowance due to disposals	–	–	(3)	(1)	(2)	(5)	(11)	–
Other	–	–	–	–	–	1	1	–
At 31 December	–	–	62	220	253	689	1,224	1

								2020
	Banks	Customers						Securities financing
	Total	Inter-group	Residential mortgages	Other personal	Property and construction	Non-property business	Total	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January	–	1	67	172	130	209	579	–
Exchange translation adjustments	–	–	–	–	–	(1)	(1)	–
Net remeasurement of ECL allowance	–	(1)	21	91	202	538	851	–
Changes in ECL allowance due to write-offs	–	–	(20)	(32)	(10)	(11)	(73)	–
Changes in ECL allowance due to disposals	–	–	–	–	(3)	(5)	(8)	–
Other	–	–	–	–	–	3	3	–
At 31 December	–	–	68	231	319	733	1,351	–

i 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 2021 and 2020.

						2021
	Carrying value € m	Unrealised gross gains € m	Unrealised gross losses € m	Net unrealised gains/ (losses) € m	Tax effect € m	Net after tax € m
Debt securities at FVOCI						
Irish Government securities	3,504	199	(4)	195	(24)	171
Euro government securities	1,141	25	(1)	24	(3)	21
Non Euro government securities	107	1	(1)	–	–	–
Supranational banks and government agencies	1,260	10	(18)	(8)	1	(7)
Collateralised mortgage obligations	428	1	(2)	(1)	–	(1)
Other asset backed securities	67	–	–	–	–	–
Euro bank securities	11,650[(1)]	31	(237)	(206)	26	(180)
Non Euro bank securities	1,663	11	(5)	6	(1)	5
Euro corporate securities	401	10	(1)	9	(1)	8
Non Euro corporate securities	116	5	–	5	(1)	4
Total debt securities at FVOCI	20,337	293	(269)	24	(3)	21
Debt securities at amortised cost						
Irish Government securities	2,400					
Euro government securities	90					
Non Euro government securities	55					
Supranational banks and government agencies	208					
Asset backed securities	1,101					
Euro bank securities	87					
Euro corporate securities	130					
Non Euro corporate securities	38					
Total debt securities at amortised cost	4,109					
Equity securities						
Equity investments at FVOCI	–	–	–	–	–	–
Equity investments at FVTPL	112	57		57	(7)	50
Total equity securities	112	57	–	57	(7)	50
Total investment securities	24,558					

(1) Includes € 7,748 million in respect of subsidiary undertakings.

Notes to Allied Irish Banks, p.l.c. company financial statements

i Investment securities *(continued)*

						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	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	13,670[1]	91	(178)	(87)	11	(76)
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	24,172	586	(179)	407	(51)	356
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	88	37	(1)	36	(11)	25
Total equity securities	88	37	(1)	36	(11)	25
Total investment securities	27,863					

[1]Includes € 8,497 million in respect of subsidiary undertakings.

Credit impairment losses recognised in the income statement in 2021 amounted to Nil (2020: Nil).

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i Investment securities *(continued)*

The following table sets out an analysis of movements in investment securities:

					2021
	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	24,172	3,603	–	88	27,863
Exchange translation adjustments	198	18	–	–	216
Purchases/acquisitions	1,956	515	–	2	2,473
Sales/disposals/redemptions	(1,329)	–	–	–	(1,329)
Maturities	(4,180)	(20)	–	–	(4,200)
Amortisation of discounts net of premiums	(95)	(7)	–	–	(102)
Net change in FVTPL	–	–	–	22	22
Movement in unrealised losses	(385)	–	–	–	(385)
At 31 December	20,337	4,109	–	112	24,558
Of which:					
Listed	20,337	4,109	–	26	24,472
Unlisted	–	–	–	86	86
	20,337	4,109	–	112	24,558

					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	22,115	635	437	251	23,438
Exchange translation adjustments	(156)	(21)	–	–	(177)
Purchases/acquisitions	6,149	2,429	–	–	8,578
New business model transfer	(614)	577	–	–	(37)
Sales/disposals/redemptions	(1,130)	(5)	(417)	(189)	(1,741)
Maturities	(2,272)	–	–	–	(2,272)
Amortisation of discounts net of premiums	(105)	(12)	–	–	(117)
Net change in FVTPL	–	–	–	26	26
Movement in unrealised gains/(losses)	185	–	(20)	–	165
At 31 December	24,172	3,603	–	88	27,863
Of which:					
Listed	24,172	3,603	–	24	27,799
Unlisted	–	–	–	64	64
	24,172	3,603	–	88	27,863

Notes to Allied Irish Banks, p.l.c. company financial statements

j Investments in Group undertakings	2021 € m	2020 € m
Equity		
At 1 January	4,288	3,728
Disposals/return of capital	(57)	(217)
Additions[1]	139	1,543
Impairment provision charge[2]	–	(766)
At 31 December	4,370	4,288
Subordinated debt		
At 1 January and 31 December	300	300
Total	4,670	4,588
Of which:		
Credit institutions	3,947	3,947
Other	722	641
Total – all unquoted	4,670	4,588

[1]In 2021, this relates to the acquisition of Goodbody. In 2020, Allied Irish Banks, p.l.c. acquired AIB Group (UK) p.l.c. for € 1,050 million. Furthermore, capital contributions of € 386 million in AIB Holdings (N.I.) Limited and € 100 million in EBS d.a.c. were made, while an additional € 7 million was invested in Augmentum Limited.

[2]In 2021, no impairment charge was recognised. In 2020, an impairment charge of € 766 million in AIB Holdings (N.I.) Limited was recognised.

The investments in Group undertakings are included in the financial statements on an historical cost basis.

Additions

On 31 August 2021, the Group acquired Goodbody, a leading Irish provider of wealth management, corporate finance and capital markets services, by acquiring 100% of the voting shares of GANMAC Holdings (BVI) Limited and its subsidiaries. AIB acquired the entire share capital for a total consideration, including deferred contingent consideration, of € 139 million as detailed in note 27 to the consolidated financial statements ‘Acquisition of subsidiary’.

During 2020 a corporate restructure took place whereby the Company acquired at fair value all of the shares in AIB Group (UK) p.l.c. of € 1,050 million from AIB Holdings (N.I.) Limited.

A capital contribution of € 386 million was provided by the Company to AIB Holdings (N.I.) Limited in order for it to settle its outstanding liabilities.

j Investments in Group undertakings *(continued)*

Principal subsidiary undertakings incorporated in the Republic of Ireland

	Nature of business
AIB Mortgage Bank Unlimited Company*	Issue of Mortgage Covered Securities
EBS d.a.c.*	Mortgages and savings

*Group interest is held directly by Allied Irish Banks, p.l.c.

The above subsidiary undertakings are incorporated in the Republic of Ireland and are wholly-owned unless otherwise stated. The issued share capital of each undertaking is denominated in ordinary shares.

All regulated banking entities are subject to regulations which require them to maintain capital ratios at agreed levels and so govern the availability of funds available for distribution.

AIB Mortgage Bank Unlimited Company ("AIB Mortgage Bank u.c.")

AIB Mortgage Bank u.c. is a wholly owned subsidiary of Allied Irish Banks, p.l.c. regulated by the Central Bank of Ireland/Single Supervisory Mechanism. AIB Mortgage Bank u.c. is a designated mortgage credit institution for the purposes of the Asset Covered Securities Acts 2001 and 2007 (as amended) and holds a banking authorisation. Its principal purpose is to issue mortgage covered securities for the purpose of financing loans secured on residential property in accordance with the Asset Covered Securities Acts 2001 and 2007.

On 13 February 2006, Allied Irish Banks, p.l.c. transferred to AIB Mortgage Bank u.c. its Irish branch originated residential mortgage business, amounting to € 13.6 billion in mortgage loans. In March 2006, AIB Mortgage Bank u.c. launched a € 15 billion Mortgage Covered Securities Programme. The Programme was increased to € 20 billion in 2009.

On 25 February 2011, Allied Irish Banks, p.l.c. transferred substantially all of its mortgage intermediary originated Irish residential loans, related security and related business of approximately € 4.2 billion to AIB Mortgage Bank u.c. The transfer was effected pursuant to the statutory transfer mechanism provided for in the Asset Covered Securities Acts.

Under an Outsourcing and Agency Agreement dated 8 February 2006, Allied Irish Banks, p.l.c., as Service Agent for AIB Mortgage Bank u.c., originates residential mortgage loans through its retail branch network and intermediary channels in the Republic of Ireland, services the mortgage loans and provides treasury services in connection with financing, as well as a range of other support services.

At 31 December 2021, the total amount of principal outstanding in respect of mortgage covered securities issued by AIB Mortgage Bank u.c. was € 9.5 billion (2020: € 10.7 billion) of which € 1.8 billion was held by external debt investors (2020: € 2.3 billion) and € 7.7 billion by Allied Irish Banks, p.l.c. (2020: € 8.4 billion). At 31 December 2021, the total amount of principal outstanding on mortgage loans (mortgage credit assets) and cash included in AIB Mortgage Bank u.c.'s cover assets pool was € 15.5 billion (2020: € 15.3 billion).

Notes to Allied Irish Banks, p.l.c. company financial statements

j Investments in Group undertakings *(continued)*

Principal subsidiary undertakings incorporated in the Republic of Ireland *(continued)*

EBS d.a.c. ("EBS")

EBS which is regulated by the Central Bank of Ireland/Single Supervisory Mechanism, became a wholly owned subsidiary of Allied Irish Banks, p.l.c. on 1 July 2011. The Group operates EBS as a standalone, separately branded subsidiary with its own distribution network which offers mortgage and savings products.

EBS had consolidated total assets of € 12 billion at 31 December 2021 (2020: € 12 billion). EBS operates in the Republic of Ireland and has a countrywide network of 68 offices and a direct telephone based distribution division, EBS Direct. EBS offers residential mortgages and savings products, together with life and property insurance on an agency basis.

EBS also distributes mortgages through Haven Mortgages Limited ('Haven'), a wholly owned subsidiary, to independent mortgage intermediaries. Haven is authorised by the Central Bank of Ireland as a retail credit firm under Part V of the Central Bank Act 1997 (as amended). Haven has its own board of directors and a mandate to grow and establish its business around the needs of its customer (the intermediary).

Following the request of EBS Mortgage Finance u.c. in September 2020, its regulators the European Central Bank and Central Bank of Ireland, confirmed the withdrawal of the banking licence and designated mortgage credit institution authorisation of EBS Mortgage Finance with effect from 2 February 2021.

Arising from the acquisition of EBS, the Group has control of the following special purpose entities ("SPEs"), which had previously been set up by EBS: Emerald Mortgages No. 5 d.a.c. and Mespil 1 RMBS d.a.c. Loans and advances which were transferred to these securitisation entities were included in the Group's consolidated loans and advances. Liquidation of Emerald Mortgages No. 5 d.a.c. and Mespil 1 RMBS d.a.c. was completed in February 2021. For further details on these SPEs, see notes 44 and 45 to the consolidated financial statements.

Transactions between subsidiary undertakings

Banking transactions between Allied Irish Banks, p.l.c. and its subsidiaries are entered into in the normal course of business. These include loans, deposits, provisions 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 agreements reflect OECD guidelines on transfer pricing which are the internationally accepted principles in this area, and take account of the functions, risks and assets involved.

Principal subsidiary undertaking incorporated outside the Republic of Ireland

	Nature of business
AIB Group (UK) p.l.c.	Banking and financial services
trading as AIB (NI) in Northern Ireland	
trading as Allied Irish Bank (GB) in Great Britain	
Registered office: 92 Ann Street, Belfast BT1 3HH	

The above undertaking is now directly held as a wholly-owned subsidiary of Allied Irish Banks, p.l.c following a corporate restructure on 31 December 2020. The registered office is located in the principal country of operation. The issued share capital is denominated in ordinary shares.

AIB Group (UK) p.l.c., a bank registered in the UK and regulated by the Financial Conduct Authority and the Prudential Regulation Authority had consolidated total assets of £ 12.7 billion at 31 December 2021 (2020: £ 12.5 billion). It operates in two distinct markets, Great Britain (GB) and Northern Ireland (NI), each with different economies and operating environments. It is the primary legal entity within the segment AIB UK.

Great Britain (GB)

In this market, the segment operates as Allied Irish Bank (GB) ("AIB GB") out of 3 locations. AIB GB took the strategic decision to exit the SME market so going forward will be a focussed corporate bank operating across Great Britain, striving to be recognised experts in its chosen sectors, targeting mid-tier corporates who value a high-touch relationship model. Key banking services including lending, treasury services, trade facilities, asset finance, invoice discounting and deposit management.

j Investments in Group undertakings *(continued)*

Principal subsidiary undertaking incorporated outside the Republic of Ireland *(continued)*

Northern Ireland (NI)

In this market, the segment operates as AIB (NI) out of a head office location and 7 branches across Northern Ireland (including business centres co-located in branches and one centre for small and micro businesses). AIB is a long established bank in Northern Ireland, offering personal products which include mortgages, personal loans, credit cards, current accounts and savings. Customers can engage with the bank through mobile, online, post office or traditional channels. Business banking services include finance and loans, business current accounts, credit cards, payment solutions and savings.

Letters of financial support given to subsidiaries by Allied Irish Banks, p.l.c.

Allied Irish Banks, p.l.c. has provided letters of financial support to the Board of Directors of the following subsidiaries:

AIB Capital Markets Holdings (UK) Limited
AIB Group (UK) p.l.c.
AIB Holdings (N.I.) Limited
AIB Holdings (U.K.) Limited
AIB Insurance Services Limited
AIB Investment Management Limited
AIB Mortgage Bank Unlimited Company
AIB UK Loan Management Limited
EBS d.a.c.
EBS Mortgage Finance u.c.
Eyke Limited
Haven Mortgages Limited

Impairment losses in Group undertakings

Allied Irish Banks, p.l.c.'s ('the parent company') investments in Group undertakings are reviewed for impairment at the end of each reporting period if there are indications that impairment may have occurred. In addition, an assessment is carried out where there are indications that impairment losses recognised in prior periods may no longer exist or may have decreased.

The testing for possible impairment involves comparing the recoverable amount of the individual investments with their carrying amount. Where the recoverable amount is less than the carrying amount, the difference is recognised as an impairment charge in the parent company's financial statements.

For previously impaired investments, where the assessment indicates an increase in the recoverable amount, the impairment loss recognised in earlier periods is reversed. However, the carrying amount will only be increased up to the amount that it would have been had the original impairment not been recognised.

2021

In 2021, there was no impairment charge or reversals recognised in the year.

2020

In 2020, the subsidiary undertaking AIB Holdings (N.I.) Limited was reviewed for impairment/reversal of impairment.

The carrying amount of the investment by Allied Irish Banks, p.l.c.in AIB Holdings (N.I.) Limited prior to a corporate restructure was € 408 million.

A corporate restructure took place on 31 December 2020 whereby the Company acquired all of the shares in AIB Group (UK) p.l.c. for € 1,050 million from AIB Holdings (N.I.) Limited. In order to settle outstanding liabilities in AIB Holdings (N.I.) Limited a capital contribution of € 386 million was required. The net assets in AIB Holdings (N.I.) Limited after the restructure amounted to € 28 million and accordingly, an impairment of € 766 million was recognised.

Notes to Allied Irish Banks, p.l.c. company financial statements

k Intangible assets

					2021
	Software externally purchased € m	Software internally generated € m	Software under construction € m	Other € m	Total € m
Cost					
At 1 January	287	1,208	167	3	1,665
Additions	10	92	90	–	192
Transfers in/(out)	–	98	(98)	–	–
Amounts written-off[1]	(62)	(36)	(1)	–	(99)
At 31 December	235	1,362	158	3	1,758
Amortisation/impairment					
At 1 January	269	622	–	3	894
Amortisation for the year	9	162	–	–	171
Impairment for the year	–	–	1	–	1
Amounts written-off[1]	(62)	(36)	(1)	–	(99)
At 31 December	216	748	–	3	967
Carrying value at 31 December	19	614	158	–	791

					2020
	Software externally purchased € m	Software internally generated € m	Software under construction € m	Other € m	Total € m
Cost					
At 1 January	291	1,037	162	3	1,493
Additions	11	93	118	–	222
Transfers in/(out)	–	107	(107)	–	–
Amounts written-off[1]	(15)	(29)	(6)	–	(50)
At 31 December	287	1,208	167	3	1,665
Amortisation/impairment					
At 1 January	274	483	–	3	760
Amortisation for the year	10	150	–	–	160
Impairment for the year	–	18	6	–	24
Amounts written-off[1]	(15)	(29)	(6)	–	(50)
At 31 December	269	622	–	3	894
Carrying value at 31 December	18	586	167	–	771

[1]Relates to assets which are no longer in use with a Nil carrying value.

Future capital expenditure in relation to both intangible assets and property, plant and equipment is set out in note l.

I Property, plant and equipment

	Owned assets: Property: Freehold	Owned assets: Property: Long leasehold	Owned assets: Property: Leasehold under 50 years	Owned assets: Equipment	Owned assets: Assets under construction	Leased assets: Right-of-use assets: Property	Leased assets: Right-of-use assets: Other	Total
2021	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Cost								
At 1 January	127	37	114	371	2	413	3	1,067
Transfers in/(out)	–	–	1	–	(1)	–	–	–
Additions	1	–	1	21	3	–	1	27
Net remeasurements	–	–	–	–	–	(6)	–	(6)
Transfers (to)/from held for sale	(3)	–	–	–	–	–	–	(3)
Amounts written-off[1]	–	(1)	(6)	(42)	–	(12)	(1)	(62)
At 31 December	125	36	110	350	4	395	3	1,023
Depreciation/impairment								
At 1 January	33	12	38	290	–	78	1	452
Depreciation charge for the year	4	1	9	21	–	37	1	73
Impairment charge for the year	1	–	3	3	–	12	–	19
Amounts written-off[1]	–	(1)	(6)	(42)	–	(12)	(1)	(62)
At 31 December	38	12	44	272	–	115	1	482
Carrying value at 31 December	87	24	66	78	4	280	2	541

[1]Relates to assets which are no longer in use with a Nil carrying value.

Notes to Allied Irish Banks, p.l.c. company financial statements

I Property, plant and equipment *(continued)*

	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	129	37	109	344	21	420	2	1,062
Transfers in/(out)	–	–	8	9	(17)	–	–	–
Additions	–	–	–	20	–	3	2	25
Net remeasurements	–	–	–	–	–	3	–	3
Transfers (to)/from held for sale	–	–	1	3	–	–	–	4
Amounts written-off[1]	(2)	–	(4)	(5)	(2)	(12)	(1)	(26)
Exchange translation adjustments	–	–	–	–	–	(1)	–	(1)
At 31 December	127	37	114	371	2	413	3	1,067
Depreciation/impairment								
At 1 January	31	12	33	273	2	46	1	398
Depreciation charge for the year	4	–	9	20	–	44	1	78
Impairment charge for the year	–	–	–	1	–	–	–	1
Amounts written-off[1]	(2)	–	(4)	(5)	(2)	(12)	(1)	(26)
Transfers (to)/from held for sale	–	–	–	1	–	–	–	1
At 31 December	33	12	38	290	–	78	1	452
Carrying value at 31 December	94	25	76	81	2	335	2	615

[1]Relates to assets which are no longer in use with a Nil carrying value.

The carrying value of property occupied by Allied Irish Banks, p.l.c. for its own activities was € 177 million (2020: € 195 million) in relation to owned assets and € 280 million in relation to right-of-use assets (2020: € 335 million), excluding those held as disposal groups and non-current assets held for sale. Property leased to others by the Company had a carrying value of Nil (2020: Nil).

Future capital expenditure

This table shows future capital expenditure in relation to both property, plant and equipment and intangible assets (excluding right-of-use assets).

Capital expenditure	2021 € m	2020 € m
Estimated outstanding commitments for capital expenditure not provided for in the financial statements	1	1
Capital expenditure authorised but not yet contracted for	16	32

l Property, plant and equipment *(continued)*

Leased assets

Property leases

The Company leases property for its offices and retail branch outlets. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. 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 Company is likely to exercise these options, this has been taken into account in determining the lease liability and likewise, the right-of-use asset.

Other

The Group leases motor vehicles and IT equipment.

Lease liabilities

A maturity analysis of lease liabilities is shown in note s.

Amounts recognised in income statement	2021 € m	2020 € m
Depreciation expense on right-of-use assets	38	45
Interest on lease liabilities	10	11
Expense relating to short term leases	–	1
Income from sub-leasing right-of-use assets	–	2

Amounts recognised in statement of cash flows	2021 € m	2020 € m
Total cash outflow for leases during the period[1]	43	51

[1]Includes amounts reported as interest expense on lease liabilities of € 10 million (2020: € 11 million) and amounts reported as principal repayments on lease liabilities of € 33 million (2020: € 40 million).

m Other assets

	2021 € m	2020 € m
Proceeds due on disposal of loan portfolio[1]	2	–
Fair value of hedged asset positions[2]	(38)	80
Items in transit	76	7
Other[3]	57	94
Total	97	181

[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 sundry debtors € 9 million (2020: € 50 million) and impersonal accounts € 25 million (2020: € 17 million).

Notes to Allied Irish Banks, p.l.c. company financial statements

n Deferred taxation

	2021 € m	2020 € m
Deferred tax assets:		
Transition to IFRS 9	7	15
Assets used in the business	9	8
Retirement benefits	8	8
Unutilised tax losses	2,435	2,448
Investment securities	1	–
Other	4	6
Total gross deferred tax assets	**2,464**	2,485
Deferred tax liabilities:		
Transition to IFRS 15	–	(1)
Cash flow hedges	(26)	(74)
Assets used in the business	(21)	(20)
Investment securities	–	(12)
Other	–	(1)
Total gross deferred tax liabilities	**(47)**	(108)
Net deferred tax assets	**2,417**	2,377
Represented on the statement of financial position:		
Deferred tax assets	2,431	2,394
Deferred tax liabilities	(14)	(17)
	2,417	2,377

For each of the years ended 31 December 2021 and 2020, full provision has been made for capital allowances and other temporary differences.

Analysis of movements in deferred taxation	2021 € m	2020 € m
At 1 January	2,377	2,286
Exchange translation and other adjustments	–	1
Deferred tax through other comprehensive income	61	(14)
Income statement	(21)	104
At 31 December	**2,417**	2,377

Comments on the basis of recognition of deferred tax assets on unused tax losses are included in note 2 to the consolidated financial statements 'Critical accounting judgements and estimates' on pages 211 and 216.

At 31 December 2021, recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled to € 2,417 million (2020: € 2,377 million). The most significant tax losses arise in the Irish tax jurisdiction and their utilisation is dependent on future taxable profits.

Temporary differences recognised in other comprehensive income consist of deferred tax on financial assets at FVOCI, cash flow hedges and actuarial gains/losses on retirement benefit schemes. Temporary differences recognised in the income statement consist of provisions for expected credit losses on financial instruments, amortised income, assets leased to customers, and assets used in the course of the business.

1 2 3 4 5 6

o Retirement benefits

Allied Irish Banks, p.l.c. operates a number of defined contribution and defined benefit schemes for employees. All defined benefit schemes are closed to future accrual.

Defined contribution schemes

Allied Irish Banks, p.l.c. operates a defined contribution ("DC") scheme, further details of which are provided in the Group's retirement benefits note (note 30 to the consolidated financial statements). The amount included in operating expenses in respect of the DC scheme is € 68 million (2020: € 68 million) (note b).

Defined benefit schemes

The most significant defined benefit scheme operated by Allied Irish Banks, p.l.c. is the AIB Group Irish Pension Scheme ('the Irish scheme'), further details of which are provided in the Group's retirement benefits note (note 30 to the consolidated financial statements).

Financial and mortality assumptions

The financial and mortality assumptions adopted in the preparation of these financial statements are the same as those adopted in the preparation of the Group's financial statements. See note 30 to the consolidated financial statements for further details.

Sensitivity analysis for principal assumptions used to measure scheme liabilities

There are inherent uncertainties surrounding the financial assumptions adopted in calculating the actuarial valuation of the Allied Irish Banks, p.l.c. pension schemes. A sensitivity analysis of the key assumptions for the Irish scheme is set out in the Group's retirement benefits note (note 30 to the consolidated financial statements).

Movement in defined benefit obligation and scheme assets

The following table sets out the movement in the defined benefit obligation and scheme assets during 2021 and 2020

				2021				2020
	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	**(4,887)**	**5,296**	**(434)**	**(25)**	(4,616)	5,175	(584)	(25)
Included in profit or loss								
Past service cost	**–**	**–**	**–**	**–**	–	–	–	–
Interest (cost) income	**(53)**	**58**	**(5)**	**–**	(65)	73	(9)	(1)
Administration costs	**–**	**(1)**	**–**	**(1)**	–	–	–	–
	(53)	**57**	**(5)**	**(1)**	(65)	73	(9)	(1)
Included in other comprehensive income								
Remeasurements gain/(loss):								
– Actuarial gain/(loss) arising from:								
– Experience adjustments	**110**	**–**	**–**	**110**	(28)	–	–	(28)
– Changes in demographic assumptions	**87**	**–**	**–**	**87**	–	–	–	–
– Changes in financial assumptions	**(289)**	**–**	**–**	**(289)**	(345)	–	–	(345)
– Return on scheme assets excluding interest income	**–**	**385**	**–**	**385**	–	210	–	210
– Asset ceiling/minimum funding adjustments	**–**	**–**	**(289)**	**(289)**	–	–	159	159
				4				(4)
Translation adjustment on non-euro schemes	**(3)**	**3**	**–**	**–**	4	(1)	–	3
	(95)	**388**	**(289)**	**4**	(369)	209	159	(1)
Other								
Contributions by employer	**–**	**–**	**–**	**–**	–	1	–	1
Benefits paid	**165**	**(165)**	**–**	**–**	163	(162)	–	1
	165	**(165)**	**–**	**–**	163	(161)	–	2
At 31 December	**(4,870)**	**5,576**	**(728)**	**(22)**	(4,887)	5,296	(434)	(25)

[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.

Notes to Allied Irish Banks, p.l.c. company financial statements

o Retirement benefits *(continued)*

Scheme assets

The following table sets out an analysis of the scheme assets:

	2021 € m	2020 € m
Cash and cash equivalents	127	182
Equity instruments		
Quoted equity instruments:		
Basic materials	71	70
Consumer goods	114	109
Consumer services	168	150
Energy	91	66
Financials	235	204
Healthcare	189	168
Industrials	155	140
Technology	305	249
Telecoms	121	113
Utilities	49	48
Total quoted equity instruments	1,498	1,317
Unquoted equity instruments	–	–
Total equity instruments	1,498	1,317
Debt instruments		
Quoted debt instruments:		
Corporate bonds	874	881
Government bonds	1,557	1,775
Total quoted debt instruments	2,431	2,656
Real estate[(1)(2)]	295	257
Derivatives	7	14
Investment funds		
Quoted investment funds:		
Bonds	284	278
Cash	–	–
Equity	195	183
Fixed interest	13	14
Forestry	42	40
Liability driven investment	470	117
Multi-asset	–	–
Total quoted investment funds	1,004	632
Total investment funds	1,004	632
Mortgage backed securities[(2)]	214	238
Fair value of scheme assets at 31 December	5,576	5,296

[(1)]Located in Europe.
[(2)]A quoted market price in an active market is not available.

Other long term employee benefits

Other long term employee benefits includes additional benefits which the Company 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 Company has in place insurance policies to cover the additional financial costs to the Company under the terms of the defined benefit/defined contribution schemes.

In 2021, the Company contributed € 8 million (2020: € 9 million) towards insuring these benefits which are included in Operating expenses (note b).

p Deposits by central banks and banks

	2021 € m	2020 € m
Central Banks		
Eurosystem refinancing operations	10,000	4,000
Borrowings – unsecured	–	–
	10,000	4,000
Banks		
Other borrowings – unsecured	1,281	961
	11,281	4,961
Of which:		
Due to third parties	10,078	4,212
Due to subsidiary undertakings	1,203	749
	11,281	4,961

Eurosystem refinancing operations are credit facilities from the Eurosystem secured by a fixed charge over securities and relates to TLTRO III. The Group participated in TLTRO III for € 4 billion in September 2020 and a further € 6 billion in June 2021. For further details on TLTRO III see notes 4 and 50 to the consolidated financial statements.

Deposits by central banks and banks include cash collateral of € 144 million at 31 December 2021 (2020: € 291 million) received from derivative counterparties in relation to net derivative positions (note z) and from repurchase agreement counterparties.

Financial assets pledged

Financial assets pledged for secured borrowings and providing access to future funding facilities with central banks and banks are detailed in the following table:

	2021			2020		
	Central banks € m	Banks € m	Total € m	Central banks € m	Banks € m	Total € m
Total carrying value of financial assets pledged	10,567	16	10,583	4,358	17	4,375
Of which:						
Government securities	5,751	16	5,767	2,473	17	2,490
Other securities	4,816	–	4,816	1,885	–	1,885

Notes to Allied Irish Banks, p.l.c. company financial statements

q Customer accounts

	2021 € m	2020 € m
Current accounts	48,760	40,720
Demand deposits	23,099	16,315
Time deposits	5,253	10,421
	77,112	67,456
Of which:		
Non-interest bearing current accounts	38,295	36,814
Interest bearing deposits, current accounts and short-term borrowings	38,817	30,642
	77,112	67,456
Of which:		
Due to third parties	75,288	65,197
Due to subsidiary undertakings	1,824	2,259
	77,112	67,456
Amounts include:		
Due to associated undertakings	272	272

Customer accounts include cash collateral of € 59 million (2020: € 81 million) received from derivative counterparties in relation to net derivative positions.

r Debt securities in issue

	2021 € m	2020 € m
Bonds and medium term notes:		
Euro Medium Term Note Programme	–	–
	–	–

Analysis of movements in debt securities in issue

	2021 € m	2020 € m
At 1 January	–	500
Matured	–	(500)
At 31 December	–	–

s Lease liabilities

	2021 € m	2020 € m
At 31 December	292	328
Maturity analysis – contractual undiscounted cash flows:		
Not later than one year	46	42
Later than one year and not later than five years	158	146
Later than five years	180	224
Total undiscounted lease liabilities at 31 December	384	412

Analysis of movements in lease liabilities	2021 € m	2020 € m
At 1 January	328	361
Lease payments[(1)]	(43)	(51)
Interest expense[(1)]	10	11
Additions	–	3
Net remeasurements	(3)	4
At 31 December	292	328

[(1)]Repayment of principal portion of lease liabilities amounted to € 33 million (2020: € 40 million), i.e. lease payments net of interest expense.

Notes to Allied Irish Banks, p.l.c. company financial statements

t Other liabilities

	2021 € m	2020 € m
Creditors	4	12
Fair value of hedged liability positions	22	127
Bank drafts	389	189
Items in course of collection	170	–
Other	125	137
	710	465

u Provisions for liabilities and commitments

2021	Onerous contracts € m	Legal claims € m	ROU[(1)] commit-ments € m	Other[(2)] provisions € m	ECLs on loan commit-ments € m	ECLs on financial guarantee contracts € m	Total € m
At 1 January 2021	1	25	11	174	41	28	280
Charged to income statement	–	29[(3)]	–	118[(3)]	29[(4)]	6[(4)]	182
Released to income statement	–	(2)[(3)]	–	(5)[(3)]	(30)[(4)]	(10)[(4)]	(47)
Dilapidations provision	–	–	2	–	–	–	2
Provisions utilised	–	(28)	–	(6)	–	–	(34)
Exchange translation adjustments	–	–	–	5	–	–	5
At 31 December 2021	1	24	13	286	40	24	388[(5)]

2020	Onerous contracts € m	Legal claims € m	ROU[(1)] commit-ments € m	Other[(2)] provisions € m	ECLs on loan commit-ments € m	ECLs on financial guarantee contracts € m	Total € m
At 1 January 2020	8	24	11	193	13	21	270
Charged to income statement	–	3[(3)]	–	27[(3)]	35[(4)]	13[(4)]	78
Released to income statement	–	–	–	(6)[(3)]	(7)[(4)]	(6)[(4)]	(19)
Provisions utilised	(7)	(2)	–	(35)	–	–	(44)
Exchange translation adjustments	–	–	–	(5)	–	–	(5)
At 31 December 2020	1	25	11	174	41	28	280[(5)]

[(1)]Provisions for dilapidations included in measurement of right-of-use assets ('ROU').
[(2)]Includes provisions for customer redress and related matters, other restitution provisions and miscellaneous provisions.
[(3)]Included in note b 'Operating expenses'.
[(4)]Included in 'Net credit impairment writeback/(charge)'. In 2020, a debit of € 3 million was also included in 'Net gain on derecognition of financial assets measured at amortised cost'.
[(5)]Excluding the ECLs on loan commitments and financial guarantee contracts, the total provisions for liabilities and commitments expected to be settled within one year amount to € 227 million (31 December 2020: € 100 million).

v Subordinated liabilities and other capital instruments

All outstanding subordinated liabilities and other capital instruments of the Group are issued by Allied Irish Banks, p.l.c. and are detailed in note 37 to the consolidated financial statements. These include both externally and internally issued instruments.

w Share capital

The share capital and share premium of Allied Irish Banks, p.l.c. are detailed in note 38 to the consolidated financial statements, all of which relates to Allied Irish Banks, p.l.c.

x Other equity interests

Other equity interests comprise Additional Tier 1 Securities which are detailed in note 39 to the consolidated financial statements. At 31 December 2021 these were comprised of internally issued instruments only.

y Capital reserves and capital redemption reserves

	2021		2020	
	Capital reserves	Capital redemption reserves	Capital reserves	Capital redemption reserves
	€ m	€ m	€ m	€ m
At beginning and end of year	156	14	156	14

Notes to Allied Irish Banks, p.l.c. company financial statements

z 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 Company'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.

Details of these transactions are set out in note 42 to the consolidated financial statements and apply equally to Allied Irish Banks, p.l.c.

The following table shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements at 31 December 2021 and 2020:

							2021
					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	d	911	–	911	(557)	(149)	205
Securities financing							
Reverse repurchase agreements	g	7,170	(3,325)	3,845	(3,845)	(10)	(10)
Securities borrowings	g	2,424	–	2,424	(2,424)	–	–
Total		10,505	(3,325)	7,180	(6,826)	(159)	195

							2021
					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
Securities financing							
Securities sold under agreements to repurchase	g	3,701	(3,325)	376	(376)	(32)	(32)
Derivative financial Instruments	d	1,164	–	1,164	(557)	(590)	17
Total		4,865	(3,325)	1,540	(933)	(622)	(15)

z Offsetting financial assets and financial liabilities *(continued)*

					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	d	1,382	–	1,382	(771)	(289)	322
Securities financing							
Reverse repurchase agreements	g	5,857	(2,818)	3,039	(3,662)	(27)	(650)
Securities borrowings	g	513	–	513	(510)	–	3
Total		7,752	(2,818)	4,934	(4,943)	(316)	(325)

					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
Securities financing							
Securities sold under agreements to repurchase	g	3,325	(2,818)	507	(544)	(8)	(45)
Derivative financial Instruments	d	1,295	–	1,295	(771)	(444)	80
Total		4,620	(2,818)	1,802	(1,315)	(452)	35

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; and
– securities financing – amortised cost.

Notes to Allied Irish Banks, p.l.c. company financial statements

z 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 2021 and 2020:

				2021
Financial assets	**Net amounts of financial assets presented in the statement of financial position € m**	**Line item in statement of financial position**	**Carrying amount in statement of financial position € m**	**Financial assets not in scope of offsetting disclosures € m**
Derivative financial instruments	**911**	Derivative financial instruments	**951**	**40**
Securities financing				
Reverse repurchase agreements	**3,845**			
Securities borrowings	**2,424**	Securities financing	**6,269**	**–**

				2021
Financial liabilities	**Net amounts of financial liabilities presented in the statement of financial position € m**	**Line item in statement of financial position**	**Carrying amount in statement of financial position € m**	**Financial liabilities not in scope of offsetting disclosures € m**
Securities financing				
Securities sold under agreement to repurchase	**376**		**376**	**–**
Derivative financial instruments	**1,164**	Derivative financial instruments	**1,174**	**10**

				2020
Financial assets	Net amounts of financial assets presented in the statement of financial position € m	Line item in statement of financial position	Carrying amount in statement of financial position € m	Financial assets not in scope of offsetting disclosures € m
Derivative financial instruments	1,382	Derivative financial instruments	1,465	83
Securities financing				
Reverse repurchase agreements	3,039			
Securities borrowings	513	Securities financing	3,552	–

				2020
Financial liabilities	Net amounts of financial liabilities presented in the statement of financial position € m	Line item in statement of financial position	Carrying amount in statement of financial position € m	Financial liabilities not in scope of offsetting disclosures € m
Securities financing				
Securities sold under agreement to repurchase	507	Securities financing	72,924	72,417
Derivative financial instruments	1,295	Derivative financial instruments	1,317	22

aa Contingent liabilities and commitments

Allied Irish Banks, p.l.c. has given guarantees to the satisfaction of the relevant regulatory authorities for the protection of the depositors of certain of its banking subsidiaries in the various jurisdictions in which such subsidiaries operate.

The commentary on Legal proceedings, Chargeback risk and Participation in TARGET 2 – Ireland, as set out in note 43 to the consolidated financial statements, applies also to Allied Irish Banks, p.l.c.

The following table gives the nominal or contract amounts of contingent liabilities and commitments for Allied Irish Banks, p.l.c.:

	Contract amount	
	2021 € m	2020 € m
Contingent liabilities[1] – credit related		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	1,036	906
Other contingent liabilities	43	48
	1,079	954
Commitments[2]		
Documentary credits and short term trade-related transactions	81	68
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year	7,311	6,854
1 year and over	2,876	2,298
	10,268	9,220
	11,347[3]	10,174[3]

[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]Included in exposures are amounts relating to Group subsidiaries of € 1,231 million (2020: € 899 million).

For details of the internal credit ratings and geographic concentration of contingent liabilities and commitments, see pages 363 and 366 in note ah 'Credit risk information'.

Provisions for ECLs on loan commitments and financial guarantee contracts are set out in note u.

Notes to Allied Irish Banks, p.l.c. company financial statements

ab Transferred financial assets

Allied Irish Banks, p.l.c. enters into transactions in the normal course of business in which it transfers previously recognised financial assets. Transferred financial assets may, in accordance with IFRS 9 *Financial Instruments*:

(i) continue to be recognised in their entirety; or

(ii) be derecognised in their entirety but Allied Irish Banks, p.l.c. retains some continuing involvement.

The most common transactions where the transferred assets are not derecognised in their entirety are sale and repurchase agreements and securitisations. Details of these transactions are set out in note 45 to the consolidated financial statements and apply equally to Allied Irish Banks, p.l.c.

(i) Transferred financial assets not derecognised in their entirety

The following table sets out the carrying value and fair value of financial assets which did not qualify for derecognition and their associated financial liabilities at 31 December 2021 and 2020:

2021	**Carrying amount of transferred assets € m**	**Carrying amount of associated liabilities held by third parties € m**	**Carrying amount of associated liabilities held by Group companies € m**	**Fair value of transferred assets € m**	**Fair value of associated liabilities held by third parties € m**	**Fair value of associated liabilities held by Group companies € m**	**Net fair value position € m**
Sale and repurchase agreements/similar products	**3,704**[(1)(2)]	**45**[(1)]	**331**	**3,707**	**45**	**331**	**3,331**

2020	Carrying amount of transferred assets € m	Carrying amount of associated liabilities held by third parties € m	Carrying amount of associated liabilities held by Group companies € m	Fair value of transferred assets € m	Fair value of associated liabilities held by third parties € m	Fair value of associated liabilities held by Group companies € m	Net fair value position € m
Sale and repurchase agreements/similar products	3,374[(1)(2)]	210[(1)]	297	3,374	210	297	2,867

[(1)]See note g.

[(2)]Includes € 3,306 million of assets pledged in relation to securities lending arrangements (2020: € 2,813 million).

(ii) Transferred financial assets derecognised in their entirety but Allied Irish Banks, p.l.c. retains some continuing involvement

Allied Irish Banks, p.l.c. has a continuing involvement in transferred financial assets where it retains any of the risks and rewards of ownership of the transferred financial assets. Set out below are transactions in which Allied Irish Banks, p.l.c. has a continuing involvement in financial assets transferred.

NAMA

Details in relation to the continuing involvement by Allied Irish Banks, p.l.c. in assets transferred to NAMA are set out in note 45 to the consolidated financial statements. The carrying value of assets transferred during 2010 and 2011 amounted to € 13,483 million, all of which were derecognised.

In 2021, Allied Irish Banks, p.l.c. recognised € 2 million (cumulative € 98 million) (2020: € 2 million (cumulative € 96 million)) in the income statement for the servicing of financial assets transferred to NAMA.

AIB Mortgage Bank Unlimited Company ("AIB Mortgage Bank u.c.")

In 2011, Allied Irish Banks, p.l.c. transferred substantially all of its mortgage intermediary originated Irish residential loans, related security and related business of approximately € 4.2 billion to AIB Mortgage Bank u.c.

Under an Outsourcing and Agency Agreement dated 8 February 2006, Allied Irish Banks, p.l.c., as Service Agent for AIB Mortgage Bank u.c., originates residential mortgage loans through its retail branch network and intermediary channels in the Republic of Ireland, services the mortgage loans and provides treasury services in connection with financing, as well as a range of other support services. In 2021, Allied Irish Banks, p.l.c. recognised € 148 million (cumulative € 1,260 million) (2020: € 151 million (cumulative € 1,112 million)) in the income statement for the provision of services under this agreement.

ac 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 by statement of financial position heading at 31 December 2021 and 2020.

	At fair value through profit or loss	At fair value through other comprehensive income		At amortised cost	2021 Total
	Mandatorily	Debt investments	Hedging derivatives		
	€ m	€ m	€ m	€ m	€ m
Financial assets					
Cash and balances at central banks	–	–	–	35,893[1]	35,893
Items in course of collection	–	–	–	40	40
Derivative financial instruments[2]	719	–	232	–	951
Loans and advances to banks[3]	–	–	–	9,220	9,220
Loans and advances to customers[4]	243	–	–	23,162	23,405
Securities financing[5]	–	–	–	6,269	6,269
Investment securities[6]	112	20,337	–	4,109	24,558
Other financial assets	–	–	–	408	408
	1,074	20,337	232	79,101	100,744
Financial liabilities					
Deposits by central banks and banks[7]	–	–	–	11,281	11,281
Customer accounts[8]	–	–	–	77,112	77,112
Securities financing[9]	–	–	–	376	376
Derivative financial instruments[10]	874	–	300	–	1,174
Debt securities in issue	–	–	–	–	–
Subordinated liabilities and other capital instruments[11]	–	–	–	5,601	5,601
Other financial liabilities	–	–	–	851	851
	874	–	300	95,221	96,395

(1)Includes cash on hand € 463 million.
(2)Includes exposure to subsidiary undertakings of € 140 million.
(3)Includes exposure to subsidiary undertakings of € 8,493 million.
(4)Includes exposure to subsidiary undertakings of € 4,881 million.
(5)Includes exposure to subsidiary undertakings of € 2,382 million.
(6)Includes exposure to subsidiary undertakings of € 7,748 million.
(7)Includes amounts due to subsidiary undertakings of € 1,203 million.
(8)Includes amounts due to subsidiary undertakings of € 1,824 million.
(9)Includes amounts due to subsidiary undertakings of € 331 million.
(10)Includes amounts due to subsidiary undertakings of € 131 million.
(11)Includes amounts due to AIB Group plc (parent) € 5,545 million.

Notes to Allied Irish Banks, p.l.c. company financial statements

ac Classification and measurement of financial assets and financial liabilities *(continued)*

	At fair value through profit or loss	At fair value through other comprehensive income		At amortised cost	2020 Total
	Mandatorily	Debt investments	Hedging derivatives		
	€ m	€ m	€ m	€ m	€ m
Financial assets					
Cash and balances at central banks	–	–	–	20,152[1]	20,152
Items in course of collection	–	–	–	38	38
Derivative financial instruments[2]	877	–	588	–	1,465
Loans and advances to banks[3]	–	–	–	7,888	7,888
Loans and advances to customers[4]	75	–	–	22,686	22,761
Securities financing[5]	–	–	–	3,552	3,552
Investment securities[6]	88	24,172	–	3,603	27,863
Other financial assets	–	–	–	270	270
	1,040	24,172	588	58,189	83,989
Financial liabilities					
Deposits by central banks and banks[7]	–	–	–	4,961	4,961
Customer accounts[8]	–	–	–	67,456	67,456
Securities financing[9]	–	–	–	507	507
Derivative financial instruments[10]	1,139	–	178	–	1,317
Debt securities in issue	–	–	–	–	–
Subordinated liabilities and other capital instruments[11]	–	–	–	4,726	4,726
Other financial liabilities	–	–	–	480	480
	1,139	–	178	78,130	79,447

[1]Includes cash on hand € 518 million.
[2]Includes exposure to subsidiary undertakings of € 176 million.
[3]Includes exposure to subsidiary undertakings of € 7,329 million.
[4]Includes exposure to subsidiary undertakings of € 4,967 million.
[5]Includes exposure to subsidiary undertakings of € 2,741 million.
[6]Includes exposure to subsidiary undertakings of € 8,497 million.
[7]Includes amounts due to subsidiary undertakings of € 749 million.
[8]Includes amounts due to subsidiary undertakings of € 2,259 million.
[9]Includes amounts due to subsidiary undertakings of € 297 million.
[10]Includes amounts due to subsidiary undertakings of € 119 million.
[11]Includes amounts due to AIB Group plc (parent) € 4,676 million.

ad Fair value of financial instruments

The methods used by the Group in calculating the fair value of financial instruments are set out in note 47 to the consolidated financial statements and apply equally to Allied Irish Banks, p.l.c.

The tables on the following pages set out the carrying amount in the statement of financial position of financial assets and financial liabilities distinguishing between those measured at fair value and those measured at amortised cost. In addition, the fair value of all financial assets and financial liabilities is shown setting out the fair value hierarchy as described below into which the fair value measurement is categorised:

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

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

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

Readers of these financial statements are advised to use caution when using the data in the following tables to evaluate the financial position of Allied Irish Banks, p.l.c. or to make comparisons with other institutions. Fair value information is not provided for items that do not meet the definition of a financial instrument. These items include intangible assets such as the value of the branch network and the long term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the Company as a going concern at 31 December 2021.

Notes to Allied Irish Banks, p.l.c. company financial statements

ad Fair value of financial instruments *(continued)*

					2021
	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	875	–	640	235	875
Exchange rate derivatives	76	–	76	–	76
Loans and advances to customers at FVTPL	243	–	–	243	243
Investment debt securities at FVOCI:					
Government securities	4,752	4,752	–	–	4,752
Supranational banks and government agencies	1,260	1,260	–	–	1,260
Asset backed securities	495	456	39	–	495
Bank securities	13,313	5,565	7,748	–	13,313
Corporate securities	517	517	–	–	517
Equity investments at FVTPL	112	26	–	86	112
	21,643	12,576	8,503	564	21,643
Financial assets not measured at fair value					
Cash and balances at central banks	35,893	463[1]	35,430	–	35,893
Items in the course of collection	40	–	–	40	40
Loans and advances to banks	9,220	–	–	9,220	9,220
Loans and advances to customers	23,162	–	–	23,199	23,199
Securities financing:					
Reverse repurchase agreements	3,845	–	–	3,845	3,845
Securities borrowing	2,424	–	–	2,424	2,424
Investment debt securities measured at amortised cost	4,109	2,982	–	1,138	4,120
Other financial assets	408	–	–	408	408
	79,101	3,445	35,430	40,274	79,149
Financial liabilities measured at fair value					
Derivative financial instruments:					
Interest rate derivatives	951	–	873	78	951
Exchange rate derivatives	200	–	200	–	200
Equity derivatives	17	–	17	–	17
Credit derivatives	6	–	6	–	6
	1,174	–	1,096	78	1,174
Financial liabilities not measured at fair value					
Deposits by central banks and banks:					
Other borrowings	1,281	–	–	1,281	1,281
Secured borrowings	10,000	–	10,000	–	10,000
Customer accounts:					
Current accounts	48,760	–	–	48,760	48,760
Demand deposits	23,099	–	–	23,099	23,099
Time deposits	5,253	–	–	5,253	5,253
Securities financing					
Securities sold under agreements to repurchase	376	–	–	376	376
Subordinated liabilities and other capital instruments	5,601	58	5,765	16	5,839
Other financial liabilities	851	–	–	851	851
	95,221	58	15,765	79,636	95,459

[1]Comprises cash on hand.

ad Fair value of financial instruments *(continued)*

					2020
	Carrying amount	Fair value			
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
	€ m	€ m	€ m	€ m	€ m
Financial assets measured at fair value					
Derivative financial instruments:					
Interest rate derivatives	1,394	–	1,036	358	1,394
Exchange rate derivatives	70	–	70	–	70
Equity 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	15,290	6,793	8,497	–	15,290
Corporate securities	490	490	–	–	490
Equity investments at FVOCI	–	–	–	–	–
Equity investments at FVTPL	88	24	–	64	88
	25,800	15,624	9,679	497	25,800
Financial assets not measured at fair value					
Cash and balances at central banks	20,152	518[1]	19,634	–	20,152
Items in the course of collection	38	–	–	38	38
Loans and advances to banks	7,888	–	–	7,888	7,888
Loans and advances to customers	22,686	–	–	22,750	22,750
Securities financing:					
Reverse repurchase agreements	3,039	–	–	298	298
Securities borrowing	513	–	–	3,254	3,254
Investment debt securities measured at amortised cost	3,603	2,973	–	796	3,769
Other financial assets	270	–	–	270	270
	58,189	3,491	19,634	35,294	58,419
Financial liabilities measured at fair value					
Derivative financial instruments:					
Interest rate derivatives	1,261	–	1,181	80	1,261
Exchange rate derivatives	46	–	46	–	46
Equity derivatives	1	–	1	–	1
Credit derivatives	9	–	9	–	9
	1,317	–	1,237	80	1,317
Financial liabilities not measured at fair value					
Deposits by central banks and banks:					
Other borrowings	961	–	–	961	961
Secured borrowings	4,000	–	4,000	–	4,000
Customer accounts:					
Current accounts	40,720	–	–	40,720	40,720
Demand deposits	16,315	–	–	16,315	16,315
Time deposits	10,421	–	–	10,427	10,427
Securities financing:					
Securities sold under agreements to repurchase	507	–	–	507	507
Debt securities in issue	–	–	–	–	–
Subordinated liabilities and other capital instruments	4,726	–	4,961	–	4,961
Other financial liabilities	480	–	–	480	480
	78,130	–	8,961	69,410	78,371

[1]Comprises cash on hand.

Notes to Allied Irish Banks, p.l.c. company financial statements

ad Fair value of financial instruments *(continued)*

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

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

Reconciliation of balances in Level 3 of the fair value hierarchy

The following tables show a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

								2021
	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 2021	**358**	**–**	**–**	**75**	**64**	**497**	**80**	**80**
Transfers into/out of level 3[1]	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total gains or (losses) in:								
Profit or loss:								
Net trading income	**(123)**	**–**	**–**	**–**	**–**	**(123)**	**(2)**	**(2)**
Net change in FVTPL	**–**	**–**	**–**	**13**	**22**	**35**	**–**	**–**
	(123)	**–**	**–**	**13**	**22**	**(88)**	**(2)**	**(2)**
Other comprehensive income:								
Net change in fair value of investment securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Net change in fair value of cash flow hedges	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Purchases/additions	**–**	**–**	**–**	**181[2]**	**–**	**181**	**–**	**–**
Sales/disposals/redemptions	**–**	**–**	**–**	**(1)**	**–**	**(1)**	**–**	**–**
Cash received:								
Principal	**–**	**–**	**–**	**(25)**	**–**	**(25)**	**–**	**–**
At 31 December 2021	**235**	**–**	**–**	**243**	**86**	**564**	**78**	**78**

								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	347	–	437	77	205	1,066	106	106
Transfers into/out of level 3[1]	–	–	–	–	–	–	–	–
Total gains or (losses) in:								
Profit or loss:								
Net trading income	11	–	–	–	–	11	(26)	(26)
Net change in FVTPL	–	–	–	35	9	44	–	–
	11	–	–	35	9	55	(26)	(26)
Other comprehensive income:								
Net change in fair value of investment securities	–	–	(20)	–	–	(20)	–	–
Net change in fair value of cash flow hedges	–	–	–	–	–	–	–	–
	–	–	(20)	–	–	(20)	–	–
Purchases/additions	–	–	–	–	–	–	–	–
Sales/disposals/redemptions	–	–	(417)	–	(150)	(567)	–	–
Cash received:								
Principal	–	–	–	(37)	–	(37)	–	–
At 31 December 2020	358	–	–	75	64	497	80	80

[1]Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

[2]Relates to the restructuring of loans measured at FVTPL, that were previously carried at amortised cost.

ad 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 categorised as Level 3 in the fair value hierarchy held at 31 December 2021 and 2020:

	2021 € m	2020 € m
Net trading income – (losses)/gains	(87)	89
Gains on equity investments at FVTPL	22	9
Losses on loans and advances at FVTPL	(12)	–
	(77)	98

Significant unobservable inputs

The table below sets out information about significant unobservable inputs used for the years ended 31 December 2021 and 2020 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

	Fair value					Range of estimates	
Financial instrument		2021 € m	2020 € m	Valuation technique	Significant unobservable input	31 December 2021	31 December 2020
Uncollateralised customer derivatives	Asset	235	358	CVA	LGD	29% – 46% (Base 37%)	62% – 77% (Base 71%)
	Liability	78	80				
					PD	0.5% – 2.5% (Base 1.2%, 1 year PD)	0.4% – 1.6% (Base 0.8%, 1 year PD)
				FVA	Funding spreads	(0.2%) to 0.3%	(0.2%) to 0.3%
Visa Inc. Series B Preferred Stock	Asset	50	31	Quoted market price (to which a discount has been applied)	Final conversion rate	0% – 90%	0% – 90%
Loans and advances to customers measured at FVTPL	Asset	243	75	Discounted cash flows*	Discount on market value	(1)% – 9%	(1%) – 5%
				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 2021 ranges from (i) negative € 18 million to positive € 9 million for CVA (2020: negative € 28 million to positive € 14 million) and (ii) negative € 4 million to positive € 2 million for FVA (2020: negative € 5 million to positive € 2 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.

Other

Details on Visa Inc. stock and loans and advances to customers at FVTPL are set out on page 293 in note 47 to the consolidated financial statements and apply equally to the parent company, Allied Irish Banks, p.l.c.

Notes to Allied Irish Banks, p.l.c. company financial statements

ad Fair value of financial instruments *(continued)*

Sensitivity of Level 3 measurements

The implementation of valuation techniques involves a considerable degree of judgement. While the Company believes its estimates of fair value are appropriate, the use of different measurements or assumptions could lead to different fair values. The following table sets out the impact of using reasonably possible alternative assumptions in the valuation methodology at 31 December 2021 and 2020:

				2021
	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	11	(21)	–	–
Investment securities – equity	48[1]	(34)[1]	–	–
Loans and advances to customers measured at FVTPL	21	(2)	–	–
Total	80	(57)	–	–
Classes of financial liabilities				
Derivative financial liabilities	–	(1)	–	–
Total	–	(1)	–	–

				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	15	(31)	–	–
Investment securities – equity	46[1]	(15)[1]	–	–
Loans and advances to customers measured at FVTPL	4	(1)	–	–
Total	65	(47)	–	–
Classes of financial liabilities				
Derivative financial liabilities	2	(2)	–	–
Total	2	(2)	–	–

[1]Relates to a significant equity investment, the carrying value of which was € 50 million at 31 December 2021 (2020: € 31 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 of financial instruments at initial recognition and the amount that was determined at that date using a valuation technique incorporating significant unobservable data.

ae 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:

	2021 € m	2020 € m
Cash and balances at central banks	35,893	20,152
Loans and advances to banks[(1)]	724	559
Securities financing[(2)]	–	350
Total	**36,617**	21,061

[(1)]Included in 'Loans and advances to banks' total of € 9,220 million (2020: € 7,888 million) set out in note e.

[(2)]Certain securities financing transactions may meet the definition of cash equivalents. These amounted to Nil at 31 December 2021 (2020: € 350 million).

Cash and balances at central banks (net of ECL allowance of Nil) comprise:

	2021 € m	2020 € m
Central Bank of Ireland	34,780	18,916
Bank of England	319	564
Federal Reserve Bank of New York	331	154
Other (cash on hand)	463	518
Total	**35,893**	20,152

Notes to Allied Irish Banks, p.l.c. company financial statements

af Statement of cash flows

Non-cash and other items included in profit before taxation

Non-cash items	2021 € m	2020 € m
Net gain arising from the derecognition of financial assets measured at amortised cost	(3)	(1)
Dividends received from equity investments	(3)	(25)
Dividends received from subsidiary undertakings	(14)	(23)
Subsidiary undertakings impairment	–	766
Net credit impairment (writeback)/charge	(69)	883
Change in other provisions	142	24
Retirement benefits – defined benefit expense	1	1
Depreciation, amortisation and impairment	264	263
Interest on subordinated liabilities and other capital instruments	141	151
Gain on disposal of investment securities	(18)	(17)
Loss on termination of hedging swaps	11	14
Amortisation of premiums and discounts	102	117
Net gain on equity investments measured at FVTPL	(22)	(26)
Net loss on loans and advances to customers at FVTPL	12	–
Change in prepayments and accrued income	(68)	10
Change in accruals and deferred income	22	(51)
Effect of exchange translation and other adjustments[1]	148	99
Total non-cash items	**646**	2,185
Contributions to defined benefit pension schemes	–	(1)
Dividends received from equity investments	3	25
Total other items	**3**	24
Non-cash and other items for the year ended 31 December	**649**	2,209

Change in operating assets[1]	2021 € m	2020 € m
Change in items in course of collection	(2)	13
Change in derivative financial instruments	(65)	12
Change in loans and advances to banks	(1,487)	3,021
Change in loans and advances to customers	(274)	2,662
Change in securities financing	(2,717)	(1,125)
Change in other assets	(34)	380
	(4,579)	4,963

Change in operating liabilities[1]	2021 € m	2020 € m
Change in deposits by central banks and banks	6,299	3,782
Change in customer accounts	9,385	9,257
Change in securities financing	(131)	240
Change in debt securities in issue	–	(500)
Change in other liabilities	313	(10)
	15,866	12,769

[1]The impact of foreign exchange translation for each line of the statement of financial position is removed in order to show the underlying cash impact.

ag Related party transactions

Related parties of Allied Irish Banks, p.l.c. ('the Company') include its owner, AIB Group plc, subsidiary undertakings, associate undertakings and joint undertakings, post-employment benefits, Key Management Personnel and connected parties. The Irish Government is also considered a related party by virtue of its effective control of the Company. Related party transactions are detailed in note 50 to the consolidated financial statements.

ah Credit risk information

The following table sets out the maximum exposure to credit risk that arises within Allied Irish Banks, p.l.c. and distinguishes between those assets that are carried in the statement of financial position at amortised cost and those carried at fair value at 31 December 2021 and 2020:

			2021			2020
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]	**35,431**	**–**	**35,431**	19,634	–	19,634
Items in course of collection	**40**	**–**	**40**	38	–	38
Derivative financial instruments[4]	**–**	**951**	**951**	–	1,465	1,465
Loans and advances to banks[5]	**9,220**	**–**	**9,220**	7,888	–	7,888
Loans and advances to customers[6]	**23,162**	**243**	**23,405**	22,686	75	22,761
Securities financing[7]	**6,269**	**–**	**6,269**	3,552	–	3,552
Investment securities[8]	**4,109**	**20,337**	**24,446**	3,603	24,172	27,775
Included elsewhere:			**–**			
Trade receivables	**11**	**–**	**11**	50	–	50
Accrued interest[9]	**273**	**–**	**273**	172	–	172
	78,515	**21,531**	**100,046**	57,623	25,712	83,335
Loan commitments and other credit related commitments	**10,268**	**–**	**10,268**	9,220	–	9,220
Financial guarantees	**1,079**	**–**	**1,079**	954	–	954
	11,347	**–**	**11,347[10]**	10,174	–	10,174[10]
Total	**89,862**	**21,531**	**111,393**	67,797	25,712	93,509

[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 € 35,893 million (2020: € 20,152 million).
[4]Exposures to subsidiary undertakings of € 140 million (2020: € 176 million) have been included.
[5]Exposures to subsidiary undertakings of € 8,493 million (2020: € 7,329 million) have been included.
[6]Exposures to owner and subsidiary undertakings of € 4,881 million (2020: € 4,967 million) have been included.
[7]Exposures to subsidiary undertakings of € 2,382 million (2020: € 2,741 million) have been included.
[8]Exposures to subsidiary undertakings of € 7,748 million (2020: € 8,497 million) have been included but equity shares amounting to € 112 million (2020: € 88 million) have been excluded.
[9]Exposures to subsidiary undertakings of € 4 million (2020: € 9 million) have been included.
[10]Exposures to subsidiary undertakings of € 1,231 million (2020: € 899 million) have been included.

Notes to Allied Irish Banks, p.l.c. company financial statements

ah Credit risk information *(continued)*

Credit exposure

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 2021 and 2020:

	2021				2020			
			Statement of financial position	Income statement			Statement of financial position	Income statement
	Exposure € m	ECL allowance € m	Carrying amount € m	Net credit impairment (charge) € m	Exposure € m	ECL allowance € m	Carrying amount € m	Net credit impairment (charge) € m
Cash and balances at central banks	35,893	–	35,893	–	20,152	–	20,152	–
Items in course of collection	40	–	40	–	38	–	38	–
Loans and advances to banks	9,220	–	9,220	–	7,888	–	7,888	–
Loans and advances to customers:								
at amortised cost	24,386	(1,224)	23,162	114	24,037	(1,351)	22,686	(816)
at FVTPL	243	n/a	243	–	75	n/a	75	–
	24,629	(1,224)	23,405	114	24,112	(1,351)	22,761	(816)
Securities financing	6,270	(1)	6,269	(1)	3,552	–	3,552	–
Investment debt securities[1]	24,447	(1)	24,446	–	27,776	(1)	27,775	–
Loan commitments	10,268	(40)	(40)	1	9,220	(41)	(41)	(28)
Financial guarantee contracts	1,079	(24)	(24)	4	954	(28)	(28)	(4)
Total				118				(848)

[1]ECL allowance amounting to € 3 million (2020: € 3 million) included in carrying value.

Collateral

Allied Irish Banks, p.l.c. takes collateral as a secondary source of repayment in the event of a borrower's default. The nature of collateral taken is set out on page 48. The information contained in this note relates only to third party exposures arising within Allied Irish Banks, p.l.c.

Collateral for the non-mortgage portfolio

For non-mortgage lending, where collateral is taken, it will typically include a charge over the business assets such as inventory and accounts receivable. 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 relies on valuations or business appraisals from independent external professionals.

The value of collateral is assessed at origination of the loan and throughout the credit life cycle (including annual reviews where required). When undertaking an ECL assessment 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 taken to realise any security is estimated. An ECL allowance is raised for the difference between this present value and the carrying value of the loan. Therefore, for non-mortgage non-performing loans, the net exposure after taking into consideration the ECL allowance would be indicative of the fair value.

Collateral for the residential mortgage portfolio

For residential mortgages, Allied Irish Banks, p.l.c. takes collateral in support of lending transactions for the purchase of residential property. Collateral valuations are required at the time of origination of each residential mortgage. The value at 31 December 2021 is estimated based on property values at origination or date of latest valuation and applying the CSO Residential Property Price Index (Republic of Ireland) to these values to take account of price movements in the interim.

Summary of risk mitigants by selected portfolios

Set out below are details of risk mitigants used by Allied Irish Banks, p.l.c. in relation to financial assets detailed in the maximum exposure to credit risk table on page 359.

ah Credit risk information *(continued)*

Collateral *(continued)*

Loans and advances to customers – residential mortgages

The following table shows the estimated fair value of collateral held for the residential mortgage portfolio at 31 December 2021 and 2020.

	2021					2020				
	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%	297	22	47	–	366	252	18	42	–	312
50% - 70%	220	12	30	–	262	199	11	37	–	247
71% - 80%	68	8	17	–	93	111	5	21	–	137
81% - 90%	12	3	10	–	25	85	5	19	–	109
91% - 100%	2	–	9	–	11	34	5	25	–	64
	599	45	113	–	757	681	44	144	–	869
Partially collateralised										
Collateral value relating to loans over 100% loan-to-value	1	–	7	–	8	5	1	19	–	25
Total collateral value	600	45	120	–	765	686	45	163	–	894
Gross residential mortgages	601	44	122	–	767	690	44	166	1	901
ECL allowance	(1)	(1)	(60)	–	(62)	(1)	(2)	(65)	–	(68)
Net residential mortgages	600	43	62	–	705	689	42	101	1	833

[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.

Securities financing

In addition to the credit risk mitigants outlined on the previous page, Allied Irish Banks, p.l.c., from time to time, enters securities financing transactions. Securities financing consists of securities borrowing and lending and sale and repurchase agreements. At 31 December 2021, reverse repurchase agreements and securities borrowings amounted to € 6,269 million (2020: € 3,552 million) for which Allied Irish Banks, p.l.c. had accepted collateral with a fair value of € 6,269 million (2020: € 4,172 million).

Derivatives

Derivative financial instruments are shown on the statement of financial position at their fair value. Those with a positive fair value are reported as assets which at 31 December 2021 amounted to € 951 million (2020: € 1,465 million) and those with negative fair value are reported as liabilities which at 31 December 2021 amounted to € 1,174 (2020: € 1,317 million).

The enforcement of netting agreements would potentially reduce the statement of financial position carrying amount of derivative assets and liabilities by € 557 million at 31 December 2021 (2020: € 771 million). Allied Irish Banks, p.l.c. also has Credit Support Annexes ("CSAs") in place which provide collateral for derivative contracts. As at 31 December 2021, € 633 million (2020: € 499 million) of CSAs are included within financial assets as collateral for derivative liabilities and € 193 million (2020: € 344 million) of CSAs are included within financial liabilities as collateral for derivative assets (note z). Additionally, Allied Irish Banks, p.l.c. has agreements in place which may allow it to net the termination values of cross currency swaps upon occurrence of an event of default.

Investments securities

At 31 December 2021, government guaranteed senior bank debt amounting to € 317 million (2020: € 294 million) was held within the investment securities portfolio.

Notes to Allied Irish Banks, p.l.c. company financial statements

ah Credit risk information *(continued)*

Internal credit grade profile by ECL staging

The table below analyses the internal credit grading profile by ECL staging for loans and advances to customers at 31 December 2021 and 2020:

Amortised cost

					2021					2020
	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	9,321	476	–	–	9,797	7,319	890	–	–	8,209
Satisfactory	4,568	1,345	–	–	5,913	3,861	2,599	–	–	6,460
Total strong/satisfactory	13,889	1,821	–	–	15,710	11,180	3,489	–	–	14,669
Criticised watch	302	593	–	–	895	396	1,669	–	–	2,065
Criticised recovery	87	1,380	–	–	1,467	19	471	–	–	490
Total criticised	389	1,973	–	–	2,362	415	2,140	–	–	2,555
Non-performing	2	–	1,431	–	1,433	98	–	1,747	1	1,846
Gross carrying amount	14,280	3,794	1,431	–	19,505	11,693	5,629	1,747	1	19,070
ECL allowance	(144)	(527)	(553)	–	(1,224)	(171)	(611)	(569)	–	(1,351)
Carrying amount	14,136	3,267	878	–	18,281[1]	11,522	5,018	1,178	1	17,719[1]
Analysis by asset class										
Residential mortgages										
Strong	404	3	–	–	407	661	6	–	–	667
Satisfactory	177	7	–	–	184	17	14	–	–	31
Total strong/satisfactory	581	10	–	–	591	678	20	–	–	698
Criticised watch	20	19	–	–	39	12	12	–	–	24
Criticised recovery	–	15	–	–	15	–	12	–	–	12
Total criticised	20	34	–	–	54	12	24	–	–	36
Non-performing	–	–	122	–	122	–	–	166	1	167
Gross carrying amount	601	44	122	–	767	690	44	166	1	901
ECL allowance	(1)	(1)	(60)	–	(62)	(1)	(2)	(65)	–	(68)
Carrying amount	600	43	62	–	705	689	42	101	1	833
Other personal										
Strong	1,191	32	–	–	1,223	1,166	48	–	–	1,214
Satisfactory	897	87	–	–	984	841	151	–	–	992
Total strong/satisfactory	2,088	119	–	–	2,207	2,007	199	–	–	2,206
Criticised watch	64	73	–	–	137	69	82	–	–	151
Criticised recovery	1	22	–	–	23	1	42	–	–	43
Total criticised	65	95	–	–	160	70	124	–	–	194
Non-performing	–	–	244	–	244	1	–	229	–	230
Gross carrying amount	2,153	214	244	–	2,611	2,078	323	229	–	2,630
ECL allowance	(30)	(33)	(157)	–	(220)	(40)	(51)	(140)	–	(231)
Carrying amount	2,123	181	87	–	2,391	2,038	272	89	–	2,399
Property and construction										
Strong	2,880	407	–	–	3,287	1,981	750	–	–	2,731
Satisfactory	631	522	–	–	1,153	490	764	–	–	1,254
Total strong/satisfactory	3,511	929	–	–	4,440	2,471	1,514	–	–	3,985
Criticised watch	22	116	–	–	138	52	279	–	–	331
Criticised recovery	79	190	–	–	269	1	67	–	–	68
Total criticised	101	306	–	–	407	53	346	–	–	399
Non-performing	–	–	473	–	473	90	–	701	–	791
Gross carrying amount	3,612	1,235	473	–	5,320	2,614	1,860	701	–	5,175
ECL allowance	(38)	(84)	(131)	–	(253)	(62)	(122)	(135)	–	(319)
Carrying amount	3,574	1,151	342	–	5,067	2,552	1,738	566	–	4,856

[1]Exposures to subsidiary undertakings of € 4,881 million (2020: € 4,967 million) are excluded.

ah Credit risk information *(continued)*

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

	2021 Stage 1 € m	2021 Stage 2 € m	2021 Stage 3 € m	2021 POCI € m	2021 Total € m	2020 Stage 1 € m	2020 Stage 2 € m	2020 Stage 3 € m	2020 POCI € m	2020 Total € m
Non-property business										
Strong	4,846	34	–	–	4,880	3,511	86	–	–	3,597
Satisfactory	2,863	729	–	–	3,592	2,513	1,670	–	–	4,183
Total strong/satisfactory	7,709	763	–	–	8,472	6,024	1,756	–	–	7,780
Criticised watch	196	385	–	–	581	263	1,296	–	–	1,559
Criticised recovery	7	1,153	–	–	1,160	17	350	–	–	367
Total criticised	203	1,538	–	–	1,741	280	1,646	–	–	1,926
Non-performing	2	–	592	–	594	7	–	651	–	658
Gross carrying amount	7,914	2,301	592	–	10,807	6,311	3,402	651	–	10,364
ECL allowance	(75)	(409)	(205)	–	(689)	(68)	(436)	(229)	–	(733)
Carrying amount	7,839	1,892	387	–	10,118	6,243	2,966	422	–	9,631

FVTPL

	2021 € m	2020 € m
Property and construction		
Strong	–	75
Satisfactory	74	–
Total strong/satisfactory	74	75
Criticised watch	–	–
Criticised recovery	–	–
Total criticised	–	–
Non-performing	169	–
Total	243	75

The table below analyses the credit ratings of loan commitments and financial guarantee contracts at 31 December 2021 and 2020:

	2021 € m	2020 € m
Strong	7,442	7,336
Satisfactory	3,515	2,415
Criticised watch	227	302
Criticised recovery	66	13
Non-performing	97	108
Total	11,347	10,174

Notes to Allied Irish Banks, p.l.c. company financial statements

ah Credit risk information *(continued)*

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 2021 and 31 December 2021 and the corresponding movements between 1 January 2020 and 31 December 2020.

Accounts that triggered movements between Stage 1 and Stage 2 as a result of failing/curing a quantitative measure only (as disclosed on page 52) and that subsequently reverted within the period to their original stage, are excluded from 'Transferred from Stage 1 to Stage 2' and 'Transferred from Stage 2 to Stage 1'. The Company believes this presentation aids the understanding of the underlying credit migration.

Gross carrying amount movements – total

					2021
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
At 1 January	11,693	5,629	1,747	1	19,070
Transferred from Stage 1 to Stage 2	(1,321)	1,321	–	–	–
Transferred from Stage 2 to Stage 1	1,796	(1,796)	–	–	–
Transferred to Stage 3	(73)	(311)	384	–	–
Transferred from Stage 3	32	145	(177)	–	–
New loans originated/top-ups	5,267	–	–	–	5,267
Redemptions/repayments	(3,479)	(1,547)	(365)	(1)	(5,392)
Interest credited	497	150	35	–	682
Write-offs	–	–	(59)	–	(59)
Derecognised due to disposals	(27)	(47)	(17)	–	(91)
Exchange translation adjustments	64	45	5	–	114
Impact of model, parameter and overlay changes	(200)	200	–	–	–
Other movements	31	5	(122)	–	(86)
At 31 December 2021 – third parties	14,280	3,794	1,431	–	19,505[2]

					2020
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
At 1 January	17,608	1,184	941	1	19,734
Transferred from Stage 1 to Stage 2	(7,536)	7,536	–	–	–
Transferred from Stage 2 to Stage 1	509	(509)	–	–	–
Transferred to Stage 3	(337)	(782)	1,119	–	–
Transferred from Stage 3	68	137	(205)	–	–
New loans originated/top-ups	4,050	–	–	–	4,050
Redemptions/repayments	(3,404)	(1,515)	(226)	–	(5,145)
Interest credited	526	177	30	–	733
Write-offs	–	–	(73)	–	(73)
Derecognised due to disposals	(57)	(24)	(27)	–	(108)
Exchange translation adjustments	(64)	(23)	(3)	–	(90)
Impact of model, parameter and overlay changes	519	(519)	–	–	–
Other movements	(189)	(33)	191	–	(31)
At 31 December 2020 – third parties	11,693	5,629	1,747	1	19,070[2]

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

[2]Amounts due from subsidiary undertakings of € 4,881 million at 31 December 2021 are excluded (2020: € 4,967 million).

ah Credit risk information *(continued)*
Gross loans and ECL movements *(continued)*

ECL allowance movements – total

2021	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
At 1 January	171	611	569	–	1,351
Transferred from Stage 1 to Stage 2	(38)	126	–	–	88
Transferred from Stage 2 to Stage 1	52	(126)	–	–	(74)
Transferred to Stage 3	(7)	(79)	115	–	29
Transferred from Stage 3	2	18	(39)	–	(19)
Net remeasurement	(73)	(91)	(77)	–	(241)
New loans originated/top-ups	51	–	–	–	51
Redemptions/repayments	(15)	(31)	–	–	(46)
Impact of model, parameter and overlay changes	18	97	58	–	173
Impact of credit or economic risk parameters	(22)	1	(5)	–	(26)
Income statement net credit impairment charge	(32)	(85)	52	–	(65)
Write-offs	–	–	(59)	–	(59)
Derecognised due to disposals	–	(5)	(6)	–	(11)
Exchange translation adjustments	–	5	2	–	7
Other movements	5	1	(5)	–	1
At 31 December 2021 – third parties	144	527	553	–	1,224[(1)]

2020	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
At 1 January	88	116	374	–	578
Transferred from Stage 1 to Stage 2	(74)	206	–	–	132
Transferred from Stage 2 to Stage 1	56	(57)	–	–	(1)
Transferred to Stage 3	(40)	(151)	238	–	47
Transferred from Stage 3	6	20	(48)	–	(22)
Net remeasurement	(40)	356	72	–	388
New loans originated/top-ups	65	–	–	–	65
Redemptions/repayments	2	(64)	–	–	(62)
Impact of model, parameter and overlay changes	9	66	5	–	80
Impact of credit or economic risk parameters	100	125	–	–	225
Income statement net credit impairment charge	84	501	267	–	852
Write-offs	–	–	(73)	–	(73)
Derecognised due to disposals	(1)	(3)	(4)	–	(8)
Exchange translation adjustments	–	(1)	–	–	(1)
Other movements	–	(2)	5	–	3
At 31 December 2020 – third parties	171	611	569	–	1,351[(1)]

[(1)]ECLs on amounts due from subsidiary undertakings of Nil at 31 December 2021 are excluded (2020: Nil).

The contractual amount outstanding of loans written-off during the year that are subject to enforcement activity amounted to € 3 million (2020 € 10 million) which includes both full and partial write-offs.

Notes to Allied Irish Banks, p.l.c. company financial statements

ah Credit risk information *(continued)*

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 2021 and 2020:

Gross exposures to customers

									2021
	At amortised cost								At FVTPL
	Gross carrying amount			Analysed by ECL stage profile					
	Loans and advances to customers	Loan commitments and financial guarantees issued	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Concentration by industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Non-property business:									
Agriculture	1,519	592	2,111	1,821	201	89	–	2,111	–
Energy	1,006	757	1,763	1,721	40	2	–	1,763	–
Manufacturing	1,551	1,223	2,774	2,482	269	23	–	2,774	–
Distribution	2,957	1,035	3,992	1,909	1,689	394	–	3,992	–
Transport	1,244	472	1,716	1,565	111	40	–	1,716	–
Financial	195	243	438	384	52	2	–	438	–
Other services	2,335	1,530	3,865	3,439	333	93	–	3,865	–
Property and construction	5,320	1,578	6,898	5,077	1,313	508	–	6,898	243
Residential mortgages	767	8	775	607	45	122	1	775	–
Other personal	2,611	2,678	5,289	4,651	384	254	–	5,289	–
Total – third parties	19,505	10,116	29,621	23,656	4,437	1,527	1	29,621	243
Subsidiary undertakings	4,881	1,231	6,112	6,112	–	–	–	6,112	–
Total	24,386	11,347	35,733	29,768	4,437	1,527	1	35,733	243
Concentration by location[1]									
Republic of Ireland	21,132	10,413	31,545	26,150	4,067	1,327	1	31,545	243
United Kingdom	562	299	861	771	69	22	–	862	–
North America	369	175	544	517	26	–	–	543	–
Rest of the World	2,323	460	2,783	2,330	275	178	–	2,783	–
	24,386	11,347	35,733	29,768	4,437	1,527	1	35,733	243

ECL allowance

								2021
	At amortised cost							
	Gross carrying amount			Analysed by ECL stage profile				
	Loans and advances to customers	Loan commitments and financial guarantees issued	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Concentration by industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Non-property business:								
Agriculture	55	3	58	9	14	35	–	58
Energy	10	–	10	4	5	1	–	10
Manufacturing	31	7	38	9	21	8	–	38
Distribution	450	18	468	31	335	102	–	468
Transport	33	2	35	6	8	21	–	35
Financial	21	1	22	2	18	2	–	22
Other services	89	9	98	24	32	42	–	98
Property and construction	253	17	270	40	86	144	–	270
Residential mortgages	62	–	62	1	1	60	–	62
Other personal	220	7	227	32	38	157	–	227
Total – third parties	1,224	64	1,288	158	558	572	–	1,288
Subsidiary undertakings	–	–	–	–	–	–	–	–
Total	1,224	64	1,288	158	558	572	–	1,288
Concentration by location[1]								
Republic of Ireland	1,113	61	1,174	142	471	561	–	1,174
United Kingdom	14	–	14	3	7	4	–	14
North America	6	2	8	4	4	–	–	8
Rest of the World	91	1	92	9	76	7	–	92
	1,224	64	1,288	158	558	572	–	1,288

[1] Based on country of risk.

ah Credit risk information *(continued)*

Gross exposures to customers

	2020								
	At amortised cost								At FVTPL
	Gross carrying amount			Analysed by ECL stage profile					
	Loans and advances to customers	Loan commitments and financial guarantees issued	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Concentration by industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Non-property business:									
Agriculture	1,484	580	2,064	1,566	403	95	–	2,064	–
Energy	757	616	1,373	1,329	42	2	–	1,373	–
Manufacturing	1,512	1,085	2,597	2,122	443	32	–	2,597	–
Distribution	3,090	999	4,089	1,597	2,080	412	–	4,089	–
Transport	990	343	1,333	1,032	253	48	–	1,333	–
Financial	217	294	511	423	85	3	–	511	–
Other services	2,314	1,476	3,790	2,936	732	122	–	3,790	–
Property and construction	5,175	1,166	6,341	3,551	2,056	734	–	6,341	75
Residential mortgages	901	8	909	695	45	168	1	909	–
Other personal	2,630	2,708	5,338	4,559	541	238	–	5,338	–
Total – third parties	19,070	9,275	28,345	19,810	6,680	1,854	1	28,345	75
Subsidiary undertakings	4,967	899	5,866	5,866	–	–	–	5,866	–
Total	24,037	10,174	34,211	25,676	6,680	1,854	1	34,211	75
Concentration by location[1]									
Republic of Ireland	21,295	9,268	30,563	22,975	5,976	1,611	1	30,563	75
United Kingdom	460	535	995	751	184	60	–	995	–
North America	340	91	431	352	77	2	–	431	–
Rest of the World	1,942	280	2,222	1,598	443	181	–	2,222	–
	24,037	10,174	34,211	25,676	6,680	1,854	1	34,211	75

ECL allowance

	2020							
	At amortised cost							
	Gross carrying amount			Analysed by ECL stage profile				
	Loans and advances to customers	Loan commitments and financial guarantees issued	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Concentration by industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Non-property business:								
Agriculture	60	4	64	14	20	30	–	64
Energy	5	1	6	2	3	1	–	6
Manufacturing	43	5	48	8	31	9	–	48
Distribution	458	14	472	29	328	115	–	472
Transport	43	2	45	4	11	30	–	45
Financial	16	–	16	1	14	1	–	16
Other services	108	9	117	18	54	45	–	117
Property and construction	319	27	346	69	127	150	–	346
Residential mortgages	68	–	68	1	2	65	–	68
Other personal	231	7	238	43	55	140	–	238
Total – third parties	1,351	69	1,420	189	645	586	–	1,420
Subsidiary undertakings	–	–	–	–	–	–	–	–
Total	1,351	69	1,420	189	645	586	–	1,420
Concentration by location[1]								
Republic of Ireland	1,194	64	1,258	173	524	561	–	1,258
United Kingdom	29	1	30	2	13	15	–	30
North America	8	2	10	3	7	–	–	10
Rest of the World	120	2	122	11	101	10	–	122
	1,351	69	1,420	189	645	586	–	1,420

[1]Based on country of risk.

Notes to Allied Irish Banks, p.l.c. company financial statements

ah Credit risk information *(continued)*

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 at 31 December 2021 and 2020. The aged analysis of the contractually past due loans have been prepared under the EBA DPD counter which reflects changes to materiality threshold and count methodology.

At amortised cost

							2021
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	13	4	1	5	4	20	47
Energy	–	–	–	–	–	1	1
Manufacturing	2	1	–	–	3	5	11
Distribution	10	7	8	32	59	77	193
Transport	5	1	1	13	1	6	27
Financial	–	–	–	–	–	2	2
Other services	9	7	1	2	7	33	59
Property and construction	11	9	1	10	26	132	189
Residential mortgages	5	–	1	1	1	54	62
Other personal	39	10	9	21	28	138	245
Total gross carrying amount	94	39	22	84	129	468	836
ECL staging							
Stage 1	36	–	–	–	–	–	36
Stage 2	37	21	8	–	–	–	66
Stage 3	21	18	14	84	129	468	734
POCI	–	–	–	–	–	–	–
	94	39	22	84	129	468	836
As a percentage of total gross loans at amortised cost	%	%	%	%	%	%	%
	0.48	0.20	0.11	0.43	0.66	2.40	4.29

At FVTPL

Industry sector	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Property and construction	–	–	–	–	–	–	–
Total at FVTPL	–	–	–	–	–	–	–
As a percentage of total gross loans at FVTPL	%	%	%	%	%	%	%
	–	–	–	–	–	–	–

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

ah Credit risk information *(continued)*

Aged analysis of contractually past due loans and advances to customers *(continued)*

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	16	6	1	3	7	16	49
Energy	–	–	–	–	–	1	1
Manufacturing	1	2	–	1	1	7	12
Distribution	52	48	9	25	27	32	193
Transport	3	2	7	3	1	4	20
Financial	–	–	–	–	–	2	2
Other services	13	21	3	5	8	24	74
Property and construction	16	10	3	12	57	129	227
Residential mortgages	3	2	1	1	3	77	87
Other personal	37	13	9	18	41	114	232
Total gross carrying amount	141	104	33	68	145	406	897
ECL staging							
Stage 1	46	–	–	–	–	–	46
Stage 2	53	45	15	–	–	–	113
Stage 3	42	59	18	68	145	406	738
POCI	–	–	–	–	–	–	–
	141	104	33	68	145	406	897
As a percentage of total gross loans at amortised cost	%	%	%	%	%	%	%
	0.01	0.01	–	–	0.01	0.02	0.05

At FVTPL

Industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Property and construction	–	–	–	–	–	–	–
Total at FVTPL	–	–	–	–	–	–	–
As a percentage of total gross loans at FVTPL	%	%	%	%	%	%	%
	–	–	–	–	–	–	–

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

Notes to Allied Irish Banks, p.l.c. company financial statements

ah Credit risk information *(continued)*

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 2021 and 2020. These include loans and advances to banks, securities financing, investment debt securities and trading portfolio financial assets.

2021	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	132	–	296	895	1,323	3,883	72	1,182	495	5,632	6,955
A/A-	3,627	920	2,420	201	7,168	1,283	248	3,721	–	5,252	12,420
BBB+/BBB/BBB-	19	2	37	5	63	399	197	1,109	–	1,705	1,768
Sub investment	1	105	–	–	106	–	–	–	–	–	106
Unrated	1	62	–	–	63	–	–	–	–	–	63
Total	3,780[1]	1,089	2,753	1,101[2]	8,723	5,565[3]	517	6,012[4]	495	12,589	21,312
Of which: Stage 1	3,780	1,089	2,753	1,101	8,723	5,565	486	6,012	495	12,558	21,281
Stage 2	–	–	–	–	–	–	31	–	–	31	31
Stage 3	–	–	–	–	–	–	–	–	–	–	–

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	324	–	295	510	1,129	5,032	37	1,227	419	6,715	7,844
A/A-	1,017	–	2,314	212	3,543	1,380	257	5,527	–	7,164	10,707
BBB+/BBB/BBB-	12	–	38	5	55	381	165	1,219	–	1,765	1,820
Sub investment	–	72	–	–	72	–	31	–	–	31	103
Unrated	–	174	–	–	174	–	–	–	–	–	174
Total	1,353[1]	246	2,647	727[2]	4,973	6,793[3]	490	7,973[4]	419	15,675	20,648
Of which: Stage 1	1,353	246	2,647	722	4,968	6,793	490	7,973	419	15,675	20,643
Stage 2	–	–	–	5	5	–	–	–	–	–	5
Stage 3	–	–	–	–	–	–	–	–	–	–	–

[1]Excludes balances with subsidiary undertakings of € 8,493 million (2020: € 7,329 million).
[2]Relates to asset backed securities.
[3]Excludes balances with subsidiary undertakings of € 7,748 million (2020: € 8,497 million).
[4]Includes supranational banks and government agencies.

ai Liquidity and funding risk information

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 2021 and 2020:

						2021
	On demand	**<3 months but not on demand**	**3 months to 1 year**	**1–5 years**	**Over 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Financial assets						
Derivative financial instruments[1]	**–**	**59**	**31**	**226**	**635**	**951**
Loans and advances to banks[2]	**9,219**	**–**	**1**	**–**	**–**	**9,220**
Loans and advances to customers[2]	**6,026**	**1,285**	**1,363**	**10,232**	**5,723**	**24,629**
Securities financing	**2,382**	**850**	**1,324**	**1,713**	**–**	**6,269**
Investment securities[3]	**–**	**522**	**1,593**	**10,491**	**11,840**	**24,446**
Other financial assets	**–**	**408**	**–**	**–**	**–**	**408**
	17,627	**3,124**	**4,312**	**22,662**	**18,198**	**65,923**
Financial liabilities						
Deposits by central banks and banks	**1,281**	**146**	**–**	**9,854**	**–**	**11,281**
Customer accounts	**73,667**	**3,350**	**58**	**36**	**1**	**77,112**
Securities financing	**331**	**45**	**–**	**–**	**–**	**376**
Derivative financial instruments[1]	**–**	**121**	**106**	**214**	**733**	**1,174**
Debt securities in issue	**–**	**–**	**–**	**–**	**–**	**–**
Subordinated liabilities and other capital instruments	**–**	**–**	**–**	**3,295**	**2,306**	**5,601**
Other financial liabilities	**851**	**–**	**–**	**–**	**–**	**851**
	76,130	**3,662**	**164**	**13,399**	**3,040**	**96,395**

						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]	–	104	57	400	904	1,465
Loans and advances to banks[2]	7,538	–	–	350	–	7,888
Loans and advances to customers[2]	6,093	1,257	1,449	9,870	5,443	24,112
Securities financing	2,741	648	163	–	–	3,552
Investment securities[3]	–	689	3,171	11,337	12,578	27,775
Other financial assets	–	270	–	–	–	270
	16,372	2,968	4,840	21,957	18,925	65,062
Financial liabilities						
Deposits by central banks and banks	960	1	–	4,000	–	4,961
Customer accounts	58,886	7,151	1,174	245	–	67,456
Securities financing	297	210	–	–	–	507
Derivative financial instruments[1]	–	33	43	254	987	1,317
Debt securities in issue	–	–	–	–	–	–
Subordinated liabilities and other capital instruments	–	–	–	3,176	1,550	4,726
Other financial liabilities	480	–	–	–	–	480
	60,623	7,395	1,217	7,675	2,537	79,447

[1]Shown by maturity date of contract.
[2]Shown gross of provisions for impairment.
[3]Excluding equity shares.

The balances shown above include exposures to/by subsidiary undertakings.

Notes to Allied Irish Banks, p.l.c. company financial statements

ai Liquidity and funding risk information *(continued)*

Financial liabilities by undiscounted contractual maturity

The following table analyses undiscounted cash flows potentially payable under guarantees and similar contracts at 31 December 2021 and 2020:

						2021
	On demand	<3 months but not on demand	3 months to 1 year	1–5 years	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Contingent liabilities	1,079	–	–	–	–	1,079
Commitments	10,268	–	–	–	–	10,268
	11,347[(1)]	–	–	–	–	11,347

						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	954	–	–	–	–	954
Commitments	9,220	–	–	–	–	9,220
	10,174[(1)]	–	–	–	–	10,174

[(1)]Includes € 1,231 million (2020: € 899 million) relating to Group subsidiaries.

aj Market risk information

Market risk profile

Interest rate and foreign exchange rate VaR are calculated to a 95% confidence level with a one day holding period, and equity VaR is calculated to a 99% confidence level with a one day holding period. All VaR measures remained within limits throughout 2021 and at 31 December 2021, interest rate VaR stood at € 7.5 million, foreign exchange rate VaR at € 0.07 million and equity VaR at € 0.15 million. The Company 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.

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General information

Forward Looking Statements

This document contains certain forward looking statements with respect to the financial condition, results of operations and business of Allied Irish Banks, p.l.c. and its subsidiaries ('the 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 8 to 10 in the 2021 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 8 to 10 of the 2021 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 interest rates that affect the banking book positions.
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.
Securities financing transactions	Securities financing transactions allow investors and firms to use assets, such as the shares or bonds they own, to secure funding for their activities.
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 Resolution Fund	The Single Resolution Fund ("SRF") is an emergency fund that can be called upon in times of crisis.
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.
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.

Glossary of terms

Tracker mortgage
A mortgage with a variable interest rate which tracks the European Central Bank ("ECB") rate, at an agreed margin above the ECB rate and will increase or decrease within five days of an ECB rate movement.

Trade date and settlement date accounting
1. Trade date accounting records the transaction on the date on which an agreement has been entered (the trade date), instead of on the date the transaction has been finalised (the settlement date).
2. Under the settlement date accounting approach, the asset is recognised on the date on which it is received by the Group, on disposal, the asset is not derecognised until the asset is delivered to the buyer.

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

Wholesale funding
Wholesale funding refers to funds raised from wholesale market sources. Examples of wholesale funding include senior unsecured bonds, covered bonds, securitisations, repurchase transactions, interbank deposits and deposits raised from non-bank financial institutions.

Yield curve risk
A type of market risk that refers to the possibility that an interest rate yield curve changes its shape unexpectedly (e.g. flattening, steepening, non-parallel shift), resulting in losses arising in the Group's portfolio of interest rate instruments.

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